

Rowing Up a Waterfall

e was supposed to be on vacation, but it wasn't working out that way. Katharine and the boys had insisted he join them on the Outer Banks, knowing he needed a break. Finally Craig acquiesced, only to find himself parked in a deck chair, his toes buried in the warm Carolina sand. Relaxing? Not exactly. There were problems. His cell phone was glued to his ear.

"Rafe, you know the arrangement with Rossi—five percent on the first ten million and one thereafter. But now that we've paid him half a million dollars, he's hired a lawyer and wants to change the deal. Your friend's killin' us. Did you know about this?" Craig knew the answer. He just wanted to see if Rafe was as interested in his investment as he was in his friend. "We should have closed this round. We can't schedule the IPO until it's done, and like I said, if we miss the summer IPO window...."

Durn, characteristically, wouldn't budge. "I can't help you. You need to work out your differences with Seth, so I'd suggest you give him what he wants and move on."

Winn wanted to scream the company you're hurting is partly yours, you know, but he didn't. He merely gritted his teeth and related the rest of the tale. "He's also demanding that we sell him Value America stock at one third the current price. The company can't sell under-priced shares without sending up flares at the SEC. This kind of thing makes 'em real testy."

"That's your problem," Rafe observed helpfully.

He hung up and called our attorney's private line.

"Justin Caise."

"Hi Justin, it's Craig. I know you've told me that the company can't sell Rossi under-priced shares, but I have an idea. Can I do it?"

"Yes, but you'd be cheating yourself. Why would you do that?"

"Because the choice is either cheat myself or cheat everybody else. If we don't figure out a way to give our boy what he wants, we'll never get this round closed. That means no IPO. And I don't think I need to tell you what that would mean."

"No, I understand." It'd mean I might not get paid.

"Draft the paperwork, okay, Justin? Take the shares from me."

"Alright, if you say so."

Rex finished sending his fax, and Craig waved him into his office. "If one more thing goes wrong...."

"What now?"

"Know how Caise couldn't handle the drudgery of writing the S1, so he turned it over to an underling? Well, he got out-gunned by underwriter's counsel. Our S1 looks like the prospectus for the Prince of Darkness."

"Yeah. I've never seen so many silly risk factors."

“McNay and Volpe Brown are doing their part, but not Conover. He promised to be here for us—but instead we get Miles Julian, who by his own admission is a politician, not a banker. Gordon’s never around.”

Rex shook his head. “Yeah. Miles is a nice guy, connected and all, but he doesn’t know when, or even how, to stand up to the lawyers or the auditors. Gordon knows, but he’s not here, so they’re walking all over us.”

“Well, wanna hear the latest? Conover just called. Said they’re no longer willing to co-manage the deal with Volpe. He said his firm is ‘too big and prestigious’ to accept equal billing on our prospectus. It would be ‘damaging to their corporate psyche!’”

Rex couldn’t help himself. He burst out laughing. “They’re afraid they’re going to damage their corporate psyche? We’re risking our corporate life, and they’re worried about the humiliation they’ll suffer if they co-manage our IPO with a smaller outfit? And I thought lawyers had egos!”

“I’ll bet it has less to do with corporate psyche than with corporate profits. As the lead manager, they’ll get the lion’s share of the deal. They’ll control the book, and with it the allocation of stock. And guess whose clients will get to feast on us?”

“Right-o,” Rex said. “On the other hand, their corporate paranoia may have had an upside.”

“How’s that?”

“Remember how Dandridge, their analyst, thought Flowers, Vulcan’s honcho, was ‘unprofessional’? That all shook out as a risk factor in the S1, but to me it looks more like a big sign saying, ‘Buy this stock!’”

Anticipating the closing of the funding round, the new risk factor said in effect, “Don’t pay any attention to the fact that Paul Allen, the world’s second richest man and one of the most technologically savvy people on the planet, has examined and analyzed this firm and chosen to invest in it at a \$300 million valuation. You shouldn’t take him seriously.”

“With enemies like this, who needs friends?”

“We do.” Craig brought Rex back to earth. “We’ve lost as many friends as we’ve made. Sure, Volpe Brown has been with us all along. They were the first to visit, the first to commit to managing our IPO, and they’re still our most reliable friend. But Goldman Sachs has been sitting on the fence so long, I’m sure their collective butts are numb. It’s a shame. Latour’s great. And remember UBS and the ‘shameless self promoter?’ They bailed at the first sign of success.”

“Then there was FBR,” Rex said through his laughter. “They looked terrific. But they got into a spat with Dale and got deep-sixed.”

“Then Dandridge introduces us to Suzzi Maupin of Hambrecht & Quist. She loves us, but we haven’t seen hide nor hair of their bankers. I presume they have them.”

“How’d we end up with Robinson-Humphrey?” Rex queried.

“They’re the leaders in the office products and computer channels—our two most important categories.”

“Oh, right. So with them on our team, the cover of our prospectus is going to read: Robertson Stephens, Volpe Brown Whelan, Hambrecht & Quist, and Robinson-Humphrey.” Rex smiled. “Quite a lineup. We must be doing something right.”

“The situation is completely intolerable,” Glenda said. “How do you expect me to develop sales for this company if the whole B2B division is outside my control?”

Winn breathed a heavy sigh. A catfight was the last thing he needed right now. Glenda Dorchak had been our SVP of Sales and Marketing for one week, and already she was getting territorial. “Seems to me you’ve got your hands full managing marketing, advertising, the call center, and online sales,” he said. “Read your job description lately? Developing our direct response capability is a full-time job in itself. You don’t need to be in control of everything to be important, Glenda.”

Craig didn’t say what was he was really thinking, that he was once more witnessing the classic symptoms of insecurity that had hurt him so badly in the past. He wasn’t about to let it happen again.

“You’re missing the point, Craig,” Glenda said flatly. “If this is going to work, there has to be horizontal communication. Kim DeJong is running her own little kingdom over there, independent of me. There’s no process. It’s helter skelter.”

Oh, I see the problem. You can’t stand to see another person, especially another woman, especially another IBMer, in a role in any way competitive to your own. So you’re going to claw Kim’s eyes out. But what he said was, “Kim DeJong, like it or not, is doing a marvelous job leading our Business-to-Business sales initiative. Everything about that division should be handled independently, with different methods than online and inbound consumer sales. She’s set an aggressive budget for her division, and she’s managing to exceed her objectives. B-to-B is important. B-to-C is important. You do your thing, and let Kim do hers.” His phone rang. As he picked up the receiver he wrapped up the conversation abruptly: “Just do your job.”

Risk factors were nothing new for Internet companies. As a group, dot-coms were risk personified. Their prospectuses were filled with red flags. After all, none had made money. The whole industry was being invented on the fly. The bankers had told us not to worry.

But our team was worried—or, at the very least, annoyed. Risk factors, even though they were listed in the S1, were routinely ignored. They were usually so obvious as to be laughable: “The Company expects to experience significant fluctuations in future operating results due to a variety of factors” (like every other firm in existence). “The Company is entirely dependent upon manufacturers and distributors to provide merchandise for sale” (as is every other retailer on the planet). “The Company’s performance is substantially dependent on the continued services and performance of its current senior management” (Yeah, they might all of a sudden decide to play golf instead of going to work). Virtually every risk factor talked about perils faced by every company every day. They were supposed to be there to protect naïve investors, but in reality they were crafted to cover the “professionals” writing them.

