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Under the Shadow

There were good days, and there were bad days, but there were no worse days than April 20, 2000. The May issue of Business Week was posted online. Craig's smiling face was on the cover.

It had all started a month earlier. The first quarter had not yet been publicly announced, but Dorchak and her management team knew the score. It was a shutout. No amount of spin or propaganda was going to deflect the criticism they would soon have to endure as a result of their humiliating failure. Using "focus" six times in the same release wasn't going to help this time. Worse, there was no one left to blame. Even after using their restructuring plan to stack the deck, pushing every possible liability back into Q4 and pulling every possible sale into Q1, the numbers told a sorry tale: the once proud company was now in the hands of an incompetent and gluttonous crew.

The problem had begun to manifest itself several months before. The fourth quarter goal of $83 million General Dorchak had rallied the troops to achieve failed to materialize. Her promise to the board of $75 million vanished. The $70 million she confirmed she'd sold as late as December 27 evaporated. Even the $65 million she claimed had already shipped two weeks before the quarter's end went poof. Mysteriously, they managed to post only $61 million. Even that included $6 million from the dreaded Visa program. Without it, Q4 would have been smaller than Q3.

According to the holocaust survivors, Glenda had it all figured out: make Q4 look as bad as possible. She could blame the quarter on Winn and make herself look great in Q1 by comparison. Just slide revenue out of "his" quarter and into "hers." That was the plan, but it hadn't worked out quite that way. Sure, she'd managed to convince a scandal-hungry press that Winn was an irresponsible scoundrel, but she failed Part Two. General Dorchak couldn't pull off a quarter that looked good by any standard. Even after she'd magically transferred some $10 million in sales out of "his" Q4 into "her" Q1, she still looked pathetic.

No matter how you looked at it, for the first time in Value America's history—for the first time in dot-com history—quarter-to-quarter sales fell. They fell precipitously. Q1 eventually settled in at $47 million, which meant they had actually sold only $37 million—against a Street expectation of $65 million. That should have been enough to convince the board that their glorious management team was full of shit (pardon the language—that's the standard business terminology for this particular scenario). But they held their noses, closed their eyes, covered their ears, closed ranks, and somehow ignored dismal performance.

In spite of management's arrogant self-appraisal, announcing their Q1 performance would cost them their jobs. It had to. Revenues had dropped nearly forty percent below the previous quarter's, and a similar percentage below Wall Street's expectations. Miscues this severe are invariably irrecoverable for a public company and fatal for its officers.

But it got worse. While the revenue picture was appalling, management's "stewardship" of cash was reprehensible. After consuming $8 million cutting the company in half, the mercenaries really got down to business. Over the first ten weeks of the quarter, they devoured nearly a million dollars—every business day! During this period, available cash reserves fell from $74 million to less than $24 million. They burned through $50 million in support of rapidly declining sales! There was no way to keep this a secret. With nowhere to hide, the Wolf and the Witch needed a diversion. They needed an alibi. They needed to call in an old IOU.

There may be no way to prove the connection, but the fact remains, they started cooperating on a story with Business Week at the very moment they needed to cover up their dismal failures. And that fact begs the following questions: Why had Glenda clandestinely struck such an odd, secretive, and overpriced deal with Business Week? Why had she done it outside the confines of the contract the company had signed with our media buying service? Why had she paid twice the rate our agency would have paid for the same space? Why did she buy prohibitively expensive two-page full-color ads at a time when the company was so desperately poor that meeting payroll would have been impossible if our employees hadn't contributed? And why did Dorchak announce an alliance with McGraw Hill, the parent of BW, during the previous quarter?

On April 4, a day or so after Dorchak would have known how dismal her Q1 performance had actually been, John Byrne, a senior writer for Business Week, called Craig at home. He said he wanted to interview him for a story he was writing on Value America. Fact is, his story line had already been determined. He, for some odd reason, had been given Morgan's number, and true to form, Tom had already done a number on Craig.

Winn refused the interview and naively encouraged Byrne to contact management. Frustrated, he sent Craig a letter. Wrongly addressed, it wasn't delivered until long after the damage was done.

Dear Mr. Winn: April 5, 2000

We spoke yesterday on the telephone about a story I am doing on you and Value America. I understand your reluctance to speak, but I'm hoping you'll reconsider. For one thing, despite what has occurred at Value America, nearly everyone agrees that your original business model and underlying premise for the company was solid. I'd like to get your early thinking on this "straight from the horse's mouth" instead of picking it up from secondary sources and clippings from Chief Executive magazine.

For another, current and former executives at the company say that Tom Morgan found it impossible to succeed at the job of CEO while you were there as chairman. They claim that you were "micro-managing every decision Tom made." I know you don't want to get into a tit-for-tat spat with the current management. But it would be unfair to publish these charges without giving you an opportunity to respond.

I'm going to be in Charlottesville Monday, April 10th, through Wednesday to do reporting on this story. I would greatly appreciate the opportunity to meet and speak with you. Either way, I intend to do a fairly significant story for Business Week on what has happened at Value America and what other Net-entrepreneurs can learn from the experience.

Sincerely, John Byrne, Senior Writer

On April 11, John called again and pleaded for an interview. Craig said, “No.” Had Byrne’s letter not been carelessly mis-addressed, he would have said, “Hell no!” The last thing Craig wanted was his name in the press, especially associated with the company he had come to loathe. The fact that the letter revealed that Byrne had already spoken to Morgan and his pals, and listened to them, was all Craig would have needed to know to stay a million miles away. He had no interest in jumping into their cesspool.

So why was Morgan’s number one of the first given to Byrne? Perhaps someone needed an alibi. Why did Morgan continue to stay in character, falsely accusing Craig of “micro-managing everything?” Craig hadn’t even second-guessed Tom until his final month, and even then, Morgan’s will, not Winn’s, had been implemented. Did Tom, like Dorchak, need a way to hide his complicity in the destruction of Value America? Was he willing to lie to achieve his ends?

Pleading, Byrne said, “This is my last day here, and I’m going to write this story on the rise and fall of Value America anyway. Can’t we talk about the rise? There’s no one left that knows anything about it.”

