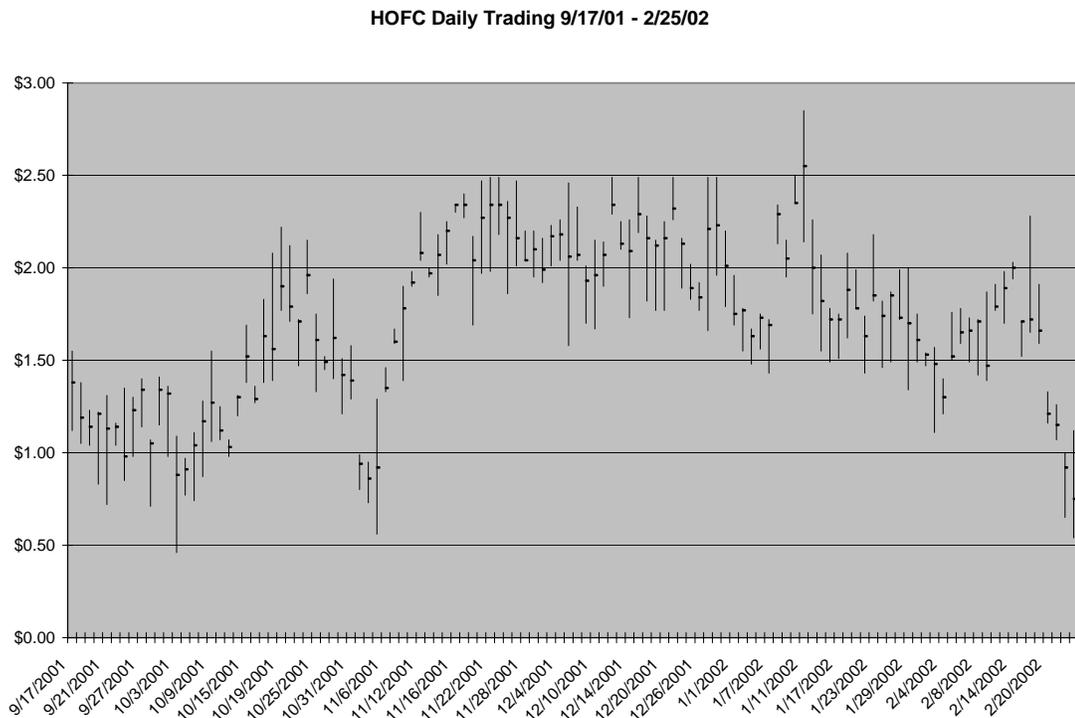
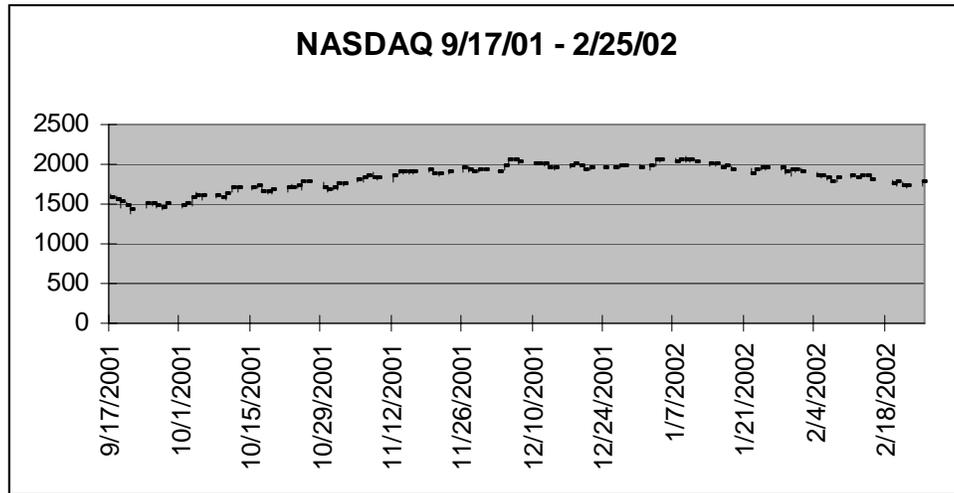


### Chapter 12 - In Play, February 26 - May 28, 2002



###

After interviewing several banking firms, hackoff.com engages Barcourt & Brotherson both to give them an opinion on a fair value for the company and to “help them explore strategic options”. Although Larry insists that strategic options include the possibility of hackoff acquiring a company that would bolster its competitive position, none of the banking firms they talk to encourage this. They point out that hackoff stock is not worth much and that it needs what cash it has. Larry insists that the press release announcing the retention of Barcourt include this possibility and so it does.

Rachel Roth, the banker who led the team accompanying Larry and Donna on the roadshow for hackoff’s secondary offering, has been promoted once more and is the senior banker leading the team that will help hackoff manage the strategic alternatives process. She and a junior colleague, Grant Maxim, come to hackoff for a kickoff meeting with Larry and Donna. At the last minute, Larry decides to invite Dom Montain to the meeting as well.

Rachel is more full-figured, is dressed more expensively, and wears higher heels than during the secondary. She has a more commanding presence and speaks with more confidence. “We find it helpful first to put together a list of everyone — no matter how far-fetched — who might buy the company. Now that word is out that hackoff is in play, some offers will probably come in over the transom....”

“Yeah,” says Larry. “Actually, we heard from a couple of companies including Microsoft.”

“That’s good,” says Rachel. “That shows there is interest out there...”

“I told them they’re overpriced; we don’t want to buy them,” Larry adds.

