



Robert Gaskins

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To: Forethought Directors
From: Bob Gaskins
Subject: Forethought Restart Completed (A Brief History)

Forethought: the First 18 Months

Forethought was started in January, 1983. The original business and product plan was certainly correct in its vision. The aim was to exploit the technology transition from character-mapped to graphics-oriented personal computers by focusing solely on graphics-oriented applications, and to build a major software company by growing rapidly with the newer market segment. The specific plan was to develop a proprietary graphics kernel and applications for IBM PCs. Many execution problems beset the company, primarily in development. A large number of unqualified people were added to the staff. Internal bickering and politics split the company, and resulted in wholesale defections. A failure by a supplier escalated into an expensive legal entanglement. The amount of development necessary was underestimated by orders of magnitude, and very little of that was ever accomplished.

On 25 April, 1984, at a demonstration scheduled for the investors, the situation became clear: it was then approaching the planned shipment date, and no product was yet demonstrable. Even worse, the hypothesized market had never clearly materialized and IBM had still never shipped a suitable machine for the software to run on, if it *had* been developed. It was clear on that day that the original Forethought plan had failed. Work continued for another three months or so by momentum, while a plan was prepared for a restart.

By late July, 1984, wholesale layoffs took place, with a great deal of further attrition in the following months. A skeleton engineering staff was retained to see if anything could be done with the results of development, but it soon became apparent that (as Bob Metcalfe observed at the time) there was utterly no value in the work to date, and it was totally abandoned.

After 18 months, and more than \$2 million of invested capital spent (out of \$3 million received), nothing of any real value had been accomplished.

The Restart Plan

In May and June of 1984 a restart plan was put in place. In its essentials, it was very simple: it aimed to preserve the vision of the original company, while changing everything else. Considerations went as follows.

In early 1984 Apple's Macintosh had started to ship, in moderate volumes. Although far from the needed business machine that we had hoped IBM would ship, it was the first of the class of machines Forethought was interested in and IBM would have to eventually follow. Software for it was still scanty, barriers to entry and competitors were few.

We believed that the sequence of successful software products (on Macintosh and later on IBM's similar machines) would begin with new graphics-oriented versions of programs in categories already known to dealers and end-users (spreadsheet, database, word processing, _). These could be developed quickly, especially by companies which had previously developed non-graphics equivalents. Eventually the large existing companies would probably enter these categories.

But the major software opportunities would be in *new* categories – things that personal computers could do for the first time, because of the same hardware changes which made possible graphics user interfaces, and in which there were no large established competitors. Unfortunately, these were the categories which would also take the longest to develop, and for which markets were still uncertain.

Hence the restart plan:

- Locate other developers who had established products or expertise in established categories for older machines, and who were already interested in Macintosh versions.
- Acquire marketing rights to their products (minimize up-front payments, even at the expense of larger royalties later) and publish these products quickly on Macintosh.
- Use these products to learn how to manufacture software, do advertising and PR, provide technical support, sell products, and collect

receipts—in short, to build the company into a delivery vehicle for software.

- Meanwhile—in parallel—develop our own products internally, aiming at the new categories with the largest potential. We would consciously design products for high profitability, by focusing on software for specific high-value tasks which could command above-average prices with no higher than average development and marketing costs. Our products would be for the Macintosh, and for the similar environment of MS-Windows on IBM.

The royalty costs on published products, the lack of development control, and the fact that they were not our assets, would mean that they were not likely to be long-term opportunities. But, the revenue they would generate would let us finance the building of a fully-functioning software company, pending the arrival of our own products.

If everything worked out, we would—at the completion of the restart plan—have both (1) a great product with the potential for high revenue and high profits, and also (2) the delivery mechanism necessary to turn that great product into actual sales and receipts.

Beginning the Restart Plan

May and June of 1984 were spent in planning, recruiting, and working out new assignments and organization for the people who would remain after the layoffs. (I consulted through this period before becoming an employee on July 5.)

During this period also we made initial contacts with other developers, and identified interim products. In order to insulate these temporary published products from our longer-term plans, we adopted the trade name “MACWARE” to identify them, reserving Forethought for our future products.

Beginning in July, 1984, we began executing in earnest.

MACWARE Products

Before the end of July, 1984, we had identified three products (from three different developers, hence able to be developed in parallel) which we thought we could introduce within six months:

- Factfinder, a free-form filing product which had been very modestly successful on the Apple][, but which was advanced in development for Macintosh. It appeared that Factfinder could be shipped in October, only 90 days later, and before Fall Comdex 1984.
- Typing Intrigue, a typing instruction program, which was new for the Macintosh but was done by a developer with experience in training development. This category had been very large on Apple][and on IBM PCs, and seemed to fit perfectly “the computer for the rest of us.” Because it was very simple, it required very little work on testing and documentation. It, too, was expected to ship about the time of Comdex, in November.
- Nutshell (later FileMaker), a low-end single-file database which had been reasonably successful on the IBM PC. Our original belief was that it could also be shipped in late 1984, although this definitely did not work out as planned.