“I’ve learned not to trust the media,” Craig observed. “But I’m damned if I talk to you and damned if I don’t.” Sad but true. “So I’ll talk about what propelled our rise, but I’ve got some game rules.”

“What are they?” a hopeful Byrne inquired.

“First, short and sweet. You’ve got thirty minutes, starting at seven- thirty tomorrow morning. Second, I’ll have three witnesses present to corroborate anything we discuss. Third, we’ll only talk about Value America from its inception through the IPO, nothing after. Fourth, you will share any derogatory statements made against me by those seeking to use your story as an alibi for their failures. While I will not answer their charges, I will give you the names of people who can. And, fifth, you must arrive with a letter confirming your commitment not to discuss or quote me on events following the IPO.”

“Agreed. I’ll see you at seven-thirty.”

On lined, three-hole notebook paper, like we all used in grade school, Byrne handwrote and signed the following letter:

Mr. Craig Winn
Charlottesville, VA 12 April 2000

I understand that you have agreed to meet with me today to discuss events leading up to Value America’s initial public offering in April of last year. I understand that at today’s interview session you will not be expected to comment on the company’s existing plans. I also understand that you have only agreed to meet me today for an interview if the above conditions are in effect. As a result, I agree to these ground rules for our meeting.

Mr. Winn will not be quoted regarding any issues after the IPO.

Sincerely,
John Byrne, Senior Writer, Business Week

It wasn’t worth the paper it was written on. Nor was his story.

Almost a year to the day after Craig led Value America’s IPO, he found himself with a reporter talking about the great people and noble ambitions that had propelled the firm from a mere idea into one of the world’s largest e-tailers. Retired General Mick

Kicklighter was present, as was Andy Rod, former President of the Office Products Group, even Byron Peters, the highest-ranking officer to receive the axe at the Great Restructuring.

During the interview, Craig remained circumspect, choosing his words carefully. Mick observed when it was over, “No matter how many times you were prodded, you never took the bait, never said anything critical about anybody or anything. You were humble to a fault. There’s no way,” he concluded, “this fellow will be able to use this against you.”

A day or so later, Craig received another call from Byrne. This time he wanted pictures. Craig vehemently refused. “No! Do not send a photographer here. I do not want my picture in your magazine. No pictures. Is that clear?”

Byrne complained but said he understood. Then as promised he delineated the gripes Craig’s former employees had against him. There was nothing new, only the same lies he had heard before. Following each Craig gave Byrne the name, position, and phone number of someone he could call to verify the absurdity of the charge. “If you’re still in doubt over who to believe after talking to these folks, call me back. I’ll send copies of whatever documentation you may need to set the record straight.”

Byrne responded, “It’s amazing, in light of their deteriorating condition, that they find it useful to make all of these charges against you, especially, if as you say, they’re not true.”

“I don’t get it either. You’d think they’d focus on implementing their plan, whatever it is. Why do they need to recreate history? By doing so, they alienate their largest shareholders. It just doesn’t make any sense. Based upon their comments, it appears that their problem isn’t that they’re nearly financially bankrupt, it’s that they’re morally bankrupt.” Winn’s concluding comment was prophetically perceptive, not only of what was threatening Value America, not only the dot-com world, but much of corporate America.

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Craig’s response to the Business Week cover story, “Fall of a Dot-Com” would begin with these words: “I am surprised the Business Week cover story failed to say, ‘Winn was abducted by aliens while dining with Elvis.’ It would have been equally sensational and equally fictitious. It is mystifying that so many false, malicious, and reckless charges could reside in any story. The documentary evidence to disprove these charges is so strong, plentiful, and available. It begs the question… why?”

Loosely translated, the ten-page article said that Dorchak and Morgan weren’t responsible for anything because Winn micromanaged everything. They claimed that Winn was a charismatic super-salesman who managed to part the best and brightest businessmen in America from their money by selling them a “house of cards.” Further, Winn was portrayed as someone who knew nothing about planning, managing, technology, brands, or logistics. And for good measure, they alleged, he was a crook.

Everybody got what they wanted. Morgan and his cronies got the alibi they so desperately needed. By virtue of this revisionist history, they were exonerated from their complicity in the company’s demise. That’s a pretty neat trick. Their lack of management was presented as inescapable. Their botched coup was now merely a justifiable resignation. Of course, if true, it meant Tom and his accomplices had been paid a couple million dollars for doing nothing. Doesn't sound like high moral ground to me.

The Wolf and the Witch couldn't believe their good fortune either. Just when they needed it most, they got the distraction they were so desperate for. Their catastrophic Q1 failures would fade under Winn's looming shadow once again. The purveyors of painful propaganda got their cover-up. Their inadequacies would be swept under the rug. And Business Week? The hideous exposé sold magazines. Everyone won except Value America's shareholders and employees. But they weren't important to this crew.

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Presidential advisor, television commentator, and Democratic Party operative Lanny Davis was real unhappy. Mr. Davis and his law firm had been hired by der Dorchak and the Hitler Youth to represent the company and its co-defendants in the class action suit their actions had both inspired and predicted. Glenda had, of course, offered the very lucrative job to Justin Caise, but the company's insurance carrier, AIG, wisely applied the brakes. They had come to the undeniable conclusion that Caise was conflicted. It was hard to square voting in favor of the plan that had led to the suit with making money defending it. The view was obviously clearer outside Value America than it was inside. Less fog, perhaps.

It's hard to overlook a resigned CEO, after fleecing a company for a million dollars, lying publicly to cover some personal inadequacy. But that wasn't why Davis was so angry. The problem was the idiocy of a chairman and CEO, in the midst of a class action suit, telling the press that their company was a sham. Even to a lawyer, this was vile, an indefensible breach of fiduciary duty. It spoke volumes about the depravity and desperation of Morgan and his Brethren, Schmitt, Dorchak, and the FOGs.