There is silence until everyone realizes that this is a joke.

“I’m glad you’ve got a positive attitude, Larry; that’s important,” says Rachel. “Anyway, we don’t want to rely on just what comes in over the transom. Though you’d think everyone who should be interested would know about the opportunity and come out of the woodwork on their own, our experience—”

“Rachel, how many of these ‘strategic alternative’ exercises have you done?” asks Donna.

“Well, Donna, as you know, Barcourt has done more M&A work in the last year than any other bank except, of course—”

“I know what Barcourt has done,” Donna interrupts. “Remember, you gave us the nice pitch book with the slide full of logos of the firms that Barcourt has helped with M&A. My question is about you, personally. How much experience do you have in this?”

“I have been on the team for several major transactions,” says Rachel. “When I was interning, I...”

“When you were interning you were very green,” says Donna. “That was even before B-School. Have you had any real experience with M&A? I know Harvey Maklin has. I’m surprised he’s not here for this meeting. Frankly, I really thought that was who we were engaging.”

“Harvey will stay on top of this,” says Rachel. “He’s the VP responsible for hackoff as he’s always been. Obviously, he has much more experience with M&A than I do and hackoff will get the benefit of that experience. I have the

day-to-day lead of the team, reporting to Harvey, of course. This is my most important transaction. I can and will do a good job for you on it, Donna; you have my word on that.”

The two women lock eyes.

“Look,” says Larry, “if you guys are through let’s get going. I don’t have a lot of time. Rachel’s done well for us before. She learns fast. She admits what she doesn’t know. I’m sure she’ll ask for and get help when she needs it. Right, Rachel?”

“Right, Larry.”

“And if that asshole, Harvey, doesn’t come through with the support you need, Rachel, then you’ll tell me that. Right?”

“You have my word on that,” says Rachel.

“Good. Now you were talking about a list.”

“Yes ... just sort of free thinking, no constraints, who do you guys think ought to be on the list?”

Junior banker Grant goes to the whiteboard prepared to write.

“Jesus Christ,” says Donna. “We pay millions of dollars so you can pick our brains and write down the answers? Don’t you have any ideas of your own? That’s what we’re paying you for.”

“We do have some ideas, Donna,” says Rachel, staying calm and pleasant. “I thought it would be more respectful to get your ideas first. I mean you ARE the experts in your business; we’re just bankers. But we can start with our list if you’d like.”

“So,” says Larry, “We have Microsoft, obviously. That means automatically there’s Oracle. Sun should be interested. If they could build real anti-hacker capability into their servers they might get some of the dot.com business back they’ve been losing.”

“Following up on that chain of thought, what about some of the Linux companies?” asks Rachel.

“Not likely,” says Dom, speaking for the first time since introductions. “They’re into open source. Open source security software doesn’t make a hell of a lot of sense.”

“Why’s that?” asks Rachel.

“Pretty dumb question,” observes Donna.

“Because then hackers could read the code,” explains Dom. “Then they’d know how to hack around what we’ve done. It is incredibly important that we keep our source code private.”

“I’ve got it,” says Rachel. “Thanks for the explanation, Dom.” She smiles at him and he smiles back involuntarily.

Donna grimaces.

They decide that Intel is not a prospective acquirer, too intent on staying out of the box and software layers. Cisco is a long-shot but worth talking to; Dom says the software could go on routers; in fact, that would be a good place for it. He warms to this idea as they discuss it.

Akamai is a possibility. They’re currently in the caching rather than the security business, but they do sell their technology on a service basis to

e-commerce companies. Dom says that, when Daniel Lewin was alive and CTO of Akamai, he always considered him one of the people that might develop competitive capability. They decide Akamai should definitely be on the list.

Global Crossing and Level(3) might be potential acquirers if they wanted to imbed the technology in their networks. They cross off Global Crossing because of its financial problems but leave Level(3), which has recently benefited from an investment by Warren Buffet that increased its stock price. From here, they decide that any telecom giant including the European and Asian carriers which has an extensive IP network could possibly imbed hackoff technology in its network and might want to buy hackoff for that reason.

Larry's spirits visibly lift with each addition to the list. "If we have to sell," he says, "looks like we should be able to get a good price."

Donna, on the other hand, is doggedly glum.

"What's the matter, Donna?" Larry asks her.

"I think you're smoking dope," she says. "We're not going to be bought by AT&T or British Telecom or Telecom Italia. Just isn't going to happen."

"Why not?" demands Larry. "They could distinguish their networks; get out of having a commodity business if they put some of these smarts in."

"Look," says Donna, "if they need this technology so bad why haven't we sold it to them up-to-now?"

"We've tried. We've called on most of them at one time or another. There's been some interest."

"Why haven't we sold anything to them?" Donna demands.

"Frank says it's because of corporate gridlock — they can never make a decision on anything big. They're interested; we can always find some biz dev guy that's interested. But we don't get any further and the guy we're dealing with can't make a decision. So, after a while, we don't waste time on them any more."

"So why's this going to be any different?" asks Donna. "Now we want to sell them not just a technology license but a whole company, and you think they're gonna move faster? You think the biz dev guy whose phone number Frank knows is gonna write us a big check and buy the whole company?"

"Now," says Larry, "we have Barcourt & Brotherson working for us. Right, Rachel? Now Harvey Maklin or even someone more influential, if such a thing is possible, picks up the phone and calls the CEO or whoever at one of these big telcos and says 'boy, have I got a deal for you. This is something you gotta look at it. Gonna be your whole future.' And the deal gets done. Isn't that right, Rachel?"