“Reportable conditions,” however, were a horse of a different color. These were specific and serious problems that the auditors performing their due diligence had discovered (or at least that was what they were supposed to be). Investors took them

seriously, as well they should. What annoyed Craig about this one was that it concerned a condition that no longer existed, one that had never really been a problem in the first place.

The brouhaha was all about how to account for sales that took place at the very end of each quarter. The Price Waterhouse team Dean Johnson had brought in knew all about Internet companies but considerably less about retail. Their lack of experience had become a problem.

The invoice is considered the definitive document for confirming a shipment or sale. This document was particularly significant for us because we did not actually take physical possession of the thing being sold. Our sales were counted as revenue only after shipment, and the evidence for that was the invoice. It didn't matter that we had already received the customer's money.

At issue was the speed at which our suppliers' invoices could be received and matched. Value America had been designed to communicate with our suppliers via EDI, but when we first opened the store, most brands were accustomed to mailing invoices. This meant it could take a few days, rather than a few minutes, to transmit these documents. Even then, it was not a problem except for the last few days of a quarter.

No one was suggesting that we were misstating revenue; there was never a question of how much we had actually sold. The only question was how fast we could determine the quarter in which the sale occurred. And even then, it was only a problem in the thirteenth week of a given period.

When the problem had first been noticed, it was theoretical—we weren't advertising yet and were selling very little online. Craig's solution to the theoretical conundrum had been pragmatic, not to mention common: understate revenues, the same percentage each quarter. What didn't get picked up in Q1 would get reported in Q2, and what got missed in Q2 would show up in Q3. As long as you weren't overstating revenue, what did it matter? The potential error was only some fraction of one thirteenth of a quarter's sales. Even if it were understated and reallocated, it would be a positive adjustment, something that brings smiles, not suits. So who cared?

As it turned out, Price Waterhouse cared. They wanted the whole thing calculated down to the penny. After all, they were auditors. But that wasn't the reason Craig was upset. As soon as we had collected the first union investment funds—\$9 million after fees—we had hired BDS to solve this and other technical challenges. After sitting through a four-hour technical review, even PW acknowledged that they had done their job. For some time now, Value America had been able to give the auditors timely revenue numbers for the oh-so-critical thirteenth week.

So what was the problem? Price Waterhouse told us, in effect, "We're historians. We are reporting a condition that existed in the period we're auditing, i.e., 1997. Now, in the middle of '98, you've fixed the problem, but that's not germane. We're not auditing '98, only reviewing it. So the reportable condition stands." It was another straw on the camel's back. How much more weight could the IPO stand before it collapsed?

It got worse. Craig's least favorite S1 insertion wasn't required either. The lawyers decided they wanted to tell everybody about Dynasty's Chapter 11 in Value America's prospectus. Never mind the SEC regulations, which only required that a prior Chapter filing be listed if it had occurred within the past five years. Anything before that was considered irrelevant, ancient history to everyone except the lawyers we were paying to

draft our disclosure documents. Not only did they insist on its inclusion, they put it where it would cause Craig the most grief—in his bio. A founder’s bio is the first place every journalist looks before they write.

Preparing for the initial public offering was monumentally stressful. It was bad enough behind the scenes working with lawyers and accountants who were running amok. But the primary public document upon which the company would be judged—the prospectus—was shaping up to be a poor reflection of the company, this retail revolution of ours. Craig felt like a mother whose child was about to enter a beauty contest only to be given a bad haircut and a black eye.

the founders were chatting in Rex’s office at the end of another long day. “About \$25 million, Rex, less Rossi’s fee and another hit from the lawyers. Not bad,” Craig smiled. “Five million of it came our way, too.”

“Yeah, but because this round was based on the union option, it was all supposed to come our way. I’m not complaining, mind you.”

“The bad news is that the Series B round should have closed in May. It’s what, June 26th? We sent the S1 off to the SEC, but we’re not going to receive their comments for at least four weeks. By the time our team responds and we’re cleared for takeoff, it’s going to be August. We’ve missed the summer IPO window, Rex.” Craig forced himself to look at the bright side. “At least we’ve got fuel in the tank.”

Rex did the tally. “Fifteen million from Allen’s Vulcan Ventures and half a million from President Clinton’s friend, Terry McAuliffe. You think we’ll get an invite to the White House?”

“I already got one. Dinner with Terry and the President. Katie was sick the day he called, so I decided to stay home.”

Rex raised his eyebrows.

“Funny thing. Terry and Rafe told me that one day when they were both at the White House, they began discussing Value America with the President. They even went online and checked out the store.”

“They buy anything? Cigars, perhaps?”

“I have no idea. But I do know that a lot of Rafe’s friends invested. You’ve got to give Durn credit. Almost half of the dough in this round came from his political pals.”

“Yeah. I noticed.”

“The most interesting names, though, were Frank Flowers and Allen’s investment banker, Michael Yagemann. Did you hear how that happened?” Craig asked.

Rex shook his head.

“Mike called me on my cell phone about a week ago. He introduced himself as the managing director of a big investment bank and said he’d managed most every Allen deal. After chiding me for not using him, not using any banker, he went on to say that Allen had told him we were one of his best companies. Mike asked if he could personally invest. I said no, that we needed to close the round. Then Flowers calls, tells me he’s investing too, and asks me to take care of his friend. First time I’d talked to Frank since he asked about buying us out.”

“So they’re both in for a half million. I wonder if they’ve ever personally invested in an Allen deal before.”

“Don’t know, but the fact that they invested is a good sign.”

“Sure makes Seth’s self-serving claim that Flowers had a problem with you look ridiculous,” Rex said. “Come to think of it, most everything Seth says makes him look ridiculous. Just for the entertainment value, ask Dean what he thinks of him.”

“Oh, I know. Dean thinks he’s dangerous, a loose cannon who’s going to blow up in our faces.”

Rex shook his head. “I warned you. But in spite of it all, we’ve done pretty well so far. We closed the ‘pass the hat’ round in October at a thirty million valuation, the union round in December at a hundred million, and today we closed Series B at a three hundred million dollar valuation. Not bad for a couple of duffers.”

“Our valuation is growing almost as fast as our business. But I’ve got a bad feeling, Rex. I called Robbie Stephens ten minutes ago just to confirm our schedule. Conover said we were looking at the middle of September, when the investors return from their vacations and start looking at IPOs again. That means we’ll finish our road show in early October. You know about October and the stock market, don’t you?”

Rex knew. The two biggest crashes had taken place in October. “So the real question is will the market be ripe or rotten when investors get back?”

“Maybe I’m just being paranoid, but I have a funny feeling the dot-com honeymoon’s over. I don’t mind selling our company on its merits, but a little market momentum never hurts.”

“One thing’s for sure. All this extra time we spent screwing around with Flowers, Durn, and Rossi trying to get the round closed has given the lawyers and accountants plenty of time to monkey around with our \$1.”

