PostModern Computing
A cautionary tale of the Internet

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BANQUO
Were such things here as we do speak about?
Or have we eaten on the insane root
That takes the reason prisoner?

Macbeth, Act I, iii

In October 1991 I co-founded a software company called PostModern Computing Technologies, Inc. In June 1996 the company merged with another, and then went public. Today (1996), the total NASDAQ market capitalization of the after-merger PostModern stock exceeds $36 million.

I don't know about you, but to me, that's an awful lot of stock.

Together, my co-founder and his wife hold roughly $18 million worth of stock, about 15% of a publicly-traded software company.

I made, uh, let's say, quite a bit less than that.

No rapacious venture capitalists were involved. In fact, only about $40,000 in cash was ever invested in PostModern.

There was just this one rather poor decision on my part to sell a 39% stake in PostModern in 1995.

I consider it my introduction to the valuation of World Wide Web software companies.

The Meeting

I've had one meeting with a venture capitalist. Her name is Ann Winblad, the ex-girlfriend of Bill Gates, and co-founder of Hummer Winblad Venture Partners. The meeting took

place in 1994 at her spacious offices in Emeryville, California, across the San Francisco Bay from PostModern's then 1000 square foot headquarters in Palo Alto.

I waited for about 15 minutes in the lobby. They had a nice leather couch, and an extremely attractive receptionist.

I was ushered in. Ann Winblad was seated at the end of the largest conference table I had ever seen.

"Hi, I'm Ann Winblad. You must be..."

She looked down at her notes.

"Thane Plambeck."

I pushed the business card I had especially prepared for this meeting across the table. I had to push it a long way, and she had to reach a long way to get it.

"So you are the President."

"Yes. I'm a co-founder. We are doing networking software. We think we have some interesting ideas..."

"What are your revenues?"

"This year, probably about $400,000." This was a quite hopeful extrapolation from our actual current revenues to date. "But we've been profitable almost since inception. We've taken on consulting work to get things underway, and have never taken any outside investment..."

"Powersoft, a company we invested in, is doing $1 million in revenue *per week*. Who are your customers?"

"They're advanced software development groups, mostly inside telecommunications companies. We have a   C++ class library product we call NetClasses. We sell it and then try to get consulting on top of that. Here is the manual."

I sheepishly pushed a two-sided, unbound stack of papers across the table. We couldn't afford a nice-looking manual. I had taken the trouble of shrink-wrapping it at Kinko's Copies for $2.50 the previous day.

She picked up the manual and considered it carefully. I braced myself.

"This kind of thing is really, really valuable," she said, to my utter surprise.

There was a pause. Did she think PostModern had merit? Maybe I was making some progress here?

"How do you find your customers?"

It was a good question. I hadn't considered it before in such a direct fashion. In my mind, the whole company was one big struggle to find customers. Our biggest customer we got because I distributed bootleg leaflets at a trade show. I was caught by the trade show security staff and escorted from the convention center, but someone called us about a week later. Another customer called us after we managed to get a press release into a magazine called the C++ Report. A third customer saw "stealth marketing" news postings we had placed on Internet news groups. We had other customers, too. But I had no idea how they were finding us, really. We hardly advertised. Most people who called us did so from companies I had never heard of until they called. All of these facts, however, flew from me at this moment. Ann Winblad looked up at me, apparently expecting some sort of reply.

"From the newspapers," I said. From the newspapers? What did I mean by that? I had no idea.

Ann Winblad sniffed. "This isn't really the type of company we would invest in. It's really nice of you to come in today." She stood up. I was being ushered out.

"We're not even looking for money," I blurted out. It was true. At that moment we had cash in the bank for six months of operation. I had been *invited* to this meeting.

She paused again for a moment to consider this.

"It's really nice of you to come in."

The Threat

> I. WITCH
> *When shall we three meet again*
> *In thunder, lightning, or rain?*
>
> Macbeth, Act I, i

PostModern was really started by three people. The PostModern Vice President of Engineering, my co-founder, and I met as lowly software developers in 1991 at a company called Teknekron Software Systems, Inc. I had just received a Ph.D. in Computer Science from Stanford University, and was absolutely thrilled to get a $60,000 per year job, literally across the street from my apartment in downtown Palo Alto.