"We'll try," says Rachel. "We'll definitely try. We do have some good relationships in telco."

"I'm not holding my breath," says Donna.

"I don't think telcos are a good idea, Lar," says Dom.

"Why? You try to sell anything to them lately? What do you know about telcos?"

"It's technically a bad idea, Lar. Our capability doesn't belong INSIDE the network; it belongs out at the edge. That's where all the innovation is."

“What are you talking about?”

“The Internet works because it’s a ‘stupid’ network,” Dom explains. “All the telcos were working on their intelligent networks and along comes this stupid network, doesn’t know how to do anything except move packets around, doesn’t even know what’s in the packets, and all of a sudden the ‘intelligent’ networks that have all sorts of stuff built into them are crap. No one wants to use them for anything. No one’s developing anything for them. We didn’t; we developed for the Internet, right? Not AT&T’s intelligent network.”

“There’s a guy named David Isenberg, used to work at Bell Labs. He figured all this out and wrote a paper on the stupid network. How the intelligent networks can only support the stuff that they were designed for and are also closed and proprietary systems — hard to work with. But on the stupid network, all the smarts are out at the edge. New applications no one ever thought of can be developed because there are no ‘smarts’ to get in the way. Innovation happens. Isenberg got fired from AT&T because of the paper. But he’s right. Everybody knows he’s right, except maybe some of the Bell-heads left at the big phone companies.”

“Very good point, Dom,” says Donna. “I’m impressed. So now we know that not only are the big telcos too slow to do business with but also they’d be dumb to put our stuff in our networks. I say they’re a waste of time. We should take ‘em off the list.”

Grant stands questioningly with his eraser at the whiteboard, poised to strike the carriers from the list.

“Dom make a good point,” says Rachel. “I hadn’t heard all that before, but it’s very persuasive.” She smiles at him again and again he is forced to smile back.

“Leave them there,” says Larry. “We’re gonna try the telcos. Got nothing to lose. Even if Dom and this Isen guy are right, the telcos are too stupid to know. They gotta want something to distinguish their networks. How else are they gonna stay in business?”

“Maybe they’re not going to stay in business,” says Donna. “Maybe they’re going to go belly up because their networks are smart and their people are stupid. We do have something to lose: time. We’ve still got a company to run, Lar. Maybe we sell it; that’s going to take time. Meanwhile we’ve got to run it, and run it like we’re not going to sell it because maybe we’re not — and that also takes time. So I don’t want to waste a lot of time with dumb-ass telcos. That’s my take.”

“Donna, you’re right about the time,” says Larry, placatingly. “This isn’t gonna be a time-sink for us. Our friend Rachel here is going to check out the telco scene; she’s gonna get important bankers from Barcourt to call big shots at telcos, call them at the private numbers in their private jets; tell them they gotta do this. Pay us a lot of money. If it doesn’t work, we’ll be disappointed but that’s all. We don’t spend our time on it. Right, Rachel?”

“I’ll try Larry,” says Rachel. “Barcourt’ll try. But no promises on that. Can we talk about the data room?”

“Sure,” says Larry, “tell us about the data room.”

Rachel explains that preliminary meetings with prospects will be under non-disclosure and only after they sign a stand-still agreeing not to attempt a hostile takeover of hackoff.

“It’s important for hackoff to have this stand-still since the data you’re providing might be used as ammunition against you in a hostile takeover attempt. Most potential acquirers will agree to this because they don’t like to do hostile takeovers anyway, and this is a reasonable provision. If a good prospect won’t agree, well ... we’ll cross that bridge when we come to it. antihack might not agree to such a provision. That doesn’t mean you might not accept a reasonable bid from antihack, just means that you won’t give antihack any confidential information that could be used against you. The choice is up to them.”

She goes on to explain that, after the preliminary meetings, prospects will be asked for a nonbinding expression of interest including a proposed price. The bankers and hackoff management and the hackoff Board, if it cares to be involved, will select the top bidders and invite them to visit the data room. It may seem backward, Rachel explains, to ask them for their preliminary bids before they see the data that could help them decide how valuable hackoff is, but generally this data is too sensitive to expose to tire-kickers and she assumes this is the case here as well.

Dom wants to know how much about their technology goes in the data room. He has no problem with granted patents, he says, because they’re public anyway. But much of hackoff technology is highly proprietary. He would be very concerned if certain tech-savvy prospects saw it.

Rachel tells him this is often a problem in transactions involving technology companies. Sometimes, for competitive reasons, it’s necessary for the potential acquirers to hire independent experts to give them a valuation without giving them information they shouldn’t have since, if they don’t acquire hackoff, that information could give them a competitive advantage.

“I don’t think you understand how much of a problem this is,” Dom says calmly but forcibly.

“Why don’t you tell me then?” invites Rachel. “I want to learn.”

“Some of our stuff is so secret we don’t even patent it. We are much more worried about hackers finding out how our technology works than we are about competitors. The hackers are smarter, for one thing, and they would stop at nothing to learn how we’re keeping them out. That’s why we have so much security here. That’s why we protect our source code as if it were the crown jewels. We make sure no single employee knows the whole story and we treat ex-employees very well, even if we don’t like them, and still do the equivalent of changing all the locks when they leave.

“As Andy Grove said,” he continues, “paranoia is necessary and we’re paranoid as hell about our technology. How are we going to be able to set up this data room and still make sure our technology is properly protected? Just restricting access to consultants doesn’t do it for me. The next people they consult to may be hackers. I don’t know how Larry and Donna feel but this worries me.”