“They’ve left us with no wiggle room. One little glitch, one untimely hiccup, and we’re history: pack up our tent and go home. And nobody gets a second chance at an IPO.”

Rex peered at Craig over the top of his reading glasses, flashing a wry smile. “How do we get ourselves into these situations, anyway?”

Craig stood in my office door. He wasn’t smiling.

“Hi,” I said. “What’s up? You look...down.” This was a different look for Mr. “Always-See-the-Good-in-Everything.”

He wasn’t angry, at least not with me. He was embarrassed. I don’t think I’d ever seen him like this. He was almost shuffling his feet.

“Um, Ken, as you know, Glenda’s been in one of the offices in the old Protein Solutions area since she got here a few weeks ago.” Protein Solutions was a nutrition company that had occupied a small portion of the main floor of the Yellow House when we’d arrived. Our cancer-like growth had been too much for them, so they’d moved out, leaving their few precious square feet of office space for us to infest.

“Yes.” I knew she had an office down there. She was my boss.

“Well, she wants a bigger office, one more in keeping with her stature....”

A blind man could see where this was going, so I put Craig out of his misery. “She wants my office. Give it to her. Look, don’t worry about it. It’s okay. We’re all on the same side in this war, aren’t we? I’ll just find a new foxhole—I’ll shift some bodies and move into one of the cubicles. It’ll be okay as long as I’m still close to my ad team.”

Craig looked relieved. “You’re not upset?”

“I didn’t say I wasn’t upset. About moving, no. We all make our little sacrifices. But I am upset, yeah. Look at this!” In the jumble of paperwork on my desk, I found the printout of a newspaper ad format Glenda just had asked me to design. I handed it to Craig and said, “What’s wrong with this picture?”

He was at a loss for words. What he held in his hand was a handsome five-column ad. It was divided into nine boxes. Each contained a separate product. “This does nothing to promote us or our brands. Hell, there are five, no, six brands in this one ad. No text, just bullets—precious little reason to buy any of this stuff.”

“Bingo. Like you’ve told me a thousand times, any idiot can sell on price, and most idiots do.” The relationship we were building with our customers and brands set us apart; we had something special going, a voice, a personality. We were creating a reason for shopping here. But with this new format, Glenda was throwing all that away.

“Worse than that. In a newspaper, it’s a fool’s folly. The picture-bullets-price format works in catalogs, in color inserts, but....”

“But there’s a reason no one does this in newspapers.”

I could see the turmoil behind Craig’s wrinkled brow. He stared at the ad, though I don’t think he was looking at it but rather through it. He breathed a heavy sigh. Finally, he spoke. “What you and I designed put Madison Avenue on its ear. The big agencies are calling our style a ‘whole new genre.’” It was doing everything we wanted, helping to set us apart, build our brand. More importantly, it was working. We were growing at three hundred percent quarterly.

More than just propelling our growth, our conversational, brand-centric style was clearly doing what we wanted. It enabled us to sell goods based on their value, it endeared us to our brand partners, attracted new brands, and even helped us generate co-op advertising money.

“So what do you want me to do?”

“Nothing,” he said thoughtfully, almost sadly. “Let me see what I can do. She’s wrong, dead wrong, but it’s never a good idea to cut your people off at the knees—to give them a job and then override their decisions. It kills morale, makes them impotent. We’ve just given Glenda the Sales and Marketing job, Ken, and advertising is one of the tools she has to get the job done. I want her to succeed at her job, so I have to let her do her job. I’ll try to explain the merits of what we’ve been doing, so she understands. Maybe she’ll change her mind.”

Having been in his shoes, only on a much smaller scale, I knew what he meant. Somehow, I should have known he would say something like that. “Okay. Glenda’s my boss. I’ll do what she wants. Hopefully, you’ll get her to understand. I’d hate to see her destroy what we’ve built.” Unfortunately, I had a feeling he would fail. Glenda would dig her heels, get defensive, and assert her professional status.

Craig nodded and turned to leave. Two steps later, as he reached the door, he stopped and looked toward me. He felt impotent, unable to help his friend. The pain was written all over him. He too somehow knew he was going to fail, and that his failure would be

costly. He opened his mouth to speak, but said nothing. He just bowed his head, turned, and walked slowly toward the stairs.

The time had finally come. It was now the second week in September. The boys had edited, tweaked, fine-tuned, and polished the Value America investor presentation, and now they were ready. Craig, Rex, and Dean had a tight, crisp twenty-minute talk prepared—five minutes for an interactive demo of the store and another fifteen to explain the store’s core concepts, capabilities, and financial picture. It was all supported with PowerPoint slides and the store-in-a-box. Dean explained the financials, Rex talked about our people. Their lines were so smooth they appeared to be speaking extemporaneously, but the speeches were in fact memorized.

The three arrived at the Robertson Stephens offices in Bank of America’s Giannini Building, overlooking the San Francisco Bay. Rex announced offhandedly as he gestured toward a plaque on the wall, “We’re related. Did you know that?”

“Who?” Dean asked.

“The Scatenas and the Gianninis. The man who built Bank of America into the biggest bank in the country was my grandad’s cousin. As a matter of fact, Amadeo Giannini, known to everybody as ‘A.P.,’ actually asked my grandfather to join him back in ’28. Grandpa turned him down.”

Dean let out a low whistle. “Can you imagine how rich you might be if he hadn’t?”

Rex just smiled. “Actually, what happened before BofA is why folks remember Giannini here in San Francisco. He started the Bank of Italy in 1904 to serve the city’s working class. Two years later, on the morning of the great earthquake, he borrowed a produce wagon from my grandpa and drove down to what was left of the bank. A.P. sifted through the rubble and surreptitiously loaded the wagon with two million dollars worth of gold, coins, and securities, hid the loot under a pile of vegetables, and drove home. Then, while all the other bankers took a ‘wait and see’ approach toward reopening, A.P. set up shop down there,” Rex pointed in the direction of the waterfront, “on the docks, loaning San Franciscans the money they’d need to rebuild the city. No matter how much money he made, Giannini’s heart was always with the common folks. Remember what Miles Julian said about how Value America was ‘doing well by doing good?’ Ninety years ago, that was A.P. Giannini.”

Upstairs, team Value America was ushered to a small conference room and gave the presentation a dry run. They had an audience of one: analyst Dale Dandridge. He gave the presentation “an eight and a half on a scale of ten.” He said, “I’ve never given anyone a better rating than that.”

As much as he liked the presentation though, Dandridge wanted to make some changes. They were not insignificant. Craig’s speech talked about why we thought our model was different from—even superior to—Amazon’s. Touting Amazon was how dot-com analysts had made a name for themselves. Any comparison belittling the industry’s poster child for dot-com wonderfulness was verboten. So the sections dealing with the “relative strength” of our model had to come out.

The fact that Paul Allen’s Vulcan Ventures had invested in Value America seemed to Craig to be a significant indicator of our company’s merit. He hadn’t factored in the low

esteem in which Dale Dandridge held Frank Flowers. Dandridge demanded that Allen's investment not be mentioned: "His name is not well respected in this space," he claimed.

Moments later, they met with the firm's syndicate manager in another conference room. Bentley Hollis managed the "book," ultimately deciding how the IPO would be priced, who'd get allocated shares, and how many they'd get. He walked into the room like a doctor with bad news.