Lanny Davis and his firm, working with others, conducted a month- long investigation into the charges made by current and former managers. They reviewed ten thousand pages of documentation. They conducted extensive interviews. They filtered the facts through the sieve of their collective experiences. Then they put their findings in a letter they asked management to release. Management, of course, refused. The truth was counter to their interests. Davis naturally asked them to justify their refusal with some corroborating evidence, a little documentation to support their "the-company-and-its-founders-are-slime" theory. Knowing they couldn't, they initially stalled, saying they were too busy. Pressed, they finally refused, admitting that there was no such evidence. So Lanny Davis took his letter to the company's illustrious board. They refused to release it as well.

So what did the Davis letter say that those in control didn't want said? Only that, "A team of professionals conducted a thorough investigation of the serious allegations made in the Business Week cover story and found them to be without substance." That should have been great news for the shareholders and employees of a company whose value was evaporating, a firm embroiled in a nasty class action suit. So why were management and the board afraid to set the record straight and save their sorry assets from the angry plaintiffs?

With Wolf, Dorchak, and the FOGs, the answer was painful and predictable. Their collective need for an excuse, a cover-up, a distraction, was all-consuming. Chairmen and

CEOs of public companies with rapidly declining sales, those that miss their earnings projections by forty percent, get fired, especially when they torch seventy-five percent of their company's cash reserves doing it.

But what was the board's excuse? Were they so lazy, so poorly informed, so gullible, that they actually believed management's drivel? Or were they simply displaying group dynamics? Having told themselves they'd made the right choice so many times, they actually believed it, even in the face of overwhelming evidence to the contrary. Or was fear starting to creep in, fear that they had made the wrong call, fear that they might be held accountable for their actions? If we just stay united, if we keep on blaming Winn, we'll get out of this with our reputations intact.

What few real insights we have into this perplexing drama occurred as a result of a series of conversations between Davis, Smith, and Winn. After a month of delays and scrutiny, Craig posted his response to the BW story at www.VADefense.com. He wrote an Open Letter to Shareholders and included his December board communications. This, naturally, made management's assertions and the resulting story look ridiculous.

Apparently, Craig's letters were causing board members considerable heartburn. Who knows? Maybe they finally read them. According to Davis, Smith complained and asked Lanny to use his influence to get them off the Web. But then Fred called Craig and said he hadn't read what he'd posted. Smith said it was Davis who wanted him to use his influence to get them removed. Somebody wasn't telling the truth.

Craig told both men that he would remove his board letters, but he wanted something in return. First, he wanted the company to reimburse the $650 thousand it owed him and Rex for the company airplane. Confiscating his money and then falsely accusing him of stealing theirs wasn't very nice, Craig thought. Fred was angry that the firm had failed to honor this debt and said he'd make certain it was paid. (It never was.) Second, Winn asked Smith to do the right thing and release Davis's "Business Week got it wrong" letter. Smith said he would so long as it was okay with Davis and Caise. Davis was the one promoting the release, so either Fred failed to do as he promised or Caise was motivated by something other than shareholder interests. The letter went nowhere.

Craig's Open Letter shines a revealing light on the character and motivations of the players in our drama. Consider his motivation for responding to the attacks in the first place:

> I wanted to leave Value America quietly. As the company's largest shareholder, I had the most to gain if the new strategy prevailed. Today, however, as a result of the continuing slander and the media's willingness to disregard fact and suspend reason to tell a good story, I can no longer remain silent. I must defend myself for the sake of my family and for the sake of those who invested their money and their lives in Value America. It is now abundantly clear the false and malicious attacks will continue until they are repudiated.

Craig had more than enough reasons to defend his character. Business Week not only altered the facts, the graphic imagery they used boldly proclaimed their intent to deceive. The Business Week cover story was filled with pictures, some so large they spilled over onto subsequent pages. Craig's smiling face was scattered throughout the story, although he had expressly withheld his permission to use his likeness. And where had the photos come from? They had been mysteriously lifted from the glowing Chief Executive article printed over a year earlier.

That painted an ominous picture, and not just for Craig. He's just one guy. He may or may not rise above the scurrilous attacks on his character. But what about the rest of us, our treasured institutions, our productive economy, and our once-noble nation? Should we—can we—trust the media? It's one thing to question what we read; journalists are fallible, just like the rest of us, despite the burden of responsibility the job carries. But if deception is the purpose of their stories, rather than the byproduct of carelessness, what does that say about our national character, about our prospects for a future as great as our past?

Honest criticism goes with the territory. Anytime you enter the arena and dare to be different, you invite controversy. You're guaranteed to make enemies. It's par for the course. But you'd hope the critics, especially in the media, would make an honest effort, and barring that, you'd hope they'd at least refrain from purposely distorting the truth.

Craig was disappointed by the attacks on his character and the assault on what had once been his company. He was angered by Business Week's willingness to lie in an effort to craft their distorted caricature. But he was revolted by their willingness to use pictures that were intended for one purpose and alter them to impart another, entirely false, impression. When their ethics stooped so low as to invade his home and family, Craig's disgust turned to rage. He felt violated, raped. Fact is, he was.

Pictures are more powerful than words. Craig and I had relied on the communication prowess of the "picture-caption-copy" formula to present the merits of our company and its products. BW used the same tools, but to deceive their readers. Not only were the pictures taken from another magazine, used without permission, they were even altered. The captions were crafted to purposely mislead the reader into believing that Craig was gloating, thumbing his nose at all the suckers he'd swindled.

The captions were textbook examples of tabloid journalism. The cover screamed: "Winn has been ousted…the inside story of what went wrong." Above the table of contents was a picture of Craig and Katharine in their living room: "How hype and hubris destroyed Value America." The third picture was huge, so large it covered a page and a half of the magazine. Beside it they began, "Blinded by Net fever…Craig Winn's chaotic Value America." Inferring Craig was an arrogant fat cat, they wrote, "SET FOR LIFE. Value America may be short on cash, but Winn gained $53.7 million."

Each picture was designed to misrepresent Craig's character and malign the truth. On one page, they got everything wrong: "November 23, 1999—The board fires Winn. He begins dumping his shares into the market," and "Winn had little of his own money at risk. His business experience consisted mainly of leading another public company into bankruptcy. His technology experience: nil."

