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Walking the Plank

Quoting the great Yogi Berra, “It was déjà vu, all over again.” The employees of Value America were celebrating Thanksgiving within the friendly confines of Rococo’s Restaurant. A year before, we were announcing the arrival of Glenda Dorchak. Today we were proclaiming her coronation.

The troops were restless. Craig tried to calm them, saying he wasn’t going anywhere. “The only titles I ever wanted were founder and owner anyway. Founder, because I take pride in having been part of all that made our company special. Owner, because I’m proud to be one of you.”

Bill Hunt, sitting in the audience, knew better. The pain was etched in his friend’s eyes; he could hear it in his voice. Their dream was over. The bright flame that had been Value America had been snuffed out. The body was still there, but the soul had departed.

Joe Page got up and walked over to the bar. He asked for a beer. He would drink many more before the day was through. He knew that with Craig leaving, we were finished. Of all the “Dilbert” executives from which to choose, he thought, why did they pick the most conniving and manipulative?

Rex was stunned. I was gone.

Dorchak gave the same speech she’d given before. “It’s time to pass the baton from the entrepreneurs to the professionals.” Her press release read:

“Glenda Dorchak named CEO, Wolf Schmitt named Chairman. On November 24 Value America (VUSA) announced a change in its management designed to focus on quality growth and a drive to prosperity. Dorchak, who joined the company as President in October 1998 after 23 years at IBM, will become Value America’s new CEO. “Our innovative business model is becoming a viable and exciting business,” Dorchak said. “As we advance toward profitability, we are determined to focus on…increasing the depth of products in our store. A top-quality management team is being empowered to generate explosive growth and focus its efforts on achieving profitability.”

The fact it was a lie didn’t seem to matter. What mattered was that Value America’s board had been wrong. Apart from Glenda’s Gang, no one was celebrating. The stock didn’t double as they had predicted. Following the announcement that Winn was gone, it tanked.

But all was not lost. Dorchak and Morgan discovered you can use the press to rewrite history in any form that serves your interests.

The phone rang off the hook. Countless callers, one question: Why? And the big surprise? It seems that Wolf Schmitt was as universally disliked as Dorchak! They were two peas in a pod. Craig was devastated.

The first call came through David Kuo’s cell phone. He and his comrades were in mourning. They openly despised Dorchak. The phone call was from The Wall Street Journal. David handed it to Craig as he stepped outside, behind the restaurant, so he could hear above the chatter. Glenda followed, afraid she’d miss an opportunity. The reporter asked Craig three questions a dozen ways, fishing for dirt. He didn’t bite; he bit his lip instead. Trying to support the company that had just humiliated him, Craig said, “Morgan resigned. He was not fired. Tom returned home to be with his family." He said, "I am pleased for Glenda. As the largest shareholder, I am counting on her performing well." And, "No, I was not forced out of the company. I've had no managerial role, nor title, for over eight months. I was the one who invited Wolf to join our board. I'm responsible for encouraging him to accept a more significant role."

The whole time, Glenda paced like a caged leopard. When Craig gave her the phone, she scurried away and stood talking next to the restaurant's dumpster. Alas, once again Craig blew a perfect opportunity.

The Reverend Jerry Falwell called on Mick's cell phone to comfort Craig. He said, "I believe your best days are ahead of you. You are a man called out by God to lead his times."

A senior Fortune editor called David Kuo and asked how the company could have promoted "arguably the worst CEO in America?" According to David, she had written a feature about Wolf's destruction of Rubbermaid. Ray Kennedy of Masco called too. He asked Craig the same question a different way, "What in the world were you thinking? No one in the home improvement industry has a worse reputation than Schmitt." Plan D, their desperate move to save the firm, had failed.

Value America's message boards would prove to be eerily accurate:

Wolf is at the Helm   12/1/1999 8:32 am EST

Watch for the following developments now that Wolf is in charge. 1) If there are any good people left, they will leave due to Wolf's arrogant leadership style. 2) He will surround himself with people who agree with him no matter how wacko the idea. 3) He will reorganize and announce huge savings and efficiency gains, which will fail to materialize. 4) He will bring in hordes of consultants, thereby wasting any available cash for absolutely no benefit except to the consultants. Sell this stock and put your money under your mattress—you'll be way ahead.

Everything happened exactly as they foretold. A week later this appeared on Rubbermaid's board:

Hoser Wolf   12/6/1999 7:30 pm EST

My Gawd! I feel like weeping! I read the messages on VUSA's Yahoo! board. They haven't a clue! No one even asked a question about Wolf's past. The poor unlucky investors don't know what's in store for them now that Wolfman is at the helm of the U-Boat. Can you believe that guy actually got a job?… This is really pathetic! On 11/23 VUSA traded as high as seventeen, which is the highest it's traded in months. On 11/24 the press release came out on Woofie's appointment. The stock price traded down that day and every day since. Closed at twelve today, down another half. Nobody on that company's board has made the connection."

On Tuesday, November 30, Craig met Fred Smith in New York City. The two were co-hosting an Internet Conference for CEOs at the request of Chief Executive magazine. Fred gave the morning's keynote address, complimenting Craig and Value America throughout his talk. Craig delivered the afternoon's address, returning the favor. Between the two speeches, the two men huddled in a back corner of an upper room of the World Trade Center overlooking the financial district.

"Fred, you and every other board member have been misled, purposely misled. A small group of Morgan's loyalists mounted a pro-Tom, anti-Craig campaign to discredit me and entrench him. As you no doubt deduced, Tom had no intention of resigning."

"I'm really disappointed in him," Fred responded.

"Their coup blew up in their faces, and they got Dorchak instead, whom they despise even more than me. Fred, you asked what I meant when I said there were issues with her character during the last meeting. I answered but there was too much pro-Glenda sentiment bubbling up for me to be heard. She's conniving, insecure, and a blackma…."

"Now, Bub, Glenda was not one of those that lobbied me against you," Fred interrupted, trying to squelch the news he didn't want to hear.

"Yes, I know. She got to Caise, Durn, and Tarpin and later, when all was lost, to Roche." Tom's spiritual advisor and paid company consultant, Goose Godfrey, was wooing his contacts on the board, Roche and White, on Morgan's behalf, while the Toms and the Kuos were working on Fred.

Godfrey, Craig later learned, did more than boost Morgan's ego. He played a pivotal role in unraveling the company. Jerry Falwell shared that opinion. He had seen Goose Godfrey and the religious power brokers that made up the United Brethren in action. Falwell, in fact, had narrowly saved a prominent faith-based organization from slipping into their greedy hands. He said their attempt to gain control had all been perpetrated at board level through sympathetic board appointees and a coordinated attack on their rival's character. Sure sounds familiar.

"The board has made some terrible decisions based on incomplete and inaccurate information," Craig told his friend. It was the understatement of the millennium.

"What's done is done," Smith shrugged, stating the sad but legitimate truth. "You assembled an all-outside board. All of us are busy. Truth be known, none of us have time for this. We had a problem; we tried to resolve it as best we could."

Craig had made a tragic mistake. He had brought together the most prestigious board of any dot-com firm. They were all good men, successful men, powerful men. But that was the problem. A handful of people with ulterior motives had been able to use half-truths, stereotypes, exaggeration, and slander to cloud their thinking. And it had all happened so quickly, Craig hadn't seen it coming.

"Many of the company's senior merchants and I," Craig said, "have been overrun with calls regarding Wolf. I brought him in, so I'm at fault," Craig admitted. "But he's bad news, Fred. You're the most respected man on our board. If you don't check into Wolf's past, as I have now done—too late, mind you—and dismiss him, we're in trouble. I'll give you the names and numbers of people who can confirm what I'm telling you."

Fred answered condescendingly. "I understand, you'd like to have your chairmanship back. I agree. Give it some time. It'll happen."

"Fred, this is not about me; it's about the company! It may not survive without your intervention."

"We've just made a change," Fred said, trying to be both compassionate and wise. "Give it time; settle down." Craig was now being viewed as Chicken Little. Unfortunately, the sky really was falling.

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It didn't take long for Glenda to impale herself on her own words. On Wednesday, December 1, 1999, at 1:48 PM, she sent an email to everyone@valueamerica.com. In it she said, "With only one month left in this quarter, we are in the unfortunate position that we are well below our revenue objective for the quarter due to our need to slow advertising during system changes, product shipment issues, and challenges with customer service. In order to succeed in Q4, we need to have the biggest month in Value America history!" Glenda M Dorchak, CEO, Value America.

Like Craig had said, no one was prepared to be CEO. Rex, recognizing the peril associated with this email, faxed a copy to our SEC counsel, Wilmer, Cutler, Pickering. They correctly advised the company to issue a public revenue warning before the email found its way to the VUSA message boards. Rex and Craig drew straws for which of them would gain the dubious honor of informing their new CEO that she had started poorly. Craig lost.

