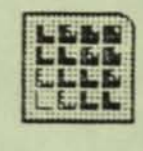

Forethought, Inc.

# Business Plan

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## Contents

# 1. Business Opportunity

Personal computers offer the possibility to dramatically increase individuals' productivity and creativity, in a highly cost-effective way. For several million people, this possibility has already been realized. For the rest of us, it can be realized very soon--but only if personal computers can be made radically easier to learn and radically easier to use.

In many business environments today, the limit to increasing usage of personal computers is not their own cost, but rather the costs of training people to use them and of continuing inefficiencies because they are too difficult to use easily. This is especially the case for the most valuable people, who could potentially get the most leverage from personal computers but who also have the least time to invest in mastering the technology.

## 1.1. Personal Computer Technology Transition

This need for dramatic improvements in ease of use has prompted a technology transition in personal computers which is visibly going on today and which will have a revolutionary impact on the software industry.

There is broad agreement today that to make personal computers radically easier to use requires a change to a new style of user interface. This new style is like that seen on the Macintosh--visually rich and highly interactive, based on bit-mapped graphics displays and "mouse" pointing devices, utilizing icons and multiple windows, presenting an interface of "see and point" rather than "remember and type".

This style of user interface has been the subject of research for more than 10 years, most notably by computer scientists at Xerox PARC but also at most of the larger universities and industrial research laboratories. It has been refined through a long series of hardware and software prototypes and in several pioneering products. It is appropriate for novices and occasional users, but also for people who use computers intensively. At present every large computer and operating system vendor is sponsoring a version of the new interface--Apple's Macintosh, Microsoft's MS-Windows, Digital Research's GEM, and even IBM's guarded announcements that its

Topview will in 1985 "increase its use of graphics to ease the user interface."

There is also broad agreement that it is now feasible to provide this style of user interface on all personal computers powerful enough to be suitable for business uses. The move over the last year to the latest generation of microprocessors (such as the Motorola 68000 in Macintosh, or the Intel iAPX-286 in the IBM PC-AT) gives ample power to support the new style of user interface. Memory prices continue to drop, so that bit-mapped displays have become competitive. Further semiconductor component advances this year, such as graphics-manipulating co-processors and new higher-speed memory organizations, will continue to give the economic edge to this new interface technology.

Personal computer manufacturers have demonstrated that any machine which will run the new user interfaces will also do a good job of continuing to run the older-style user interfaces; thus, Apple introduced a conventional Unix (Xenix) option for Lisa and IBM introduced its PC-AT with the old MS-DOS user interface. Hardware manufacturers can produce the logical next generation of machines, regardless of which user interface is intended and regardless of the timing of the switch from the old to the new. For them it is a smooth evolution.

The surprising and revolutionary impact of the change in user interface is on the software companies:

An entirely new generation of software products must be designed and developed in order to provide the ease of use made possible by the new interface style. Software products designed for the old style of interface cannot be used on the new, and software products designed for the new style of interface cannot be used on the old. For software companies, it's a whole new world.

## 1.2. Software Market Revolution

This means that the market for software is effectively split into two very different markets, and a software company must decide to participate with products in one, or the other, or possibly both.

For an existing company, with established hit programs for the existing old-style interfaces, it is easy to ignore the importance of the change. In 1984, software shipped for the new interface style will all be for the Macintosh and will be well under 5% of the total office software market. But this is just the first indication of change to come.

We estimate (based on 1984 forecasts of shipments by Future Computing) that shipments of office personal computers

capable of running the new interface will escalate dramatically--by 1986 shipments of machines which can run the new interface will be larger than shipments for old interfaces, and by 1988 the new machines will constitute 85% of the shipments. The largest part of these new-interface machines for office environments will, of course, be from IBM.

Fueled by this transition in what is shipped, by the end of 1988 the installed base of machines for the new interface will actually surpass that for the old, despite the strength and momentum of what has existed in the past.

Because of the real demand for radical improvements in ease of use, the capability of these machines to run the new style of interface will be actively exploited. We foresee that the demand for software for use with the new interfaces will rise to 18% of the total office PC software shipments in 1985, as additional manufacturers (particularly IBM) provide additional vehicles. This continues to rise sharply, to 42% of the total in 1986, to 62% of the total in 1987, and to 76% of the total in 1988.

Since very little software exists today to utilize the new interface style, we project that almost 50% of the software to be shipped in 1986 will be entirely new products. This grows to more than 75% by 1988.

All software for use with the new interfaces will be new products that do not exist today because the requirements placed on software products are very different for the two styles of user interfaces. Existing products cannot be simply converted ("ported") to the new interfaces. Bill Gates of Microsoft says that software has to be "reconceptualized" for the new interfaces--a task equal to inventing the software anew.

As the word "reconceptualize" suggests, the new interface style requires new and different skills in designing and developing software. The people, the knowledge, and the equipment demanded are all different from what has made software companies succeed in the past. Even existing organization structures may be very different from what is needed, since most of the people with first-hand experience in this style of programming have been working in universities or research laboratories.

Clearly this is a major opportunity for new companies to enter the market. In two years most of what is shipping will be products that do not exist now, which require new kinds of skills to develop--the classic situation for new players to enter and, by focusing exclusively on the new and growing segment, to become major competitors in the market as a whole.

Lotus Development developed 1-2-3 in 1982 in a similar transition period, but then it was the transition from 8-bit CP/M

and Apple to 16-bit MS-DOS/PC-DOS machines. Lotus focused exclusively on the new 16-bit segment, giving up compatibility with the lower-performance installed base, to deliver software which would exploit the new abilities of the new generation. Now, two years later, the shipments of 16-bit machines have vastly exceeded the 8-bit base, and Lotus is one of the largest and most profitable companies in the industry--while the dominant spreadsheet company in 1982, VisiCorp, has ceased to exist.

Forethought believes that the next technology transition, to new user interfaces providing radically greater ease of use, will happen with at least the speed and decisiveness of the previous move to 16-bit MS-DOS. And just as before, new companies who concentrate exclusively on the new and much larger group of potential users for next-generation equipment have the opportunity to enter now and grow with the market. This growth can come without having to displace entrenched competitors, while the companies already providing software for the old style of user interface battle one another for an ever-shrinking and less profitable market.

# 2. Company Background and Strategy

Forethought was organized in January, 1983, specifically to be among the earliest to develop and market software for the new style of user interfaces on personal computers. Apple's Lisa had been publicly revealed a few days earlier, and it seemed apparent that the potential for the style of graphics and integration developed over a decade by computer scientists at Xerox (in PARC prototypes and in the 8010 Star product) and at other research laboratories had finally been incorporated in a machine priced at under $10,000 for individual business users. Other office automation and personal computer vendors talked of rapidly following the Lisa's lead.

## 2.1. Planned Entry Strategy

Forethought's original business plan called for addressing the needs of the higher end of the business personal computer marketplace, since this was where the first graphics-oriented machines were emerging. Although our inspiration came from the Lisa's pioneering style, our first target machine for which software would be written was the IBM PC-XT (announced March 1983, expected to be augmented with higher-resolution graphics), and the next machine would be the Apple Lisa if it should succeed in building a sufficiently-large base. Each of these machines had reasonably large memory, a hard disk, expansion slots for a wide variety of peripherals, and--when suitably configured--a selling price of nearly $10,000. Forethought would (1) build a rich software operating environment for such machines, and would (2) acquire a database component from a leading supplier of relational database systems. Building on these two necessary elements, Forethought would concurrently develop (3) applications exploiting the graphics environment to enhance the creativity and productivity of new personal computer users. The first products could be shipped in mid-1984.

Work proceeded for roughly a year along these lines, during which time significant progress was made on the operating environment and even more development was completed on the base levels common to the applications. A contract was signed with the chosen database supplier on exceptionally favorable terms. Since Forethought was in the mode of product development, the majority of employees were software engineers, although the nucleus of a marketing group was formed during this period as well.

## 2.2 The Checkpoint

By April of 1984, when a checkpoint was reached, several things had changed.

(1) Most unexpectedly, Apple's Macintosh (introduced in January, 1984) was completing its first 100 days with astonishing sales strength--eclipsing the Lisa. This meant that, contrary to the business plan assumption, the first large number of machines with new-style user interfaces would be found at the low end of the market, where Macinatosh was positioned. Macintosh had only 128K of memory, a single slow floppy disk drive, a small screen with just 512 x 350 pixels, and no slots for expansion or for connection of office-style peripherals. This configuration was far below the level required for any serious business software, including Forethought's.

(2) A slow movement was discernible toward settling on standards for operating environments. In addition to the Macintosh environment, Microsoft's MS-Windows and VisiCorp's VisiOn were available, with other candidates promised. It seemed obvious that successful standard environments would make Forethought's proprietary environment a serious competitive liability--but it was too early to know which would be the standards. A second kind of standard likely to be settled on was provision of a database as part of standard operating systems, which would make Forethought's other utility component redundant as well.

(3) Partly because progress in adopting standards was so slow, the high-end hardware market was not developing nearly as fast as we had expected. IBM had still not announced higher-resolution graphics for the PC-XT (that display is now promised for initial ships in January 1985!), and Lisa sales were almost at a standstill. Hence, there had as yet developed no real base of machines on which to sell Forethought's product.

(4) Forethought's own development efforts were taking somewhat longer than predicted, and the database supplier had entirely failed to deliver the database component as contracted, with no prospect of early remedy.

## 2.3. Choices for Possible Revector

Clearly Forethought had to change its own plans to respond to these changes in the marketplace. We analyzed the situation as presenting three choices:

Choice A: Wait for the planned market to materialize, that is, business applications for new-interface environments on IBM hardware. Our estimate was that such environments would be introduced in mid-1985, providing a viable machine base to which we could ship software by mid-1986 (two years later than planned).

We rejected this choice immediately: (1) already some of our potential competitors had announced that they were not waiting but would instead ship Macintosh products first, and so to wait would be to abandon our plan's critical element of being early in the market for new-interface software; but also (2) unexpected shifts occur regularly in dynamic markets, and the appropriate kind of response is not to wait for two years without income but rather to manage to produce revenue in spite of the changes.

Choice B: Change the plan to ship old-interface products for the IBM PC-XT base first, and then new-interface products later (mid-1986).

This choice was almost as easy to reject. Since our software was designed for new-interface environments, it would not run adequately in old-interface environments. And even if we could create or acquire suitable products, we had no way to market them successfully--the cost of entry into the crowded and noisy market for conventional IBM software was far beyond our resources.

Choice C: Change the plan to ship new-interface products for some other machine first, then products for IBM later (mid-1986).

This choice had real promise, since it would preserve our strategy of being early into the market for new-interface applications.

We first explored non-IBM machines which seemed to be at a performance level adequate to run our own software. After negotiating very seriously with such companies as Mindset and Amiga, we concluded that none of these machines would likely sell in quantities large enough to be profitable to us as software providers, and for that same reason we could also not safely rely on promises of OEM license payments from their manufacturers.

Only Apple with Macintosh seemed to have a chance of success with a new-interface machine in 1984. We would have to acquire external products for Macintosh, since our internally-developed software was not appropriate for the initial Macintosh purchasers, and could not be adapted to such a low-performance machine. By good fortune, personal contacts with Apple and with developers for Apple machines presented us the opportunity to acquire some outstanding Macintosh software.

## 2.4. The Revised Entry Strategy

So Forethought settled on a revised strategy. We recognized that an essential part of the business plan was to place Forethought among the very first to introduce products for the new style of user interfaces, so as to take advantage of the dearth of software for that interface to enter the market at a time when entry is relatively cheap.

Accordingly, Forethought committed immediately to being among the first to ship software for Macintosh. Our goal was to have a product shipping in time for sale at Christmas, which gave us about six months from a standing start.

We would maintain the focus of our internal product development on IBM hardware and on the office marketplace, but significantly redirect that work in the changed circumstances. All our work on a proprietary operating environment was cancelled, and efforts with the external database supplier were confined to seeking return of our license deposits. We determined that the applications base we were developing was sound, and would provide the technology foundation for successful products as the market matured. So development was refocused exclusively on the applications software, aiming at a shipment date in 1986 for what would by then be a larger IBM hardware base with standard operating environments.

We would fill our need for Macintosh products from external developers from whom we would acquire marketing rights. Rather than outright purchase of products, we would aim at contracts paying to the developer a royalty on net receipts--thus sharing the risk that either Macintosh software in general or particular products might be only moderately successful.

Forethought would do everything connected with the Macintosh products except software development: we would write the manuals, perform the testing and quality assurance on the software, create and execute the marketing and sales programs, provide customer support, and so forth. In this way we would use the Macintosh products as a vehicle to create a company that can market, sell, and support software--ready to perform the same tasks for our later internal products.

Forethought completed its management team and rapidly began to put in place the organization to take on the tasks of marketing, sales, operations, and administration necessary to build and ship products as a fully-functioning company. The detailed implications of our present strategy are described in the remaining sections of this document.