"There is something you should know," he said at last. "We've just pulled all of the IPOs we're leading. This is the worst IPO market we've ever seen!"

Rex and Dean looked at each other blankly and then turned to Craig, who was as stunned as they were. Now what?

Hollis continued. "The only IPO out there right now is eBay, and they've been struggling. They still have an outside chance because Goldman Sachs is lead, and the deal's under-priced. Goldman may have enough clout to get it done, but it's going to be tough. We're a co-manager." He paused and took a sip of his coffee.

"We like your model, so that's why we're proceeding with you...."

"Wait a minute!" exclaimed Craig. "You're not cancelling our IPO?"

"No. Didn't I explain that?"

There was a collective sigh that sounded like air leaving a slashed tire. "Uh, no, you didn't."

"Oh, sorry," Hollis said with a little smile as he took another sip. "You have a great model, exponential growth. You're bigger than eBay. So we think we can get you out there and get the deal done, even in this market."

Dale revived team Value America from their near-death experience and escorted Rex, Dean, and Craig to the firm's large auditorium. Along the way he said, "Our sales force was not very happy this morning during my 'teach in.' They've been burned recently—bad market and all—and they're overly sensitive. They don't like your risk factors. Don't be surprised if they hammer you with some really tough questions."

That in itself was a recipe for disaster, but it got worse. The audio-visual equipment in the conference room didn't work—the audio tracks accompanying the product presentations couldn't be heard. Although the conference room was filled, our team was faced with giving a presentation to people who weren't there. The sales force was scattered all over the country, and they had been "brought" into the room with a sophisticated video-conferencing setup. It was a less than ideal way to demonstrate an Internet store designed to be experienced intimately on your desktop.

Craig felt all the life and excitement drain out of his speech as he read it from his butchered notes. Dale had made so many changes, he was afraid he'd revert back into the familiar word patterns he'd memorized before leaving Charlottesville. Dean and Rex delivered their short segments. It wasn't their best effort either. Then the questions began. This was normally Craig's favorite part. He knew retail, brands, marketing, and technology better than anyone in his audience.

But the questions were not about Value America's business, retail, brands, marketing, or technology. The sales force, especially the group in Chicago, grilled him on the reportable condition listed in the S1. Craig had seen that one coming and patiently brought the sales force up to speed on what had been done to correct "the problem" and why it had never really mattered in the first place. They hammered Craig and Rex on Dynasty's demise. Their coherent, concise response turned this into an advantage.

Dynasty's experiences and lessons had provided the motivation for Value America. The pitfalls that had hurt them six years earlier were now pylons in the course we were running—clearly visible and easy to avoid.

But like a group of teenagers whose party has been shut down by their parents, this audience was in no mood for reason. Why should they be nice to Value America? The bloom had fallen off of the dot-com rose, and their clients had been hammering them about the risks of investing in Internet IPOs. Turnabout was fair play. Their frustration was palpable, and their resentment lurked just beneath the surface. They characterized every well-prepared answer as “glib,” every thoughtfully considered response, “facile.” The Value America team was dismissed as being “too slick.” Any less “slick,” of course, and they would have been written off as bumbling amateurs. There was no way to win.

The curse continued when they took the demonstration to Volpe Brown Whelan. It was bad enough that they were still smarting from being asked to step down from being co-lead. It was challenge enough that their conference room was long and narrow, not at all suited for the visual communication the Value America presentation required. Worse, their offices were under construction. Craig, Rex, and Dean tried to deliver the pitch, shouting over the din of hammering, sawing, and colorful construction jargon.

Things went no better at Hambrecht and Quist. Now playing third fiddle, their egos were damaged beyond recognition. They were clearly a better firm than Robertson Stephens, they thought. Who needs this humiliation? Oh, yes, Craig mused. There's nothing like placing your future in the hands of an excited, motivated sales force.

The Robinson-Humphrey presentation was delivered over the telephone. They were back to describing the Mona Lisa.

There was no time to lick their wounds. When Craig, Rex, and Dean got back to C'Ville, they only had a couple days to tweak the presentation to Dandridge's specifications, make new PowerPoint slides, and polish it all. The appointments had been set. The road show was about to begin.

The itinerary looked fatal, or at least impossible: Monday, 9/14/98: three meetings in Los Angeles; Tuesday, 9/15: four in San Diego, two in Los Angeles; Wednesday, 9/16: seven in San Francisco; Thursday, 9/17: two in Minneapolis, three in Chicago, one in Baltimore; Friday, 9/18: four in Baltimore; Saturday, 9/19: home for a shower, shave, and a good, stiff drink; Sunday, 9/20: travel; Monday, 9/21: six meetings in London; Tuesday 9/22: two in Frankfurt; Wednesday, 9/23: seven in Boston; Thursday, 9/24: seven in New York; Friday, 9/25: seven more in New York; take the weekend off, back in C'Ville; Monday, 9/28: two in Milwaukee, two in Kansas City; Tuesday, 9/29: eight in Denver. What fun.

Before all that fun though, Justin Caise asked that the team start the road show in Richmond. How could they refuse? Justin had helped save the company from early extinction, not to mention being instrumental in bringing Dean Johnson on board. Craig smiled at the parallels between this and Dynasty's IPO years before. Sol Price had been the savior, and his hometown, San Diego, had been the site of that road show's kick-off.

The Richmond meeting was to be held at the Commonwealth Club, and Justin promised to invite 200 or so of his contacts. The list read like the Who's Who of

Virginia. Craig welcomed the opportunity to present to a friendly audience before entering the lion's den.

Glenda Dorchak had had nothing to do with the IPO. She had only been with the company for a few weeks when she asked Craig if she could ride along to witness the kick-off presentation. Why not: It would be a good opportunity for Glenda to absorb some of the vision, the excitement of the whole idea. From every indication, she had neither read the business plan nor understood our mission of doing well by doing good. This might help.

It takes about an hour to drive from Charlottesville to Richmond. As they began the trip, Glenda made it clear that she was a little put out at not being asked to be part of the road show. Craig gritted his teeth and tried to make the situation clear.

"Glenda, you've got a big job to do," he reasoned. "Managing Sales and Marketing should be your focus. Rex and I founded the company; we orchestrated its growth. Dean Johnson is CFO. He has to be there. You have no history with the firm. You've made no investment in the company. The investment community wouldn't take you seriously."

"I'm not sure you are taking me seriously, Craig."

"What's that supposed to mean? I've placed more people under your supervision than anyone else in the company. If I didn't have faith in your abilities, would I have done that?" Actually, it was Craig's usual modus operandi to give people more responsibility than they had ever handled, or thought they could handle. He pushed people to excel, even if it was uncomfortable for them—especially if it was uncomfortable for them. If they thought they could go a mile, he asked for three, and when they came up short at two and a half, they were still amazed at how far they had come. Some balked, dug in their heels, and hated him for it; some surprised themselves, discovered new talents, and loved him for it; and some were never satisfied no matter what happened.

Glenda was one of those. "The way the company is structured, I can't do my job. You've got all these independent silos, Presentation Marketing, the Call Center, Advertising, Technology—and they're not connected. How's a company supposed to move forward if each leg is moving independently, doing its own thing?"