BW had the audacity to use a picture Chief Executive had shot of Craig's wife, Katharine, and dog, Crystal, sitting next to him in their home, smiling during better times. The caption read, "HOME AND HEARTH, The Winns relax in their mansion, set on a 150-acre estate in Virginia." Byrne added, "Sitting in his very sturdy mansion, which he calls Windom Hall, with majestic views of the Blue Ridge Mountains, Winn wants his millions and the last word." Gee, it certainly sounds like Craig invited the reporter and his photographers into his home to gloat, doesn't it?

Having set up his deception, Byrne concluded: “The Value America saga goes beyond the excesses of the Internet era. Serious questions are also being raised about alleged gross mismanagement, abuse of corporate funds, and the sometimes erratic and bizarre behavior of Winn.”

Of course, if John Byrne had made up all this stuff himself, he’d be the next John Grisham. But Byrne isn’t nearly that good. He required a lot of help crafting his grim fairy tale. Enter the seven dwarfs. “‘Everyone figured he was more genius than crazy,’ says a former senior executive. ‘As time went on everybody got more concerned.’” Thanks, David.

There isn’t much doubt that the attacks were designed to help Dorchak, Morgan, and the board by mischaracterizing all that Winn, and we, had done. But there was more to this than merely wanting a good story that would sell magazines by titillating that part of us that somehow relishes character assassination. Something more sinister was going on. Their own words tell the tale.

‘“There have been a fair amount of decisions and expenditures of funds that were questionable,’ says director Schmitt.” Byrne intoned, “In retrospect, the story’s most surprising aspect is how long the public—and the board—continued to believe in Winn.” He went on to claim, “Winn quickly embraced the worst excesses of the New Economy…. He spent money lavishly, running through the company’s cash as if it were unlimited.”

Wow. And the Craig I knew had Tyranosaurus hands, you know, too short to reach our corporate wallet. As our CEO, he was so tight he squeaked. He was the best negotiator I ever met. But what do I know? I’ve only been joined at the hip with him for the better part of seven years.

The crusade against truth marched on. Six of the next seven statements are false. Based on conversations with Schmitt, Dorchak, and Morgan, Byrne wrote, “Other expenditures were even harder to understand. Winn agreed to purchase a 34.4-acre expanse of land for $5 million…. The property was later appraised at less than $2 million…. After a newly recruited CEO discouraged Winn’s purchase of a corporate plane, Winn and co-founder Rex Scatena spent $650,000 for a down-payment anyway. They began expensing their trips to the company…and claim the company still owes them the down payment [bingo: that one’s true]. Scatena couldn’t be reached for comment.”

Actually, Byrne was given Rex’s home number, but he never bothered to call. He was, in fact, given the home numbers of all five founders as well as many of the most tenured current and former executives. He never called us, not even one of us. Was he reckless, or just too busy polishing his illusion?

Imagine that—writing a cover story for a supposedly serious business journal, owned by an even larger publishing company, McGraw Hill, and not bothering to call any of the people who actually know the most about the story you’re writing. Imagine being willing to trash a man’s reputation and invade the sanctity of his home without even making the effort to get the facts right. Imagine being given access to the documents you need but ignoring them and filing a story as fanciful as it is irrational. But he wasn’t alone. Prominent newspapers and leading networks parroted many of the same false allegations—and nobody checked!

The absurdity of the more inflammatory charges revealed the underlying motivations of the participants. They demonstrated that the delusion was purposeful, not careless, that it was malicious, not just entertaining. And if reckless, purposeful, and malicious, a lot more is at stake than one man's reputation.

In his defense, Craig countered the charge that he'd misappropriated funds for land:

"I did not negotiate, nor even participate in the negotiations, to purchase the land in question. But before I present the facts, let's first examine the absurdity of the charge. The story infers that I was either stupid and paid 2½ times what the land was worth or that I was a crook and was willing to risk jail to pick up my share of an overpayment. The "dumb" alternative is counter to the claim that I defrauded the smartest and richest men in America. The "criminal" inference is even more irrational. During the time this deal could have been concocted, my stock was worth over $300 million. My home was completed, I had no debt, and had millions in the bank. To think that I would risk losing everything, including my freedom, to illegally share in an overpayment defies reason.

While I was CEO, I negotiated land and office contracts. I worked with the area's leading commercial realtor, Lane Bonner, and with our Facility Manager, Sean Flynn. Neither Lane, Sean, nor I was a participant in this deal. Following my resignation as CEO in March '99, Byron Peters was assigned responsibility for facilities, property, and leases. Byron found this property, negotiated its purchase, and managed the process….

Mr. Bonner believes the land is more valuable than that offered at $200,000 an acre by the University of Virginia in their adjoining parcel. (34.4 times $200,000+/acre is $6.9 million, not less than $2.0 million.) I am neither a developer nor an expert in commercial land. Yet to prove my point, I'll reimburse the company the four hundred thousand they spent canceling this contract if the owner will sell me the land for the price Value America says it's worth. More importantly, if the land is worth anything close to what the area's leading expert claims, what does it say about those that are willing to soil my name by claiming it is worth less?

Good question, one that deserves an answer. And what about the airplane? Was this story concocted as well? Here's what Craig had to say:

"The charge that I misappropriated corporate funds related to the airplane is equally absurd. Funds were misappropriated, but I was a victim, not the perpetrator. Use your common sense to answer these questions. First, how could the "newly recruited" CEO be against the airplane if there was no airplane until the fifth month of his eight-month career at Value America? Second, why, if he was against the plane, did he fly on it so many times, including nine times in September and October alone? Third, why, if the airplane was just my personal extravagance, did the company write an aircraft policy, obtain Board approval, conduct lease negotiations, hire pilots, schedule business trips, and pay the fuel bills? Fourth, why, if there was no truth to our claim that the company owes us money, did the firm's auditors book a "reasonable reserve" to pay us back in Q4?

Value America's aircraft policy was written by Dean Johnson. It was presented to the board without any dissent, and was approved unanimously, with Fred Smith saying we had made the right choice on a necessary tool. Johnson wrote, "Were Value America located in a metropolitan area its payroll costs would be 50% higher ($12 million annually) and its office leases would be 170% higher ($1.4 million annually). Unfortunately, Charlottesville is not well served by air transportation so [the aircraft is a relatively inexpensive tradeoff]. The primary use of the corporate aircraft is for high-level strategic Company-related business with a clearly stated business purpose."