# 3. 1984: Successfully Launched

## 3.1. 1984 Results

Since April of 1984, Forethought has identified, contracted for, tested, documented, manufactured, sold, and shipped two products for the Macintosh in time for Christmas 1984 sales. The first, a free-form filing system called Factfinder, was shipped on October 23 (ahead of its scheduled date). The second, a skills-building typing course with a practice-motivating mystery game called Typing Intrigue, was shipped on its predicted date of November 21. Both are sold under the MACWARE brand name.

Awareness and demand for the initial MACWARE products are very high. Packaging and manual design were done by a leading San Francisco design firm which has worked for Apple, and their work parallels the high standards of style and execution in Apple's own Macintosh manuals. Consumer advertising (single and double pages, four color) was running at shipment in MacWorld, InfoWorld, and other leading personal computer publications, and the ads have produced thousands of inquiries--over 2400 inquiries in the first month from MacWorld alone. The ads encourage calls to our national toll-free number 1 800 MACWARE, and telephone inquiries have also been heavy.

News releases, articles, and product reviews about Forethought and our products have appeared in virtually every trade publication, and in numerous general business publications, repeatedly. At Comdex (November 1984) we demonstrated our MACWARE products in our own booth as well as being featured in Apple's booth on the giant Macintosh; we found among the Comdex attendees an exceptional awareness of our products and our company.

The sales response has been no less encouraging, despite the extremely short roll-out period (less than six weeks before Christmas).

Under the management of Forethought's regional sales managers for the East Coast and West Coast, we have signed and trained 12 firms of manufacturers representatives, totaling about 50 salespeople, and covering every major area except Chicago and Florida. These reps and our own sales team had placed our products with 294 dealers as of December 11. First

Software is distributing the products nationally, and a couple of regional distributors are providing additional coverage. Computerland corporate has signed a master agreement, and has included Forethought in an informational videotape sent to its more than 500 stores. Together these sources give us presence in more than 800 retail software outlets so far.

International distributors have been extremely eager to handle our products, and distributors for Canada, Australia, and the United Kingdom have already insisted on purchasing large quantities of the U.S. product to sell now--without localization, on a non-exclusive basis, without distributor contracts, and at our standard quantity price schedule.

The internal organization for controlling production and distribution of Forethought's products is in place. All components of our products--magnetic media (scarce), labels, printed materials and documentation, vacuum-formed and printed packaging, shipping cartons and labels, dealer kits and promotional materials, etc.--were manufactured for timely shipments, and large assemblies of both products have been completed. New administration systems were installed on a local area network of multiple personal computers to handle order entry and tracking, sales reporting and commission accounting, credit application and approval, inventory control, shipping and invoicing, and accounts receivable.

Our initial products have succeeded in positioning Forethought as the experts in exploiting the new user interfaces. For example, a review of Factfinder written for the *San Jose* (California) *Mercury News* by John Markoff and Paul Freiberger, two of the best-known and most influential personal computer journalists, mentions near the beginning:

> "If you've wondered why anyone needs a fancy windows and graphics oriented display like the Macintosh, study Factfinder and you'll realize why."

This is a wonderful statement to make about a program like Factfinder, which works exclusively with text. The user publication *Macazine* reviewed Factfinder in their first issue as "insanely great," adding "Forethought is the company to watch for great new products." Other reviews have been equally positive.

To summarize, by the end of 1984 we had faced and overcome four of the largest risks to a new software venture:

1. Risk of technical failure: two products had been shipped in volume, without technical flaws or failures;

2. Risk of timing failure: we had sampled and shipped products early enough to do Christmas business and to gain awareness before the market becomes cluttered;

3. Risk of operations failure: we had succeeded in setting up the systems necessary to manufacture and ship products and to collect receipts;

4. Risk of market failure: our initial products had been enthusiastically received by opinion leaders, by dealers, and by consumers.

## 3.2. Product Strategy

Forethought's strategy in acquiring products during 1984 to introduce in 1984 and 1985 has been to bring to the market products which will be highly desirable to people buying software for the only new-interface personal computer currently in volume shipment: the Apple Macintosh. Put simply, anything that Macintosh purchasers will want to buy (entertainment packages excluded) can be among our beginning products.

These initial Macintosh purchasers are individuals who use the machines both for business and for personal tasks--much like the early purchasers of personal computers a few years ago. Macintosh purchasers differ from earlier generations, however, in being aggressively unwilling to put up with needless complexity and unwilling to learn from (or even to look at) thick manuals. Our initial products are selected with these characteristics in mind.

For rapid acceptance--by the industry, by the press, by existing personal computer users who act as recommenders and influencers, and by dealers--we have aimed in 1984 at products which can be understood to belong to "conventional" categories of software for personal computers and which have had a demonstrated history of volume sales on earlier machines, rather than trying to pioneer new uses for personal computers. (For example, one of the big three classical applications is database. Similarly, three out of the ten top-selling home software products for existing machines are typing instruction programs.) Even if these categories of product do not turn out over time to be the most popular with Macintosh purchasers, they are the ones that dealers will initially stock and reviewers will recognize.

Since our aim is to produce some of the earliest quality products available for the Macintosh, we are for the present restricted to fairly small applications which run acceptably on the initial Macintosh configuration of 128K memory and a single slow floppy drive--although almost any program requires a second floppy drive for realistic use. We cannot assume the 512K memory configuration because its price (an additional $995) and consequent buyer resistance in the personal market have assured that many 128K machines will persist. We cannot assume the usual level of hard disk performance even for intensive operation, since Macintosh has no place to connect a hard disk

which can support as much as 10% of conventional hard disk performance.

## 3.3. Distribution Strategy

Our strategy in 1984 has been to achieve broad availability at retail in U.S. locations where Macintosh owners buy software. To accomplish this and to provide local coverage to maximize sell-through, a combination strategy of selling direct to CBOs and covering independents through manufacturers' reps and distributors was employed. An entry ignoring independent stores was ruled out, since many of the strongest Apple dealers are independents, but several large chains have this year newly added Macintosh, and they will increasingly be our focus as their Macintosh sales increase and as we add IBM-PC products.

Our current distribution involves multiple channels. We sell directly to central buying organizations of multiple-location dealers, and to independent dealers. We use distributors to provide wide wholesale availability, and to save ourselves the cost of handling many small orders. We use manufacturers' reps to provide sell-through and store presence. And, finally, we use international distributors to reach non-U.S. markets.

## 3.4. Development Strategy

Our development strategy during 1984 was basically to locate nearly-complete Macintosh software being developed by competent developers, usually people with successful software products already on the market. By selecting products from software which was substantially complete, we reduced our risk of delay or technical failure at a critical time. Of course, it was not easy to find such products and developers. Our first products came from developers among our industry acquaintances. Now, increasingly, we are being sought out by developers who have seen our first products and advertising, or who have been referred to us by people at Apple.

Forethought provided help to these developers both in product definition for the Macintosh market, and in various kinds of technical support: access to hard-to-get development systems, consulting on details of Macintosh development, getting answers to obscure questions from the Macintosh group at Apple, comprehensive testing and quality assurance feedback (for example, testing compatibility with all third-party hard disks being sold), user interface testing, and critical software components developed by Forethought such as an advanced copy protection scheme which offers high security against piracy along with excellent ease of use and good customer acceptance. This is roughly the same support which we would provide to an in-house development group.

At the same time, with an eye to the future, we began in late 1984 to port our existing internally-developed software away from the proprietary environment on which it had been developed, and to reshape it as the base technology for a second-generation product line for us. This is a very large job in itself, but it preserves many person-years of work and gives us a considerable head start on the complex products we will need to execute our strategy of moving up into the high-function office market as the new-interface machines move in the same direction.

## 4. 1985: Growth to Profitability

In 1985 Forethought will introduce two additional products, both of which are already under contract, in addition to domestic and international variants of existing successful products. A third additional product is scheduled for January 1986.

We forecast sales of about 70,000 units during the calendar year, and 83,200 units for the fiscal year ending March 31, 1986, for fiscal year sales revenues of $5.85 million. We expect to do this profitably despite the demands of such a growth rate, with fiscal year net income of $669 thousand. The company becomes profitable on a monthly basis in May 1985, and is profitable in every quarter of fiscal 1986 (April 1985 through March 1986).

According to our analysis of the market, 1985 will be a difficult year for most software companies. Competition in the slowing market for old-interface software will become intense, and many companies will continue to fall far behind their sales plans. Partly in reaction to this difficulty, they will announce and try to deliver quick "ports" and knock-offs of their own older products for the new-interface market. These will not be successful--simply because they will not work acceptably--but the effect will be to crowd and clutter the market with products in all of today's major categories.

### 4.1 Product Strategy

To rise above this clutter, Forethought will move during 1985 to concentrate increasingly on products which do new things, things which are possible only on graphics-oriented personal computers with the new interfaces. These new product categories are likely to become favorites among owners of graphics-oriented computers, so we will leverage our points of distinction. Early entries in these new categories have the potential to become immense "hits" even by comparison with the Wordstars, Dbase IIs, VisiCalcs, and 1-2-3s of yesteryear.

During this period we will follow the lead of the manufacturers as they introduce new machines and peripherals, with associated advertising and promotion. For example, when Apple introduces a 300 dot-per-inch laser printer compatible with Macintosh, the natural sort of application that Forethought

should introduce would be software to use that laser printer's capabilities for producing high-quality documents that combine typeset-quality text and graphics. This is a new application, which many people would like to do but which personal computers have not been able to accomplish in the past.

Our first goal is to broaden our MACWARE line, but we will do so in areas which support our longer-term strategy to focus on higher-end office markets. We will also be among the first to support other machines introduced especially for the office market--for instance, a higher-performance model of Macintosh from Apple and any new-interface environment for the IBM 286-based line of PCs (the PC-AT and its successors). While it is essentially impossible to port software successfully from old interface to new interface style, in contrast it is relatively easy to port software from one new-interface environment to another. If suitable new machines are introduced successfully, we can do this with our external products in 1985 and 1986.

## 4.2. Distribution Strategy

During 1985 we will continue to broaden our retail availability, by continuing the process of adding outlets among independent computer and software stores, chains and central buying organizations, and distributors as appropriate. We will continue to provide store presence for sell-through in those outlets with our manufacturers' reps.

The large chains will be a particular target, since they form the backbone of IBM's third-party distribution and thus are strongest in the business market which is our strategic focus.

In addition, we will experiment with using telemarketing direct to dealers to lower costs. A first test is already underway to reach about 1000 of our potential outlets, and its results should be known in January 1985. Several alternatives are being tried--calling without a mailing, calling after a mailing, calling both before and after a product sample, etc. At this point it appears that the telemarketing is highly effective in gaining reorders, but we have not yet found a formula for adding new outlets which would reduce the need for conventional sales visits.

In 1985, too, we will focus strongly on building our international distribution. Macintosh is a comparatively inexpensive and low-risk vehicle for establishing international business in 1985, just as it was in the U.S. in 1984. Because Macintosh was planned by Apple for easy localization, only a fairly small investment is needed to localize our products--and the same will be true later of our internally-developed software. Our first targets will be the major European countries with substantial personal computer sales. Other parts of the world will follow as potential sales justify.

Our final new strategy for 1985 will be to experiment with direct sales of software to targeted segments of consumers. We do not believe that this is an appropriate strategy for broad "horizontal" products like our initial MACWARE products, but it looks promising for our more task-oriented products planned for introduction in 1986. Our plan is to augment our successful products specifically to tailor them for a targeted consumer segment, and then to test various direct ways to reach that segment.

## 4.3 Development Strategy

Our acquisition strategy in 1985 will support our product strategy, moving to distinctive developments which are only possible with the new-interface and graphics-oriented machines. In addition we may acquire a development which permits us to make a market probe as research to support our internal product developments.

In support of the move to international sales, we will undertake to localize our successful products for the half-dozen most important European language areas. This work will be done in conjunction with our external developers, but will be directed centrally from Forethought to assure uniformity, high quality, and success.

The major project in 1985 will be to complete development of our own proprietary "base technology" for future products. Our strategy here is to create a single very comprehensive software system which is general enough to underlie many specific products. On this "base" multiple products can be developed quickly, with low risk, and with minimal incremental cost for each.

We believe that this is the appropriate development approach because we foresee that in the developing market for new-interface systems the demand will grow for highly-specific task-oriented software, which will command prices (and profits) much higher than generic "commodity" software packages. The level of function required in each specific software product is very high, but there is much overlapping. Our development strategy mirrors these requirements. The cost is reasonably large, but fortunately much of the work has already been completed during Forethought's initial period of development.

Early in 1985, the first particular products for introduction in 1986 will be chosen by our product marketing group. Based on those decisions, the remaining parts of the base technology and the requirements of the initial products will be prioritized for a detailed development plan to meet the introduction dates.

# 5. 1986 and Beyond: The Payoff

By 1986, we will be in a position to reap the payoff of combining both the internal technology we have developed and the business we have built to deliver products.

We will focus specifically on those new products which meet the needs of individuals to accomplish particular high-value tasks with the higher-end graphics-oriented machines being sold into businesses as well as to individual professionals and managers. By 1986 the installed base of new-interface machines will be large enough to permit this sharp focus.

These products will come principally from internal development, as a series of variations built upon a common underlying base technology which is proprietary to Forethought, and will thus help to assure our long-term position and profitability.