“Good point, Dom. I hope our bankers have a solution to this.”

“He’s right,” says Larry. “Rachel, what do you think? Do you have any ideas?”

“I’ll take this problem back to Barcourt,” says Rachel. “Thanks to Dom, I understand it very well. Basically, we have to find some way to describe the importance of your technology without compromising it. This could effect the value you get for it. I don’t like to say that but you’ll have to make a tradeoff, I think, between how much you’re willing to reveal and how much value people can attribute to the technology.”

“Not a very good answer,” says Donna. “That’s why we have bankers.”

“I’ll do the best I can,” says Rachel. “I have to be respectful of your constraints as well.”

“We’ll need your help on this,” says Larry. “We can’t compromise the security of how our stuff works.”

They go on to discuss financial information that will be in the data room. Legal stuff that has to be there. Organization charts. Equipment lists. No one will expect lists of unannounced customers, as providing them would run afoul of the Hart-Scott-Rodino Act. The Act says that the company must preserve its ability to remain competitive at least through the time when the Federal Trade Commission declares that a potential merger will not be opposed on the ground that it is anticompetitive and, actually to some degree, until the merger is consummated.

After the meeting, Larry stops Rachel on her way out the door. “Glad you’re working with us on this,” he tells her.

“Thank you, Larry,” she says. “I’m glad to be working with you and, uh, and with Donna again. Dom I didn’t really know before, but he seems very bright. We’ll—”

“I told Louise you were going to be our banker on this,” Larry interrupts. “Remember you met her — you and Ahmed — when we got off the plane after closing the secondary...”

“Of course I remember,” says Rachel. “She seemed very sweet.”

“Yeah... Well she suggested ... she’d like to invite you and Ahmed to dinner. You still seeing him?”

“Yes. Yes, I am. Let’s do that. I’ll have to talk to Ahmed. Actually, he’s always been interested in meeting you but I didn’t want to impose. You want to email me some dates?”

“Right,” says Larry. “I’ll get with Louise and do that. Good. See ya.”

#

“The mussels are what make this restaurant,” says Louise as she, Larry, Rachel, and Ahmed squeeze into a small booth at Café de Bruxelles on Greenwich Avenue. The restaurant is behind a speakeasy door and down a half-flight of steps. Rumor has it that many of the clientele are off-duty cops.

Besides mussels, the restaurant is known for its wide beer selection and its Belgian fries. It is crowded, noisy, and cheerful.

“Uh-oh,” says Rachel.

“What’s the matter?” asks Louise.

“I’m afraid Ahmed is allergic to shellfish.”

“I will be fine,” says Ahmed.

“I’m sure there’s something else on the menu,” says Louise. “We should have asked. I’m so sorry. Would you prefer to go somewhere else? It’s hard to get reservations on Saturday night but I’m sure we could...”

“I will be fine,” repeats Ahmed.

“Are you sure?” asks Louise. “I mean we could certainly...”

“He says he’ll be fine,” says Larry.

“I will be fine,” says Ahmed again.

The conversation pauses for a few minutes. Louise demands that the waiter immediately bring menus and they do find that there are other things that Ahmed can eat.

“Is it just eating mussels that makes you sick or is it too much to be near them?” Louise asks.

“I will be fine,” says Ahmed.

“So,” says Louise, “it is great to finally have an opportunity to get together with you. I meant to arrange something after we met at the airport that strange night but, with one thing and another ... anyway, here we are.”

“This is very nice of you,” says Rachel. “Larry has told me so much about you. He told me about the yellow ribbons at the Plaza. That’s so romantic. I...”

“Really?” says Louise. “Larry must really trust you. He doesn’t usually talk about that time.”

Larry looks uncomfortable. “If you can’t trust your banker, who can you trust? Let’s drink to that.” Drinks have just arrived. Wild Turkey straight up for Larry; a metropolitan for Louise; Chardonnay for Rachel; and iced tea for Ahmed who doesn’t drink alcohol.

“So, Ahmed,” says Larry. “You mentioned at the airport that you have a new job. What is it?”

“I don’t think I said that. I don’t think I said I have a new job,” says Ahmed.

“Something about representing our mutual friend Mahmud Assan. I’m pretty sure you said something about that.”

“You are correct, Larry; I did say that. Actually, that is something that I hope to talk with you about, but perhaps this is not the appropriate time for a business discussion.”

“I can’t tell business from pleasure. Just ask Louise. Never have been able to. And both of these women know plenty about business. What would you like to talk about?”

“It’s fine, Mahmud ... I mean Ahmed,” says Louise. “We want to get to know you and, if you’re anything like Larry, knowing your business is a good way to know you.”

“Thank you,” says Ahmed. He pauses, then leans forward towards Larry. He speaks as if he doesn’t want to be heard at the other tables. “As you know, Larry, our friend Mr. Assan is in the business of procuring work for Palestinians in the occupied territories. He has cooperated in this effort with certain other friends of yours in Israel. He—”

“Is this still going on?” asks Larry. “There’s a war going on there. The *Intifada*, or something, I think..”

“*Intifada*,” says Ahmed.

“Whatever. You don’t mean to tell me that the Israelis are funding the people who are blowing up busses, do you?”

“Despite the increasingly harsh occupation,” says Ahmed, “there are still those of us in Palestine who—”

“You’re not in Palestine. “One, there IS no Palestine; two, this is the US.”

“Ahmed...” Rachel begins with her hand on his sleeve.