"We've been over this ground before, Glenda. Each leg is working together and moving in the same direction because our managers have read the business plan. They know where we're going and how we're going to get there. Besides, at this stage, there is no advantage in Presentation Marketing knowing how Finance is managing our books, or in Advertising knowing what Technology is planning to develop. It's a waste of time, a distraction. It prevents people from doing their jobs."

"IBM," she countered, "couldn't run for a week without the kind of horizontal process I'm talking about."

"We're not IBM," Craig shot back, "and with any kind of luck, we never will be. If we wanted to pattern ourselves after a big company, it wouldn't be IBM anyway. It would be HP, who does run their business with independent silos. We're still relatively small and all in one place. If Advertising needs to know what Merchandising is doing, they can walk downstairs and ask. And they do. There are plenty of points of contact."

They had reached the suburbs west of Richmond. Eastbound Interstate 64 widened to three lanes, then four. We were within ten minutes of beginning our road show. That's when Glenda dropped her bomb.

“I’m sorry, Craig, but I can’t continue to work under these circumstances. You have a choice. Either you name me President and Chief Operating Officer so I can do my job the way I think it needs to be done, or I’m going to resign.”

To his credit, Craig didn’t swerve off the road and hit a tree. But he was clearly no longer in control. Glenda Dorchak had him right where she wanted him. True, she had done nothing to build the company, and she had had nothing to do with the IPO. But she was smart enough, or more correctly, crafty enough, to know the IPO couldn’t survive another hiccup. With market conditions this bad and with our risk factors so overdone—especially with a reportable condition—the slightest glitch would cook our goose. For an officer of a company—whose name and bio were listed in the red herring—to leave for any reason on the eve of the IPO was one glitch too many. Furthermore, she had to know that a failure of the IPO would likely spell the demise of the company. Second chances at going public were about as rare as any other resurrection from the dead.

It grew very quiet in the car.

Craig reviewed his options as he gripped the wheel tightly with both hands and stared straight ahead. Option One: let her quit. Consequences: the IPO is put off, we run out of operating capital in three months, and the company goes under. Option Two: give her what she wants. Consequences: the IPO proceeds, and we give Ms. Dorchak a couple choices of our own when the deal is done. What goes around, comes around. It wouldn’t be pretty, but at least we’d survive. Option Three: cross your fingers and hope she lets it drop. Consequences: a state of limbo ensues, increasing tension and stress, but there would be no “disclosable event.” This was easily the preferred choice. If Craig said anything to her either way, he would have to make his decision public.

Glenda broke the silence. She had been thinking about her options too, as in how many she could get. “As President and COO, I’ll be needing a substantial raise, of course. My guaranteed bonus must increase, commensurate with my new title. There must also be a substantial increase in my stock options.”

So much for Option Three. Damn.

’Course, there was still Option Four: open the door and kick her out.

“I want a seat on the board and my own employment contract,” Glenda squealed. Option Four was starting to look pretty good.

Craig knew he couldn’t give her a definite answer without jeopardizing the IPO, so he did the only thing he could. He stalled. “Listen, Glenda. I’m going to have to talk this over with Rex—between us we own seventy percent of the company. We’ll think about it.” He hoped that sounded non-committal enough.

But his head was swimming. A dozen conflicting thoughts vied for attention, not the least of which was that Ms. Dorchak had instantly transformed herself into the object of his most sincere loathing. How could I have been so wrong about her character? My wife’s right: I’m a scum magnet. Could her timing have been any worse? Will the IPO really crash if she walks, or am I being paranoid about this? Alright. Don’t panic. Maybe having everything under one manager isn’t such a bad idea. Surely this can’t be as bad it seems. After all, she put in twenty-three years at IBM. I’ve really only known her for a few weeks. But what would she do with our company if she had more power? Maybe I’m just overreacting. Whoa!—Look out for that trash truck! I can’t deal with this right now, going into an IPO with this terrible market and a prospectus to match. Will the company survive if the offering is postponed? What are the odds against getting a second chance?

How can I continue to work with someone who's blackmailed us like this? I hate these games. We called Kyle South's bluff, and it almost killed us. Now, there's a lot more at stake—so many people are depending on us, so many investors are counting on us to come through on the IPO. If we cave in to her demands and succeed in going public, can we fire her when we get back? Oh, man! Was that my off ramp I just passed?

“Did you see the paper this morning?” Rex asked Craig and Dean over coffee. They were standing on the sidewalk outside Starbucks in La Jolla. “The news is grim. All our comps are cratering, even Amazon.”

“Perfect timing. It's our second day on the road, and the dot-com world is a disaster area,” Dean added.

Craig smiled grimly. “On the other hand, we were well received in L.A. yesterday. It's not over yet. But it is six thirty, gentlemen. Time to get started.”

The San Diego area held a lot of memories for Craig. The Price Club had begun here, and a very young Craig Winn had helped make that happen. His first IPO had started here as well. And now on this bright Tuesday morning, they were to kick off the day with a seven o'clock visit to a firm who had been heavily invested in Dynasty. The offices of Wall Street Associates were just a five-minute stroll from their hotel in this deceptively quiet seaside village.

After listening to the pitch, the response was, “Very impressive, gentlemen, but I have a question. Why are you trying to raise money in this market? You couldn't have picked a worse time.”

Craig answered, “We have no choice. Nobody can afford to advertise their way into the national consciousness. Web firms are saturating the media. Public companies are soaking up all the free ink.

“That said,” Craig continued, “we do have to advertise, and heavily, at least in the beginning, to make people aware of our brand and what makes us special. That takes money, the kind of money you can't come by any other way. The infrastructure enhancements we'll need to manage our growth aren't cheap either. The bottom line—we have to go public to be competitive.”

The investor rubbed his chin. “Okay, so that leads me to my second question. What price are you willing to accept?”

That was out of bounds. He shouldn't have asked, and Craig wasn't about to answer. Pricing and projections remained the purview of the investment bankers, not the investor or the investee.

The IPO had been structured to sell five million of the company's thirty million shares at \$14-\$16 per share. We had split three to one, just as Craig had predicted. With our new shares, our filing valuation was \$450 million, half again as high as the Series B round we had closed just two months before at a \$300 million valuation. It was, to the dollar, the valuation Craig had predicted in his “For Your Eyes Only” letter to Paul Allen. So any way you looked at it, the next question was like a bucket of cold water in the face.

“Would you accept \$7 a share? In this market, that may be the most you'll be able to get.”

Seven dollars would put us below our last private valuation. That would be a very bad thing. A lot of covenants would be violated. The lawyers would have a field day.

“You know I can’t answer that,” Craig said. “We’ve just started our road show, and markets go up as well as down. Granted, conditions are horrible. We’re realists. We’ll do the right thing. But I must say, I’m glad you’re interested in buying our stock.” Craig always found a reason to smile.

The next stop was in Rancho Santa Fe, another suburb of San Diego. The investor had been with a prestigious New York firm but now ran his own fund out of a room above his garage. Glenn met our boys in shorts and sandals. His workspace was strewn with baseball memorabilia. It was haunted by the ghosts of summers long past. Manhattan this was not.