## 5.1. Product Strategy

There will be an additional Macintosh product in January 1986, and we will of course take full advantage of the life cycles of our existing MACWARE products with product extensions and variants to lengthen their profitable periods. We will be opportunistic in continuing to market new externally-developed programs in "hot" categories which may materialize from time to time.

But increasingly our new product strategy will aim at providing software to perform very specific tasks, selecting complete high-value business functions performed by identifiable individuals. These are not "vertical" markets, because they are not characterized by industry segments. Rather, they are specific functions common to similar types of jobs across many industries. A well-chosen submarket of this type will be much larger than a typical vertical, but will retain one key advantage of a vertical market--that the potential customers can be identified easily and reached directly through sharply-targeted media.

A product of this type would be used right out of the box to perform a specific complete high-value business task, rather than being a generalized tool (such as a database or spreadsheet) which requires further "programming" by users

before it can solve their problems. This means that in addition to programs, such a product must contain applicable data (or the means to access it)--perhaps textual data, structuring data, graphical or font data, data with which to access data bases and communication networks, and "expert knowledge" data of rules, conventions, or procedures which the software uses. Such a software product is easily justified as a business purchase, and its availability may even justify the purchase of additional personal computers.

Specialization to particular tasks in this way provides the next radical breakthrough in ease of use, following the introduction of the new interfaces. This step will once again extend the advantages of personal computers to a much larger group of people than before.

We defer this focus until the total size of the market for new interface software has grown to such an extent that these individual segments of that market are large enough to address. This kind of software must be internally developed, so that products can be designed in families for coordination of development, marketing, and sales.

## 5.2 Distribution Strategy

By this period our volume and size will permit us to move increasingly to direct sales to dealers, removing some cost in the distribution channel. As our product lines become wider, this naturally evolves from earlier direct sales to central buying organizations.

As our new products from internal development become available in 1986, we will apply what we have learned from our experiments with direct marketing to consumers to selling these products directly to targeted end-user segments. It seems exceedingly likely that methods for delivering products such as these more cheaply than through the dealer channel will be available, but the specifics must await developments.

International sales will follow the evolution of domestic sales, as we gain volume and presence.

## 5.3 Development Strategy

The period starting in 1986 is when we gain the reward for Forethought's development of proprietary technology beginning in 1983, despite the fact that the market for appropriate machines has taken an extra couple of years to develop.

The centerpiece of Forethought's development during 1983 and 1984 has been software for "representational editing". Representational editing means allowing a user to select and

change the finished representation (the appearance) of material on a display in real time--multi-font text, pictures and graphics diagrams of all kinds, spreadsheets and tables, database queries--while the program deduces from the user's changes to the representation what changes must be made in the underlying programs and data files to achieve that desired appearance. The highly complex code that sustains this illusion of "editing the representation" for direct user interaction is central to implementing many kinds of applications in a new-interface environment.

Forethought's development was carried out by a small group of people, led by two people from Xerox who had worked on the BravoX prototype at Xerox PARC and with its successor on the 8010 Star product at Xerox SDD. Based on those experiences, they engineered a "next-generation BravoX" technology for personal computers, which would surpass earlier versions in function and generality with substantially-improved efficiency. The Forethought version can support "what you see is what you get" generation of highest-quality typeset text, both structured and bit-map graphics, tables based on evolution of the spreadsheet model, and queries/results on relational databases, all seamlessly integrated into a single structure.

It would be possible to sell this "base technology" directly, as a super wordprocessor/database/spreadsheet/graphics integrated product for the new user interface machines. In that role its nearest present competitors would be Lotus's Symphony for PCs and Jazz for Macintosh, although the user-appearance metaphor of the Forethought product would be (we think) dramatically superior.

We reject this alternative, because it is clear that the complexity of such a product--even ours--exceeds the threshold of acceptability for most potential users. It takes users far too long to make such a very general product do the specific tasks they want done. A better plan, we think, is to take all that power and add to it the specializations which make it do a specific task, and then sell the resulting configured systems ready to work. Of course, the possibility of tailoring by the end user will remain.

There are major advantages to Forethought in such a strategy. The specifically-configured products are worth more money to potential customers, particularly if the chosen tasks have high perceived value. Many such products can be made by adding specializations to a common base, thus sharing by far the largest part of the development expense. And, the potential customers for each specific product can be identified and addressed separately. This is, in a nutshell, how we design software products for profitability.

Forethought completed much of the base technology level in 1983 and the first half of 1984. In June 1984 we demonstrated

the system running on an 8088-based IBM PC-XT with 512K of memory and a high-resolution graphics card to drive the IBM monochrome display (720 by 348 pixels on the screen). The second half of 1984 has been employed in porting that work away from the proprietary execution environment and graphics primitives it began by presuming, so that it can run in standard new-interface environments. In 1985 the base technology level will be completed, and development begun on the targeted specializations. As these are completed during 1986, they will be introduced.

## 6. Market Analysis

According to the current projections of Future Computing, the number of software packages for machines characterized as office personal computers shipped throughout the world in the years 1984 through 1988 will increase from about 8 million units to over 37 million units. This is shown in the following table:

Worldwide Office PC Software Ships

| | |
|---|---|
| 1984 | 8,045,000 units |
| 1985 | 12,800,000 units |
| 1986 | 19,063,000 units |
| 1987 | 27,490,000 units |
| 1988 | 37,264,000 units |

Future Computing, June 1984

We have analyzed these software units, to separate them into those which will be designed to work on old style interfaces and those for new style interfaces. This was done by categorizing the annual personal computer shipments into machines capable versus machines incapable of running the new interfaces, and calculating the total shipments and the installed base of each category. Software shipments were assigned to corresponding categories in proportion to the machines, giving a weight of .75 to the relative sizes of current machine shipments and a weight of .25 to the relative sizes of the installed bases. This procedure reflects the fact that in the past more than three quarters of software purchases have been made at the same time as a personal computer purchase or within the first year of ownership.

Our analysis assigns software shipments to the two categories as follows:

Worldwide Office PC Software Ships

| | For old interface | For new interface |
|---|---|---|
| 1984 | 7,638,000 units | 406,000 units |
| 1985 | 10,462,000 units | 2,337,000 units |
| 1986 | 11,035,000 units | 8,027,000 units |
| 1987 | 10,420,000 units | 17,069,000 units |
| 1988 | 8,989,000 units | 28,274,000 units |

This forecasts that software shipments for old interfaces will peak in 1986, trail off in 1987 to 1985 levels, and then trend downward. For new interfaces, shipments are very small in 1984 (less than two software ships per Macintosh sold--bundled software is excluded throughout), growing strongly in 1985 but still a distinct minority of the market (18%). By 1986, however, software for new interfaces is nearing half the market (42%), by 1987 it is considerably more than half (62%), and by 1988 it constitutes more than three quarters of the total software market (76%).

Forethought shipment projections were built up from detailed models of the monthly shipments forecast for each product to be introduced through the end of fiscal 1986. For the years after 1986, a more general forecast of growth was used. In 1986 through 1988 we are also making the transition from mostly published products to mostly internally-developed products, and the forecast anticipates that 20% of our shipments in fiscal 1987 will be internally-developed, 50% in fiscal 1988, and 75% in fiscal 1989. Since internally-developed products are designed for specific market segments, we forecast that they will command modestly higher per-unit prices than published products. These forecasts have been converted to calendar-year periods in the following table.

Forethought Worldwide Ships

| | |
|---|---|
| 1984 | 3,360 units |
| 1985 | 69,840 units |
| 1986 | 118,200 units |
| 1987 | 228,800 units |
| 1988 | 381,000 units |

A straightforward calculation yields Forethought's share of the software market (again on a calendar-year basis):

| | Forethought Worldwide Ships as Percentage Of new interface | Of both interfaces |
|---|---|---|
| 1984 | 0.8% | 0.0% |
| 1985 | 3.0% | 0.5% |
| 1986 | 1.5% | 0.6% |
| 1987 | 1.3% | 0.8% |
| 1988 | 1.3% | 1.0% |

These are modest predictions, anticipating the benefits of early entry in 1985 and sustained growth thereafter. It is always possible that one or even more of our products might become block-buster inter-galactic successes (on the model of Lotus's 1-2-3, for example) because of our push to be early with the first quality products for the new interfaces. These forecasts (and thus the accompanying financial projections) do not make that assumption.

To say that Forethought's market share is 1.0% or 1.3% in 1988 does not tell the whole story, since "software"--even "office personal computer software for new-interface environments"--is not really a single homogeneous market category. As explained above, our plan is to increasingly target particular markets as those niches grow large enough to sustain our goals, and to become dominant in those submarkets. Profitability is no doubt linked to market share in these suitably-defined submarkets, but profitability in software is only weakly related to total volume, since industrial manufacturing economies of scale do not apply. Even more important is to have a product which performs a function worth money to purchasers, and to avoid the direct competition of commodity-type products.

## 7. Summary Financial Projections

The following pages contain summarized projections of Forethought's financial results over the five fiscal years 1985 through 1989, ending on March 31 of the corresponding calendar years.

1. A summary of unit ship projections, income statements, and return on sale and equity.

2. A calculation of unit and dollar revenue, and market size figures underlying the forecasts of market share.

3. Pro forma income statements, with each figure annotated as a percentage of sales for the period.

4. Pro forma balance sheets.

5. Some selected ratios calculated from the income statement and balance sheet numbers.

These projections show Forethought's growth from over $600 thousand revenue in fiscal 1985 (five months' ships), to almost $6 million revenue in fiscal 1986, and nearly $60 million by fiscal 1989. Unit shipments rise from 12,800 units in fiscal 1985 to over 400,000 units in fiscal 1989.

The rationale behind this plan is to grow conservatively, as supported by lasting growth in revenue--a course which seems prudent, given the uncertainties of timing and markets. New product investment is increased steadily along with revenue, rather than in anticipation of it.

In 1984, we managed to launch two products at nearly the same time. Our aim for 1985 and 1986 is to grow to be able to handle the ongoing business plus one new-product launch at a time plus development. Hence the schedule of external products in April 1985, September 1985, January 1986, and internal product in the Fall of 1986. This arrangement allows us to keep the breakeven level of the business as low as possible, and minimizes requirements for early investment.

On a monthly basis, the first break-even month is May 1985, four months from now. Every quarter is profitable in fiscal 1986 (quarters ending June 1985, September 1985, December 1985, and March 1986).

Over the period we project that we can improve our marketing and sales expenses, reducing them from about 40% of sales to 35% of sales. Reductions will also occur in general and administrative expense (from 12% to 7%). Product development expenses stabilize at around 13% of sales. Cost of goods is almost constant at about 12% of sales (volume savings will be offset by competitive pressure to ship more software per unit). Taxes become significant in the years 1987 and after.

The most significant contributor to profitability is the move from acquired products to internally-developed products. Royalties are 15% of sales in fiscal 1985 and 1986, but are reduced to 2% by fiscal 1989 when the transition is substantially completed. This improvement translates directly into profits.

Net income as a percentage of sales (Return on Sales) is forecast at 11% in fiscal 1986, rising to 12% in 1987, to 15% in 1988, and to 18% in 1989. Pre-tax income as a percentage of sales is 11% in 1986, 17% in 1987, 26% in 1988, and 32% in 1989.

After the growth year of fiscal 1986, net income as a percentage of stockholders' equity (Return on Equity) climbs to over 50%. The business should be able to adequately finance its own growth following the final round of equity investment in early 1985.