Teknekron made networking software for Wall Street companies. It had about 30 people when I joined.

I considered it curious that they called me "an engineer." I had always thought of myself as a researcher. Not a particularly strong researcher, but a researcher, nonetheless.

On my first day at work, I opened a textbook about operating systems, thinking this might be a good subject to brush up on for this job. My hiring manager, Dale Skeen, interrupted me in my studies.

"Thane, you're going to be writing some convenience functions for TibObjects. We've absolutely got to have this for Tokai Bank in Japan by the end of the week. How long do you think it will take to do it?"

I considered this an odd request. Couldn't I just study this textbook? I decided I didn't like my hiring manager. In fact, I decided I didn't like a lot of the people in the company. I did like my peers at the bottom of the food chain. Everyone else seemed undeserving of the obvious power they held over me.

I lasted in the job 14 weeks. The PostModern co-founders quit soon after. We wrote our own, much improved version of the Teknekron software over a period of 18 months. I worked for about a year with no salary, living off my wife's earnings. In 1992, we announced the software's availability (as best we could) by calling every computer software trade magazine we could think of. Some blurbs appeared in their "new product" sections. We got a few sales. We were nearly out of business.

In late 1992 a really big deal appeared on the horizon. A major integrated circuit manufacturer was on the verge of committing to a several-hundred thousand-dollar license agreement for our software.

It was a huge deal for us. They were about to commit. The phone rang.

"Thane, this is Norm Siegler from Teknekron Software Systems. Say, we're pretty concerned about the Teknekron trade secrets you are violating in your company. Could you three guys come over here tomorrow afternoon to discuss this?"

That afternoon a courier appeared at our offices. He had a letter from Teknekron outlining the charges against us. There was one copy for each of us.

The following day we went to Teknekron for the meeting. Norm greeted us cordially. My hiring manager was also present, but was considerably more grim.

"Guys," Norm began brightly, "we're going to ask that you withdraw this software from the market. It's obvious that you've violated our trade secrets. If you don't withdraw the software, we're going to sue you. And we're not going to sue your company. No, we're

going to sue each of you, individually, for triple damages and all our lawyers' fees. Here are copies of the nondisclosures you signed when you joined Teknekron. There's no doubt that just defending our lawsuit will bankrupt you personally. The courts have been very favorable to software trade secret protection lawsuits of the kind we envision. In particular, the Boole and Babbage case is interesting to consider." Norm smiled. "Say, now, how are you guys funded? Do you have venture capital from someone, or have you cracked open your piggy banks and started this little thing yourselves? I hope we can work this out without getting out the bricks and mortar and starting to hurl it at one another."

In my mind, we were absolutely blameless. But I had no idea what the Boole and Babbage case was. I had heard a radio story that someone from Symantec, another software company, had been found guilty of trade secret violation and had received a big fine. After all our software *was* similar to Teknekron's. The main difference was that our software was much, much, much better. The world just hadn't realized it yet. Apparently Teknekron did, though.

We consulted a lawyer at Wilson, Sonsini, Goodrich, and Rosati. It was my first consultation with a lawyer in my life. (We had incorporated on the cheap using instructions in a book). He advised us to ignore Teknekron. If they were serious, their letter would have come on a legal firm letterhead. "This is just a letter-writing campaign," he said.

I thought we were going to be sued, without a doubt. I thought of all the blameless martyr figures of history, and how much I didn't want to join them. I transferred assets to relatives for protection. My co-founders discussed leaving the country if things went poorly (unlike me, they had foreign passports). We were all damn scared.

They gave us thirty days to withdraw the software from the market. We agreed only not to sell the software to the IC manufacturer.

But we decided to not withdraw the software in general. We kept trying to sell it.

Thirty days passed. Then sixty. Then ninety. We never heard from Teknekron again.

The Negotiation

MACDUFF
>   *This avarice*
> *Sticks deeper, grows with more pernicious root*
> *Than summer-seeming lust, and it hath been*
> *The sword of our slain kings.*

Macbeth, Act IV, iii

Things started to pick up. One of our consulting deals was working out very nicely. We had managed to convince a customer to commit to the ideal situation for us---that they pay us to develop software that we would get the rights to resell in the marketplace.