He invited Glenda into his office and explained the fiduciary duty and disclosure rules of a public company CEO. Dorchak was incensed. She seethed, "Now that I'm the CEO, you have no right to talk to me like I'm a child." She stormed out, scurried down the hall, ducked into her office, and slammed the door behind her. She picked up the phone and told one of her minions to fire Wilmer, Cutler, Pickering—arguably the finest law firm in the mid-Atlantic states and among the best SEC lawyers in the nation. Glenda couldn't handle the humiliation of being rebuked; her insecurity couldn't countenance a challenge to her supreme authority.

What Dorchak did next was even more amazing. She hired the very same firm that had been so badly outmatched during the IPO process. From all accounts, the law firm of Caise, Perkins is a fine regional firm, well suited to small entrepreneurial, pre-public companies. But it had about as much business being Value America's SEC counsel as Dorchak had being the CEO of a public company. At least now Craig knew why Caise may have been so supportive of Ms. Dorchak's coronation. Quid pro quo and all. His firm would be paid over $2 million defending ours, and that's a lot of reasons.

An earlier Dorchak email, sent at 8:24 AM that same day was less dangerous to the firm's public standing. But it clearly revealed the private turmoil brewing inside Value America's new CEO. Ironically, it was written to Linda Harmon, the administrative assistant who had recognized Tom Morgan's character flaws as far back as IPO day, long before anyone else had seen them. Now she would be among the first to read Glenda's—in glorious, unmistakable, black and white.

The email to Linda was sent to every manager, although it specifically listed Starnes, Peters, Ewert, Chambers, and Pusey. It began, "To all Value America Managers: As an executive team we are undertaking a detailed planning effort to ensure we have a sound business plan for 2000." Read: It's December already, and yet none of us "professional managers" have come up with a plan for the coming year. What, pray tell, are we doing to earn our lofty salaries?

The email continued, "No agreements should be signed or verbal commitments made until approved…. Delay any prospective partner or alliance visits to C'Ville…. The following approval process is in place effective immediately. Any external document which commits us to financial or other conditions can only be approved by an EVP and myself…. Ensure that everyone understands that any deviation from this process could be grounds for dismissal."

Translated, this meant, "I don't trust anybody. All progress will cease immediately. Nothing will happen without my approval. If you don't please me, I will fire you." It was pure, unadulterated insecurity screaming, I need to be in control, total and absolute control, the center of attention, even if it brings everybody else down, even the company. As you might imagine, it was great for morale. From this moment on, no forward progress was made. The company's decline was even more rapid than its rise.

What followed was particularly fun. The Industry Standard, a magazine that calls itself, "Intelligence for the Internet Economy," as if there were such a thing, published a feature story on Value America. Arranged by David Kuo, it was entitled, "Value America's Palace Coup." It said:

"First the CEO quit. Then the board deposed its chairman. Now the general merchandise e-retailer thinks it can turn a profit. Nothing says 'Christmas' like a good old-fashioned corporate bloodletting. In keeping with the spirit, Value America, the general-merchandise e-retailer headquartered in Charlottesville, recently announced its founder, Craig Winn, would move away from oversight of day-to-day operations. Then, a couple of days before Thanksgiving, the company's board voted to oust Winn as chairman, replacing him with another board member, Wolf Schmitt…. The recent behind-the-scenes maneuvering left Winn with a 'nothing burger' in the words of one Value America exec." Thanks, David.

The announcement of Winn's move away from day-to-day operations had taken place in early March, not late November. But this was not a casual mistake or a careless error. The Brethren were anxious to write themselves out of our history. Though fallen, their hero needed an alibi, and so did they. A little lie can do wonders for one's reputation.

It was unthinkable that they might be held responsible for the company during the time they were paid to manage it. The possibility of having their failed coup linked to the company's demise was beyond comprehension. So Morgan and his fan club concocted a story, and the press lapped it up. "Winn was a meddling entrepreneur who just couldn't let go," they said. "It wasn't our fault," they whined, "Winn micromanaged everything. He cut us off at the knees, reversed our every decision." It fit the stereotype nicely and provided a great alibi for them, not to mention the regime that followed. It also made for a juicy story. To hell with the truth. Seduction and betrayal.

"According to company insiders [read: Starnes and Kuo], Morgan, who joined the company as CEO in March, was frustrated over Winn's refusal to hand over the corporate reins. [And I thought it was because he wasn't a 'truth teller.'] To contrast Winn's style with Morgan's, insiders point to a recent deal that Winn brokered with Visa, which gave Visa cardholders 100 'value dollars' for their first $200 in purchases on Value America's site…. Value America was forced to cancel the arrangement, which company executives claim Morgan never would have made without first carefully studying the ramifications."

Bravo. Fine job, David and Tom. You really nailed Winn with those clever insights. Never mind that Kuo, not Winn, brokered the Visa deal. Never mind that it brought millions of dollars of revenue into the store while costing less than newspaper ads. You could even be forgiven for falsely stating that the company was forced to cancel the deal because you finally said something right: "Morgan would never have done the deal." He never did any deal.

Staying out of management, not being an insider, was in Craig's financial interest. It freed him to sell fifteen million shares at $10 to $17 a share. Yet he was portrayed as wanting to commit economic suicide. Let's see, a smart man willing to throw away hundreds of millions of dollars to gain operational control of a company that he had voluntarily given up control of just nine months earlier. Not on this planet. Any business journalist worth his laptop should have been able to connect the dots, put two and two together. Or in Craig's case, multiply fifteen million shares by $10 to $17. But why be rational? Logic doesn't sell magazines. Besides, logic requires thought, and that's too much to ask.

"What started as a contest between the two men for operational control ended with neither man victorious," the fantasy continued. "Winn is banished to a position of no real responsibility, and Morgan is looking for a job. Glenda Dorchak, Value America's president since October 1998, has been installed as the company's new CEO…."

"Right again," Craig mumbled to no one in particular. "The biggest problem isn't that the ship's on fire. It isn't even the crew. It's the mutinous officers." Craig picked up the phone and called Caise's direct line.

"I didn't call to chastise you for your lack of support the other night, Justin, although I'm disappointed. Personally, I think you're a fine man, but corporately, your behavior is reprehensible. You of all people should know better. You wrote the blackmailer's employment contract, for cryin' out loud." Justin was silent. His words could only incriminate him.

"You know as well as I do, in my absence an unrestrained Dorchak will destroy Value America. Everyone will lose." Except the lawyers. "And you could have stopped this." Craig was hard on Caise. He struggled with the dichotomy between the upstanding nature of Justin's personal life and the depravity of his current corporate behavior. Craig did all he could to instill some courage into Justin's feeble heart. It did no good. Caise had gone from ally to adversary. "This board has plotted its own course. I can no longer help. You are on your own," Craig stated defiantly.

Justin responded with a syrupy diatribe about how they were eager to get Craig's valuable insights, but he stopped him in mid-sentence. "It's far too late for that, and you know it. I called to tell you that Value America will be lost if you don't find out who's misinforming the press and fire them. Those willing to put their personal agendas above the shareholders have no business in this, or any, company. We're paying them, or should I say, you're paying them, to serve the interests of the shareholders, yet their actions show they're simply serving themselves!"

Sadly, Justin said and did nothing. Going along, keeping the peace, was more important to him than anything (except money, perhaps). Before they parted, Craig arranged to meet Caise in his office the following evening to discuss his role in the failed coup.

In the presence of General Kicklighter, Justin vehemently denied his complicity. Caise insisted that he, more than anyone, trusted and respected Craig Winn. He recounted the many promises, the bold claims Craig had made. Then he shared in painstaking detail how every promise had been fulfilled, how every claim had been verified. Caise once again urged Winn to run for Governor. He not only said he would be supportive, he actually catered a gala affair in Craig's honor for several hundred notables at his magnificent home. Justin's introduction was one for the ages. Personal good and corporate evil were now inextricably intertwined.

Over the next few days, Craig's phone bristled with activity. The press smelled blood and they wanted stories. The Wall Street Journal, The Washington Post, and The New York Times all called. Craig did his utmost to walk the party line, trying to say something good or nothing at all. It worked—to a point. In each interview, the reporter would inevitably ask, "Why were you so foolish as to kill the eFed deal? Why did you throw away money supporting Visa? Why couldn't you let go, and let Morgan manage?" After hours of, "have-you-stopped-beating-your-wife," questions, a reporter with the Journal asked, "If you could do it all over again, what would you do differently?"

Craig finally bit. "I should have stayed on as CEO after the IPO. New economy companies need to be led longer."

Then the journalist asked, "Anything else?"