# Summary Financial Projections

Business Projections
Fiscal Years 85--89
Dollar amounts in thousands

| | FOR FISCAL YEAR ENDING MARCH 31, | | | | |
|---|---|---|---|---|---|
| | 1985 | 1986 | 1987 | 1988 | 1989 |
| Units shipped (published) | 12,800 | 83,200 | 108,800 | 114,000 | 108,000 |
| Units shipped (internal) | 0 | 0 | 27,200 | 114,000 | 324,000 |
| TOTAL UNITS SHIPPED | 12,800 | 83,200 | 136,000 | 228,000 | 432,000 |
| Net Sales Revenue | 653 | 5,854 | 13,600 | 28,500 | 56,700 |
| Royalties | 98 | 877 | 1,088 | 1,425 | 1,134 |
| Other Cost of Goods Sold | 111 | 729 | 1,768 | 3,420 | 6,804 |
| GROSS PROFIT | 444 | 4,248 | 10,744 | 23,655 | 48,762 |
| Operating Expenses | | | | | |
| Marketing and Sales | 1,150 | 2,260 | 5,576 | 10,545 | 19,845 |
| Research and Development | 427 | 634 | 1,768 | 3,705 | 7,371 |
| General and Administrative | 704 | 683 | 1,224 | 2,280 | 3,969 |
| Total Operating Expenses | 2,281 | 3,577 | 8,568 | 16,530 | 31,185 |
| OPERATING INCOME | -1,837 | 671 | 2,176 | 7,125 | 17,577 |
| Interest Expense | 27 | 67 | 56 | 72 | 98 |
| Other Expenses | 0 | 0 | 0 | 0 | 0 |
| Other Revenues | 138 | 65 | 175 | 390 | 840 |
| INCOME BEFORE TAXES | -1,726 | 669 | 2,295 | 7,443 | 18,319 |
| Income Taxes | 0 | 0 | 677 | 3,270 | 8,060 |
| NET INCOME | -1,726 | 669 | 1,618 | 4,173 | 10,259 |
| Net income as % of Sales (ROS) | -264% | 11% | 12% | 15% | 18% |
| Stockholders' Equity | 1,032 | 1,701 | 3,319 | 7,492 | 17,751 |
| Net income as % of Equity(ROE) | -167% | 39% | 49% | 56% | 58% |

Revenue Forecast
Fiscal Years 85--89
Dollar amounts in thousands

| | FOR FISCAL YEAR ENDING MARCH 31, | | | | |
|---|---|---|---|---|---|
| | 1985 | 1986 | 1987 | 1988 | 1989 |
| Units shipped (published) | 12,800 | 83,200 | 108,800 | 114,000 | 108,000 |
| Units shipped (internal) | 0 | 0 | 27,200 | 114,000 | 324,000 |
| TOTAL UNITS SHIPPED | 12,800 | 83,200 | 136,000 | 228,000 | 432,000 |
| Per cent of units internal | 0% | 0% | 20% | 50% | 75% |
| Net revenue per unit (published) | 51 | 70 | 75 | 75 | 75 |
| Net revenue per unit (internal) | 0 | 0 | 200 | 175 | 150 |
| NET SALES REVENUE | 653 | 5,854 | 13,600 | 28,500 | 56,700 |

| | FOR CALENDAR YEAR ENDING DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | 1984 | 1985 | 1986 | 1987 | 1988 |
| ANALYSIS | | | | | |
| World-Wide Office PC Ships (Units) (Future Computing, May, 1984) | 3,456,000 | 4,810,000 | 6,384,000 | 8,370,000 | 10,549,000 |
| World-Wide Macintosh Ships (Future Computing, June 1984, to 86) | 285,000 | 514,000 | 1,000,000 | 1,500,000 | 2,000,000 |
| New-Interface Office PC Ships | | | | | |
| IBM | 0 | 600,000 | 2,000,000 | 4,000,000 | 6,000,000 |
| Apple | 210,000 | 350,000 | 800,000 | 1,250,000 | 1,500,000 |
| Other | 0 | 100,000 | 400,000 | 800,000 | 1,600,000 |
| Total New-Interface Office PC Ships | 210,000 | 1,050,000 | 3,200,000 | 6,050,000 | 9,100,000 |
| Installed Base New-Interface Office PCs | 210,000 | 1,260,000 | 4,460,000 | 10,510,000 | 19,610,000 |
| Total Old-Interface Office PC Ships | 3,246,000 | 3,760,000 | 3,184,000 | 2,320,000 | 1,449,000 |
| Installed Base Old-Interface Office PCs | 7,653,000 | 11,413,000 | 14,597,000 | 16,917,000 | 18,366,000 |
| World-Wide Office Software Ships(Units) (Future Computing, June 1984) | 8,045,000 | 12,800,000 | 19,063,000 | 27,490,000 | 37,264,000 |
| Total New-Interface Software Ships | 406,650 | 2,337,713 | 8,027,193 | 17,069,460 | 28,274,520 |
| Total Old-Interface Software Ships | 7,638,350 | 10,462,287 | 11,035,807 | 10,420,540 | 8,989,480 |
| Forethought Calendar Year Ships | 3,360 | 69,840 | 118,200 | 228,800 | 381,000 |
| Forethought ships as % total ships | 0.0% | 0.5% | 0.6% | 0.8% | 1.0% |
| Forethought ships as % new-interface | 0.8% | 3.0% | 1.5% | 1.3% | 1.3% |

Income Statement with Percent of Sales
Fiscal Years 85--89
Dollar amounts in thousands

| | FOR FISCAL YEAR ENDING MARCH 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1985 | | 1986 | | 1987 | | 1988 | | 1989 | |
| Net Sales Revenue | 653 | 100% | 5,854 | 100% | 13,600 | 100% | 28,500 | 100% | 56,700 | 100% |
| Royalties | 98 | 15% | 877 | 15% | 1,088 | 8% | 1,425 | 5% | 1,134 | 2% |
| Other Cost of Goods Sold | 111 | 17% | 729 | 12% | 1,768 | 13% | 3,420 | 12% | 6,804 | 12% |
| GROSS PROFIT | 444 | 68% | 4,248 | 73% | 10,744 | 79% | 23,655 | 83% | 48,762 | 86% |
| Operating Expenses | | | | | | | | | | |
| Marketing and Sales | 1,150 | 176% | 2,260 | 39% | 5,576 | 41% | 10,545 | 37% | 19,845 | 35% |
| Research and Development | 427 | 65% | 634 | 11% | 1,768 | 13% | 3,705 | 13% | 7,371 | 13% |
| General and Administrative | 704 | 108% | 683 | 12% | 1,224 | 9% | 2,280 | 8% | 3,969 | 7% |
| Total Operating Expenses | 2,281 | 349% | 3,577 | 61% | 8,568 | 63% | 16,530 | 58% | 31,185 | 55% |
| OPERATING INCOME | -1,837 | -281% | 671 | 11% | 2,176 | 16% | 7,125 | 25% | 17,577 | 31% |
| Interest Expense | 27 | 4% | 67 | 1% | 56 | 0% | 72 | 0% | 98 | 0% |
| Other Expenses | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% |
| Other Revenues | 138 | 21% | 65 | 1% | 175 | 1% | 390 | 1% | 840 | 1% |
| INCOME BEFORE TAXES | -1,726 | -264% | 669 | 11% | 2,295 | 17% | 7,443 | 26% | 18,319 | 32% |
| Income Taxes | 0 | 0% | 0 | 0% | 677 | 5% | 3,270 | 11% | 8,060 | 14% |
| Gains Not Extraordinary | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% |
| Losses Not Extraordinary | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% |
| NET INCOME BEFORE EXTRAORDINARY ITEMS | -1,726 | -264% | 669 | 11% | 1,618 | 12% | 4,173 | 15% | 10,259 | 18% |
| Extraordinary Gains | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% |
| Extraordinary Losses | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% |
| NET INCOME | -1,726 | -264% | 669 | 11% | 1,618 | 12% | 4,173 | 15% | 10,259 | 18% |

Balance Sheet
Fiscal Years 85--89
Dollar amounts in thousands

| | FOR FISCAL YEAR ENDING MARCH 31, | | | | |
|---|---|---|---|---|---|
| | 1985 | 1986 | 1987 | 1988 | 1989 |
| ASSETS | | | | | |
| Current Assets | | | | | |
| Cash | 788 | 1,036 | 3,325 | 8,092 | 19,751 |
| Marketable Securities | 0 | 0 | 0 | 0 | 0 |
| Accounts Receivable | 216 | 865 | 1,700 | 3,400 | 6,800 |
| Inventory | 222 | 467 | 600 | 1,200 | 2,200 |
| Other Current Assets | 0 | 0 | 0 | 0 | 0 |
| Total Current Assets | 1,226 | 2,368 | 5,625 | 12,692 | 28,751 |
| Non-Current Assets | | | | | |
| Fixed assets (cost, net d&a) | 277 | 401 | 600 | 900 | 1,200 |
| Other assets | 160 | 131 | 160 | 200 | 300 |
| Total Non-Current Assets | 437 | 532 | 760 | 1,100 | 1,500 |
| Total Assets | 1,663 | 2,900 | 6,385 | 13,792 | 30,251 |
| LIABILITIES and STOCKHOLDERS' EQUITY | | | | | |
| Current Liabilities | | | | | |
| Trade accounts payable | 144 | 253 | 516 | 1,100 | 2,300 |
| Accrued expenses | 155 | 246 | 550 | 1,200 | 2,200 |
| Income taxes payable | 0 | 0 | 0 | 0 | 0 |
| Total Current Liabilities | 299 | 499 | 1,066 | 2,300 | 4,500 |
| Non-Current Liabilities | 332 | 700 | 2,000 | 4,000 | 8,000 |
| Total Liabilities | 631 | 1,199 | 3,066 | 6,300 | 12,500 |
| Stockholders' Equity | | | | | |
| Paid-In Capital | | | | | |
| Preferred Stock, Class A | 573 | 573 | 573 | 573 | 573 |
| Preferred Stock, Class B | 2,502 | 2,502 | 2,502 | 2,502 | 2,502 |
| Common Stock | 103 | 103 | 103 | 103 | 103 |
| 1985 Equity Requirement | 750 | 750 | 750 | 750 | 750 |
| Total Capital | 3,928 | 3,928 | 3,928 | 3,928 | 3,928 |
| Retained Earnings | -2,896 | -2,227 | -609 | 3,564 | 13,823 |
| Treasury Stock | 0 | 0 | 0 | 0 | 0 |
| Total Stockholders' Equity | 1,032 | 1,701 | 3,319 | 7,492 | 17,751 |
| Total Liabilities and Stockholders' Equity | 1,663 | 2,900 | 6,385 | 13,792 | 30,251 |

Ratio Analysis
Fiscal Years 85--89

| | FOR FISCAL YEAR ENDING MARCH 31, | | | | |
|---|---|---|---|---|---|
| | 1985 | 1986 | 1987 | 1988 | 1989 |
| **RATIOS** | | | | | |
| **LIQUIDITY RATIOS** | | | | | |
| Current Ratio | 4.10 | 4.75 | 5.28 | 5.52 | 6.39 |
| Quick Ratio (Acid Test) | 3.36 | 3.81 | 4.71 | 5.00 | 5.90 |
| Cash Ratio | 2.64 | 2.08 | 3.12 | 3.52 | 4.39 |
| **LEVERAGE RATIOS** | | | | | |
| Debt Ratio | 0.38 | 0.41 | 0.48 | 0.46 | 0.41 |
| Debt/Equity | 0.61 | 0.71 | 0.92 | 0.84 | 0.70 |
| Long Term Debt/Equity | 0.32 | 0.41 | 0.60 | 0.53 | 0.45 |
| Times Interest Earned | -62.93 | 10.98 | 41.98 | 104.38 | 187.93 |
| **EFFICIENCY RATIOS** | | | | | |
| Inventory Turnover | 0.89 | 2.43 | 3.54 | 3.80 | 4.25 |
| Average Collection Period: days | 40 | 40 | 40 | 40 | 40 |
| Receivables Turnover | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 |
| Fixed-Asset Turnover | 3.26 | 16.72 | 27.20 | 38.00 | 54.00 |
| Total-Asset Turnover | 0.59 | 2.72 | 3.40 | 3.45 | 2.98 |
| Using end-of-period balances: | | | | | |
| Fixed-Asset Turnover | 2.36 | 14.60 | 22.67 | 31.67 | 47.25 |
| Total-Asset Turnover | 0.43 | 2.11 | 2.18 | 2.10 | 1.89 |
| **PROFITABILITY RATIOS** | | | | | |
| Gross Margin | 68% | 73% | 79% | 83% | 86% |
| Net Operating Margin | -281% | 11% | 16% | 25% | 31% |
| Profit Margin on Sales | -264% | 11% | 12% | 15% | 18% |
| Return on Total Assets | -102% | 25% | 26% | 31% | 34% |
| Profit on Total Assets | -104% | 23% | 25% | 30% | 34% |
| Return on Total Equity | -167% | 39% | 49% | 56% | 58% |

## Appendix A: Executive Management Team

Forethought, Inc. Board of Directors:

Robert H. Campbell (Forethought)

C. Richard Kramlich (New Enterprise Associates)

Phillip Lamoreaux (Lamoreaux & Associates)

Robert Metcalfe (3Com Corporation)

A. Taylor Pohlman (Forethought), Chairman

Forethought, Inc. Officers and Operating Mangement:

Robert H. Campbell, President and CEO

A. Taylor Pohlman, Vice President Sales

R. Darrell Boyle, Vice President Marketing

Robert Gaskins, Vice President Development

Susan Nycum, (Gaston Snow & Ely Bartlett), Secretary

Sandy Thorne, Assistant Secretary

(Brief resumes of the executive management team are included on the following pages.)

## Robert H. Campbell

### Role

Rob Campbell is Forethought's President and CEO.

### Experience

Mr. Campbell left Apple to found Forethought (with Taylor Pohlman) after four years in Product Marketing. At Apple he was Product Marketing Manager for all applications software, with P&L responsibility for both internally and externally developed software, including evaluation and selection. His achievements included creation of the first software publishing branch of Apple--"Special Delivery Software".

During his time with the company, he managed a team of 15 professionals. Together they built Applications Software into a $50 million a year business. He then assumed responsibility for the Sales Development Group at PCS Division.

Prior to Apple, Mr. Campbell developed a successful business plan for the formation of Dakin5. As President and Chief Operating Officer, he staffed the organization and won a contract with Apple for an accounting system. The ensuing product--The Controller--was the first integrated General Accounting product on the market, and earned over $6 million in retail sales.