“I thought we were going to have a business discussion, not a political one,” says Louise. “Larry, let’s hear what Mahmud ... I mean Ahmed — I’m sorry, I keep doing that — let’s hear what Ahmed has to say about his business.”

Ahmed continues even more quietly: “There are those of us who believe that the *Intifada* is not an effective way to achieve our legitimate aims.”

“Your ‘legitimate’ aims WERE achieved,” says Larry. “Arafat got everything he could’ve possibly hoped for from Barak and Clinton at Camp David. There was a deal and he pulled out. He—”

“Larry,” says Louise, “you’re talking politics again. Let’s hear what Ahmed has to say about BUSINESS.”

“Despite the violence,” Ahmed continues, “there are both Palestinians and Israelis who want to build for a peaceful future. There can be no peace until there is hope for the young men of the occupied territories. There are no jobs in Gaza. There are no jobs in the West Bank. The men cannot support their families. The young men cannot start families if they cannot support them.”

“So what is your business?” asks Larry.

“I represent a group of programmers in Jenin.”

“These are the same people Mahmud was talking about?”

“They are some of the same people. They are very skilled in C++, Visual C, Java, and other tools of modern programming and e-commerce. They also work at a very low price compared to people with equivalent skills in the United States or even India.”

“And you would like us to outsource some of our development to these people?”

“That is correct, Larry Lazard. That is what we would like. This is not charity. Your company will achieve very good value. It will achieve even better value than in India. I am not asking you for charity but only that you give these young men a chance. By giving them a chance, you will also be advancing peace.”

“How would we work with them? I’m obviously not sending anyone to Jenin. Would they be able to meet with us in Israel?”

“I’m afraid that is impossible,” says Ahmed. “They cannot get into Israel. The people in the territories are imprisoned.”

“Are we discussing politics or business?” asks Larry.

“You are correct,” says Ahmed. “The business fact is that they cannot travel freely. They are also not in a place where you would be able to meet with them. Phone service does work, although the phones are tapped by the Israelis. Please, that is a fact, not a political statement. Nevertheless, the Israelis do not object to this — except for those who are most extreme. They will not interfere, except that sometimes, when the phones are tapped, that causes them to fail. There is also email and that will also be read by the Israelis. This is not important.”

“I assume you know,” says Larry, “that I had almost the same discussion with Mahmud. I was very interested. And then Mahmud asked me for a bribe.”

“That cannot be,” says Ahmed. “Perhaps you misunderstood. Sometimes Mr. Assan does not express himself clearly in English.”

“He expressed himself very clearly. He wanted a bribe. How do YOU get paid?”

“This is a business for me, Larry. I believe in what I am doing, but it is a business. I’m sure you understand that. I am the agent for these programmers. I help them procure business here in the United States. I facilitate communication during the process. I help arrange payment. And, when payment is made, I retain a portion as my compensation. That is a very business-like arrangement, I believe.”

“What portion do you ‘retain’?”

“That is a confidential matter between my clients and myself,” says Ahmed. “I hope that does not offend you, Larry; but I must respect their business confidence. I do not ask you the confidential arrangements of your business. I do not ask you how much you are paid...”

“You don’t have to. It’s on the Internet. I run a public company. But how do I know that this is not just a way of paying bribes? How do I know that your clients will ever get paid?”

“Larry, you’re being offensive,” says Louise. “Ahmed...”

“I do not take offense, Louise,” says Ahmed. “I understand that your husband must be a cautious businessman. I understand that there have been misunderstandings in the past. I am not afraid to answer his questions and I am not offended by them. Larry, the cost to hackoff will be much lower than it would be for similar quantities of work of this quality anywhere else in the world. In that low price, there is not room for what you call ‘bribes’. There will barely be sufficient money for the people in Jenin and for my modest fee for representing them. Unfortunately, it is difficult for us to be established in this business and our prices must be very low.”

“That makes some sense,” says Larry. “I understand that if there isn’t much honey, it won’t attract many flies. But — and please don’t take this

personally — how do I know that the programmers will be paid at all if I am turning the money over to you?”

“There are two assurances you will have, Larry. You will be in touch with these people by phone and email. It would be impossible to do a job of any complexity otherwise. If they are not receiving their money, you would certainly hear from them directly. The second assurance you will have is that I would like to go back to a Free Palestine one day. I would be a dead man when I return if I were to — as you say — ‘rip off’ the people there. That is a strong assurance.”

“That is a strong assurance,” Larry echoes. “Okay, if were going to do this — and I’m not saying that we are — how would we get started? How do we know anything about the quality we’ll get? We can’t sue you if you don’t deliver.”

“That will not be a problem. Give us a small job to do. We will not ask for any payment until the job has been completed to your satisfaction, including testing. It is we who will be trusting you.”

“That is attractive. I wish Mahmud had taken this same attitude. Perhaps we could have done something sooner. Let me get back to you.”

The rest of the dinner is social. Rachel is interested in the various charities Louise works with and is on the board of. Louise is interested in how Rachel copes in the male-dominated world of banking. Larry and Ahmed are largely silent, although Larry occasionally corrects something Louise says and Louise makes repeated efforts to draw Ahmed into the conversation.

“I’ll get back to you,” says Larry as they walk upstairs to leave the restaurant. “Do you have a card?”

“Don’t forget the camel,” Louise says to Larry on the ferry back to Atlantic Highlands.

“You didn’t want me to talk politics,” says Larry. “You wanted me to have a nice business discussion with him.”

“Don’t fuck Rachel, either,” says Louise.

