



Robert Gaskins

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To: Forethought Directors
From: Bob Gaskins
Subject: What to Do About the Microsoft Offer, and Why

Management Opinion

On Friday May 29, Forethought held its weekly senior management meeting consisting of Rob Campbell (President), Bob Gaskins (Vice President, Product Development), Glenn Hobin (Vice President, Sales), Susie Allen (Director of Administration and Finance), and Sandy Thorne (Director of Operations). This group also includes all the Forethought corporate officers.

Rob Campbell explained the alternatives facing Forethought:

- (1) Acquisition by Microsoft;
- (2) Other mergers or sales of products;
- (3) Start working on a Baer & Co. IPO for this Fall;
- (4) Evolve some other plan for our future growth.

Rob related that that he had personally recommended option 3 – the IPO to be done this Fall – to the Board of Directors two days before, but without time to consider the revised Microsoft offer. After some discussion, he then polled the others.

In order, Susie Allen voted for acquisition by Microsoft. Glenn Hobin voted for acquisition by Microsoft. Bob Gaskins voted for acquisition by Microsoft. Sandy Thorne had announced her resignation from the company.

Why does Management Vote “No Confidence”?

This result may seem hard to understand, when Forethought has just completed its first real product and shipped \$1 million of it in the first month, thus becoming steadily and substantially profitable for the first time in its history. Why would people who have just successfully completed the restart plan, after three years of excruciatingly hard work and long hours, decide unanimously to sell out now?

This apparent anomaly is easier to understand from inside the company. An analysis of the history of the last three years, and of the resulting state of the company today, shows that Forethought can go no further without some major changes. It is time for the next level of growth in our company structure.

All of the Forethought management, having promised to succeed in executing the restart plan, felt obligated to see it through to success regardless of the cost up to now. But, having succeeded, all of the Forethought management is pessimistic about the chances of going much further under our current structure.

Despite Rob's recommendation at the last Board meeting, no one at Forethought (including Rob) believes that the company can successfully accomplish an IPO this Fall and also continue to succeed in our business.

What Would We Do If There Were No Microsoft Offer?

If Microsoft had not made such an attractive offer, then we would have had to come up with a plan to "evolve our current situation in a positive direction" over a period of time.

What we would probably decide to do would be to first hire a new President and CEO, someone with a track record. Then let the new President hire a new CFO, and also hire a professional VP of Marketing. This team could restructure Forethought, positioning us as a focused presentation company, and then prepare for an IPO to take place as soon as possible. Meanwhile, the people who are already here would continue to perform the essential tasks to keep our momentum going: Glenn would continue to keep our sales on track, Bob would continue to develop products, and Rob (probably as Chairman) would continue his exceptionally effective personal evangelizing, making public appearances, and handling liaison with Apple.

This plan would cost us about 10% of the company (for the three new senior people), and would take several months to execute. *This requirement of several months of time is the greatest problem.* The new team would surely not be ready for an IPO in late Summer or Fall, quite possibly not for a year. Apparently this would mean that we would miss the window of opportunity for a good valuation, and perhaps miss the opportunity to go public at all for several quarters or years. The value of the company could possibly be increased by a factor of five, but it is also very possible that—in the

IPO market a year or more from now – Forethought will be worth very little more than it is today.

If we did not have the Microsoft offer, then this would not be a bad plan. I believe that most of the Forethought team would be ready to sign up for it, on the assurance that the restructuring really would take place.

The Microsoft Offer as an Alternative

Selling now to Microsoft accomplishes the same goals for restructuring the company. Essentially we will let *Microsoft* provide the management redirection; Microsoft will assume the role of a new President, and provide its own financial, administration, and marketing groups for us. And, in the transition, Glenn will continue to keep our sales on track, Bob will continue to develop products, and Rob will keep on evangelizing, making public appearances, and keeping up with Apple.

The difference is that the Microsoft deal makes our shareholders liquid now. There is a very substantial risk that the plan to rebuild Forethought will run into problems, simply because it relies on people who are not identified. Add the problem of missing an IPO this year, and it appears that the risk/reward balance is in favor of accepting Microsoft's offer.

I believe that the Microsoft offer fairly values what Forethought has achieved for its shareholders so far, namely a great product in PowerPoint and a great sell-in.

I would recommend that the directors accept the Microsoft offer.

Attached are three documents which were prepared before the arrival of the latest Microsoft offer. They deal with our future strategy if we should end up not accepting the Microsoft offer.

(1.) Forethought Future Business Strategy Considerations – an examination of why the strategy of a crisply-focused presentation company will be more profitable in



the future than the strategy of becoming a second-tier general applications software company.

(2.) Forethought Restart Completed (A Brief History) – a recap of the course of Forethought over the last three years, more to aid memory than to justify the strategy adopted.

(3.) Lessons from the Experience of the Restart – We really did pretty well, but of course we could have done better. Just among ourselves, here are what I think are the lessons for the next time around.