We were billing three people's time at $125 per hour, and building our next generation product on someone else's nickel. I was feeling quite self-congratulatory.

But there was another opportunity with this customer. Because they were building a gigantic network of thousands of computers, they would need to use not only the software they had paid us to develop as consultants, but also our original networking software, upon which it was built.

We formed a strategy. We would let them build the network. When it came time to deploy it however, we would drop our masks and insist that they license the underlying software. We would have them over the barrel, big time. We could hold the customer's project hostage and demand any price we wanted.

We got very, very greedy. The strategy worked perfectly. Suddenly we were meeting with everyone in the other company. We explained it over and over again: you need the licenses, you need the licenses, you need the licenses. We wouldn't work on the project anymore unless they gave us a license agreement.

It ended up being a legal haggle. We went back to Wilson, Sonsini, Goodrich, and Rosati. They closed the deal for us. We had a $6 million dollar software-licensing contract, plus a quarter million in cash, plus all of our billed consulting time.

My partner's wife said, "they were very stupid to let that happen to them." She was right.

I was left with a little bit of a queasy feeling in my stomach.

Lady Macbeth

LADY MACBETH

Why, worthy Thane,
You do unbend your noble strength to think
So brainsickly of things. Go get some water
And wash this filthy witness from your hand.

Macbeth, Act II, ii

On the World Wide Web it's not difficult to find material on Shakespeare's Macbeth. Why did Macbeth kill Duncan, the king? What was Lady Macbeth's role? Who killed Banquo? Did supernatural forces predetermine everything? Are we free agents?

Don't ask me. Who were those witches, anyway?

In 1994 my co-founder drew me out of the office to convey two simple messages. First, that his wife would be joining the company with stock options to equal my own, and second, that he "wanted my title." Henceforth, he would be both President and CEO of the company.

There being little doubt in my mind as to his wife's feelings on the matter, I consulted the two remaining employees with stock in the company. They agreed that these moves were the right ones. There were no outside board members, advisers to the company, or any other people to consult. That was that.

My co-founder was kind enough to remind me the following day to select a new title.

Rejecting "Duncan, King of Scotland" as too long for a business card and with "Vice President, Engineering" and "Vice President, Development" already taken, I chose "Vice President." The new business cards were printed up that week.

Later, I read a *Wall Street Journal* article entitled, "How to find a new job after a demotion." The writer considered it obvious that you have to quit after a demotion. However, it wasn't obvious to me that I had to quit. If everyone else agreed I wasn't the leader of the company, who was I to disagree? I decided to continue in the job, at least until the remainder of the year.

We wrote the next version of our software, released it, and went to a trade show.

But our potential customers hardly noticed. We were down to $25,000 in the bank. It was the end of 1994.

The Sale

> WIFE
> *What had he done to make him fly the land?*
> ROSS
> *You must have patience, madam.*
> WIFE   *He had none.*
> *His flight was madness. When our actions do not,*
> *Our fears do make us traitors.*
> ROSS   *You know not*
> *Whether it was his wisdom or his fear.*
>
> Macbeth, Act IV, ii

The Germans have two excellent words, *Sitzfleisch* and *Schadenfreude*.

Sitzfleisch translates roughly to "perseverance," or "steadiness." An East German once explained to me that the one reason Communism actually worked reasonably well in East Germany was that "we Prussians, we have the necessary *Sitzfleisch* to make *anything* succeed."

Schadenfreude is even better. It refers simply to the pleasure we take in another's misfortune. Dearest reader, you have arrived at *just* the right place.

Near the end of 1994 was also the first time we brought up a World Wide Web browser in our offices. During one meeting, I asked the other people in the company, "what's the use of networking software like ours when there's great stuff like this out there?"

No one had the answer. More than one person suggested I should find out.

I quit the company instead. I sold all my stock.

Eighteen months later, Netscape announced the incorporation of PostModern's software into its next generation of Web building tools.

Finally, somebody noticed!

Biography

Dr. Thane Plambeck received a BA in Mathematics from the University of Nebraska (Phi Beta Kappa, 1985), and a Ph.D. in Computer Science from Stanford University under the direction of Jeff Ullman. He lives in Palo Alto, California.