###

**From:** Dom Montain [mailto:domm@hackoff.com]  
**Sent:** Saturday, March 2 2:04 AM  
**To:** Larry Lazard; Donna Langhorne; rroth@barcourt.com  
**Subject:** meeting with Microsoft

Met with pete harkin as planned. Short story is that MS is not going to be a good prospect. Petehar is too dumb to know a good thing when he sees it but I don’t think they’d buy anyway.

Longer story:

Went thru the PowerPoint with petehar. He’s a director somewhere in the systems group that has responsibility for ecommerce servers or ecommerce use of NT servers anyway. They’ve

reorganized so much since I left that I'm not sure what this means, but usually director at MS is like VP somewhere else. billg's stingy with titles and I hear steveb is worse.

I knew petehar slightly when I was there. He was programming in the database group; some brain dead thing that never happened. But actually he has a business background. Has been a program manager most of his career there. Don't know what he was before he came to MS.

He's the kind of guy they'd send if they might be interested. There are other guys who go when they know they're interested. They don't worry much about polite, so they don't send anyone if they know they're not interested.

Of course he gave me the usual MS bullshit that it's all going to be in the operating system anyway. Security isn't a separate product - it's got to be built in to work right and they just haven't gotten around to doing that yet but three groups are working on it so its something that's going to get solved. But maybe if we have something that would save them a little time, then maybe it would be of some interest. And maybe if we have some customers that are so dumb they're using Sun Servers or "Linux crap" and maybe having some kind of deal with hackoff is a fast way to get them to switch over to Microsoft servers that they ought to be using anyway, then maybe there would be some value in it. But not a lot of value as he sees it.

I didn't tell him but obviously our customers aren't going to switch to MS servers for their ecomm apps just because MS buys hackoff. The customers have too much invested in their current platforms. IMHO, they want to go Linux if they're going anywhere. But I didn't tell him that. Still I don't think he gave too much weight to customers, just something he mentioned.

So then he wants to know about the technology. And right away we have the problem we were afraid of. He's dumb but he's not that dumb. As I said in our meeting, I'm not really afraid that Microsoft'll steal what we've done. What I'm really afraid of is that petehar goes and works for a hacker or, even if he stays at Microsoft, he writes a lot of email - they live on email, even more than us - all about our technology and some of that gets to a hacker or someone who is going to be a hacker.

I tell him we can't tell him how it works. Would have to shoot him and all that if we did. He asks then how's he know there's anything to buy? I point out to him how many customers we have,

how none of them who follow the directions ever got hit with anything major. That's a big deal. They're all targets. He says same is true with antihack customers.

I tell him what problems the antihack customers have. antihack's slow with new protection for new problems. Their shield for Andromeda 1's so bad that an eleven year old got through. Lucky he didn't know what to do when he got in. Their KittyKat shield was so slow their customers were safe because they couldn't take any orders anyway. Couple of months ago hackers DID get thru to a couple of antihack customers.

He says he knows all about those things but antihack's got them fixed. No big deal. I ask him if he's been talking to antihack since he knows so much about them. He says of course he can't tell me or he'd have to kill me. He wants me to think he has but I don't think so. He didn't pick up any of their buzz-words.

But, still, he says our stuff's the same as theirs so he still doesn't know what it is that would make MS want to buy us. So I have to tell him a little more but not how it's done. I tell him about some of the heuristic stuff but not what we've learned from it. I also go into some of our patents. That did get his attention but he said they have patents too. Did say they would never violate anyone's legitimate patent. I think they got spooked by diskdoubler. But he also said that they wouldn't hesitate to find good prior art to invalidate any patents that were too broad - a lot of those around these days, he said. That was a threat.

He wanted to know how much of our development is for a Microsoft platform, how much for UNIX, Linux etc. I told him about split-even. He drilled down on that so I had to tell him I meant 1/3, 1/3, 1/3. Wasn't counting Linux with Unix. He said Linux is just another flavor of Unix but they have even less interest in buying us then because they think that no one's going to use an open-source platform like Linux for something that has to be secure and Unix is dying.

He WAS interested to know that we assumed hackers are using Macs or Linux machines for their own development. Lots of the attacks, of course, come from NT servers they've hijacked. He wanted to know why the hackers don't use Windows for their own machines so I told him 1) they don't want to get attacked themselves; 2) they don't like Windows. They don't like Microsoft which makes them want to attack Microsoft product more, and they do that because they're out there.

So ends up he says he'll make a report but we shouldn't hold our breath. Maybe if we were folding the company and wanted to sell some technology licenses or patents they'd have some interest but he doesn't see why they'd do a whole company buyout. Don't want to be in the business we're in and - he said it again -- don't see much difference between our technology and antihack.

**From:** Rachel Roth  
**Sent:** Saturday, March 2 10:07 AM  
**To:** Larry Lazard; Donna Langhorne; Dom Montain  
**Subject:** RE: meeting with Microsoft

Thanks for the all the detail, Dom. It'll be helpful to us going forward.

At least they tell us what they think. That may be a problem with others. We'll follow up if you want us to in a week or so just to close the loop and to see if whatever he says in his trip report raised any interest. I'm SURE you did a good job selling our value even given the constraints.

**From:** Donna Langhorne  
**Sent:** Saturday, March 2 12:04 PM  
**To:** Dom Montain; rroth@barcourt.com  
**CC:** Larry Lazard  
**Subject:** RE: meeting with Microsoft

Dom:

Good job and good report.

Rachel:

We knew we'd have this problem in establishing value. Have your "resources" at Barcourt come up with anything to help us yet?