Craig knew enough not to let this relaxed atmosphere cloud his judgment. Glenn had been around for years and was highly respected. He had, in fact, bought a big stake in Dynasty’s initial public offering. It was certain they would spend some time reminiscing.

Craig braced himself with Rex’s admonition, “Don’t apologize. You stood tall while the world was crashing around you. Without having learned those hard lessons, you could not have built this company. You learned about brand abuse, about distribution, about the real cost of owning inventory. You learned not to borrow money from banks to build a new company. It taught you not to concentrate too much business with anyone. You might say Price Club taught you what to do, and Dynasty taught you what not to do.”

Glenn may have learned to hate neckties, but he had earned respect. So Craig delivered his pitch as if he were addressing the world’s biggest institutional investor: “Value America is an e-commerce marketplace for business and consumer products—an Internet store for over eight hundred leading brands. We have built exclusive technology to produce multimedia product demonstrations, integrate a call center, and deliver the convenience of a comprehensive store in an inventory-less model. We have built an engaging front end for the consumer and linked it to our own back-end transactional solution.

“Value America uses the Internet to bring the best products and people together. As a result, our average checkout is nearly fifteen hundred dollars. This is ten times greater than our nearest competitor, and a hundred times that of our largest competitor. We have motivated national brands to pay us ten million dollars to present their products in an environment where most thought we would have to compete strictly on price. Manufacturing giants like GE and Amana have agreed to be our warehouse, shipping our customers directly, one at a time.

“We have created an authoring system to efficiently produce interactive product presentations that blend visual imagery, audio, and video. They empower consumers with the information they need to make better buying decisions. Our demonstrations are equally powerful on the supply side because they represent the first chance brands have had to correctly present their products directly to consumers. As a result, hundreds of brands have chosen Value America as their only online partner.

“We cast a broader net by using traditional advertising to drive revenues and brand share. We enjoy the benefits of co-op advertising, where the brands pay us to sell their products.

“Twenty years ago, while working with the original Price Club team, we launched the last retail revolution—the last time buying behavior and selling strategy were fundamentally changed. It is important to appreciate the things that drove Price Club because we have integrated these into our solution. They had a commitment to quality. Like before, our job is to encourage the best brands to sell through our new channel. Price Club was efficient, which was why they could sell the best for less. Value America uses an even more efficient version of the same strategy. Ultimately at less than five percent overhead as a percentage of revenue, we will sell the best products at lower prices and still profit. Price Club chose to lead with business products, recognizing that business people are early adopters. So have we.

“We believe the Internet is where the next retail revolution will occur. Value America was created to lead this revolution by providing online shoppers with the seven things they want most:

“First, quality products from trusted brands like Panasonic and Weber, PCs from IBM, HP, and Compaq. We are the only online store factory-authorized to sell consumer and business PCs from the big three.

“Second, value. We’re more efficient, so we can sell the best for less. Third, information. We produce multimedia product demonstrations so consumers can make better buying decisions. Fourth is convenience. Consumers want a store that’s always open, a store that instantly arranges itself for the way they want to shop, a store so big most everything they need for home or business can be found in one convenient place.

“Fifth, consumers want service. That’s why we’ve built a store that greets them by name, thanks them for their last purchase, and takes them directly to customer service, should they have a problem. Sixth, consumers want selection. Someday we’ll serve thousands of brands and feature millions of products. And seventh, trust is essential, particularly online. This is why we give members instant access to the information they need, their receipts, warranties, and customer service.”

All of this was supported by PowerPoint slides. After demonstrating the store, they told Glenn, “Our customer solution is only half the equation. Value America is about constructing productive partnerships with leading brands.

“We have built an electronic link between consumers and factories. Ultimately, what we do costs less and works better. Manufacturers get to keep a higher percentage of the ultimate sale, and the consumer gets a better deal. This is a whole new way of doing business—a comprehensive solution designed to capitalize on the Internet’s power to drive revenues up and costs down.”

Glenn listened attentively, leaning forward in his chair. Maybe these guys had learned something from Dynasty. Nobody else, it seemed, had even pondered these problems, much less crafted a solution to solve them.

“Today, we present and sell products in a dozen categories, from office products and computers to jewelry, from housewares and home improvement to electronics, from sports and fitness to health and beauty. Soon we’ll be adding books, music, pharmaceuticals, and apparel.

“Now, you may be wondering why we did this the hard way, why Value America is comprehensive, not just another niche player. We don’t think consumers will learn to navigate and purchase products from hundreds of sites. Nor will they share personal and financial information on a wide scale. We believe they will gravitate to the handful of comprehensive sites that provide everything they need. Amazon, whom we respect, has recognized this reality. We are an ‘Amazon’ with brand relationships, an ‘Amazon’ without the burden of inventory, an ‘Amazon’ with informative product presentations, and an ‘Amazon’ with a model that supports product sales in a dozen industries, not just one.”

So much for Dandridge’s admonition to drop the Amazon comparisons. Dale wasn’t here—he never made a single road show appearance.

“What works in consumer products applies to business products as well. We have brought two hundred fifty office products, business technology, and peripheral brands together for the first time. Our direct business partnerships include PC manufacturers, peripherals, and office supplies. In the office products world, we see ourselves as a Dell with two hundred and fifty brands, not just one.”

Craig went on to discuss our technological achievements, particularly our proprietary authoring and administration tools, the order pipeline and audit capabilities, and our EDI-driven back end. He highlighted our in-house advertising capability, our brand relationships, and growth.

Rex talked about our people and their areas of responsibility. Dale had wanted all references to our team taken out of the presentation, but Craig knew better. We were the reason they were here. So our people were brought along through a series of clever themed photographs. Each employee/owner was pictured with his or her team wearing Value America golf shirts, color coordinated by department.

After presenting our people, Rex handed the baton to Dean, who explained our financial model. A few minutes later, Craig resumed explaining how we expected to grow. He spoke of expanded relationships with existing brands; new brands in existing categories; expansion into new product categories; custom stores for businesses, unions, faith groups, and the like; and even Value America credit cards.

“We think we’re in the right place at the right time with the right solution,” he said. “Our business model is strong, and so is our team. We have the best brand partners. Our solution is scalable, proprietary, and has mass appeal. We are building market share and have tremendous momentum. Value America is all about bringing people and products together. This is why Tim Forbes called Value America ‘the best business model,’ and why Andy Grove said that to compete, others will have to copy Value America. Paul Allen believes we have created what he and Bill Gates envisioned years ago, and that we have the potential to become the Microsoft of E-Commerce.”

Glenn was impressed, or at least said he was. But the schedule was tight, and there was no time to chat. Thirty minutes after they had rung his doorbell, team Value America was gone and headed back to downtown San Diego for their third and fourth meetings of the day, with Duncan Hurst Capital and Nicholas Applegate. They flew back to Los Angeles for afternoon meetings before departing for San Francisco.

As the road show progressed, a pattern began to emerge. Almost no one had taken the time to read the red herring. Few had visited the store. More often than not, the

presentation wasn't finished before the Q&A impatiently began. The team fielded each question like tennis players returning a serve.