"Sure," Craig said. "Having an all-outside board was a mistake. They're busy men. They have neither the time nor the background to make well-informed decisions."

"And…."

"And after all this rubbish you just told me about what Morgan and his boys have said, I wish I hadn't hired him."

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During the final moments of the last board meeting, Fred had made it clear that Wolf was to work with Rex and Craig on all strategic issues and alliances. But Wolf made a mockery of the request. He canceled every meeting. He was too important to be expected to spend time with mere entrepreneurs. When he finally did grace the two founders with his presence, he was so belligerent, arrogant, and obnoxious, Rex reacted. "Get the f--- out of this office, before I throw you out." Craig just looked at his friend in wide-eyed admiration.

Not wasting a moment, they went back to work. They formed "Plan E"—sell the company before it implodes. As much as he hated to make the call, Craig dialed Gordon Conover, Managing Director of Robertson Stephens. They reasoned that even with a mile of bad road between them, no investment banker knew the company better or could respond as quickly. Quickly was everything now. We had become a lemming convention, racing hell-bent toward death. The Wolf and the Witch were leading the charge.

"Hello, Craig. Hi, Rex," Gordon said over the speakerphone. "What can I do for you, gentlemen?"

"Collectively, the five founders of Value America own fifty-one percent of the company. We'd like to sell it," Craig stated calmly.

"Do you wish to sell just your controlling interest, or the whole company?" Gordon asked with admirable equanimity. Fifty-one percent was twenty-two million shares, still worth over $300 million. This was a whole lot of business to fall into his hands.

"We would prefer to sell the whole company for the benefit of all shareholders," Rex answered.

"But we only control our shares, Gordon," Craig interjected. "We propose marketing our shares to a prospective company and then offering whatever deal we're able to negotiate to all shareholders."

Gordon responded, “We can do the deal either way, but we’d prefer to act with management and board support, not without it.”

“Gordon, this is Rex. We’re not in a position to offer you board support. We have no influence over management either. We just want to know if you can sell our shares to another firm—someone who can use what we’ve built.”

“Yes, of course.”

“How much and how fast?” Rex queried.

“Sixty days to get a binding letter of agreement. You’ve already got most of the book done. We just need to update portions of your prospectus. We’ve done the due diligence. So I’d say the last week in January.”

“Good. The price?”

“That’s a little harder to say. You’re trading at $12, down from a high of…whoa, $17 just two weeks ago! The market for dot-coms is strong, but you guys are falling like a rock—down thirty percent in ten trading days. Wow! Guess the market didn’t react very favorably to….”

“Yeah, we know,” Rex said, cutting him off. “Too bad our board hasn’t made the same connection. But go on…”

“Sure,” Gordon said, regaining his composure. “You’d be in good hands. We’re by far the biggest and most aggressive firm in dot-com mergers and acquisitions. And it’s for damn sure you guys can sell. Yours is still the best IPO we’ve managed. Plus there are a lot of companies that need what you’ve built. But nothing’s for certain; there are risks and all.”

“You sound more like a lawyer than an investment banker,” Rex interrupted. “What are the shareholders going to realize, Gordon?”

Gordon answered with a question. “Have you thought about which companies we should present Value America to, and how your commerce engine might be attractive to them?”

“Yes,” Craig said. He rattled off twenty names in staccato fashion. As he started to explain the synergies, Gordon cut back in.

“If one of these firms shows interest, we should be able to get a fifteen to twenty percent premium above your average trading price—around $15 a share. If we can make it a horse race, with two or more firms interested, you’d be looking at $20 or more a share.” That was nearly a billion dollars.

“Put it in writing,” Craig said. “Send us a proposal.”

“Sure, I’ll even include an engagement letter,” a happy Conover shot back. “We’ve still got most of the day here. You’ll get it tomorrow, FedEx. You know, guys, time is critical here. Your value is falling fast. I suggest we schedule our first working session for tomorrow morning, say ten-thirty your time. I’ll get a team together. We’ll get this done.”

“Good.” Craig added, “I’ll pull the materials together for the book and write a Strategic Partnering Plan so you’ll know how to present us to the big guys like Microsoft and AOL. I’ll even explain how e-commerce can be profitable with the right blend of demand and supply alliances.”

“Sounds great. Talk to you guys tomorrow.”

As Gordon hung up, Craig asked Rex, “Why don’t you tell Biff Pusey what we’re doing, so we don’t run afoul of the Hitler Youth again.”

With that, hell's fury was unleased. You'd think from the way the Wolf and the Witch responded, Rex and Craig were stealing their favorite toy.

The founders' plan was to save shareholder value by selling a controlling interest in the company to a larger Internet firm. It was undeniably their last shot. If Plan E failed, there would be no tomorrow. Probable death would become certain. If you listened closely, you could hear "Taps" being played softly in the background.

Schmitt and Dorchak were incensed. Leading Value America was their big chance to prove themselves and redeem their tattered reputations. The very thought of having it snatched from their tightly clenched fists was unthinkable! Forget shareholders' interest; they only owned the company.

Remarkable, really, to think we had built a company so exciting organized labor tried to buy us, as did Paul Allen, the world's second wealthiest man. Even "America's Entrepreneur," Fred Smith, invested, along with his company. All but one of 140 institutional investors we had met on our road show had clamored to buy our stock. We had raised hundreds of millions of dollars. We had built one of the world's largest etailers. Yet today all that meant nothing to those who were in control. What were they thinking?

The board, thoroughly weary and totally disgusted, was called back into session telephonically. They were told Chicken Little was on the rampage—again. It was after dinner on December 6th, around eight o'clock. The purpose: stop Winn and Scatena from selling Value America.

Craig, Rex, and Mick participated from a speakerphone in Winn's home. The new chairman called the meeting to order. He, Tarpin, White, Caise, Roche, Flowers, Smith, and Durn were on the line. So was Biff Pusey, along with the new CEO and her new legal counsel, Caise, Perkins. Craig and Rex asked the deposed company counsel, Wilmer, Cutler & Pickering to attend as well, to represent shareholder interests. You could almost hear someone cry, "Let's get ready to rumble!"

Mr. Schmitt, in his most condescending voice, said, "We have called this special meeting to hear proposals by Mr. Winn and Mr. Scatena regarding their engagement of an investment banker to sell their shares of the company." He introduced Caise's henchman, who went on for a goodly time explaining the fiduciary duties of directors in acting in the best interest of the company (which he took to mean them) and the company's shareholders (which he took to mean everybody except the two guys who owned most of them).

The fact that no board member bothered to ask why we had changed SEC counsel, a fact now plainly obvious, did not bode well. That meant they were either oblivious and didn't care about a major legal development in the midst of a clearly litigious situation—not likely—or they had all been briefed via back channels. If so, the outcome was predetermined, just as Craig and Rex suspected had occurred at the coronation.

In a tone more taunting than professional, Wolf invited the founders to present their views. Rex and Craig now knew the jury had been tampered with, the outcome rigged. But they pressed on as hope's light dimmed. They took turns presenting their strategy. They outlined the reasons that the company, its employees, brand partners, and shareholders would fare better if a controlling interest were sold to a firm that already had customers, one that could halt the advertising burn. They shared how an acquiring company could capitalize on Value America's commerce engine, supply partnerships, and demand-alliance relationships.

Craig and Rex expressed their concerns about the company's prospects under its current management structure. Craig said, "A part-time chairman, overseeing an inexperienced CEO in light of the company's cash burn and current capitalization, is a recipe for disaster." Together they explained how the company's biggest problem, its gargantuan sales and advertising expense, could be eliminated following an acquisition by the right company.

They told the assembled that they had not yet signed an engagement letter and that they had only offered their own shares, not anyone else's—although, they said, "If any of you, or any other shareholder, would like to join us at any time, you're welcome. We'll bear the burden of the process. You can enjoy the benefit."

Some bickering followed as Craig told the board that the airing of dirty laundry in the press was intolerable, especially mischaracterizations. Then he added, "The demand alliances we've cultivated are of great value to an acquiring company. If Rex and I are disparaged, these relationships will all dissolve, as will shareholder value."

Wolf demeaned these concerns. "He's on a witch hunt. Glenda and I have met with Rex and Craig often," he lied. "We have sought and received their input. The Industry Standard article does not reflect management's position on Mr. Winn's role in the company." Yeah, right.

Don Tarpin quickly voiced his support for Wolf's assessment. It was as if it had been scripted.

Fred Smith was next, "I'm concerned about the pattern we're developing here. Just two weeks ago we resolved the matter of management structure, and we're already debating it again. We must give the new management team time to produce a business plan. Craig, you're my friend, but you need to settle down."

Now Glenda, as she had done a year ago, stepped in and gave the board an earful. It sounded so reasoned, so professional. She used all the right words: planning, process, objectives, examination, profitability, focus, and stabilization. They ate it up. No surprise: boards almost always support management, and the founders had been out of management for a very long time.