### Education

Mr. Campbell holds a B.A. in Business and Political Science from the University of North Carolina, and completed work toward a degree in Mechanical Engineering at North Carolina State.

### Credits

Mr. Campbell has spoken at numerous professional gatherings, and has sat on panels covering all aspects of Marketing and Business Administration. A recent talk was at the Fall 1983 Success in Software conference, attended by more than 500 software professionals.

## A. Taylor Pohlman

### Role

Taylor Pohlman is Forethought's Chairman and Vice President of Sales.

### Experience

Mr. Pohlman's background spans ten years of intensive marketing and technical experience in the computer industry.

He founded Forethought (with Rob Campbell) after four years at Apple Computer. During that time he was responsible for marketing the Apple II and III, including hardware, languages, software, operating systems, communications products, and peripherals. His responsibilities included strategies, forecast, and budget. He was directly responsible for the success of eighteen professionals and six staff supervisors.

Some of his achievements at Apple included development of the Apple IIe project, introduction of the Japanese Apple II, development of the FCC-Approved Apple II, the Bell & Howell Apple II, management of the Apple III Turnaround program, and the first corporate forecasting system.

Before going to Apple, Mr. Pohlman was with Hewlett-Packard in the General Systems Division. His roles included Education Marketing Manager, Applications Software Product Manager, Sales Development Engineer, and Data Communications Technical Support.

He has also created timesharing networks for schools and colleges, been an instructor for the University of Texas Graduate School of Education, and began his career as a Teacher and Administrator for the Dallas Independent School District.

### Education

Mr. Pohlman earned his B.A. in Mathematics at University of Texas at Austin. He has done post-graduate work at the University of Texas and the University of Colorado.

### Credits

Mr. Pohlman has published a number of technical articles, both on computing and on education. Recent credits include a 24-part series in Softalk Magazine, to be published in book form.

## R. Darrell Boyle

### Role

Darrell Boyle is Forethought's Vice President of Marketing.

### Experience

Mr. Boyle joined Forethought in October, 1983, after ten years gaining experience in all aspects of marketing and sales with two industry leaders: O. M. Scott & Sons (Scotts Lawn Products) and W. Atlee Burpee Co. (garden products), both subsidiaries of ITT.

His history is one of swift promotion and significant success in sales and marketing strategy for packaged goods sold to consumers at retail. His most recent role was Director of Garden Marketing at O. M. Scott and Sons, where he directed the dramatic growth of existing product lines and the introduction of new ones.

He has direct experience in: successful introduction and postioning of new product lines; effective advertising and consumer promotion development; direct sales force and broker/distributor network management; motivation and management of sales, marketing, and support personnel; handling collateral advertising, merchandising, and training programs; developing trade support programs.

### Education

Mr. Boyle earned his B.S. in Business Administration--Finance from the University of Colorado, Boulder.

His M.B.A. in General Management is from Capital University in Columbus, Ohio.

### Credits

Cleo Award for successful advertising campaign
ITT Best Ideas Award (1981 and 1982)
Scott's Man of the Year Award

## Robert Gaskins

### Role

Bob Gaskins is Forethought's Vice President of Development.

### Experience

Mr. Gaskins joined Forethought in July, 1984. Before that he spent six years in Palo Alto and Mountain View at the principal U.S. laboratories of Bell-Northern Research (the product development affiliate of Northern Telecom) as Manager of Computer Science Research, reporting to the head of the location. In that role he founded and built a new department for advanced development of software for office personal computers, originating and managing projects in such areas as user interface design, document graphics and digital typesettng, object-oriented systems and languages, computer systems architecture, voice/data local area networks, electronic mail, cryptography and security, and personal computers.

Mr. Gaskins also served in product planning assignments for Northern Telecom, and in 1983-84 was one of five senior people picked to guide a short-deadline project to develop new microcomputer products in Europe. He also did strategic product planning for North American office computer product lines, and was corporate technical liaison to Microsoft.

Prior to joining BNR, Mr. Gaskins was Vice President of Software Development for Dynamic Graphics, Inc., a small start-up company where he planned and organized development of major commercial computer graphics software products and participated in their successful marketing.

### Education

Mr. Gaskins received his M.A. jointly in Computer Science and Linguistics from the University of California at Berkeley, and was the recipient of a Ford Foundation Special Career Fellowship for five years of graduate study. He received his A.B. in English from the University of Southern California, where he was elected to Phi Beta Kappa.

### Credits

Member, Association for Computing Machinery
Referee for ACM Transactions on Office Information Systems
Co-author of textbook on computing applications in natural languages and graphics (used at Berkeley, Stanford, etc.)

## Appendix B: Capitalization and Ownership

Forethought was initially captitalized by the founders, Rob Campbell and Taylor Pohlman, with the purchase of 6,000,000 shares of common stock. This initial funding totalled $100,000.

In February, 1983, the company issued Preferred A stock to raise an additional $600,000. The investors in this Preferred A were:

| | Amount | Shares |
|---|---|---|
| New Enterprise Associates L.P.II | $ 300,000 | 2,000,000 |
| Lamoreaux, Glynn Ventures | $ 250,000 | 1,666,667 |
| John W. Glynn, Jr. | $ 20,000 | 133,333 |
| LOK Investments | $ 30,000 | 200,000 |

In December, 1983, the company issued Preferred B stock at $0.50 per share and raised an additional $2,530,000. The investors in this round were:

| | Amount | Shares |
|---|---|---|
| New Enterprise Associates L.P.II | $ 750,000 | 1,500,000 |
| Lamoreaux Partners | $ 750,000 | 1,500,000 |
| Abingworth plc | $ 500,000 | 1,000,000 |
| Interven Capital S.A. | $ 250,000 | 500,000 |
| New Venture Partners | $ 50,000 | 300,000 |
| LOK Investments | $ 80,000 | 160,000 |
| Beacon Hill Trust | $ 25,000 | 50,000 |
| GS Partners 1984 | $ 17,500 | 35,000 |
| GS Partners 1983 | $ 7,500 | 15,000 |

The company has an Incentive Stock Option plan. The plan is funded with 2,287,500 shares of common stock; of these shares, the founders contributed 1,287,500 shares. To date, 36,875 shares have been exercised under the plan.

Summary

| | Shares |
|---|---|
| Common Stock Outstanding | 4,859,375 |
| Preferred A | 4,000,000 |
| Preferred B | 5,060,000 |
| Total | 13,919,375 |
| ISO Pool | 2,250,625 |
| Grand Total | 16,170,000 |

## Appendix C: Financial Statements

(Supplied as an attachment.)

# Forethought, Inc.

*It is hereby certified and duly noted that*

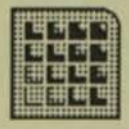
*Dennis Austin*

*Has been granted the degree of*

*Doctor of PowerPointis*

*For advanced work in bit twidling, core editing, and general great development. On time, no bugs and a seldom seen willingness to work with marketing and sales.*

*The Year of our Merger, July Twenty Five, Nineteen Hundred and Eighty Seven*



Forethought, Inc.

*Robert H. Campbell*
President and Chancellor, Forethought, Inc.

Forethought, Inc.

1973 Landings Drive
Mountain View, California 94043
415-961-4720

March 4, 1986

Mr. John Skull
Apple Computer, Inc.
20525 Mariani Ave.
Cupertino, CA 95014

Dear John:

Thank you for giving us the opportunity to demonstrate *Presenter* , a presentation system for managers and professionals. You, Matt, and Alain all provided good input to our plans. I hope that you are as excited about the product as we are. We, like you, feel that a product that produces high quality business presentations and proposals is a "cornerstone" product for the desktop publishing category.

I regret that we did not have more time to discuss the market size, channels of distribution, and selling dynamics. We could benefit from your experience in this market.

I also feel that there are several broader opportunities we can explore. Alliances with such companies as 3M, Kodak and Polaroid, can enrich the system solution for businesses—small and large. These companies provide peripherals, consumables, and distribution channels into this marketplace. For example, 3M has more than a 50% share of the overhead projector market. But, Forethought can only do so much alone. Working in conjuction with Apple, we can create a "1 plus 1 equals 3" business relationship.

Forethought has strategically important decisions to make. We will be introducing a major new version of FileMaker this summer. Now that MS-Windows is on the market and achieving high run-rates, we must evaluate the comparative financial return from an IBM product. Nevertheless, we are sincerely seeking a method to make the economic model for Presenter on the Macintosh work. There are a number of ways this can be accomplished:

- Issue a purchase order for 3,000 copies of Presenter for distribution to Apple resellers at First Customer Ship. We would be prepared to agree to a date at which the PO would expire if not filled. This would allow us to continue to allocate the needed resources over the next few months.

- Commit to an Apple advertising plan. This would allow us to divert dollars from advertising to development (software, manuals and packaging). We wouldn't expect a commitment like this until we were further along in the development process.

- Agree to a bundled solution. Combine a Macintosh, Presenter and a 35mm film recorder for a in-house presentation production work station. A Macintosh, Presenter and and LaserWriter is an ideal way to make overheads.

These are just a few ideas to think about. I will try to set up a follow-on meeting to explore these and other ideas. Bill Campbell has expressed a lot of personal interest in this project and I will try to touch base with him and John Zeisler.

Call me if you have any questions. Thanks again for your asistance.

Sincerely,

Rob Campbell
President

cc: Matt Cobb
Alain Rossman

3-4-84

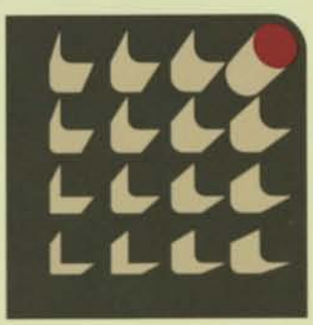
VIC

Please mail. The copies are also to Apple Employees.

Please bcc: Rob, Bob, Dennis.

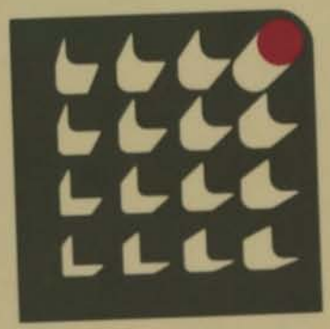
THX

Rob



Forethought

# Introducing PowerPoint™



Forethought™

DEVELOPER'S COLUMN

DRAFT DRAFT DRAFT

Forethought's PowerPoint

Not so long ago, the briefing chart--a big pad of paper standing on an easel--was the standard of group business communication. Speakers with felt-tipped pens charted their ideas and flipped oversized pages, riffling through the sheets to find the right notes. Now the standard has changed.

A business presenter of the 1980s needs sharp, attractive slides that not only convey ideas but also carry strong visual messages. The visual message can take the form of words, graphs, charts, or just plain pictures. Whatever form a presentation takes, each individual piece--and the whole

Forethought™

Forethought, Inc.
250 Sobrante Way
Sunnyvale, Califoria 94806
(408) 737-7070
Rob Campbell
Keith Sturdivant

# PowerPoint Market Backgrounder

Preparation of business presentations—overhead transparencies, flipcharts on paper, and 35mm slides—is a relatively new use for personal computers. Up until now, over 90% of all presentations have been made manually.

But with powerful graphics-oriented personal computers such as Apple's Macintosh, and with new software such as Forethought's PowerPoint™, "Desktop Presentations" will grow to become one of the broadest and largest horizontal applications for personal computers. *The total market size for Desktop Presentations will grow from under $100 million in 1985 to over $1.8 billion in 1991—a growth of almost two thousand percent.*

## Presentation Graphics has Real Benefits

One reason for thinking that these predictions of twenty-fold growth will in fact come true is that graphic visual aids used in presentations deliver real benefits to users.

A well-known experiment, conducted by the Wharton School of the University of Pennsylvania in 1981, studied "Effects of the Use of Overhead Transparencies on Business Meetings." The results were amazing:

—Presenters using overhead transparencies were "perceived as significantly better prepared, more professional, more persuasive, more highly credible, and more interesting" than speakers without visuals.

—Speakers supported by overheads won approval for their projects *twice as often* as speakers without visuals.

—Speakers with overheads generated on-the-spot decisions *33% more often.*

Forethought, Inc. • 250 Sobrante Way • Sunnyvale, California 94086 • 408-737-7070

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sorting and resorting, and then creating once again.

Speakers who use slides know all about the frantic corrections, changes in content, and brilliant last-minute ideas that mean even more changes. The necessary "fixes" never seem to happen fast enough. For these presenters, Forethought's PowerPoint may be the right tool for the job.

PowerPoint produces overhead slide transparencies, notes, and handouts with a Macintosh and a LaserWriter. Gone are those frantic trips to the art department; users can produce professional-quality slides right on the Macintosh and print transparencies directly, staying in complete control of the process.

A presentation composition system

The unusual aspect of PowerPoint is not that the product can print transparencies. Almost any Macintosh application can do that. The difference is that Forethought developed PowerPoint specifically as a

presentation composition system. It's an all-in-one package for professional presenters, offering all the tools needed to make crisp, effective slides and creative layouts--and to organize them efficiently.

In designing the package, Forethought recognized that a complete presentation requires more than slides--presenters need handouts for attendees and notes on the slide show itself. What better way to develop handouts than directly from the slide show? PowerPoint offers just that, plus design features to make easy work of slide development.