There are no words to adequately describe the trauma of these thirty-minute encounters. In this short time, our team had to earn the investors' trust and respect, describe our industry, explain what we did, and share how and why we did it. The questions were often designed to skewer presenters. This was the world's most jaded audience; they had seen and heard it all. Most every day, a team of aspiring entrepreneurial gladiators charged into their arena and attempted to pry millions from their tightly clinched fists. Like Roman gladiators, few survived a failed encounter.

The third meeting on day three was a bit of a surprise. For everyone. Jake Gambini of Gambini Associates had apparently forgotten about it. He arrived late. Moments into the meeting, as Craig gave Sol Price credit for Value America's attitudes and strategies, Gambini's eyes lit up.

"Sol Price!" he said. "I was the largest investor in Price Club. Still own most of my stock. I was the first to invest in Home Depot, too."

"Then you must know that Sol and Bernie are good friends."

"Yes indeed, as am I with them."

"I know Sol better than Bernie," Craig shared. "I admire them both, the way they use their corporate philosophy to motivate. Working with either of them is like being on a crusade. They ooze charisma."

"They're great," Jake agreed.

"So you speak retail."

"Like a native."

Craig grinned. "Listen, Jake," he said. "Let's put the presentation aside for the moment and just talk. I haven't been able to do that."

"I'm not surprised. You know, in addition to Bernie and Sol, it wasn't that long ago Jeff Bezos of Amazon sat at this very table. I was one of the largest investors in his IPO." Craig was now conflicted, but knowledge in common can be like glue, bonding men together. Rex and Dean became bemused spectators as Craig and Jake shared their experiences. Craig wanted to regale Jake with horror stories of ignorance on the part of financiers as they tried desperately to distance e-tail from retail, but he knew better. There was a dichotomy brewing. Jake, he learned, was the godfather of Dale Dandridge's newborn son. Dale served on his board. Jake had just shared how heavily he was invested in the portal-inspired Amazon model. He had made a fortune buying Amazon stock.

They had known each other less than twenty minutes, and yet Craig found himself asking Gambini if he would consider a seat on our board. It would have been a coup to partner with an investment maven who understood retail. As they parted, Jake promised to visit us in Virginia.

As the elevator doors closed, Rex was the first to speak. "Listening to the two of you talk about Home Depot and Price Club was mind boggling. Who would have thought?..."

"That's just it, Rex; nobody thought, not even Jake. That's why I kept the discussion focused on Price Club, not Value America."

"Say what?" Dean questioned. "I thought you were bonding. Now you say no one's thinking? You just asked that guy to serve on our board."

The elevator door reopened, and the three Valuable Americans headed down a flight of stairs and on to their waiting limousine. "Don't get me wrong. I'm as pleased with our

meeting as you guys are. He's going to buy our stock. It's what he said about Amazon that has me worried. We may be rowing up a waterfall."

"Maybe you could translate that," Rex requested as Dean unfolded his itinerary and told the driver where to go next.

"Alright guys. Bezos was an investment banker, not a retailer. He needed comps during his IPO, just like we do today."

"Yeah, like we need them to stop falling so we can get our IPO done," Dean interjected, putting away his itinerary.

"At least we have comps. Bezos had none. So he and his investment banking pals used portals, with their media metrics. Thus began the popularity contest—page views, stickiness, and customer acquisition. All rubbish, but nobody cares."

"So what does that have to do with your buddy, Jake?" Rex questioned, riding backward in the limousine.

"The problem is so pervasive that even a guy like Jake, who should know better, doesn't. He's in denial, because the delusion is in his interest." Craig painted a troubling picture for his compatriots. "You see, despite this recent hiccup, Amazon stock has soared. So in the minds of investors and the media, it must be a good company—doing things right. They've defined 'right' using popularity metrics and justified it being right with the fact that Amazon's stock has increased in value. It's circular reasoning, logical suicide. Amazon is popular, Amazon was the first e-tailer, Amazon is growing, and their stock price has climbed. Therefore, it stands to reason they must be a winner. If they say owning inventory is right, it must be. Everyone's invested in Amazon, one way or another. Investors, analysts, and the media have become cheerleaders. No one wants their bubble popped."

"So why consider giving Jake a board seat?" Rex probed.

"Because if we can awaken him, we have a chance. He's one of them. He's in the epicenter, Dandridge's pal. He'd be the perfect messenger."

It was all downhill from there. In Minneapolis, they had apparently never heard of the Internet. Or good manners. Craig and company found the people at American Express Financial so rude, they cut the meeting short and folded up their laptop.

In Chicago they were nice, at least. But in the early fall of '98, they were light-years behind, it seemed. The meetings were pleasantly unproductive.

On to Baltimore. The venerable T. Rowe Price had arranged to have their senior investment manager, Ron Dunler, meet with the Value America team. Another Dynasty alumnus, Dunler naturally wanted to hear Rex's and Craig's take on what had happened. He could hardly wait for Art Costello, Robbie Stephens' banking representative, to complete the introductions and recount the analyst's financial projections. As the team delivered the pitch, Ron remarked with a wry smile that the boys had learned their lessons well, even though they had been at his expense.

Dale Dandridge caught up with our team as they were heading out of Baltimore. Not in person, mind you—on the telephone. Costello's cell phone rang as the four raced toward the airport and their flight to Philadelphia. Meetings with Turner, PNC Equity,

and Delaware were less than an hour away. Even though he had been scheduled to accompany the troupe on some of the road show stops, the analyst had remained in San Francisco the whole time, trying to hold his clientele together. The market was in a state of siege. Amazon (who had to do well because the investment bankers had staked their reputations on it) was looking about as perky as a hound dog's ears. Dale's heart, it seemed, wasn't in our IPO.

"I think we should pull the plug," he said. "eBay's deal isn't happening either. Even though Goldman's still bullish, our G2 says otherwise. Most everyone is interested in you, but at what price is the question."

Bentley Hollis jumped in, "At this point, we'd expect the book to be a little weak. It doesn't start to build until after Boston and New York. You haven't been to either place yet. But our indications of interest are softer than we'd like. This is a buyers' market, and our investors want a deal. You might have to accept a price below your filing range."

"Alright. We'll accept whatever it takes to get it done. But we want to continue," Craig said with unmistakable resolve.

Listening to Craig's end of the conversation and seeing the look on his face left little doubt in the minds of Rex and Dean as to what the phone call was about. Dean's panicky whisper, "No, no, no!" and his frantic palms-out gesturing reminded Craig, as if he needed reminding, that we needed the working capital.

"Mitch, Dale, please," Craig pleaded. "Just get us the best price you can. We need to complete the IPO. How much demand do you have?"

"We've got enough to get the deal done, maybe, but like I said, at what price? You're going to take a haircut," Bentley answered. It was a rather odd prediction, considering his earlier revelation regarding the dominance of New York and Boston firms.

Craig swallowed hard. "Just don't pull the plug. We'd rather raise less money and come back in six months with a secondary than walk away empty handed." The thought of a failed IPO was horrifying.

The team went on to finish their meetings in Philly. But a giant cloud now loomed over their heads.

ONE day of R&R was all they were going to get. Craig, Rex, and Dean were scheduled to fly the Concorde to Europe, first to London on Sunday morning, then on to Frankfurt. When they returned to the States, the crucible awaited, the heart of any IPO: Boston and New York.