Craig, realizing he was fighting a losing battle, thought full disclosure would be good for the soul. He told the board that Wolf was a fraud, a charlatan. Although he did not use these specific words, the board was put on notice: the company's two largest shareholders had no confidence whatsoever in the competence or character of their new chairman.

Sensing the reprieve she was getting at Schmitt's expense, Dorchak threw Craig a bone. She said, "It is my understanding that the board has directed me to keep Mr. Winn engaged in the demand alliance process throughout 2000." Swell, Craig thought. What could be more fun? Negotiating good deals for evil people.

With the positioning games over, it was now time for the main event. Wolf, angered by Winn's assessment of his character and ability, or lack thereof, naturally tried to steer the discussion away from himself and the evaluation of his fitness for duty. The more the board knew, the worse shape he would find himself in. "This board must resolve whether or not the company should put itself up for sale, as Mr. Winn and Mr. Scatena have proposed." This was a battle Wolf was prepared to win.

Craig began, “Rex and I have Gordon Conover, Managing Director of Robertson Stephens, standing by. He is prepared to make a presentation to this board tonight regarding the feasibility and appropriateness of a sale or merger.”

“I don’t wish to hear from them,” someone said.

Another chimed in, “It’s premature. We don’t even know if we have any interest in a sale yet.”

“Well, we do,” Rex responded, “and we own fifty percent of the outstanding shares.” The board couldn’t be bothered with such trivia.

It was time for Justin’s hired gun. “Companies typically appoint a Special Committee to examine strategic options. This committee should be comprised of independent directors who are not officers of the company.” That tidbit wasn’t worth what we’d paid for it, considering there were none. He went on to say, “Mr. Winn, I advise you to get counsel from your own legal advisors about your role on such a committee, as a director, the most significant shareholder, and leader of the initiative.”

When a lawyer tells you to “get your own legal advice,” two things are happening. The attorney making the recommendation is indicating that he is against, not for, the person to whom he is offering this advice. And second, he is in the process of evaluating the legal strategies he might deploy to thwart the plans of his new opponent. Such was the case here. The King was dead. Long live the Queen.

Craig and Rex had already done as much. They had sought the legal advice of the most highly respected SEC law firm in the mid-Atlantic states, Wilmer, Cutler & Pickering (having just been fired, they were available). It is not wise for clients to discuss matters they have reviewed with their lawyers; some courts had ruled that in so doing they have waived their privilege of confidentiality. Suffice it to say, however, that no one could come up with a scenario in which the interests of Craig and Rex were divergent from other shareholders.

Craig jumped back into the fray. “I believe this process should be led by the board member with the most comprehensive understanding of the company, the person who knows the most about how our firm would benefit an acquiring entity, the person whose interests are most closely aligned with fellow shareholders.” Gee, I wonder who that might be?

For a moment, hope’s faint light flickered brightly. The founders’ spirits rose. The board started discussing the composition of the Special Committee. They discussed how the bankers should work with the committee, the company, and the board. They discussed issues regarding access to management and confidentiality. It was decided that the committee should be composed of two or three directors in addition to Winn and Scatena. Board members suggested listening to presentations from several investment banking firms in addition to Robertson Stephens.

Victory was within their grasp. This was familiar territory. Selling the company, especially presenting the benefits of Value America’s solution to other companies, was what Craig and Rex did best. In this arena, they had always been victorious. Everyone was going to win after all—their fellow shareholders, their dedicated employees, their brand partners, the alliance organizations too—everyone. They were going to sell Value America for twenty dollars a share.

Craig spoke, “I move that Tarpin, Winn, Smith, and Scatena serve on the Special Committee, with Mr. Tarpin acting as chair.”

Scatena seconded the motion.

Mr. Schmitt killed it. Selling the company was not in his interest. He was not a shareholder. Neither was his co-conspirator, Dorchak. She had already sold her few vested shares. It was in their interest to maintain control. The Golden Goose was theirs, not the shareholders, certainly not Winn's and Scatena's.

A voice asked, "Wolf, would you consider serving on the Committee?"

"No," Schmitt responded. "I wouldn't feel comfortable serving. The company is too fragile and unfocused. It's a house of cards! In my opinion, it wouldn't survive due diligence."

A house of cards that wouldn't survive due diligence. Stunning. Perhaps he was just confused, disoriented. Might he have been hallucinating? Was he harkening back to his final days at Rubbermaid, when he had been accused of turning that once proud company into a pile of rubble?

Value America had successfully endured two consecutive years of due diligence. From March through September of '97, it was the Venture Capitalists. In October, November, and December, the company had been examined so closely by the unions, on behalf of their pension funds, we had had to hire Mr. Due Diligence himself, Dean Johnson. Then it was the first IPO. Starting in January '98, Volpe Brown, Robertson Stephens, underwriter's counsel, company counsel, Price Waterhouse, and then PricewaterhouseCoopers had overturned every stone, examined every haystack, and probed every orifice. During March, April, and May, the IPO due diligence was augmented by the studious investigation of the world's foremost technologist, Paul Allen, and his team of techno-wizards. The due diligence for the first IPO carried on right through September, at which time the company was investigated by the "loan-shark" lenders, the techno-legions from Federal Express, Compaq, Paul Allen a second time, and ULIC a third time. Then, for good measure, it was time for a second round of DD from the IPO team of Robertson Stephens, Volpe Brown, underwriters counsel, company counsel, and PricewaterhouseCoopers, all leading up to the second IPO in April of '99. "A house of cards that wouldn't survive due diligence!" What were these people thinking? What were these people drinking?

Craig and Rex were horrified. Sure, the management team of Morgan, Dorchak, Peters, Chambers, and Starnes had been destructive. But even they couldn't have destroyed this once-strong, vital company this quickly.

What's even more amazing is that no one, not a single solitary soul on this "board to end all boards," questioned the absurdity of Wolf's incendiary allegation. Yet these were the same folks that got caught up in their underwear over Craig's innocuous statement that he was a builder, not a manager. A house of cards.

Sensing victory, Wolf deployed the same strategy that had nearly worked for Morgan. "I am considering resigning as chairman and as a director." Okay. Let me open the door for you. Have a nice life. Goodbye.

"Smith here. I would be extraordinarily disappointed if you resigned, Wolf. If you were to resign, I would consider resigning myself."

"So would I," a different voice chimed in.

"As would I," said another.

Smith carried on. "The rapidity of management restructuring issues coming before this board is a real problem. It's essential that a business plan for 2000 be completed and presented before we entertain any more changes. Wolf, will you continue to serve at least until that date?"

"Yes, Fred, so long as Winn's and Scatena's plans to sell the company are tabled," he said, amid favorable murmurings.

It was over. Plan E was sneakers up, just like A through D before it. Self-interest had once again prevailed over the greater good. Hope's candle no longer flickered. It had been blown out by the sultry winds of deceit. Worse, if Craig and Rex sold their shares now, they'd be faced with a full-on board meltdown. The shareholders were screwed.

"Our next scheduled meeting isn't until February," Wolf said. "I propose something earlier. How about December 20th, in Washington."

"Will you be prepared to present a year-2000 plan?" Durn inquired.

"Yes," Dorchak and Schmidt answered in unison.

"Then there's no need for a Special Committee," Caise concluded.

"There's no need to review proposals from Robertson Stephens or any other investment bankers either," said another.

"Mr. Winn, Mr. Scatena," another hammered. "That's only two weeks from now. We want you to refrain from authorizing an investment banker to sell your shares as a block between now and then."

Craig chose each word carefully, as if he were under oath, "Neither I nor Mr. Scatena will sign a letter of engagement with an investment banker to sell our shares as a controlling block between now and December 20. We believe, however, that this delay is counter to the interests of all shareholders. There is no plan this management team can prepare that will extricate this company from its wasteful advertising before it runs out of money. Asking them to form a new plan is therefore unwise. Their energies must be focused on systems and customer care, or the company will suffer irreparable harm."

"It sounds to me like you're accusing this board of acting counter to shareholder interests, breaching our fiduciary duty," Rafe Durn responded angrily. "If that is your intent, it is a very serious allegation."

"I don't believe you have knowingly acted counter to shareholder interests. But that's precisely whose interests have been injured as a result of your decisions here tonight."

At 10:05 PM the meeting was adjourned.

Slumped in their chairs, the founders simply stared at each other. After what seemed like an eternity, Rex spoke. "We need to hire the best damn lawyers in the country. These guys are going to take the company down, and us with 'em."

Stunned, Craig haltingly choked out the words, "It's—it's hard to imagine anything deteriorating so rapidly. You'd think our words were poison. We need to resign. We've done all we can do."