Automatic design features, convenient word processor

PowerPoint's automatic design features let users create different visual effects, including widely varying line widths, frames with patterns behind them, and frames with drop shadows to give them a three-dimensional look .

In the creation of slide text, PowerPoint's built-in word processor easily handles bulleted lists and other unusual text formats that sometimes cause trouble in more graphics-specific products. A special tool creates "labels" users can move anywhere on the slide. For longer text, the word processor provides features such as word wrap and tab stops.

PowerPoint's word processor operates on familiar Macintosh principles, so there's nothing new users have to learn to get their ideas down in type. The versatile Macintosh font families are supported, too, so users can change fonts and styles to suit design needs.

Bring in the charts and spreadsheets

In a business presentation, charts can tell long stories succinctly. In the case of financial figures and statistics, a picture is truly worth a thousand words--and a lot easier to grasp. Users can draw from all the resources in their Macintosh files--pictures in MacPaint or spreadsheets in Excel--and

transfer what they need into a developing slide, without redrawing or retyping. Transferring such material onto a PowerPoint slide takes about six keystrokes.

MacPaint and MacDraw (PICT) files can even be opened directly from PowerPoint.

Once on a slide, the chart or spreadsheet can be resized and repositioned if to fit the slide's design. All that complex information becomes a visual part of the new presentation without the need to rebuild graphics or text from scratch.

Professional handouts show professional preparation

One of the difficult aspects of preparing presentations is working up collateral materials. The presenter may need notes on each slide and want to send the group away with a reminder of the message. With PowerPoint the user develops collaterals while developing transparencies.

For notes, PowerPoint allows the user to create a master template for both notes and handouts. Notes are typically used for the

presenter's script, projectionist's directions, or memos for people who miss the presentation. Each note shows a miniature of the slide along with the notes the user ~~enters~~ writes.

PowerPoint's handouts feature also creates miniature copies of each slide. Up to six of these miniatures can be laid out on a single handout sheet. This feature is perfect for training materials and rounds out PowerPoint's position as a complete presentation system.

Getting the presentation straight

Long show or short, PowerPoint helps bring order to any presentation. A screen overview of slides lets users sort the pieces much faster than they could sort actual slides. To change the order, the user simply clicks on a miniature of a slide and drags it where it belongs. The rest of the slides shift to accommodate the new order of things.

For practice runs through a presentation, users can run the Macintosh as a slide projector and flip through slides automatically or cycle them one at a time. This process helps presenters get a feel for how a slide show hangs together and provides a fast review of charts and information. The feature also allows use of the Macintosh as part of a presentation or standalone for a presentation before a small group.

Experienced presenters maintain multiple collections of slides, from which they choose those fitting the current presentation. They often give the same presentation over and over again, mixing in slides from different collections. Each new audience may need a slightly new approach or a different emphasis, or the presenter may want to beef up facts or figures, giving the finance people more numbers and the marketing department more charts.

Fine-tuning a show with PowerPoint is easy because users can quickly cut slides from

one presentation and paste them into another.

The market for desktop presentation

Forethought's PowerPoint is software for a huge market: from a corporate executive or white- collar manager to a luncheon speaker for a local political club. Businesses, service organizations, schools and universities, and government agencies are packed with people who must present ideas, plans, budgets, reports, and products in a well organized and attractive way. PowerPoint provides a way for presenters in these diverse areas to create complete and professional presentations at minimal cost, hassle, and time.

Develop your own visual impact

The visual impact your customer gets from products like PowerPoint can have a strong impact on your sales figures. Why not develop your own slide show to present the new Macintosh family, pointing out the special features you think sell it best?

You'll learn a lot about slide shows, and, in the process, you might just sell more computers--and more state-of-the-art desktop presentation products like PowerPoint.

* * *

To promote PowerPoint, Forethought offers dealers a three-for-two Bonus Pack. The dealer buys two PowerPoint packages and gets a third one free for store use (sorry, not for resale). For information, call Forethought's Dealer Support Representative at (800) 622-9273. Hours are 8:30 a.m. to 5:30 p.m., Pacific time.

**Forethought, Inc.**
250 Sobrante Way
Sunnyvale, CA 94086
(408) 737-7070

Contact:
Rob Campbell
Keith Sturdivant

***FOR IMMEDIATE RELEASE***

# POWERPOINT, PRESENTATION SOFTWARE, ANNOUNCED BY FORETHOUGHT, INC

LOS ANGELES, CA. — March 2, 1987 — Fore**thought, Inc.** today announced PowerPoint™, Apple® Macintosh™ personal computer software to create and manage business presentations complete with overhead transparencies, flipcharts, speaker's notes and audience handouts. The software program has been carefully designed to be fully compatible with the Macintosh SE and Macintosh II computers.

"We see Desktop Presentations as an important growth area for Apple in 1987, building on our leadership in Desktop Publishing," said John Sculley, Chairman and CEO of Apple Computer. "PowerPoint is a significant product because it is one of the catalysts for this new market."

PowerPoint was designed for business users who want to control the appearance as well as the content of their presentations — virtually anyone who needs to communicate plans and ideas. Many of PowerPoint's unique features were created for the particular task of designing presentation visuals, arranging and organizing a presentation, and developing audience handouts. A few of the special purpose tools include word processing capabilities for multi-level bullet charts, diagram drawing tools for illustrations, and on-screen slide sorters.

"Northern Telecom, Inc. makes thousands of presentations each year. I use them for internal communication and to inform our customers," said Fred Lampe, Manager of Technical Analysis. "When I first saw PowerPoint, I knew that it was the first real solution designed for the needs of the individual who is frequently called upon to make presentations."

Included with PowerPoint is "The Guide to Powerful Presentations" and the Presentation Library, a disk full of pre-designed formats and slide layouts to assist users in preparing presentations with maximum visual impact. The program supports all standard slide sizes for all presentation formats — from overhead transparencies to 35mm slides.

PowerPoint makes it dramatically easier to produce presentations on a personal computer. The user works with an entire presentation at one time, eliminating the need to maintain an unwieldly assortment of individual drawings in separate files. Special purpose drawing tools are provided for diagrams and illustrations where on-slide symmetry is important. Company logos, borders, dates and slide numbers placed on the Master Slide give your visuals a standard look. Slides in multiple presentations may be arranged and rearranged or combined with other presentations using the title and slide sorters.

" Presentations are a vital method of business to business communication and a Macintosh workstation, a LaserWriter® printer and PowerPoint provide an ideal platform. PowerPoint's ability to combine word charts, diagrams, illustrations and business graphs into high-impact presentations is Forethought's way of responding to the needs of many businesspeople," said Rob Campbell, President of Forethought. "Page composition software fueled the market for Desktop Publishing. We expect PowerPoint, with its flexible presentation composition features, to have exactly the same effect on the Desktop Presentations market."

Business graphics and text can be imported from virtually every Macintosh program like Excel and Works from Microsoft®, Cricket Graph™ and Criket Draw™ from Cricket Software, MacDraft™ from IDD, Inc., and MacPaint™, MacDraw™ and MacProject™ from Apple Computer Inc. Outlines created in MORE™ from Living Videotext can be opened directly in PowerPoint. Clip art, now widely available for desktop publishing, can be used within any PowerPoint presentation. Slides produced in PowerPoint can be used as illustrations in desktop publishing documents created by such programs as PageMaker™ from Aldus Corporation.

Forethought, committed to customer satisfaction, offers buyers a 30-day "Performance Guarantee." Under the terms of the guarantee, if PowerPoint doesn't meet the customer's expectations, Forethought customer service representatives will help solve the customer's problem or refund the purchase price.

PowerPoint requires a Macintosh computer with a minimum of 512K of memory and one 800K (or two 400K ) disk drive. The suggested retail price is $395.00 and it will be sold through computer retail stores, value added resellers, and software stores. Forethought's products are distributed by Bonsu, Ingram, Micro D, Softsel, and are widely available through Businessland and Egghead stores. PowerPoint will be shipped to distributors and computer retailers simultaneously on April 20, 1987.

-30-

# PowerPoint Sales Guide

Create and Manage Presentations
From Forethought, Inc.

## Target Markets

People who need to plan, compose, and manage complete presentations including overhead transparencies, handouts, speaker's notes, or flip charts.

## Competitive Advantages

- **Focuses specifically on features required by presenters:** PowerPoint is the first program to provide all the capabilities required by a presenter for planning, composing, and creating presentations. It provides a quantum leap in productivity, flexibility, and quality over what can be achieved by using combinations of other programs currently available for the Macintosh.
- **Produces professional looking slides and a whole lot more:** PowerPoint produces great looking visuals (overheads, flipcharts), and all of the materials that might be required to accompany an effective presentation— speaker's notes, audience handouts (with 2, 3 or 6 slides on a page)—even create talking papers or deliver your presentation using the Macintosh computer.
- **Reduces the time needed to create and manage presentations:** PowerPoint's remarkable ease-of-use and free-form design capabilities provide powerful ways to create everything on a slide quickly and easily. Mix typeset-quality text with diagrams, graphs and illustrations. Even standardize on a "look", (big logos, thin borders, etc.), and PowerPoint will automatically standardize that format for all the slides in the presentation including slides copied from other presentations.
- **Provides smooth integration with other applications:** PowerPoint's presentation management features make it ideal as a tool for incorporating information generated from specialized programs. Outliners, spreadsheets, charting, drawing, or CAD/CAM programs all produce good input for a presentation. PowerPoint can then enhance and manage the characteristics of the entire presentation. Slides from PowerPoint can be easily exported for use as illustrations in other documents.

## Sales Tools

- Brochures, ad reprints, co-op slicks, and Presentation Library.
- Demonstration version of the software for creating "test drive" copies for customers along with a collection of demonstration files including a self running demo.
- Site licenses and volume pricing schedules are available.

## Suggested Retail Price: $395.00

## Ordering and Support

- Direct from Forethought, Softsel, Ingram, Micro D, or Bonsu.
- On-site dealer training, sales events, and major account calls are available upon request.
- Toll free information and support number: 1 (800) 622-9273 (8:30 AM to 5:30 PM Pacific Standard Time).

## System Requirements

- Computer: All Macintosh computers with at least 512K memory.
- Disk Drives: One 800K drive or two 400K drives. (The Application, System, and Sample Files are shipped on two 800K diskettes. 400K diskettes are available upon request). Not copy protected—no special installation needed for use on hard disks or AppleShare networks.
- Printers: Compatible with all Apple-supported impact and laser printers.
- Displays: Compatible with all Apple-supported displays.
- Networks: Compatible with AppleShare.

Forethought, Inc., 250 Sobrante Way, Sunnyvale, CA 94086

99310-8901

# PowerPoint
## Features and Benefits

| | |
|---|---|
| **Feature** | PowerPoint provides a comprehensive set of graphic tools for creating objects frequently used in presentations. |
| **Benefit** | *Easily create diagrams such as lines, rectangles, squares, and circles that can be moved, shaded, patterned, resized, or overlapped to produce many different effects.* |
| **Feature** | PowerPoint includes a full functioning word processor with many tailored features specifically designed for presentation needs. |
| **Benefit** | *Annotate charts, create multi-level bulleted lists, and write notes or commentary simply and effectively—all in multiple fonts, sizes, and styles of type.* |
| **Feature** | PowerPoint maintains a user-definable note page with each slide. |
| **Benefit** | *Provide the audience with notes, yourself with an outline to speak from, or maintain notes about the information on the slide for later reference.* |
| **Feature** | PowerPoint has comprehensive features for including information generated in other programs. |
| **Benefit** | *Integrate information generated from specialized programs used every day. Information and graphics from outliners, spreadsheets, charting, or drawing programs can all be incorporated into a PowerPoint presentation.* |
| **Feature** | PowerPoint provides sorters for visually rearranging slides or combining slides from different presentations. |
| **Benefit** | *Rearrange slides in a presentation or combine slides from several presentations, to fit the logical flow appropriate for a specific audience.* |
| **Feature** | PowerPoint includes Master Slide, Note, and Handout pages. |
| **Benefit** | *Elements that are included on every slide or page (such as borders, dates, or logos) need only be created once. New slides or slides brought in from other presentations will automatically take on the standard "look".* |
| **Feature** | PowerPoint lets you customize your output. |
| **Benefit** | *Easily handle those special presentation needs where the normal output defaults such as height, width, or page orientation (horizontal or vertical) do not apply.* |
| **Feature** | PowerPoint provides a "Slide Show" feature for previewing the slides in sequence, without the menu and tools visible. |
| **Benefit** | *Preview slides in the order in which they will appear in their final form or use PowerPoint with the computer to give a live presentation.* |
| **Feature** | PowerPoint allows multiple windows to be open at one time. |
| **Benefit** | *Easily switch between different presentations or desk accessories without having to leave PowerPoint or resize the window.* |
| **Feature** | PowerPoint is not copy protected. |
| **Benefit** | *Easily make a backup copy or load it onto a hard disk or network server.* |