Donna

**From:** Dom Montain [mailto:domm@hackoff.com]  
**Sent:** Thursday, March 7 1:31 AM

**To:** Larry Lazard; Donna Langhorne; rroth@Barcourt.com  
**Subject:** meeting with Oracle

Met with three guys from there. Bizdev guy didn't show. Short story is that they do not see a compelling need for the technology and do not distinguish between us and antihack. Like Microsoft, might buy patents and technology from the scrapheap. Could be interested just to keep us away from Microsoft.

Longer story:

Oracle sent product VP Mark Jopher, director Emile Cauve, and strategy director Francine Lauche. Jopher did most of the talking. Larry and I were there as well as Rachel Roth from Barcourt.

Larry presented the PowerPoint. Emile and Francine listened but didn't ask questions. Jopher slept or pretended to sleep through most of it. He was awake at the end and immediately said that capability like this belongs in the database engine. It's brain dead to have it anywhere else. Oracle hasn't done that yet but, given their leading market position especially in e-commerce, it's a natural for them and they'll get around it sooner rather than later.

I brought up our patents and that we feel they are both broad and enforceable. He said that he was sure the approach they would be able to take in the database engine was so different from what anyone else would have to do that patents couldn't possibly be a problem.

He liked the fact that we are cross-platform and not Microsoft-centric. One possible opening is that, when we gave them the impression that Microsoft is seriously interested, they became much more interested themselves. Maybe we could game this so each of them bids because they think the other one wants us. It wouldn't be the first time they spent money to keep each other out of strategic spaces. Not sure how far we'd get with this.

They didn't ask for the kind of technical detail Microsoft wanted but pushed back when Larry said our technology is unique and much better than anything else out there. Specifically mentioned antihack. In fact, they thought it was antihack which announced a managed service. When we set them straight on that, Jopher turned it around and said that the antihack stuff must be better because it doesn't need active monitoring.

Rachel is going to followup with Francine. I'm supplying them with the public information on the patents. Larry's trying to find a way to play the Microsoft card that isn't in our hand.

**From:** Larry Lazard [mailto:larryl@hackoff.com]  
**Sent:** Thursday, March 7, 2002 2:05 AM  
**To:** Donna Langhorne; rroth@barcourt.com; Dom Montain  
**Subject:** RE: meeting with Oracle

I agree with Dom that the Microsoft card may be our strongest play. However, after thinking this over, it is probably best played by Rachel. She should get back to them sooner than planned to give them a heads-up that they are competing with Microsoft here.

Rachel, you'll know the best way to say this. Maybe you can't tell them directly, which makes it all the more compelling. You're just giving them a hint but can't tell them the whole story. Maybe that makes them imagine more.

In fact, I like this so much that we should try with MS, too. Dom, do you want to call your guy? Or can we think of some way to do this through bankers, too?

###

Rachel calls Larry at nine the next morning. "Larry, three things. One: I think it is a really good idea to play Microsoft and Oracle off against each other. I mean that could really work."

"Good," says Larry. "Have you thought about what you'll tell them?"

"Well, that's thing number two. I'm not sure it's appropriate for me to do this. I'm the banker and our role is sort of as honest broker. I mean..."

"I don't know what you mean," says Larry. "I don't know what the fuck you mean..."

"Larry, there's no need to be abusive."

"Okay, let's discuss this very calmly. Who's paying you?"

"You are ... I mean hackoff is."

"Right. So who are you working for?"

"We work for you. But, like your accountants—"

"Rachel, let me ask you a different question: Did you forward our email to Harvey Maklin?"

"Of course. I told you that you would have the support of the whole Barcourt team."

“And he just told you to call me and tell me that you guys shouldn’t get your hands dirty doing this, right? Before that, you thought it was a good idea, right?”

“Well, he didn’t say anything about getting our hands dirty.”

“So you want me to call Harvey and tell him to cut the crap, or you gonna do it? I don’t want to hurt your career or anything. I think you’ve done a good job for us so far. But we’re entitled to all the negotiating help we can get for the money we’re paying Barcourt and there’s no way I’m gonna let that asshole stop us from getting what we’re entitled to.”

“I can handle Harvey,” says Rachel. “Actually, I agree with you. I’ll handle him.”

“Knew you could do it,” says Larry with an audible smile. “Can’t cut his balls off, though.”

“Not sure I want to know, but why not?”

“Because he doesn’t have any.” Larry laughs, then stops. “What was the third thing?”

“Please don’t put stuff like this in email. Especially, don’t put in email that you’re asking me to lie to the prospects. If it’s not in email, I don’t have to forward it anywhere. If it is in email, we don’t know when it’ll resurface.”

“I guess you’re right,” says Larry. “Not asking you to lie, of course, just to bluff. That’s different. We all know that bankers never lie.”

“I’ll let you know how the calls with Microsoft and Oracle go,” says Rachel.

###

**From:** Donna Langhorne  
**Sent:** Thursday, March 7 10:02 AM  
**To:** Larry Lazard  
**CC:** Dom Montain; rroth@barcourt.com  
**Subject:** RE: meeting with Microsoft

Larry:

I think you and Dom are right. We ought to play the Microsoft-Oracle thing. Rachel should certainly be the one to spin the yarn. I’m still not satisfied, frankly, that we’re getting our money’s worth from Barcourt. This idea should have come from them.

Rachel, this is a real chance to add some value.

Donna

###

Larry's phone rings immediately after he reads this message. "Yes, Rachel," he says, "you talk to our friends already?"

