

BERND HARZOG – Analyst to the investors

MODIFICATION NOTICE

The following report has been modified from its original version as follows:

Content has been changed

all references to ai*soft have been changed to Authorgenics.
(ai*soft changed its name to Authorgenics in June of 1997)

Text formatting has been changed

by the addition of paragraph breaks, page breaks and enlargement of the type face.

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Introduction
Assumptions
Challenges
Analysis and Conclusions

Introduction

A paradigm shift involves the wholesale replacement of existing infrastructure and its associated vendor positions and buyer behaviors by a new infrastructure, a new vendor, and new buyer behaviors. Authorgenics has the potential to be a paradigm shifting technology in the field of applications development. The importance of such a shift is best explained In the following terms:

1. The USA's economy is benefiting from an unprecedented exploitation of information system technology. It is my firm belief that the economic results of our economy are principally driven by the productivity increases enabled by the information systems which prevail in our country, combined with the macro-economic benefits of the sound money and improved deficit Policies of the federal government.
2. It is very early in the information age for us to be experiencing benefits, suggesting that most of the benefits are yet to come.
3. That said, there is one problem with the notion of continuing benefits to the economy from information technology. Yes, we can continue to ride Moore's Law (the doubling of microprocessor power every 18 months), but only If we have the software to exploit the ever increasing power of the chip.
4. The process by which software is created today is the Achilles' heel of the information age economy. if the analogy is building a house, the software industry builds the first house one grain of sand at a time. if the house is a product, it gets copied many times and resold again and again (hence the high valuation for successful software companies). If the house is a custom project, the cost of the house must be justified by the single implementation in a single enterprise.
5. Existing techniques which attempt to address the issue of productive software creation fall short of the mark. Component software techniques break the house into modules. Modules are Created a grain of sand at a time and then reused across houses. This is an incremental, but not an exponential improvement to the status quo. Modeling attempts to specify the system in the terms of the software architect and then automate the creation process, but It again provides only incremental Improvement due to the complexity of the modeling process.
6. Therefore a technology which literally allows a business analyst who understand the problem to specify the system, and which then created the system with documentation for the analyst and the user In hours or days represents a 1000 fold improvement over the status quo.

Let me summarize the enormity of the Impact of such a system by outlining the processes and behaviors that it would replace;

1. On a personal level, I have made a career of intuiting what markets would require before anyone in the market could articulate the requirement. This was extremely valuable to my employers since when I

was right, it allowed them to spend a year building to my forecast of what the market would Need. Billions of dollars a year of software development are wasted because long term efforts are embarked upon against "guesses" that turn out to be wrong. AuthorGenics has the potential to replace this process with "Ask and Yea Shall Receive".

2. Internal IS departments spend most of their budget on two things that do not help the economic entity that employs them. One is the maintenance systems which cannot be re-hosted due to their complexity and Scope. The other is building new generation client/server and Internet applications

that do not meet user expectation when delivered due to same problem that the faces software vendors (see #1 above)

Assumptions:

In my analysis of Authorgenics, I am making the following assumptions:

1. That the technology is in fact able to “automatically” create distributed client/server applications as is alleged by the founder. I have strong confidence that the technology can create distributed character based applications today. You need to believe that the investment which is being contemplated In the company will fund among other things the ability to create GUI based applications.

2. That the technology will grow to the point where people other than the current set of internal acolytes will be able to teach it to learn new things.

3. That the technology will grow to the point where people other than the internal systems analysts at Authorgenics will be able to guide it in its application production tasks.

4. That the technology will grow to the point where it can deliver applications in C, C++ and Java instead of just Business Basic, as is currently the case. This is critical to the long term success of the company in its attempt to penetrate the early majority 13 market for custom applications.

5. That the technology will grow in its ability to integrate with prevailing systems software and middleware infrastructures.

6. That the technology will grow in its ability to integrate with existing applications which were generated with existing programming techniques.

7. That the company will put in place a management team that will be able to strategically prioritize target markets and then focus on the knocking over of each bowling pin (target market) in the correct order without getting defocused by the enormity of the ultimate opportunity.

8. That the investors in the company will take a long term view, allowing the company to grow to its point of maximum valuation before implementing an exit strategy.

Challenges:

Authorgenics faces many significant challenges in its quest to revolutionize software development. Some of the important ones are:

1. Putting in place a management team that can develop a comprehensive strategy while simultaneously executing against each component of the strategy in a timely manner and in the proper sequence. This

is a particularly huge challenge for Authorgenics since it is highly likely that the enormity of the opportunity will emotionally overwhelm the average sales and marketing professionals - defocusing them from the immediate task at hand.

2. Correctly choosing the right "bowling pins,, to go after first, and making sure that the associated target market is actually successfully penetrated before moving on. With such a revolutionary technology there is a real danger of lapsing into a broad scaled effort to grab the low hanging fruit (wherever it is), causing the company's success to be diluted and therefore not leverage able into mass market momentum.
3. Being really honest about the limitations of the technology at each point in time, and building proper whole product constructs around the product which fill in the holes. The two obvious limitations right now tire the inability of the product to produce GUI applications, and the need for the analyst who runs the technology to be "close" to the company. These are known limitations that are being addressed, but they certainly are hiding other ones from view which will only become apparent when the known problems are addressed.
4. Paradigm shifting technologies always threaten the prevailing infrastructure and the people whose livelihoods are tied to the prevailing infrastructure. Authorgenics is certain to stare the software development community to death, The longer the company has to achieve focused success In niche markets, while readying the technology for the assault on the mass market the better.
5. The company needs to avoid the tendency which many small companies have of wanting to stand on rooftops and tell the world how wonderful their new thing is. For the next 6 Months to one year, the less time spent angering people whose applications are not ready to be addressed by the technology, the better. The challenge is to focus upon segment where the technology in its current form can meet real business needs and generate enthusiastic reference account.

Analysis and Conclusions:

Authorgenics presents a paradigm shifting solution to the problem of automated software creation. such paradigm shifting solutions occur rarely In our industry. Microsoft and Intel created and live off of the shift to personal computing power. Netscape is trying to create a shift around Internet architected applications. Sun is trying to create a shift around JAVA as a cross-platform Internet centric Applications development language. Satellite communications vendor's (Teladesic, etc.) are trying to deliver LAN and TV bandwidth anywhere at anytime.

Of all of them, Authorgenics's value proposition is the most succinct and clearly targeted. Authorgenics does not need for a new market to evolve. The market for custom and product oriented applications development exists, and the pain of the existing approaches is acutely felt by all concerned. Therefore there is no question as to the size of the market for Authorgenics's value proposition. There are only questions of technical marketing and business execution. Therefore, I conclude that the magnitude of the opportunity swamps the potential risks. I strongly recommend that you proceed with your investment.

Best Regards,

Bernd Harzog

Strategy Consultant