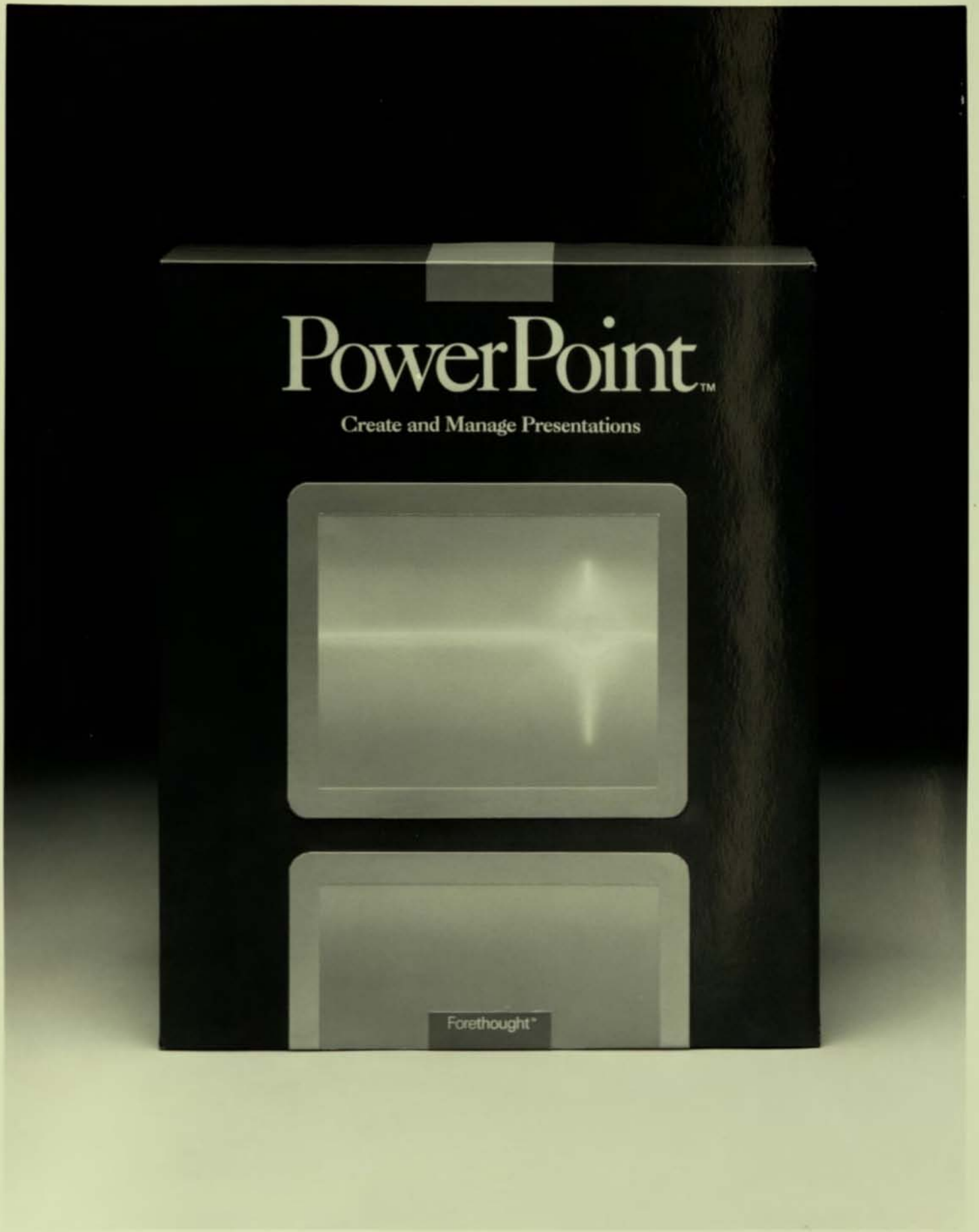
# PowerPoint

## Fast Facts for Forethinkers Finagling ways to Promote PowerPoint for Powerful Presentations.

| | |
|---|---|
| **Price:** | $395.00 Suggested Retail |
| **Announcement** | PowerPoint will be announced February 23 by John Sculley Chairman and CEO of Apple Computer.<br><br>Will also be shown at AppleWorld March 1-3.<br><br>Will have it's first public showing at the Seybold Seminar, March 8-13. |
| **First Customer Ship** | April 20, 1987 |
| **Performance Guarantee:** | Same as FileMaker Plus. |
| **Press Inquiries:** | Turn them over to Keith or Rob. |
| **Dealer Inquiries:** | Turn them over to Dennis M., Teri, or Wendy. |

**Key Features to Emphasize:**

- Lots of people make presentations each day. Whether they are in a small company or a large company. It runs the gamut from engineers making product proposals to professional speakers who make presentations about how to make good presentations.
- Doesn't it make sense that these people would need a software program specifically designed for creating and managing presentations?
- PowerPoint's features are tailored for the person who needs to make presentations. It provides a **Quantum Leap** in productivity, flexibility, and quality over what can be achieved by using combinations of other programs.
- PowerPoint not only produces professional looking slides (overheads, 35mm), it also provides all of the materials that might be required to accompany an effective presentation—speaker's notes and audience handouts (2,3,6 slides per page).
- PowerPoint reduces the time needed to create and manage presentations. PowerPoint is easy to use (provides the key features needed to make and manage presentations) and at the same time it provides powerful design capabilities.
- PowerPoint provides smooth integration with other programs. So, whether they are a financial person who wishes to make a presentation on the company's cash flow (take the information from Excel), or an engineer who wants to present the master schedule of an up-coming product (take the information from MacProject), PowerPoint will allow them to incorporate their information and graphics into their presentation.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—Presenters using overhead transparencies were "perceived as significantly better prepared, more professional, more persuasive, more highly credible, and more interesting" than speakers without visuals.

—Speakers supported by overheads won approval for their projects *twice as often* as speakers without visuals.

—Speakers with overheads generated on-the-spot decisions *33% more often.*

—Use of overheads reduced average meeting length *by 28%* (equivalent to 42 days per year for the average manager).

—Use of overheads raised retention to *as high as 50%* from about 10%.

A study conducted by the University of Minnesota in 1986 strongly supports the conclusions of the Wharton study, with the further finding that presentations using visual aids were *43% more persuasive* than unaided presentations.

## Lots of People Make Presentations

Businesses of all sizes and in all industries make presentations each day.

In smaller companies most of the presentations are given to customers or to other outsiders. Proposals to clients, progress reports, and major sales approaches are regularly handled by giving a presentation.

By contrast, in larger companies the great bulk of presentations are held for management and other insiders. Because of the increased difficulty of communicating with larger numbers of people, presentations are regularly used for project reports, internal proposals, status reports, and staff briefings. Very large multi-location companies often institutionalize the presentation and its associated "foils" as a standard form of memorandum. Compared to the vast number of internal presentations, the occasional preparation of slides for the annual meeting or for a standard sales presentation may be much less important.

*Whether in small or large companies, however, the individuals making the presentations are united by common motivations:*

*—an individual's business success can often hinge upon the success of a presentation, yielding a strong personal motivation to do the best job (and to have the best tools) possible; and*

*—an economic value can be put on effective communication.*

So, why haven't these people started to use personal computers to help them?

## Presentations Require Graphic Personal Computers

The reason is simple: Previous generations of personal computers were not powerful enough to do the job.

Old style computers couldn't address enough memory, or execute code fast enough, or both, to support a simple graphical user interface for graphics tasks. Displays with limited resolution, whether text-only or coarse graphics, could not show a presentation on the screen adequately, so a user had to work "blind." Printers were inadequate to produce finished output, so eventually some manual work had to be done to get professional quality.

This is all changing very rapidly. The current generation of graphics-oriented personal computers (like the Apple Macintosh) can support *great* applications for presentations. Both adequate processing power and adequate memory are available. Graphic environments provide data interchange among programs. Displays are for the first time adequate to display a presentation slide. New laser printers can make professional-quality overhead transparencies very easily. Similar quality will be available very soon in color ink-jet printers and in film recorders.

*This new hardware can produce at least 80% of all 35mm presentation slides, and can produce effectively 100% of the overhead transparencies currently being made.*

But the new hardware does not make the old software any better. Existing programs have been designed for the limitations of the last generation character-oriented

machines, and for use by technical specialists, by audio visual experts, and by computer enthusiasts. It is still almost always easier for a presenter to sketch out a presentation using pencil and paper, then hand it off to a specialist who manipulates the computer. *New software, such as Forethought's PowerPoint is required to deliver the advantages promised by the new generation of hardware.*

## Further Benefits from Using a Personal Computer

There are additional benefits to using a personal computer to prepare presentation visuals.

First, the ability to see and refine presentations on a flexible medium such as a graphic display screen allows the presenter to improve the effectiveness of presentation content, particularly in clarifying complex material. This advantage is analogous to the higher quality of writing which is widely observed to be possible using word processing software on a personal computer, as opposed to dictating and correcting typed drafts.

Substitution of personal computers for human assistants can reduce the time required to produce presentions (often dramatically), and reduce the cost to prepare presentations (equally dramatically). More important in practice is the gain in flexibility; a presenter can work anytime without requiring typists and artists. In this way, also, last minute corrections, changes, and revisions can be made ... *correctly*. How many times has a presenter had to explain mistakes and missing slides caused by last-minute revisions gone awry?

Parts of a single presentation can be prepared by several individuals, then put together in a common format. With convenient tools for exchanging information via communications, several individuals can collaborate on a presentation—even if they are not in the same location. Or, if they are in the same location they can store libraries of presentaions on Local Area Networks for multiple access and use.

Electronic communication of presentations from one location to another is also useful for preparing a presentation in one location, then sending the files to a distant location where they are imaged (on a laser printer or a film recorder) at full original quality. Most managers in multi-location companies are all too practiced at trying to decipher blurry presentation foils sent by facsimile transmission for a conference-telephone announcement or meeting. When the presentations are prepared on personal computers, the files can be transmitted for local high-quality printing more easily than a facsimile of the output. Similarly, a presentation of color slides can be prepared in California, sent electronically, and imaged on a film recorder in Boston—much faster than if physical slides had to be transported.

All these advantages are important, and the time and cost advantages are critical for cost justification. But probably the most important advantage of using a program like PowerPoint is control. *PowerPoint allows content-originators to directly and personally control their own presentations*. For anyone who makes presentations regularly, the advantage (in time and in quality) of personally creating all needed presentation materials far outweighs all other advantages.

## Presentation Graphics Market is Huge

The total volume of business done annually in the U.S. for "Business Presentations" was generally estimated to be over $5.7 Billion in 1985, rising to $8.4 Billion by 1990. (This includes 35mm slides and overhead transparencies only. It does not include video, films, filmstrips, or other audio-visual market segments.)

*Hope Reports, Inc., of Rochester, N.Y., reports that people in the U.S. produced:*

*—over 609 million original 35mm slides in 1985;*

*—over 434 million original overhead transparencies in 1985;*

*—all together, more than 1 billion presentation slides!*
*(This is equivalent to more than 500,000 slides produced every working hour of the year.)*

*3M estimates that there are over 10 million frequent presenters in the U. S. today,* people who make an average of 100 slides and transparencies a year. These frequent presenters

—need presentation software and hardware enough to buy a personal computer especially for that purpose; and

—would consider presentation capability a major selection factor when purchasing a personal computer or output peripheral.

## So Far, the Market has been Small on Personal Computers

Despite the large number of people making presentations, and the large dollar value of the market, so far presentation graphics has been a rather small category in personal computer software. Again, *Hope Reports* has some eye-opening numbers:

For 35mm color slides,
—Of the 609 million original slides made in 1985, *only 10%* were produced using any kind of computer at all (mainframe, service bureau, minicomputer, or personal computer). This number is surprising small, but is rising rapidly. Most of the initial growth has been in centralized systems for corporate communications departments, not in systems for use by individual presenters.

For overhead transparencies:
—Of the 434 million original transparencies, *less than 5%* were produced using any kind of computer at all. Production of overhead transparencies is typically much more widely distributed than that of 35mm slides (lots and lots of people typing with Orator type balls and IBM Selectrics on pre-printed slide frames), and central services often don't produce them at all. Hence, if the initial computer systems have been for central service organizations, that explains why they are not being used for overheads.

So the numbers leave us with the realization that *90% of 35mm slides—and over 95% of overhead transparencies—are still being produced manually,* by people typing, or drawing, or using rub-down lettering or machines, or using photographic processes.

References

Trailblazer Consultants, Inc., 19327 Vendura Court, Saratoga, California 95070
(408) 725-1566, R. Darrell Boyle, President

Hope Reports, Inc., 1600 Lyell Avenue, Rochester, New York 14606
(716) 458-4250, Thomas W. Hope, President and Publisher

*A Study of the Effects of the Use of Overhead Transparencies on Business Meetings,*
Final Report, September 14, 1981. Wharton Applied Research Center, The Wharton School, University of Pennsylvania, Philadelphia, Pennsylvania 19104

*Persuasion and the Role of Visual Presentation Support: the UM/3M Study,*
Douglas R. Vogel, Gary W. Dickson, and John A. Lehman, Management Information Systems Research Center, University of Minnesota, 1986.
Available from 3M Corporation, 3M Center, St. Paul, Minnesota 55144
(612) 733-1110, Kent P. Shuart, Market Development Coordinator

## Desktop Presentations

with

## PowerPoint

Forethought, Inc.