"Yes," Rex replied. "But before we do, let's get a great lawyer."

With that, they said good night, turned out the lights, and were enveloped in darkness.

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Bright and early, Craig and Rex made their way to Building E. If there were a house of cards, the deck was being shuffled in Technology. The founders invested six hours among the techs, taking twelve pages of detailed notes. They questioned everybody they could, from leaders like Joe, Thor, Dan, and Phil, to the doers, guys like my son CL in Testing.

"The problem's simple," the techs said. "The conversion was overburdened. We'd have been fine if they'd stayed with the original plan. We pulled off the UNIX and Oracle conversions on time and on budget. But then, while Thor Anders was away on vacation," they charged, "management gummed up the works: Seibel was added without his knowledge or support. Then Ms. D decided she didn't like her reports and threw ePiphany into the mix." It wasn't her money. Besides, a little chaos does wonders for a well-orchestrated coup.

The camel, though, continued to limp, so Cliff Chambers, not to be outdone, added an all new EDI solution. The camel's still quivering, they must have thought. What else can we load on? Yes, I know. Why don't we rewrite all the sales and customer care applications, so we can fire our people and outsource the task to Convergys. At triple the cost, it's the epitome of professional management. And the fact that Winn hates the idea makes it even better.

That was the last straw. The camel crumbled under the load, half dead.

"Okay, forget how it happened," Craig said. "How can we extricate ourselves from this predicament? How long is it going to take?"

"We're good with SAP," Thor answered.

"It came up without a major hitch. It's big and bulky, and hard to work with, like you warned us, but at least it's running," Joe interrupted. "Seibel is getting better, but we've got quite a way to go, especially because nobody knows how to use it yet. That's a problem in the middle of the Christmas selling season, you know."

Then Thor. "ePiphany is a black hole too. It's optimized on NT and SQL Server, so we'll have to undo a lot of what we've accomplished just to get it to work with our new RISC systems and Oracle applications."

"Dumb move," Joe shook his head.

"We're not real sure about the new EDI ap either," Phil added. "It's getting good transactional data, but we don't know what's happening from there. With Glenda's lame decision to use ePiphany instead of SAP reports, it's hard to tell what's what."

Craig sighed. "Best guess, fellas. When is it all gonna work?"

"We're functional now," Thor answered. "We're solving problems quickly, at least the ones we're told about. If we could get better feedback, I'd say we'd be in okay shape by the end of the week, and in fine shape a couple of weeks from now."

"What do you mean, 'Get better feedback?'" Rex asked. "Testing?"

"No. I mean we haven't seen anybody in senior management in weeks. You guys, but you're not really part of management," Thor answered.

Craig spoke slowly as he asked, "You mean we are the only non-tech types you've seen over here? Glenda and Wolf are blaming technology for all their woes, and they haven't even been here?"

"That's right," Thor, Phil, and Joe answered in unison. Then they asked, "Who's Wolf?"

An interesting email came out of the founders' walk through tech. My son, CL, wrote to Craig, "What happened to the company I joined back in the Attic? We had fun then—we got things done. Ever since the IBMers descended on us, everything's changed. Those in power are giving me a hard time just for talking to you. Imagine that. I remember a time any of us could talk to you anytime we wanted. Your door was always open. Now it's a criminal offense. What's become of us?"

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Cruising in the fast lane, Craig and Rex were on Interstate 66 heading eastbound toward Washington and meetings with their new lawyers. They evaluated every possible scenario—agonizing over their beleaguered list of dwindling options. Their stomachs were in knots. Their heads were spinning. Then suddenly, as if in sympathy with their plight, their car sputtered, choked, and rolled to an ignominious stop. They were out of gas. Literally.

Immobilized, they watched the world speed by. No one was willing to give up a moment's time to assist a pair of stranded strangers. Finally, a Hispanic lady stopped to help our founders fetch a gallon of gas. Ironically, she too was out of work. As they parted, Craig tried repeatedly to give her a hundred dollars for her trouble, but she refused. A true saint, she knew something the rest of us would do well to learn.

Now late and frustrated with themselves, Craig and Rex continued on. They met with their lawyers and finally headed for home. The trip back was symbolic of just how far they'd fallen. Dazed, they ran out of gas again as they left the District. They had forgotten to refuel.

It hit them both at that moment. They cared so much about their company, its employees, and the relationships they'd built, trying to save it had nearly done them in. They were no longer able to function, no longer able to deal with life's simplest challenges. The firm's despicable managers—both past and present—their confrontational, hallucinating board, the wanton destruction of their business coupled with their inability to do anything about it, had finally brought them to their knees. The dragons had won. Craig and Rex coasted into a service station, exhausted, agitated, and once again completely out of gas.

"Rex, my friend," a weary Winn told his buddy, "It's time we admit defeat. I'm done. I'm going to resign."

"They won. We lost," Rex agreed. "Truth be known, we all lost. We'll resign at the next board meeting. It's only a week away."

"Okay, but let's finish the Strategic Partnering Paper and the explanation for the Path to Profitability we promised to give Robbie Stephens. That way, they'll understand our business and know what needs to be done."

"Can't hurt. The board can't scream at a letter. I reckon they have a duty to read what we send them. They might find it sobering. After all, when we left management and formed this board, we were growing. We had nearly two hundred million in the bank, and were worth three billion. You'd think they'd want to know how that happened."

"At least we'll know we gave it our best shot."

With that, they finished their "sell-it-now" Strategic Partnering Paper. They detailed the possibilities of e-commerce in their Path to Profitability. They sent copies of both to every board member, in advance of the Washington showdown. Considering they were written by a couple of guys that no longer realized cars needed fuel, the two documents seem pretty lucid.

To: Value America's Board of Directors
Re: Strategic Partnering Paper Date: December 16, 1999

While our Path to Profitability demonstrates that it is possible to prevail as an independent advertising-centric e-tailer, we think the potential benefit to our shareholders is outweighed by the risk. In light of the company's current stock price, its current and projected financial performance, and its current cash position, we firmly believe that it is in the interests of our shareholders to find a strategic partner for the company.

Gentlemen, by crafting this position paper we are not prejudging management's year 2000 plan. We simply recognize our current and historic reality. Last quarter we lost 55 cents on every dollar we sold…. Sales and marketing represents 75% of our operating expenses. No plan, however well conceived or presented, changes this reality….

We strongly favor selling the firm because many, if not most, of our challenges are mitigated with a partner. In fact, some of our challenges become assets with the right partner. If the acquiring corporation is already a significant advertiser, if they have an established customer list, or a large Web presence, our advertising expense can be quickly and substantially diminished. With advertising diminished there is no need for additional capital…. Management's 2000 plan…will have little bearing on our value to an acquiring company that would replace our advertising with theirs, and our customer acquisition with their customers.

The debate between us focusing on our advertising-centric e-tailing model and our proposed infrastructure-enabling solution becomes unimportant. The fact that we can do both with our existing systems just makes us more valuable. The right partner, like AOL, Microsoft, or AT&T, could use our existing infrastructure to create a specialty retail marketplace, a brand direct marketplace, and still feature our store in its present form but without the burden of our inefficient advertising…. Without the distractions of public life, our entire team could focus on completing our system conversion, delivering on our corporate promise of serving brands, and delivering value to the consumer.

E-tailing is not as favored by the investment community as it once was. The rules for valuation have changed since our IPO. While we have performed better than we promised, valuations based solely upon revenue gains are no longer a reality… Additionally, too few analysts and portfolio managers understand retail, distribution, inventory management, or advertising productivity. This makes the task of prevailing as an independent e-tailer far more difficult….

E-tail success requires management to adopt a plan that implements sweeping changes in demand generation…. Yet no stand-alone plan that diminishes losses by improving advertising efficiency meaningfully influences our value to a strategic partner with existing advertising, web traffic, or customer base….

Any new plan, no matter how well executed, will still require recapitalization in the range of $50 to $100 million. The dilution will be extreme. The closer we get to needing money, the more costly it is likely to be. If the market turns south, it could be impossible to obtain. Recognizing it could be a year or more before our valuation reflects a changed operating strategy, who is going to give us $50 to $100 million to continue on as an advertising-dependent e-tailer with our high losses, high advertising cost, and low margins?

Today e-services firms are highly valued, and we are in a position to capitalize. We have created a remarkable set of e-commerce infrastructure tools: the most flexible, scalable, reliable, and efficient business-to-consumer solution. We have created and built a proprietary front end and enterprise caliber back end with a pragmatic understanding of retail, distribution, and brand strategy….

Our unique ability to create custom marketplaces has tremendous value. Our ability to tie the telephone, television, mailbox and online experience together to be a more inclusive solution places us at the cutting edge. Our credit card capabilities, instant credit ability, and fraud detection solutions are best of class.