Factfinder was shipped in late October, and Typing Intrigue in November, essentially as planned and on schedule. Initial sales of both were promising, and in January, 1985, we made a big sale to First Software, but that was the last big sales month. The products did not sell through in forecast volumes, and revenues dried up.

Meanwhile, Nashoba’s FileMaker had slipped for legal and contractual reasons, plus delays at both Nashoba and Forethought. It moved from January to March, and ultimately would be shipped in May, 1985 – almost a full year after the restart plan was begun. We continued to cut back during this period, dragging it out further.

Despite anticipation, FileMaker never really did sell well – we had entered the dread year of 1985, the worst time for Macintosh software companies. Its initial sell-in was fewer than 900 units, and it settled down to a couple of hundred units a month. Our other products did no better.

Then followed a long period of another year – from May 1985 to April 1986 – during which we tried every strategem we could think of to improve our business, but basically without result. We continued to lose money steadily during the entire period. We also considered structural changes in the company, such as acquiring VisiCorp/Paladin, being acquired, merging with UMF Systems, forming a marketing consortium for other struggling Macintosh developers, and so on. Ultimately these came to nothing, and so we continued with our original plan.

Gradually, our competitors went out of business. Purely because we were able to continue to raise capital, we stayed in business. By early 1986, FileMaker was one of the few products left in its category. We thought there was a possibility to stem the losses from MACWARE products by introducing an upgrade version of FileMaker (FileMaker Plus) and discontinuing our other products. We consciously delayed PowerPoint for about six months, so as to get FileMaker Plus out first and cut our losses. In doing so, we stretched ourselves out to the uttermost limit of the PowerPoint market window.

We planned that a new version of FileMaker Plus would bring us to break-even, since we could increase the price (from \$195 to \$295) and could expect a sales increase. We knew that it would not produce sustained profitability – only PowerPoint could do that. But it should cut our MACWARE losses.

Again we were delayed by legal problems at Nashoba, and by development delays of theirs and of ours. It was particularly difficult to negotiate a contract, and the contract eventually agreed upon reflected the weakness of our bargaining position. A planned introduction in March moved out twice. Finally, a FileMaker Plus was introduced in August of 1986.

FileMaker Plus sold well at introduction, particularly in the non-recurring upgrade of previous FileMaker owners, producing a blip of profitability, and then settled down to somewhat below break-even. We ended the year slightly ahead of our revenue and profit plan, though still having lost money.

Early PowerPoint Development

We also began to execute the development of PowerPoint from the earliest days of the restart plan. I presented the first (two-page) description of PowerPoint to our

new product meeting on 14 August 1984 (the month after the restart was begun). This early description contains all the essentials of the market analysis underlying the product features which were ultimately shipped on April 20, 1987.

We believed we should get the MACWARE products launched first, so we did nothing until after the first of the year – and by then, with our sales below forecast, we were utterly without cash and struggling to get FileMaker out for revenue until May 1985. The result was that we did essentially nothing but talk about the PowerPoint proposal until late May 1985, when the first round of convertible debentures closed.

In May 1985, after the debentures round closed for \$1,000,000, we finally were able to assign one person half-time to beginning development of PowerPoint (the other half was spent answering technical support calls!). About \$25,000 was invested over six months.

Six months later, in November 1985, when we managed to extend the debentures by another \$250,000, we felt we could assign the one person full time. We invested about \$40,000 over the next six months.

Six months later, in May 1986, when we managed to close the first part of the Preferred C round (\$408,000), we felt we were able to hire a second person full time (with whom we had been talking since the previous January). We invested about \$70,000 over the next six months.

Six months later, in November 1986, when we had closed the second part of the Preferred C round for \$325,000, we felt we could hire contractors to help us finish the PowerPoint program and manual – by that time it was too late to add employees.

Several months later, in February, we extended the Preferred C round for a final \$733,000, but by then it was too late to help. PowerPoint was shipped, on schedule, on April 20, 1987, at a suggested price of \$395. We were the first application to ship in our category, and have received a good deal of support from Apple, who are eager to sell hardware for presentations.

Financing the Restart

We knew when we began the restart plan that we would soon need money. There was then somewhat less than \$1,000,000 in cash, and it was being burned rapidly. The costs of shutting down the original effort in an orderly way and starting up the new effort would clearly consume all that cash by the end of the year – hence the importance to us of MACWARE products which could be shipped for revenue within 90 days.

As predicted, we were entirely out of cash by late December, 1984. A January, 1985, sale to First Software with cash pre-payment staved off disaster, but that was the last big sales month, because neither FactFinder nor Typing Intrigue sold through. Our products remained in distributors' warehouses, and both sales and collections dried up. We struggled with essentially no cash for several months, and eventually shipped FileMaker in May, 1985. It too sold poorly, and gave no prospect of profitability.