The airplane was the principal tool used to consummate the company's best and most productive relationships. If the entire cost of the airplane were attributed to just two relationships, CitiPrivileges and the FedEx Marketplace, the plane was a sound investment [at one third of one percent of the revenues it generated, it was 150 times more productive than any advertising money Ms. Dorchak ever spent]. Value America's aircraft logs show that it was used productively by most every member of management including the current CEO (9-8, 9-9, 10-18), former CEO (7-7, 7-8, 9-2, 9-7, 9-14, 9-15, 9-28, 9-30, 10-13, 10-14), current Chairman (11-19, 11-22, 11-23, 11-29), and board Members (7-13, 7-14, 11-4). Rex and I made the initial deposits on the airplane while the company's finance department worked out acceptable lease terms. The lease was approved by the board but never executed. The company still owes us our initial deposits. It is unconscionable that the loss of our own personal money has been convoluted to infer we misappropriated the company's money.

Under the headline: "BAILING OUT" Byrne wrote, "Most Value America investors have lost big. But both Winn and Scatena have been feverishly dumping their stock since being forced out of the company in November." He included a pretty chart showing Craig selling shares worth nearly $3 million in December. In actuality, he sold no shares in December or even in January for that matter. But why be accurate?

To his credit, John Byrne actually asked one intelligent question, "So where were the directors during this debacle?" He illuminates his question with an observation, "When an executive-suite coup erupted in November, they had barely settled into their roles. Directors contacted by BW say they acted appropriately and still express confidence in the company."

But then, just when you think the lights are on, they dim again. "Winn shows little regret about the fate of Value America or of the well-heeled backers who believed in him." Actually, Byrne never asked, and Craig never said. The charge was neither true, nor a careless error.

As Value America's current and former managers scrambled to contrive their cover-up, and concoct their elaborate diversion to save their sorry souls, BW entertained readers with a plethora of witty attacks. Dorchak said, "It's like icing a cake that hasn't been baked. We had someone here who was just icing an unbaked cake." '"We played vendor bingo,' says one former executive." Nick Hofer, Glenda's inept VP of Advertising, toed the company line, calling Craig's passion for direct response catalogs, "his whim of the week." Technology merchandiser Paul Ewert supported the woman who had promoted him as well, claiming, "Now we have adult supervision." Frank Flowers, as if talking about a different company, said, "Attempting to deal directly with consumers probably wasn't the smartest idea on their part." And I thought we were a retailer.

One of my personal favorites came courtesy of an infamous, nameless former manager: "Value America began to operate less like a business and more like a cult. 'When you're around him, you get caught in the swirl,' says one former manager. 'It's like drinking the Kool-Aid.' Winn would gather his employees and speak for a full hour at a time, promising that everyone standing before him would someday be a millionaire. At one session, recalls employees, he stood on top of railroad ties on a chilly May morning in the parking lot and spoke for an hour about his life and career. 'As he talked, the sun rose higher in the sky and the air became warm and comfortable…. I wonder if Craig planned it that way?'"

At this point, Mr. Byrne's hatchet job was done. He had crafted an elaborate ruse designed to sell magazines by appealing to the worst in his readers. But he owed his collaborators their due. There was a reason the morally challenged had trashed the company's largest shareholders publicly, condemned the company in the teeth of a class action suit, and breached their fiduciary duties. Remember, they needed an alibi in the worst possible way. In the face of clear and unmistakable warnings, they had implemented their plan, and it had failed—more miserably perhaps than any in the history of American business. Lucky for them, John Byrne was all too pleased to comply:

"Winn, say insiders, had trouble giving up control to his new CEO. Although Winn denies it, several present and former executives [Read: Morgan, Kuo, and Starnes] say he frequently undermined Morgan and continued to micromanage nearly everything. 'There was never a major decision he was not involved with,' says Morgan. 'Craig would just do what he wanted to do and informed me after the fact.'"

Later, next to a picture of Dorchak (one Business Week actually took for the occasion), Byrne portrayed Glenda as a victim, saying, "Dorchak now finds herself trying to pick up the pieces." Makes you want to vomit. But at least with Morgan, one doesn't have to wonder if he were just misunderstood. His lies were clearly premeditated, unprovoked, reckless, material, malicious, and purposely designed to demean Craig just to save his tattered reputation. According to Business Week's lawyers, the allegations made against Craig were defensible because Tom Morgan said they were true.

Craig's Open Letter begs to differ. So do the facts.

According to the Business Week cover story, neither Morgan, the former CEO, nor Dorchak, the current CEO, are willing to accept responsibility for their time as managers. To shirk responsibility, the former CEO now alleges that 'Winn micromanaged everything.' If this is not true, feasible, rational, or in keeping with factual evidence, the remainder of the story, and their alibi, disintegrates. Since I was not the CEO, President, COO, CIO, CTO, CFO, EVP, or SVP of anything following the IPO, unless I micromanaged everything I could not have been responsible for under-funding technology and over-funding advertising as they claim. The charge of "micromanaging" is neither factual, feasible, nor rational.

We raised $275 million dollars from June '98 to April '99 through four private and two public rounds. As any entrepreneur knows, managing a private investment round is incredibly time consuming. The entrepreneur has to find potential investors, present the company's merits, justify the valuation, survive due diligence, keep tedious and contentious legal negotiations moving forward, and close the transaction. IPOs are even more time consuming and challenging. It is not remotely possible that anyone, not Fred Smith, not Lee Iacocca, not Andy Grove, and especially not Craig Winn, could micromanage a lemonade stand, much less a fast-growing technology business with 300 people, while managing six investment rounds in nine months.