We have been able to successfully ramp revenues through our proprietary e-commerce engine at quarterly growth rates of $2 million, $5 million, $15 million, $19 million, $36 million, and most recently $57 million in Q3. This clearly demonstrates the system's scalability and functionality.

Value America's unique ability to present brands, specialty retailers, or credit card issuers in unique custom marketplaces makes our infrastructure very valuable. As an infrastructure company our demand generation becomes the burden of the strategic partner. There is no advertising expense. The company simply earns a fee on gross revenue. As a result, we become a Business-to-Consumer and Business-to-Business version of Ebay.

While the company has many of the attributes of an infrastructure company today, the ability to reposition the firm as such, independent of a strategic partner, is difficult…. Value America's existing systems, however, in their present form, enable this incredibly valuable and desirable capability…. In the hands of AOL or Microsoft this capability is far more valuable than our current valuation… making the company easier to sell.

Understanding, selling, building, and enabling the kind of strategic partnerships needed to capitalize on this strategy requires vision, leadership, salesmanship, retail and brand experience, and entrepreneurial skill. Doing this while simultaneously managing our core e-tail business away from its huge advertising- induced losses to profitability is unlikely….

We realize that our infrastructure capability is imperfect. But our solution is ten-fold superior to that which existed during the two years of due diligence we underwent preceding our private equity rounds and our IPO. We passed intense legal, audit, and operational scrutiny with substantially inferior systems…

We are aware that customer service is currently our most formidable challenge. The addition of Siebel to our SAP conversion was challenging in the midst of Q4. Siebel came up far less than optimized. We struggled to process returns and credits. The new system initially performed more slowly, and our customer care staff was less familiar with its operation. Technology, Operations, and Customer Care believe we have made progress in resolving these issues over the past five weeks. While we are not yet optimized on these tools they are superior in their present form to the solution we deployed preceding our IPO. Sixty days following our mid-November conversion, we will be a magnitude better again.

Strategic partnering, becoming part of a large company, is the best path to enhancing shareholder value. This course ensures the longevity of the company and supports the interests of our employees… Most importantly, it generates increased shareholder value with greater certainty, and it does so more swiftly.

The board has asked us not to sign an agreement with an investment banking firm to sell our shares prior to the December 20th presentation of management's 2000 plan. We have honored that commitment. We are, however, concerned that the majority of senior management's time has been devoted to forming a plan rather than to enhancing customer care during this critical time….

It is our hope that the board, after reviewing our position paper, will render the same conclusion as us, the company's largest shareholders. We believe that the company must be sold and we encourage the board to approve the formation of a Special Committee to capitalize on this opportunity.

Like I said, not bad for a couple of guys so dazed they ran out of gas twice in the same evening. Their arguments in favor of selling the company were compelling. The fact that they were ignored is downright amazing.

Their Path to Profitability was equally thoughtful. It was a treatise on e-commerce, circa late 1999, Value America style. It served several functions. First, it showed that Winn and Scatena had a firm grasp on reality, something the board had come to doubt. Second, it revealed that the original business model was sound. Third, it demonstrated that there was little chance current management could save the company. Fourth, it would leave the board with no excuses; they would never be able to claim they didn't understand the business or know that what they were doing was inconsistent with our mission. Today these documents show what could have been, what should have been:

To: Value America's Board of Directors
Re: Path to Profitability Date: December 16, 1999

The principal question facing Value America, and indeed all e-tailers, is can we operate profitably? I believe with great management and great leadership the answer is yes. But achieving profitability is dependent upon meeting three requirements and establishing the right strategic alliances.

The first requirement for achieving profitability in e-tail is diminishing the cost of inventory and distribution. Value America's model is the natural extension of what Sam Walton initiated with WalMart three decades ago. Walton turned the retail world upside down by making his customers buyers and by making his buyers merchandisers. He created the technology to place orders directly to manufacturers by week, by store, based upon customer purchases.

WalMart's merchandisers were merely responsible for building a relationship with the right brands, putting a small representation of their products, properly priced, on the shelves, and working to assure each manufacturer could ship each store's order reliably and swiftly. Value America has taken this strategy to its natural conclusion. Our customers are our buyers, but rather than gathering orders by store by week, we order goods by customer, by moment. Our merchandisers perform in identical fashion to WalMart's. They form relationships with brands, select products, price them, and work with brands to promote their products cooperatively and assure rapid and reliable shipment…. Ironically, the very requirements placed upon leading consumer products brands by WalMart helped enable Value America's business model….

For us or any e-tailer to achieve profitability, we must replace inventory with systems, and distribution with technology. The continued enhancement of our inventory-free distribution model is central to our path to profitability, and gives leading brands a direct and efficient relationship with the consumer….

The best managers of inventory typically buy, manage, and store goods at 10% to 12% of revenue. To perform at this level, they must have superior systems, sell a narrow or focused range of products to a broad customer base, have excellent forecasting tools, and long operating histories. E-tailing margins are likely to evolve to less than 20%. This means there is not enough gross margin to cover sales, advertising, operations, and inventory—profitably.

The second requirement for Value America, or any e-tailer, to profit is that demand must be generated more efficiently. Sam Walton recognized this challenge when he started WalMart. He deployed the MacArthur strategy of attacking where the enemy was weak. He put his stores, his "demand generation centers," in small town America, away from his largest competitors. He was able to promote and drive revenue where his competitors were weak. WalMart prospered, developed scale, and ultimately became an irresistible force.

Value America recognized the need to generate revenue away from the standard operating procedures of its online rivals. At the time of our advertised launch, e-tailers were focused on buying anchor and tenant positions and banner ads with the large portals. Our concept for generating demand where our competitors were not was radical for its time. The e-tailers in existence at the time of inception were ISN (Internet Shopping Network, which later became Outpost), Amazon, OnSale, and CUC (which later became Cendant, and then NetMarket). The portals were, and continue to be, AOL, Yahoo, Excite, and Lycos. The former paid the latter many tens of millions of dollars.

At the time of our launch in February, 1998, advertising for an online store in newspapers was quite uncommon…. It was our belief that we could drive revenue and build our brand name more efficiently in this manner. The events of the last two years have proven our strategy to be wise, particularly when compared to the online alternative. We have developed a brand name, sold product more efficiently, and have grown more swiftly than our competitors. We created an advertising style that is innovative and memorable.

However, the ongoing prospects of this strategy are dismal. Stunning amounts of venture capital have been given to e-tailers with the express direction to create excitement and brand awareness, which in a world devoid of profit has been linked to market capitalization…. Today, dot-coms represent the "advertising agency full employment act." As a result, the cost of breaking through and selling product using broad-based offline advertising is crippling.

Today, we believe we have gone at least two quarters too long relying on broad-based advertising to generate revenue. As a result, we no longer have the time to test, or the luxury of a gradual transition.

Mature retailers typically spend from 1% to 5% of their revenue in advertising…. Therefore, the retailers Value America competes against are driving revenue at between 20 and 100 times their promotional investment compared to our 2 times. This is particularly painful when one recognizes that over 60% of e-tail sales are from traditional retailers—bricks and clicks.

Traditional retailers use catalogs to generate revenue. Best Buy, for example, distributes more than 35 million product catalogs each week by inserting them in leading newspapers. WalMart, K-Mart, Target, Home Depot and Office Depot do the same. Nordstrom's, The Gap, and REI also create catalogs but mail them to current or prospective customers…. No retailer has ever successfully sold consumer goods, especially non-computer goods, efficiently using broad-based advertising. It is no surprise our sales are generated so inefficiently and that we are so PC-centric.

Catalogs are the principal revenue generation tool in all three of our business segments. Dell, Gateway, CDW, and others in the PC business are catalog dependent. So are office supply leaders, Corporate Express, Boise Cascade, and United Stationers. Catalogers, the retail forum most similar to Value America, are obviously dependent upon their catalogs to generate demand….

The worst possible performance of a catalog is superior to what we are currently achieving. Unfortunately, the people most responsible for creating our only catalog…have been isolated by management and by this board.

The third requirement for Value America, or any e-tailer, to achieve profitability is aligned with the first two. Brands must choose to participate in our demand generation and order fulfillment. Most mature retailers cover most, or all, of their advertising costs by partnering with brands….

To achieve this…we must rely upon catalogs, where brands are accustomed to investing their cooperative advertising funds. They understand the cost per contact in the direct response world. They understand them because catalogs are the most prevalent and productive medium of their largest customers.