Forethought, Inc.

### Presentation Graphics Market is *Huge*

➡ In 1985

- Over 10 *million* frequent presenters (U.S. only)
- Over 1 *billion* original presentation slides
- Frequent presenters spent over $6 *billion*

➡ By 1990

- Number of 35mm slides will grow by 300%
- Number of overheads will grow by 800%
- The Desktop Presentation Market will grow from $100 million to over $1 *billion*



Forethought, Inc.

### The Opportunity is *Even Larger*

➡ Computer production accounts for:

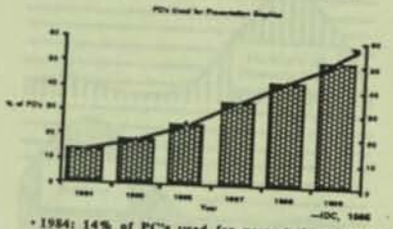
- less than 10% of 35mm slides
- less than 5% of overheads

➡ Most presentations are made with:

- Typewriters with Orator typeballs
- Grease pencils and press-on type
- Slide making service companies

Forethought, Inc.

## Presentations—A New Horizontal



- 1984: 14% of PC's used for presentations (406,000)
- 1989: 52% of PC's used for presentations (10,600,000)

PowerPoint for Desktop Presentations 4

Forethought, Inc.

## Target Markets

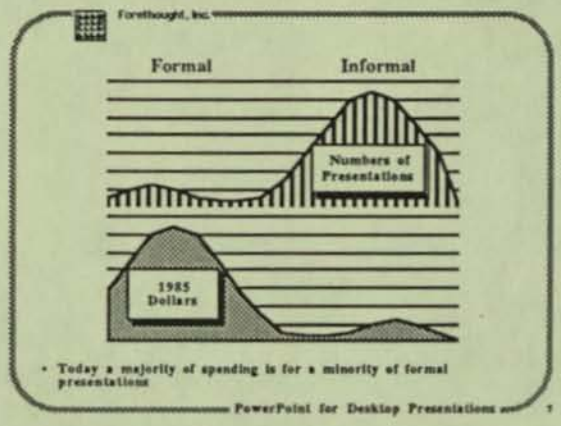
PowerPoint for Desktop Presentations 5

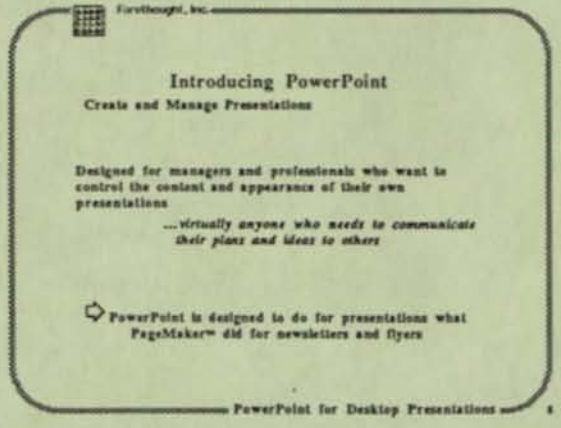
Forethought, Inc.

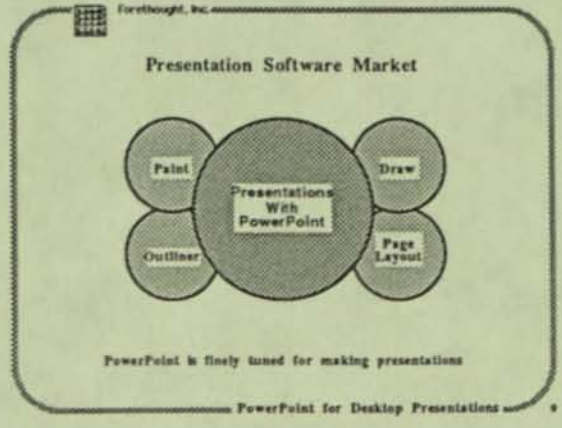
## Market Segments

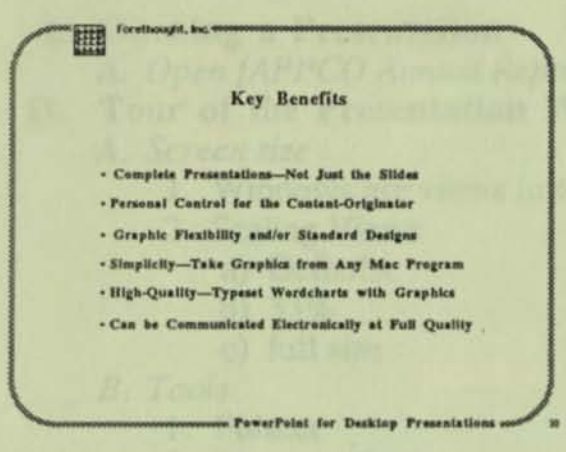
| Formal Style | Informal Style |
|---|---|
| — for large and/or formal occasions | — for smaller and/or informal occasions |
| — passive audience | — active discussion |
| — require graphic artists | — wordcharts & diagrams |
| — weeks of planning | — prepared quickly |
| — production centralized | — production decentralized |
| — typically 35mm slides | — typically overheads |
| — high cost | — low cost |
| — high quality | — low quality |

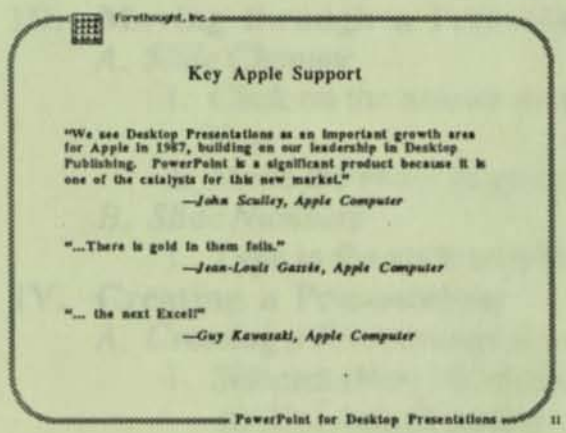
PowerPoint for Desktop Presentations 6

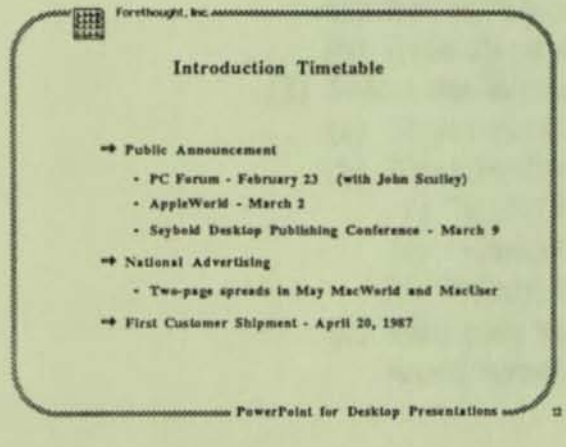

Forethought, Inc.
Formal
Informal
Numbers of Presentations
1985 Dollars
• Today a majority of spending is for a minority of formal presentations
PowerPoint for Desktop Presentations


Forethought, Inc.
Introducing PowerPoint
Create and Manage Presentations
Designed for managers and professionals who want to control the content and appearance of their own presentations
...virtually anyone who needs to communicate their plans and ideas to others
PowerPoint is designed to do for presentations what PageMaker™ did for newsletters and flyers
PowerPoint for Desktop Presentations


Forethought, Inc.
Presentation Software Market
Paint
Draw
Presentations With PowerPoint
Outliner
Page Layout
PowerPoint is finely tuned for making presentations
PowerPoint for Desktop Presentations


Forethought, Inc.
Key Benefits
• Complete Presentations—Not Just the Slides
• Personal Control for the Content-Originator
• Graphic Flexibility and/or Standard Designs
• Simplicity—Take Graphics from Any Mac Program
• High-Quality—Typeset Wordcharts with Graphics
• Can be Communicated Electronically at Full Quality
PowerPoint for Desktop Presentations
10


Forethought, Inc.
Key Apple Support
"We see Desktop Presentations as an important growth area for Apple in 1987, building on our leadership in Desktop Publishing. PowerPoint is a significant product because it is one of the catalysts for this new market."
—John Sculley, Apple Computer
"...There is gold in them foils."
—Jean-Louis Gassée, Apple Computer
"... the next Excel"
—Guy Kawasaki, Apple Computer
PowerPoint for Desktop Presentations
11


Forethought, Inc.
Introduction Timetable
➡ Public Announcement
• PC Forum - February 23 (with John Sculley)
• AppleWorld - March 2
• Seybold Desktop Publishing Conference - March 9
➡ National Advertising
• Two-page spreads in May MacWorld and MacUser
➡ First Customer Shipment - April 20, 1987
PowerPoint for Desktop Presentations
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PowerPoint™ Hands On Training Session

**I. Opening a Presentation**

*A. Open [APPCO Annual Report]*

**II. Tour of the Presentation Window**

*A. Screen size*

1. Windows are views into entire presentations
2. Scaling Views
   a) Defaults
   b) 33%
   c) full size

*B. Tools*

1. Pointer
2. Diagram Tools
3. Labeling Tool
4. Word Processing Tool

**III. Moving through a Presentation**

*A. Slide Changer*

1. Click on the arrows to move through the presentation one slide at a time
2. Move the slider to go to specific slides

*B. Slide Numbers*

1. Type in the slide number to go directly to the slide

**IV. Creating a Presentation**

*A. Creating a Presentation from Scratch*

1. Selecect [New] from the File menu
   a) Use default setting
2. Word Chart (slide one)
   a) Simple
      (1) Type in a Title [Sales Objectives]
         (a) Select "Objectives" and underline
         (b) Talk about all text is rich text
      (2) Select the World Processing Tool and draw a box
         (a) Select view at 66%
         (b) Type in three one-line paragraphs
            i) "•(tab) Increase volume by 20%" (CR)
            ii) "•(tab) Open 15% more retail outlets"(CR)
            iii) "•(tab) Increase gross Margin by 5%" (CR)
         (c) Edit para two to be longer than one line (demonstrating word wrap)

i) "Includes national accounts and value added resellers".(CR)

(d) Select [Indent right] from the text menu
i) "—3 or more locations"(CR)
ii) "—VAR support required"(CR)

(e) Select the indented items using text selection and change to plain, italics

(f) Select [Show text ruler] from the text menu
i) Discuss indention levels and markers
ii) Re-adjust intentions

(g) Select [line spacing] from the text menu
i) Click on level 2
ii) Change spacing between paragraphs [1.5 to 1.2]

(h) Select 50% from the view menu

(i) Select WP box and move about the slide

b) Complex Word Charts
(1) Resize box showing Word Wrap
(a) Select WP Box and Copy
(b) Paste and move to form a second copy
(2) Font Handling
(a) Select [Other Fonts]
i) Helvetica 18Pt Bold (Add)

3. Diagram
a) Select [New Slide] from the Edit menu (slide 2)
(1) Type Title "Training Responsibilities"
b) Circle ,Squares, Lines
(1) Select each tool and draw on the slide
(2) Marquis select all objects except one circle or elipse and delete (BS)
c) Resizing (with restraints)
(1) Shift Key: preserves horizontal, vertical, 45%
(2) Option Key: Preserves center
(3) Using Both for drawing perfect circles or squares
d) Attatching Labels
(1) Type "Training (CR) Department"
(2) Select "Training" and Underline
(3) Move the Object and the label moves with it
e) Select the object
(1) Widen Line spacing

(2) Select Filled
(3) Select a Pattern
f) Draw overlapping circles
g) Guides

4. Charts
   a) Charts on the Scrapbook
      (1) Bar Chart
      (2) Pie Chart
5. Master Items
   a) Draw Border
   b) Add Logo from Scrapbook
   c) Add label
6. Notes
   a) Select [Notes (#n) from the view menu
   b) Select the word processing tool and draw a WP region below the slide
   c) Scale to 50% and type in text

*B. Organizing a Presentation (use APPCO presentation)*

1. Title Sorters
   a) Select and drag to reorganize
2. Slide Sorters
   a) Select and drag to reorganize

*C. Creating a Presentation from other Presentations*

1. Consolidation of Presentations
   a) Activate "APPCO Annual Report"
      (1) Select the [Slide Sorter]
   b) Open "Training" presentation
      (1) Select the [Slide Sorter]
         (a) Select the several slides
            i) Copy
         (b) Paste them into the slide sorter in APPCO

## V. Printing a Presentation

*A. Master Pages (Discuss)*

1. Notes
2. Handouts

*B. Show examples*

1. Full Size slides
2. Notes
3. Handouts

**VI. Presenting a Presentation**

*A. On Paper*

1. Slides
2. Notes
3. Handouts

*B. Video Presentations*

1. Select [Slideshow] form the file menu

**VII. Touring the Menus**

**VIII. Questions and Answers**