Following the IPO, the micromanagement charge is equally fictitious. In fact, following the IPO and my resignation as CEO, I neither managed nor micromanaged anything. I built relationships on the firm's behalf with other great companies and institutions. It is hard to be in two places at the same time. The micromanaging charge is neither feasible nor in keeping with the evidence. Most importantly, it is not even rational. If I wanted to micromanage, why did I voluntarily give up the role of CEO and recruit a CEO, President, and EVP of Operations, all with compensation packages greater than my own?… The charge defies reason and logic. Its only support is that it fits the typical entrepreneurial stereotype and, if true, mitigates other people's responsibility.

Byrne's story linked Craig to lavish ad spending. In reality he was its biggest opponent. All of his letters to the board confirm this indisputable reality. Yet those in need of an excuse seized upon the opportunity to thrust their wanton extravagances upon the firm's founder. The BW article said, "Meanwhile in [his] zeal to meet the unrealistic expectations of Wall Street, the company was making ever more desperate and wasteful marketing deals. The company paid Yahoo! $4.5 million for a year's worth of website ads that several insiders say brought in less than $100,000 of revenue. The company spent $1 million for a booth at Comdex, the computer show…and wasted another $750,000 sponsoring Dennis Conner's America's Cup yacht. 'We kept spending money like it was going out of style,' said one former top executive."

But the Open Letter described reality:

I was not an advocate for big advertising spending to inflate the stock price, as is charged. In fact, I thought it would have exactly the opposite effect. It is astonishing that as the most outspoken critic of the Comdex show, America's Cup yacht endorsement, and spending more with Yahoo!, I am portrayed as the fool that proposed them. Fortunately, the Path to Profitability I prepared on behalf of shareholders proves the foolishness of this charge. The decisions of the board, the merits of the restructuring plan, and the rejection of our Path are now public, and thus our letters represent nothing more than the losing side of a debate. Today, they may actually help shareholders by demonstrating that the charges alleged in the story are unfounded.

Craig's May 2000 Open Letter answered the most serious allegations. The other seventy false and misleading statements he refuted in a document he cleverly entitled "False and Misleading Statements." He posted it all online at VADefense.com, a website which has its own revealing history.

Joe Page had sent CMO Tom Starnes an email asking if he wanted to pay the renewal fees on twenty or so unused URLs, or just let them go. These included two web addresses the company had bought on behalf of its founder: craigwinn.com and cwinn.com. Tom returned Joe's email confirming the appropriateness of relinquishing the useless domains. So when Craig needed an appropriate Web address in which to post his defense against the company's libelous attacks, he naturally choose craigwinn.com. It was his name, after all. He had the URL transferred to a local ISP, and posted his rebuttal there. Dorchak had a hissy fit. She instructed her loyalists to misuse the company's autonomous system status to misdirect traffic away from Craig's site. But she wasn't done. She ordered the Hitler Youth to commit another offense, acquiring craigwinn.net and -.org. Amused but undaunted by the chicanery, Craig simply bought the URL VADefense.com and posted everything there.

Craig's Open Letter was five thousand words, half the length of Business Week's attack. I can hardly imagine what it must have been like to write it. The company we had worked so hard to build was now publicly humiliating my friend. And it wasn't only in Business Week. Management spewed the same venom to The New York Times, The Washington Post, and The Wall Street Journal. NBC even sent a helicopter to hover above Craig's home. They foolishly implied that he had built it by ripping off the shareholders.

In that his words were written concurrently with these events, they provide us with an insight into his personal anguish and a perspective into the builders and destroyers of our once proud firm:

It is not surprising that I attract attention and sometimes inspire animosity. Those who are willing to accept the challenges of building and innovating almost always attract unwanted attention and criticism. I have, as a matter of practice, avoided responding to my critics, most of whom have never built anything. I have always asked people to remember what the critics say, for critics impale themselves on their own words. This is no exception.

Fortunately, builders like me also have a redeeming quality. We can inspire good people to accomplish great things. There are no quotes in Business Week from Rex Scatena, Joe Page, Ken Power, or Bill Hunt. Together we were Value America's first five employees. Each name and number was given to the author of this story, but he never bothered to call or listen to what they had to say.

In direct conflict with the story, Rex and I were not fired, or forced out, by the Board in November, or ever. We were both still employees through December 20th. We resigned following the Board's decision to implement management's restructuring plan. At the time, no one had a greater incentive for the company and its future plans to work than did Rex and I. We were the company's largest shareholders with combined ownership of nearly 50%.

We believed, however, that the company needed to cut its advertising, not its employees. We believed, as evidenced by my letters, that there were better alternatives. I thought the case for those alternatives, and against the restructuring plan, was so compelling, its rejection was unequivocal evidence we no longer had any ability to influence the board or the company in any positive way. As a result, Rex and I resigned from the board on February 3rd after first complying with all of the requests made by the chairman of the Special Committee. Three weeks later, in the final days of February 2000, the [Rule] 144 specialists at Robertson Stephens began to sell significant amounts of our stock in compliance with all SEC regulations.

It is completely false and purposely misleading to report, "They have been feverishly dumping their stock since being forced out of the company in November." We did not sell until the second half of February, after both Rex and I had resigned from the board, three months after we had been isolated by management, and demeaned in the press by those whom we empowered. And for the record, I volunteered, verbally and in writing, before and after my resignations from the company and from the board, on ten occasions, to manage the sale of the company on behalf of the shareholders. The board knew, as I knew, if they had accepted my offer I would have been prohibited from selling any meaningful quantity of shares, because managing this process would put me in regular contact with material non-public information. But they rejected my offers, and thus I was able to sell my shares in a company I no longer understood, I no longer influenced, and in one that no longer valued me or my contribution.

In defiance of reason, no one associated with the company ever did anything positive to encourage their largest shareholders to retain their shares. In fact, they did just the opposite. They chose to slander us in public forums. Why management thought it was in their interest to harass the company's largest shareholders is as perplexing as Business Week's callous disregard of evidence and reason.

The charge that "the story's most surprising aspect is how long the public, and the board members, continued to believe in Winn" is as inconsistent with the facts as "almost anyone can find buyers for a house of cards if he has a good enough pitch." The notion that America's best and brightest, who collectively put the company and its entire team through two years of constant due diligence and audits, invested, not once, but multiple times, in a house of cards requires a complete suspension of reason. During the years I was CEO of Value America, we consistently under-promised and over-delivered. The only suspension of belief required here is that it is remotely possible to pass through two years of intense scrutiny and professional audits with just a good sales pitch. The premise of the story is not only untrue...it's impossible.