Without these cooperative advertising dollars there is no way for Value America, or any e-tailer, to profit. The cost of generating demand will exceed operating margins…. This is why I created the Path to Profitability. Its initial version was drafted back in Q2. At the time I encouraged management to move a significant portion of its demand generation to direct-response catalogs in Q3 and move a substantial portion in Q4. The initial version of the Path to Profitability was distributed to senior managers seven months ago…. I asked our former CEO and our President to use it as the basis for developing a year-2000 plan back in July. During that time it was mailed to every Board member. It was later used as a means to demonstrate to Citibank's senior financial team that an e-commerce company could become profitable in a method they understood, direct response…. While this plan is achievable, the leadership necessary to accomplish it, in time, is extraordinary. This is why we have drafted this analysis….

The ultimate challenge in moving to direct response demand generation is getting the names and addresses of interested people with money. This is why we worked so hard to form Demand Alliances…. We created partnerships with companies like Citibank, FedEx, Visa, American Heart Association, U.S. Wired, Falwell Ministries, KFS (iBelong, the AFL/CIO) and others. In so doing, we were given access to extremely high-quality customer lists. Citibank estimates our CitiPrivileges program will produce over $330 million in revenue in 2000. I have included their estimate. To be a patron of a charity or the holder of a platinum credit card, one must have money. Better yet, we know what they are interested in buying. Financial institutions, particularly credit card companies, are expert at direct response marketing and know how to generate acceptance via targeted mailings. They have credibility and are trusted by their customers, so we benefit from a quality introduction. Therefore, Value America, through associations, charities, financial institutions, and logistics companies, has acquired the second element in shifting demand generation: a quality list of prospective customers. Yet maintaining and capitalizing upon these partnerships is going to be very challenging, for we are relatively small and they are large….

The motivations, flexibility, and normalized operating procedures of brands with regard to their market development and cooperative advertising budgets are complex. So are the methods that should be employed to motivate brand partners. However, in our initial attempt with the Q4 catalogs, we generated 90% co-op against the cost of production and mailing. We can prevail at this requirement only if we are properly focused, managed, and led, if our brand partners are motivated, and if our demand alliance partners are fully engaged….

The Path to Profitability and the Strategic Partnering Paper were signed, sealed, and delivered. They were not, however, read. Most board members ignored them, as unbelievable as that might seem. In fact, few things are as unbelievable as Value America's final board meeting of the millennium.

The time was 7:30 am, December 20, 1999. The place was the mezzanine conference room of the Westfield's Marriott. The stock that day would open at $9.43. It would close at $8.13. The meeting wouldn't go any better.

In fact, in the twenty-seven days following the coronation of the Wolf and the Witch, our stock lost half its value. The board failed to see the correlation. Maybe they didn't read newspapers either.

Craig and Rex drove up from Charlottesville (this time with a full tank of gas). Most board members had flown in the night before. The day's events began with a Compensation Committee meeting. Justin Caise was the chairman of the committee, but he wasn't there. A family matter had arisen, and he'd rightly decided to perform his duties from home, by phone. The long walk to the committee room provided the first hint of trouble. Wolf Schmitt and Gerry Roche were seen kibitzing as if they were old friends, close confidants. It sent a shudder down Winn's spine.

Was there a connection? Roche's board position had been a derivative of his relationship with Godfrey, as had White's. Wolf had reentered Winn's life at the CEO Roundtable in May, where a high percentage of the guests had been Godfrey's invitees. If Schmitt fit into that group, if he'd joined the Brethren, his complicity in the bungled coup and his childish we'll-make-you-pay-for-what-you've-done behavior made sense. Roche and Schmitt laughed and tugged at each other like a pair of silly schoolboys as Craig watched in horror, sensing that the fate of his company had been predetermined. It was apparent they had it backwards again—the jury deliberations had preceded the trial. The verdict had already been rendered.

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Craig and Rex had fought the right battle for the right reasons, but in the wrong place. Their strategy in times of crisis had always been to put out the fire, determine what had happened, rally the crew, chart a new course based on what they'd learned, and then report to the authorities. This modus operandi had served them well. But Tom's Team and Glenda's Gang deployed a different scheme. They set the ship afire, abandoned the sailors, and falsely blamed the fire on the people who built the ship. Then they threw the cargo overboard and called in the architects to design a fancy new vessel while the old one burned.

Sadly, the founders found themselves battling the board, not the problems "fueling the fire." It was during this time that the firm's best and brightest made repeated pilgrimages to Craig's home, asking the obvious, "Why was the Wicked Witch empowered? Don't they know she's evil? Can't they tell Wolf is a fraud? Why have they done this to us? What can we do to save our company?" Good questions all, and all too late.

"Call the board," was Craig's only response. "Those who undermined what we've built did so there. Bad things happen when good people don't stand up," he admonished.

As a result, about a dozen Valuable Americans called an ad hoc meeting, congregating at Cliff Chambers' home. Cliff's neighbors, coincidentally, included both Glenda Dorchak and Byron Peters. Glenda was hosting a party that night; when Peters arrived for the affair, he recognized the cars at Cliff's house and joined them—providing the wet blanket. "I would advise all of you against calling board members."

Most were afraid; their families depended on the wages they brought home. As a result, they heeded Peters' admonition. Joe Page did not; he just wasn't built that way. He called Fred Smith at home. Page, unlike Morgan's cronies earlier, had earned the right to call. Joe had been there from the beginning. He not only knew the truth, he was also responsible for building the technology that ran the store. The Brethren had done nothing except abet the ensuing calamity. They left their fingerprints on the murder weapon but little other evidence that they'd ever been here.

Uncharacteristically, Fred responded harshly. Maybe Joe interrupted him at the wrong time. Perhaps he had just grown weary of the whole sorry mess. Whatever the reason, "Fred wasn't pleased that I called him," Joe would report.

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the three MADE their way down the last corridor, entering the suite that had been configured for Compensation Committee. But Justin Caise wasn't on the line. Schmitt wasn't a member of the committee, so he couldn't vote. With only Roche and Winn present, his plans would be thwarted, victims of deadlocked votes. He was panicky. But his fears were eased as Justin's voice finally announced his presence.

Craig already knew what he was up against. As a member of the committee, a package had been delivered to his home the night before. It said that his and Rex's salaries had been diminished to $0. That had annoyed Rex, but it didn't bother Craig—he had come to resign. It merely confirmed management's lack of character. What bothered him was the huge compensation package being proposed for Dorchak's new Human Relations Director—a cool $290,000. He was troubled by Dorchak's proposed package too. It weighed in at a hefty $525,000. Mr. Schmitt's comp of $200,000 and his equally gargantuan grant of 300,000 options also seemed a bit much for somebody donating only a day or two a month to the cause. Every vote that morning was two to one. Big surprise. The meeting ended forty minutes late. It seems not all Germans can make the trains run on time.

As they made their way up the stairs, Craig, now with Rex, bumped into Rafe Durn and his new partner, Don Tarpin. One last time, Craig pleaded with Durn to help him save the company for the sake of his own investments and his investors. His pleas fell on deaf ears. Durn just threw Time magazine in Craig's face. Amazon's Jeff Bezos had just been named "Person of the Year." He growled, "This should have been us."

Besides Winn and Scatena, the board attendees were Fred Smith, Gerry Roche, Rafe Durn, Don Tarpin, and Wolf Schmitt. Frank Flowers, Justin Caise, Sam White, and Bill Bennett "attended" telephonically. Glenda Dorchak and her new corporate counselor were invited guests.

The meeting did not begin well. The most routine of all board activities is the approval of minutes from prior meetings. But they were full of errors, glaringly slanted. Craig was the first to say they were a disgrace. Caise concurred, telephonically, asking for them to be rewritten. Craig would later learn, from the woman asked to type them, that their errors were not the result of carelessness, but purposefulness: they were designed to deceive.

Wolf should have been ashamed of himself, but he wasn't. He simply changed the subject. For the sheer pleasure of it all, he announced that Winn and Scatena had been removed as bank signatories. Then, pleased with himself, he grilled Winn on the ninety-day interest-bearing corporate loan that had been made to Liberty University. While all of the documentation for the loan had been handled by the company's CFO at the time, Dean Johnson, and while all of the paperwork was in order, payment was a little late.

Wolf chastised him about the appropriateness of supporting an institution that had been at the core of the company's demand alliances. That played particularly well amongst the board's Democrats. Liberty had been founded by Jerry Falwell. Durn was once Vice Chairman of the Democratic National Committee. But Falwell, as always, was as good as his word; the loan was repaid promptly, with interest—but not before Wolf and his cronies had their fun.

While on the subject of loan repayments, monies due Winn and Scatena for the corporate aircraft came up next. Dorchak squelched the discussion, promising, "I'll make certain they're reimbursed in full. They won't be left a dollar out of pocket." She was lying, of course. She stiffed them. What the hell—It's only $650,000. They won't miss it.