We had expected the MACWARE products to be self-funding, and perhaps even to finance our product development at least in part. If the MACWARE products turned out not to be self-funding – as in fact happened – then we had to come up with a great deal of capital to fund our operations during the entire period of development, in addition to the funds needed for development. Worse, since we needed to stay in business, the continued money-losing operations had first call on our limited resources, and further delayed our development efforts. By further delaying our development efforts, we further delayed profitability.

Through early 1985 we lived with the monthly prospect of liquidation. In May, 1985, we received \$1,000,000 from the first round of convertible debentures. But by then we were substantially negative, and when FileMaker failed to sell well, we rapidly ran out of cash again.

Six months later, by November, 1985, we were again facing the prospect of liquidation. We managed to extend the debentures by another \$250,000, and to buy more time. Again it was a rotten Christmas for our MACWARE products.

Six months later, by May, 1986, we were completely out of cash once more, and again considering liquidation. We managed to close the first part of the Preferred C round, for \$408,000. But we were still facing major losses before we could change our products. We used up the new cash to introduce FileMaker Plus, leaving us still short of investment to complete PowerPoint.

Six months later, by November, 1986, we were once again actively considering liquidation. We managed now to close the second part of the Preferred C round for \$325,000. Later, owing to the chance of Apple's agreeing to come in, we had a third part of this round extended for an additional \$733,000.

Thus, we stretched the development of PowerPoint out to almost three years, and during that time we were faced with the real prospect of liquidation at least every six months. We had to raise \$3,000,000 in additional venture capital investment to keep going, during tough times for software investments, which meant that fund raising took up as much time as running the business. We were always short of the proper resources, always forced into short-term decisions, then always playing catch-up.

During the whole period, we invested about \$400,000 on developing PowerPoint, or roughly 10% of our total \$4 million venture capital investment (that is the almost \$1 million left unspent at the restart, plus the \$3 million raised since then). Probably another \$400,000 or so went into costs of shutting down the original operations, for another 10%. About 17% (\$700,000) was left in the bank at the PowerPoint ship – but that was the same \$700,000 we had received at the last minute, when it was too late to help our plans. This leaves about 63% of our investment (\$2,500,000) which went to losses on our operations, almost all in connection with the published MACWARE products, building the delivery mechanism.

Operations during the Restart

In part because it took so long, our original operations in fact had to be shut down or replaced before PowerPoint came to market. We thought that a number of our people could be valuable later, but only Rob, Bob, Andy, and Peg (and Dick and Phil) are still here. There really is very little continuity: the Forethought group in our PowerPoint era is almost entirely new people:

Software Development – two software developers, hired to do PowerPoint – one very early, in October 1984, but the other just in May 1986.

Software Test – entirely new person, hired for PowerPoint in January 1987.

Product Manager—new person, hired from outside specifically for PowerPoint, in December 1986. Manuals and sample presentations done by contract writers.

Sales—entirely new people. One sales person was hired in early 1986, but the real difference came when Glenn Hobin joined us in July, 1986. The remainder of the sales group has been hired very recently.

Marketing—no people left at all. We eventually lost our good people such as Darrell Boyle during the low spots of the struggle. Advertising, brochures, etc. done by outside agencies and contractors anyway.

Customer Support—new manager and entirely new representatives, all hired in the last 90 days in connection with the PowerPoint introduction.

Finance/Admin—entirely new people, with the big difference coming with the hiring of Susie Allen in November, 1986.

We absolutely benefitted from staying in business for the three years, in the sense that we had a continuous presence in the product channels and in the industry press; having just shipped \$1 million of PowerPoint in its first 30 days demonstrates the value. On the other hand, this was an expensive strategy, and thus high-risk because the expense so often put us on the edge of going out of business altogether. We may possibly have been wrong to think that it was so hard to build a new company around a new product; to a major extent, we have just done so.

The Restart Completed

In this way, we finally completed executing the Restart Plan we had set out upon three years before. We had in fact built both a great product in PowerPoint and a delivery vehicle for it. We completed PowerPoint so as to ship it on schedule on April 20. By early May, we had shipped about \$1,000,000 worth of PowerPoint and exhausted the first printing of 10,000 copies. (For comparison, InfoCorp believes that Lotus shipped only 16,000 copies of Freelance in all of 1986.) In the first month of shipment we showed a net profit of just over \$400,000—almost exactly the amount spent on developing PowerPoint.



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It is reasonable to forecast that, during the next twelve months, our revenue from PowerPoint will total about \$7.5 million (about 80% of our revenue), and net profits before taxes from PowerPoint will be over \$2.5 million (over 95% of our profits). The value of the company has been increased by our sales success with PowerPoint from \$3 million (post-money at the last funding) to the range of \$15 million (offer from Microsoft) to \$20 million (pre-money value from Baer and Co. letter of intent to underwrite an IPO). This all seems a reasonable return on the \$3 million invested since the restart.

Although we had suffered myriad problems along the way, we had finally delivered exactly what we said we would deliver under the Restart Plan of 1984.