I find it interesting that BW describes November as the "eruption of an executive-suite coup." While their coverage is inaccurate, a coup may have been what was intended. With regard to the board, I am certain they believed they made the best decisions they could, with the information they had available to them, and that they believe they acted on behalf of the shareholders. However, an all outside board is easier to influence with a coordinated blend of misinformation and character assassination. Sadly, it takes very few misguided individuals to destroy the good work of many. It's happened before. For example, the former CEO's company, USOP, was sliced into pieces, and like ours, USOP's stock plummeted during his tenure. It is also interesting that USOP's founder and Chairman was was gone less than a year after Morgan joined the firm through what some say was a character-assassination campaign conducted at board level.

During the years Rex and I managed the company, its value increased from $30 million in September '97 to $1 billion in April '99. The fact that the stock price increased from $10 to $17 in late November amongst rumors we were returning to management, and has since dropped to $2 following the announcement of our resignation and the restructuring plan, may not be coincidental. We will never know if our proposed alternatives would have prevailed, but in the aftermath of the company's decline and the Business Week story, our proposals make interesting reading. So why did the board reject our Path to Profitability last December and choose to support management's restructuring plan that cut the company into the pieces they "now find themselves trying to pick up"? I do not know, but it is not hard to imagine, considering the way misinformation and character assassination were used to weave this grossly fictitious tale.

I am sure that there will be some, following the release of this letter, that will think that all I accomplished was to get into the mud with my attackers. Others will come to believe that truth lies somewhere in-between the charges and my defense. The truth is, my open letter is just a defense, a long defense indeed, but just a defense. I believe it is right to defend that which one knows to be true. Yet, a good offense is more stimulating and sells magazines. I hope, however, that many find my defense helps them justify the soundness of their decision to invest their money and lives in a company we called Value America.

This all brings us back to the initial question…. Why did some say, and why did others write, something that is not, and could not, be true? For some the proliferation of these stories, no matter how false or ridiculous, provides an excuse for what actually occurred preceding and following our departure. They know that the truth will never get as much public attention as their attacks. For Business Week it is a good story that sells magazines, even if there is no correlation between what actually occurred and what they wrote. For the great men and women who devoted themselves to building Value America only to be discarded and demeaned, this story just adds insult to injury. As for my family and me, we dedicated ourselves to building a company based upon the noble idea of doing well by doing good. While I know we did everything in our power to make Value America a success, I am troubled by the disappointment that must be shared by all who invested their lives and their money in this company.

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many of those who had helped build Value America made their way to Craig's farm. We had come to support our fallen friend, who was as low as a worm on a hot day. For a man who had fought and won so many battles, who had sacrificed so much on our behalf, to be depicted as trash in that pretentious rag just wasn't right. We were angry, not so much at the media, but at the weasels who had used them. The Business Week story and others like it in The Post, The Times, and The Journal had said far more about the collaborators, Value America's desperate and mercenary managers, than they had about Craig.

One of the most revealing attacks came courtesy of David Kuo. He supplied Byrne with detailed "information" about Craig's brush with advertising and politics. He claimed Winn wanted to create a series of TV ads featuring himself as a spokesperson in order to promote his budding political career. In actuality, it had been David's two public relations firms who had concluded that featuring Craig would be the only way our firm could successfully convey our unique message. David conveniently elected to omit this "detail" from his conversations with Byrne. He also somehow managed to forget that he himself had invited Ralph Reed, his former employer, to meet with Craig to discuss the political landscape.

What drives people to set up others in this manner, wrongfully embarrassing them in the media? Perhaps, having failed to seduce Craig into aligning himself with the Brethren, they thought a little public humiliation might be appropriate. Without facts to support their condemnation, they just made 'em up. It was all designed to make Craig look foolish, of course. But I would soon learn that he was in good company. David's whoppers about Jerry Falwell, another foe of the Brethren, were as entertaining as they were absurd. Mess with the Brethren, they'll slander you.

Byron Peters, strangely enough, was bitter. He seemed to almost relish Craig's condition. Sure, he acknowledged that nothing in the articles had been true, but he saw himself as the principal victim of this calamity. He said, “You made money on Value America, so no one cares that you were trashed.” The implication was, “I’m the one who got hurt; you should feel sorry for me.”

Craig challenged him. “This isn’t about feeling sorry. Why would anybody in their right mind want people to feel sorry for them?” That concept was beyond Craig’s comprehension. “It’s about right and wrong, good and evil,” Craig told Peters, encouraging him to stand up and rebuff the lies. “Bad things happen when good people don’t stand up.” Sadly, the six-foot-four Byron Peters, professional manager extraordinaire, once again ducked for cover.

Joe Page, Jacob Mitchell, and Phil Intahar rose to the occasion. Early one morning, they found Craig working on a tractor in his barn. They had come to demonstrate their support and to share some of what they had learned. Jacob said he had gone to the new CIO, Niles Edwards. Edwards, like Tip Lawson, Glenda’s new CFO, had made his way into Value America’s employ through the continuing machinations of Goose Godfrey. Amazingly, Godfrey was still being paid his “consulting fee.” He had found a kindred spirit, I suppose.

Anyway, Jacob said that Edwards had been troubled by the Business Week story and had challenged Glenda, asking her why she had been willing to inflict such terrible damage upon the company. What Edwards told Jacob is hard to believe. “She told me that it had been Frank Flowers’ idea. He wanted Craig punished for having sold his stock. She said she was only doing what she’d been asked to do.”

“Liars lie; that’s what liars do,” Craig responded with a shrug. “Frank Flowers is a smart man. He has a wealthy boss to protect. It doesn’t make sense. It’s just Glenda doing the only thing she’s really good at—blaming others for her failures.”