Wolf invited the auditors to make a presentation. Telephonically they reviewed the system conversion and another looming problem—cash: there wasn't enough of it left to be what's called "a going concern." Craig had warned the board about the lack of capital in his Strategic Partnering Paper. It was why the company needed to stop advertising and find a buyer. Incredibly, they snarled at Craig as the indictments were read against the systems. It was as if they'd been told the conversion had been his idea.

Craig told the board that he'd invited the company's most senior technologists to discuss the condition of the firm's systems. "You've heard our chairman say they won't stand up to due diligence. You've heard the auditor's appraisal. This is important. Wouldn't you like to get the story straight from those who actually know what's happening—the technologists themselves? They're here, waiting downstairs to speak with you."

"No," was their collective, adamant answer. So much for fiduciary duty.

Schmitt smiled at his apparent mastery of the board, delivering the most arcane, obscure, self-aggrandizing diatribe ever uttered by one in a position of influence. It was utterly incomprehensible. He spoke of organizational stabilization, strengthening controls, increasing processes, focus, and yes, the implementation of restructuring actions, just as the message boards had so accurately predicted. The board listened politely, giving him his fifteen minutes of glory. Then, in as demeaning a tone as he could muster, the chairman asked the founders to present their plan.

"We," Craig responded, "sent you all a written copy of our proposal." He left unsaid, We wrote it because we've become accustomed to you attacking our spoken words. As Craig scanned the room, he could see board members fumbling through the documents, hastily distilling what little they could on the fly. From all appearances, most had never opened the cover. "There is little we can add to what we've written."

"I'd like the floor," Roche said. He began a ten-minute dissertation on his view of the business world, "It's all about the people," he proclaimed. "I don't see anything about the people in your proposal. That's why I'm unable to support it." Obviously, he hadn't read it.

With that, Dorchak took the floor and unfurled her PowerPoint presentation. Her plan: save the company by firing half the people. How ironic.

Her presentation was perfectly suited to what the company itself had become. The new management team of Schmitt, Dorchak, Chambers, Ewert, and Starnes had "studied the facts" and come to the conclusion that people were the problem. "Fire half of 'em and we'll be fine. And while we're at it, why not discard eighty percent of our brand partnerships too, constraining sales to the categories with the lowest margins and highest returns. Let's dismantle those awful demand alliances as well. If we get rid of all this dead wood, we'll have enough money to advertise our way into prosperity, and even more to reward ourselves for the effort."

As incredible as it may seem, that was their plan: lay off half the employees, about 300 people, rather than cut advertising. And then say goodbye to most of the brands and alliance partners. Of course, there was no actual basis in fact for any of what Glenda presented. She'd just made it up. She had produced a plan. It looked good on the screen. It was plenty detailed. The board just smiled. They had already decided.

Before Dorchak was through, Fred interrupted. "You know, I can read seven times faster than you can speak. I've read through your proposal, and I must say I'm very impressed with what you have been able to do in such a short time." Then he turned toward Craig (whose plan had evidently proved too much for the speed-reading Smith) and said, "I'm going to support this plan over yours. I, better than perhaps anyone on this board, know how hard it is to develop a mailing list to make a catalog operation go. It takes years. And that's all your plan is—a catalog operation."

Develop a list? Dismayed, Craig replied, "Our plan was to sell the company, not manage it. We've made that abundantly clear. But while we're on the subject of lists, Fred, you should know we've already earned access to the best mailing lists in the country. They don't need to be developed."

The board was utterly unable to grasp the obvious. Craig agonized over the catastrophe their failures would precipitate. They were smug in their belief that Craig and Rex were the problem, but now their own hands were dripping with blood. The company had stumbled, but rather than nurse her back to health, they stabbed her in the back while she was down. Having been seduced, they were now ready to betray the shareholders' trust.

Craig's report said there was no viable plan to save the company. It had to be sold—now. How could such smart men be played for fools? He was awash with emotions: pain, frustration, desperation, disgust. Yet somehow he mustered the composure to say, "Gentlemen, if you'd read our plan, you'd know we aren't recommending the continuation of Value America as it exists, or even as it was once conceived. No. It must be sold before all is lost."

Craig studied the room. No one could look him in the eye. They were impatient, checking their watches with annoying frequency. It was like witnessing the James Gang rob a bank; all they could think about was getting out of Dodge. But Craig wasn't about to let them off that easily. "I'd like to point out the most glaring flaws in management's plan. First, it's based upon a false premise. Every reference to productivity per person is contrived. For example, we don't have fifteen people in the jewelry department, as they claimed; there's only one!" After similar disclosures for other departments, Craig paused to see if Glenda had the courage to defend her numbers. She didn't. She just sat there silently, as did the board. She knew, as did they, that the outcome had already been decided—privately, behind closed doors, in the smoke-filled rooms. Craig had just called the chairman and CEO liars, and no one cared.

"Second, seventy-five percent of the company's operating losses are devoured by Sales and Advertising. There's been no mention, none whatsoever, of how this plan will change this debilitating reality."

With that, Glenda interrupted. She had an answer. After all, she was an expert. "Our plan calls for an increase in advertising productivity to ten-to-one." She never bothered to explain how, of course. She didn't have to. This board meeting was a charade. Why, if she could do it now, hadn't she done it before?

With so much at stake, you'd think they would have overwhelmed her with questions. But no. You could almost hear them thinking, the less we know, the better.

"Third, the plan says that five days before Christmas, half the people who built Value America will be laid off. That's just plain wrong! Cut advertising, not people!" Craig thought that might get a rise from "it's-all about-the-people" Roche, but he dipped his head in cowardly silence.

The experience was surreal. They don't care about the truth. Neither our brands nor alliance partners mean anything to them. They're willing to ignore the opinions of shareholders who own fifty percent of the stock, and they're willing to trash the lives of 300 families without a second thought.

"I wish to leave you with these thoughts. We live in a small southern town. Harming good people in this way in a place like this will soil the company's reputation beyond repair. Cutting back in an industry that's expanding will make the company a laughingstock. Discarding the brand relationships we've worked so hard to build will destroy much of the company's remaining value. Disbanding our demand alliances is inexcusable. Your failure to curtail management's wasteful advertising spending will be your downfall. But ignoring the largest shareholders' plea to sell the company before it's too late is—is…." Craig searched for the right word, but it didn't come.

The irate chairman asked Winn and Scatena to leave, so the remainder of the board could go into Executive Session.

Craig was still chairman of the Executive Committee. If there was to be an "Executive Session" he would have to call it. He and Rex were being told to leave the room by a bunch of ill-informed suits who were under the spell of the self-absorbed, the come-latelies. He snarled at Wolf.

Craig wanted to fight to the last breath to save the company, the jobs, the brand relationships, the alliance partnerships. They deserved no less. But it was a losing battle, and he knew it. The odds were impossible. Still, it's better to die fighting for something you believe in than just die.

Rex was more realistic. He knew there were no odds. The war had been lost more than a month ago. The continued anguish was as futile as it was valiant. He took Craig's arm and said, "Come, my friend. There's nothing more we can do here."

Dazed, Craig followed his pal downstairs. They found Joe Page, Thor Anders, and Mick Kicklighter and thanked them for coming. Craig apologized for the disruption to their lives and told them they were free to leave. With that, he and Rex walked back upstairs and entered an unused ballroom across the hall from where the remaining board members were conferring. The cavernous room was heavy with silence. There was nothing left to say.

Only a few minutes passed before Fred Smith walked in. He was polite. "The board in Executive Session has decided to support management's plan. Management would like you and Rex to move to a separate office. They will provide a secretary and pay your rent."

Craig spoke. "Fred, that won't be necessary. We came here to resign. We have no interest in staying."

"Alright, but that's your choice."

"We've made our choice, and the board has made theirs," Rex said.

Smith took a deep breath. "Craig, I'm only doing this because I'm your friend. Because of our friendship, I've agreed to head a Special Committee to sell the company. The committee will be comprised of Tarpin, Flowers, I think Durn, and myself. We're going to meet shortly after Christmas, interview investment bankers, and then review our strategic and financial options. I don't know if we'll be able to raise money, or if we'll be able to get this thing sold, but I'll give it my best shot. You know I need this like I need a hole in my head."

"Fred, there is no one we'd rather have sell this company than you. Thank you," Craig offered his hand in support.

The three rose, left the grand room, and walked across the hall.

Motions were made and seconded. Then came the votes. Chairman Wolf said, "All those in favor of accepting management's plan say aye."

"Aye," most of those gathered said in unison.

"All those opposed…."

"Nay," Craig and Rex said defiantly.

"Naaay?" queried Smith, as if the word were eight syllables long. "I thought we just worked all this out."

Craig spoke slowly as he looked directly at Smith. "No. We are pleased that a Special Committee has been formed to sell the company. We are pleased you'll be chairing it. We don't, however, support this plan to 'save' the company by cutting it into pieces and throwing them away."