The Winns had moved into their beautiful new home just west of Charlottesville months before. Craig was now thankful that it was big enough for a man to get lost in. Saturday afternoon arrived too soon. As the hour of departure approached, he went to the basement and made like a mushroom. An hour of veg time. Whatever he could get.

Somewhere in the distance, he could hear a phone ringing. Three rings, then it stopped. A minute later, he could hear Katharine calling from the top of the stairs, "Craig, are you down there?" She sounded far away. Maybe it was he who was far away. He couldn't tell. He walked across the large open game rooms that comprised his basement, and picked up the phone. The voices were familiar, yet somehow strange. "Craig, it's

Dale Dandridge, Bentley Hollis, Gordon Conover, and Miles Julian. We're glad we caught you before you left for the airport."

Craig made a game of predicting the outcome of phone conversations in the first few seconds by the tone of the caller's voice, their choice of words. The words, "caught you before you left," were not encouraging. It appeared that the dragons might win this round. Up to this point, the score had been Winn and Scatena-10, Dragons-0. There had been a few ties, not that it mattered now. In the world of entrepreneurial conflict, you only get to lose once.

"Look, we won't beat around the bush," Gordon said. "We've got some bad news. We're pulling your IPO."

Craig was not surprised, just numb. It felt like he was dreaming. Any minute now he would wake up and...

"There's a reason we're doing it now," Dale claimed. "If you go on to Boston and New York and we pull it then, you're dead; your credibility's shot—you'll never go public."

Craig was certain that given the opportunity to present our firm and its mission to the financial elite in New York and Boston, we would have prevailed. But logic and reason no longer carried any weight. We were being sacrificed on the altar of expediency.

"It's not your fault," Bentley added. "This is the worst market any of us can remember. It went from bad to worse. Everyone you met was impressed, but the strength of their commitment is a product of the market. I can't guarantee we can get it done, even at ten dollars a share."

Earlier in the day, Mark McNay had called Craig. He'd predicted Robbie Stevens' about face and asked Craig to let his firm finish the IPO as lead. It was noble, yet improbable. Such a maneuver had never been done, even in a good market.

It was Miles' turn. "Conditions haven't been this bad in half a century. By all accounts, you were doing fine out there."

Craig responded somberly, "I assume this is no longer up for debate. Our desire to continue no longer matters? Your decision is final?"

"Yes," they said collectively.

"Then I want three things. First, write a letter that says what you just told me: This was not our fault, we were well received, and you wouldn't hesitate to take us out again when the market improves. We'll need this letter for the media, our investors, and employees."

"It's all true. I'll write it," Miles said.

"Second, I believe Stan Garmin, the office products guy that brought us together, is managing private equity for you now. We need you to raise ten to fifteen million in private capital post haste. You got us into this mess. The least you can do is get us out."

"I'll take the lead on that one," Gordon answered. "I'll put a call into Stan this afternoon. He'll call you first thing Monday."

"Third, I want to be back on the road and finish the IPO just as soon as the market recovers—whether that's two weeks or two months."

It was Dale's turn. "I can't make any promises, but I think we can have you back out there just as soon as you have your Q3 numbers reviewed. We can reprint Reds and use the updated numbers as a justification for returning. Your numbers are going to be good, aren't they?"

“Your model has us growing from five million in Q2 to ten in Q3, right?” Craig already knew the answer.

“I think that’s right,” Dale responded, a little unsure of himself. “It’s a huge jump quarter to quarter, even for an Internet company.”

“We’re going to do fifteen million dollars. Triple Q2.”

“Impressive,” “Strong,” “Incredible,” and “Great,” were the reactions.

“Alright, gentlemen, that’s the plan. Get it done,” Craig said resolutely. Then he heard himself thanking Dandridge and the team for the call. Even condemned royalty tipped the executioner, did they not?

Craig called Rex and Dean and told them the bad news. First thing the following morning, they’d assess the damage.

Craig suspected it was a death sentence. How long would we last without an influx of capital? In keeping with our need to exceed expectations, we had been burning through our technology and advertising budgets at a prodigious pace. We couldn’t keep that up for long, and we hadn’t reached “critical mass” yet, not by a long shot. When we ran out of advertising funds, people would simply forget about us, and our revenues would evaporate. There would be no second chance.

Sunday morning’s brilliant fall sun did little to brighten the mood. Dean, Rex, and Craig met at the Yellow House. They gathered around the antique table. “I didn’t want to say anything yesterday because I wasn’t sure, and there wasn’t anything we could do about it anyway,” Dean began. “But I’ve talked with Caise. I have some bad news, and some really bad news.”

Craig shared a glance with Rex.

“As of this morning,” Dean announced, “we have less than four million dollars in cash available to us. We’ve got ten million in the bank, but the rest is tied up supporting our merchant account and lines of credit. In other words, we won’t be able to meet payroll and keep advertising.”

Craig took a deep breath. “We’re going to have to go out and raise some private capital between now and the time the market recovers. It’s gonna be hard, but not impossible.”

“Not hard. Not impossible,” Dean said. “Illegal. That’s the really bad news. The SEC says you can’t raise private equity for six months after you’ve filed a registration statement. I’m sorry, Craig. Unless we can figure out a way to raise money without giving people shares, we’re dead.”

“Do you know the names of any good loan sharks?” Rex asked.

“They call them ‘swing loans,’ but the rates and terms would make a mobster blush,” Dean answered.

Saddened, Craig volunteered, “I’ll call the board, give ’em a heads up.”

“I’d like to be there and listen in on your call to Durn,” Rex joked bitterly. “That ought to be fun.”

“Bet you a buck Rafe’s supportive,” Craig shot back. “Despite his colorful ways, Durn has always been there when we needed him.”

“Hey, if you’ve got a buck to spare, give it to me. We’re going to need it to make payroll,” Dean lamented, leaving Craig and Rex sitting alone in stunned silence.

Rex broke the spell. “It’s over, isn’t it?” He wasn’t asking. Slowly, he placed both palms on the old table, pushed back his chair, and stood.

“Looks that way, pal,” Craig agreed as he rose to his feet. “We gave it our best shot. I’m sorry I dragged you into this. I...I really thought we were going to make a go of it.”

Rex had been staring vaguely at the floor, but he suddenly lifted his head and looked Craig in the eyes. “I have only one thing to say.” He didn’t say anything for a moment. Then, looking back down, he murmured, “Thank you.” Forcing himself to establish eye contact, Rex displayed the depth of character that had endeared him to Craig so long ago. “It may be over, but I don’t regret a minute of it. This has been the greatest time of my life. I’m proud to have been a part of it.” He couldn’t take the eye contact any longer but instead gave Craig a manly hug. “You know what? Given the chance, I’d do it all again.”

Rex started to leave but turned around before reaching the door. “You remember watching cartoons when you were a kid?”

“Sure,” Craig smiled.

“Ol’ Wile E. Coyote got hammered every time he tried to catch the Roadrunner, didn’t he?”

“Yeah, he sure did.”

“Well think about this. No matter how deep he cratered into the canyon floor, he was always back the next Saturday morning.”