As some reached out to Craig in person, others did so by letter. Value America’s friend, John Motley wrote, “I realize there has been a great deal written about both you and Value America. Although plans did not develop as we hoped they might, I want you to know that from my perspective, you have been a great friend and have done more for me than I ever imagined. I cannot begin to tell you what a tremendous thrill it was watching Value America develop and grow. I will never be able to adequately express how much I appreciate what you have done for my family. While some will argue that mistakes were made, and certainly there were some, I have always thought of you as one of the most talented and brilliant people I have ever met. You never backed away from any commitments you made to me, and for that I am very grateful. I have always been proud to say you are my friend.”

Sean Flynn wrote, “I first met Craig Winn in the summer of 1996. He described his plans to clear his overgrown fields and his desire to build his home. It was the first of a thousand times that he told me what he was going to do and he did exactly what he said. The Craig that I know is a man of integrity and moral strength who earned the respect and admiration of all who know him.” Another said, “In all my dealings with you, I found you to be honest. A handshake with you is the way it ended up in the paperwork.”

India Hamner was one of the many great people who had helped build the dream that had once been Value America. She and Craig seldom spoke, but today her words speak for all of us. On May 29th she wrote:

Craig, I have waited for the storm to blow over and for the air to clear but I just can't wait any longer. I'm the Helpdesk supervisor at Value America. I have been in the position for some time and I've watched what has happened to your dream. I am so sorry. I can't speak for "the company" but I can certainly speak for myself. I believe we are now bleeding from the inside.

I remember my first day at work. Your dream was being lived each day. Each of us came to work with such excitement and enthusiasm. I could stand in the hall and hear the developers pouring into the office talking about what they could do. I remember the day we went public. That was one of the most exciting days I have ever experienced! We were running up and down the halls hugging each other. We were all a part of the "Great American Dream" being fulfilled. That team spirit is what drew me to Value America.

I remember the day I received my first Value America shirt. I was so proud to wear it everywhere. I remember the day we were setting up the call center at Hollymead. Your wife, children, and dog dropped by. Your wife was so kind to me and she didn't even know me. I told her how proud I was to be part of it all.

I have gone over and over it in my mind trying to figure out what I could have done differently to make things better. Those of us in the trenches doing the day-to-day work have had so little say and so little control. Until the last few weeks I still believed the dream of Value America could be a reality. I wish I could have made things better. I'll always be proud of being a part of a great company. Thank you for making that possible. I pray that you and your family will continue to love and support each other. Thank you for the beautiful example you have set.

I too wrote a letter. Though mine was addressed to Business Week rather than to Craig, my words echoed India's sentiments.

John Byrne's article, "The Fall of a Dot-Com" (May 1, 2000), tries valiantly to place the blame for the imminent demise of Internet retailer Value America squarely on the shoulders of its founder, Craig Winn, portraying him alternately as a silver-tongued super salesman, a meddling and avaricious flim-flam man, and a financial loose cannon. This characterization may make the story line tidy; too bad it's so very far from the truth.

I am in a position to know. I was there four years ago when Craig Winn dusted off a business plan he had written almost twenty years earlier describing the future of retailing, a world where better information, not merely lower price, drove sales; a world where the inherent inefficiencies of brick and mortar stores could be reduced or eliminated, making it possible to sell better products for less money; a world where a percentage of every sale could be donated to a worthy charity. It was a stunning concept, and I felt privileged to be a part of it.

I knew Craig Winn. I had worked shoulder to shoulder with him for months on end. I felt that if there were any man on earth capable of pulling off this palpably difficult endeavor, it was him. He knew sales. He knew manufacturing. And for a non-technologist, he had a remarkably good handle on how the emerging technology worked. So I signed on as Value America's Creative Director.

Over the next three years, I watched us grow from three people to over six hundred. As long as we kept Mr. Winn's vision clearly before us, our presence grew at a phenomenal rate. But by the time there were 150 or 200 of us, something had changed.

More and more employees neither shared nor cared about Craig Winn's vision. Executives and managers were hired who had their own agendas and methods. Our newspaper ads, which had started out so information-rich and brand-centric, became increasingly focused on little more than price, until we finally earned our unwanted reputation as a "cheap-computer store." It seemed that every time we strayed from Mr. Winn's original business plan, we became more like every other struggling retailer. And with every three-hour manager's meeting, we strayed ever farther off track.

But was it Craig Winn's fault? Without his vision, enthusiasm, and good old-fashioned hard work, there would have been no Value America to discuss. So let's discuss some of Mr. Winn's "faults":

Greed: Byrne seems miffed with the opulence of the Winn estate near Charlottesville. But Mr. Winn built it with money earned long before Value America went public…and he did a surprising amount of the actual site preparation with his own two hands, a tractor, and a chainsaw. Not your typical yuppie scum. And stock sales? Mr. Winn began to systematically sell off his Value America shares only after it became clear the board had discarded his business plan. No one ever said he was stupid.

Lavish ad spending: Before Glenda Dorchak was hired to head up our advertising program, Craig had us running ads with a modest and manageable schedule. It was under Dorchak's management, not Winn's, that our ad program grew to over twenty newspapers a week, plus magazines, radio, and television.

Micromanagement: Ah, if only he could have spread himself even thinner. Craig has better instincts in more diverse disciplines than anyone I've ever met.

Ego: Presidential aspirations? Yes, for a brief moment he considered it. Why? Because several of Virginia's most influential citizens asked him to, recognizing his abilities, his high moral standards, and his heart for the practical realization of racial equality through his plan for increased educational and economic opportunity. But to my mind, he's too idealistic to make it in Washington.

I still think Value America was a wonderful concept. It should have worked. But don't blame Craig for its failure. It's not his fault. It's mine—along with six hundred or so of my Value America coworkers. He did not fail us. No, we failed him, in failing to execute his grand and worthy vision.

It's been said a thousand times, "Those who can, do; those who can't, write." John Byrne, many of Wall Street's dot-com analysts, and most of our professional parasites, shared something in common: they couldn't. They couldn't build a business if their lives depended on it. So they wrote, or at least contributed to the writing of the Business Week article and other published illusions. If Craig is right, and I fear he is, they shared something else as well: insecurity. It's the reason those who can't try to bring others down in order to elevate themselves. The behavior is rampant, contagious, and cancerous. Unstopped, it can do immeasurable harm.