"No, Larry. And this email from Donna doesn't help. She's being very explicit about asking me to lie. She doesn't like me, never has, and it's affecting her business judgment..."

"This is nothing personal, I'm sure."

"It's personal, and I AM sure," says Rachel. "Anyway, now we have a problem. I'm going to have to send an email back since this email exists. I've got to say we don't lie. I can't let this just be out there."

"You still gonna talk to our friends, get them jealous of each other?"

"Yeah. But I've got to be very careful. There are people here who'd love a chance to stick it to me."

"Maybe you just turn them on." Larry sounds amused.

"Come on, Larry, it's not funny. I've got a career to protect."

"Sure. Sure you do. Just write your letter to cover your ass."

"It's not so simple," says Rachel. "If I write to Donna, then she's going to flame back. It'll all get worse."

"Look," says Larry, "you take care of Harvey; I'll take care of Donna. Don't write anything until tomorrow; give me a chance to talk to her, explain that you're gonna do the right thing but you gotta cover your ass. Keep the email from being pissy, that's all I ask. She'll be okay. She's very reasonable."

"I don't think she's very reasonable."

"I'll take care of it," Larry assures her.

Donna does not react well when Larry explains Rachel's dilemma. "Bankers don't lie? Give me a fuckin' break. What does that bitch do for her money? She's so concerned with covering her ass she can't do her job. Larry, I think you ought to tell Harvey we need a banker with some experience on this job. We're not gonna get a deal done. They're not gonna get their big bucks. He'll understand."

"I don't want to ruin her career..." Larry begins.

"You what? Are you fucking her? What does her fucking career mean to us? We got a company to sell and that twat can't do the job and you don't want to ruin her career?"

"Donna, look, I'm not fucking anybody..."

"You and Louise have a problem? That why you're protecting this incompetent—"

"That's not what I meant! Calm down and listen to me for a minute. We don't want a banker that's too experienced."

"Well, we don't have to worry about that. But please tell me why we want an inexperienced twat?"

"Look, Donna, you and I go back a long way..."

"And..."

"And we understand each other. This isn't gonna be an easy deal to get done at a good price. In fact, in this market it probably isn't gonna happen at a good price.—"

"It isn't gonna happen with an incompetent banker," says Donna.

“Do we want the deal to happen? Do we want a lousy deal and we lose our company before we have a chance to recoup? Did you like it when Georgie called you up and didn’t offer you the CFO position?”

“I didn’t give him a chance to offer me the CFO position,” says Donna.

“Whatever. No deal’s gonna get done that we like. Not that I wouldn’t try to get one done if it was good, but there just isn’t gonna be one with the market the way it is. But you know our Board are a bunch of pussies. We have an experienced banker, he’ll sell them on whatever is the best deal he can get, no matter how shitty it is for you and me, how shitty for the company. No deal, they don’t get any commission, right?”

“Right. So you want a banker who can’t even find a bad deal and, even if she did, can’t sell our Board.”

Larry laughs. “I knew there was a reason I hang around with you. It’s because you’re so smart.”

“Okay,” says Donna. “I get that part, actually. But then what? How’re we going to pull this out?”

“We’ll figure that out soon as we get time. Monitored Service’ll kick in at some point. That’ll help. Stocks in the portfolio’ll come back up. We’ll be okay. Not like were before, no one is. But we’ll be okay.”

“Lar, I bought your thinking up to that point. But you’ve got your head in the sand. We can’t just wait. Things aren’t going to get better by themselves. Speaking as your friend, I’ve got to tell you that you don’t have the intensity you once had. Can’t say I blame you, but it’s a fact. And I’m pretty burned out, too. We both thought this’d be a bigger hit by now after the IPO and the stock taking off. Even after the secondary. Frankly, I thought I’d’ve cashed in my chips by now, gone on to be a CEO at some startup. And I bet you thought you’d get a CEO in, back off to just being Chairman, hunt more mushrooms, get into some other kind of trouble — whatever turns you on these days.”

“I don’t quit,” says Larry. “You’re right; I’m sick of a lot of the shit. Don’t want to hear any more whining from HR. Could do without the chat group assholes. Board meetings aren’t a lot of fun anymore. But you know, shit happens. We are where we are; what can we do but keep going? What I don’t want to do is let the company we made go for a shit price because we’re selling at a low. That’s what I really don’t want to do.”

“Lar, you got balls. I’ve always said that about you. Well, actually I didn’t tell anybody but you do. But, I gotta tell you, I don’t think I can keep doing it. I’m burned out. And all this Sarbanes-Oxley shit and all the stuff I gotta do with accountants now that doesn’t do anything but help politicians pretend they did something about Enron. And worrying about getting sued all the time. And listening to that bitch Joanne on the Board calls. Larry, I’ve had it. We get a good price, I’m out in a minute. But, you know, the headhunters call and I’m gonna have to listen. Think about my career. Think about being a CEO and not a CFO anymore.”

“You getting CEO offers from headhunters? Even in this market? There’re no startups to be CEO of.”

“What they’re calling about is companies that are still alive but bleeding. Like us. Or some of the ones that never got to go public. The boards realize that the CEO can’t make it. Maybe he’s burnt out. Maybe he wasn’t the right guy anyway. So they’re looking for someone to take over. We did a good enough job so they think of me. A few startups, too, but mostly rescue jobs.”

“Sounds like you HAVE been listening to the headhunters.”

“Lar, looks like we’re gonna sell this company. We put ourselves in play. I have to keep my options open. It’s not disloyalty; it’s just being practical. I didn’t know you had a plan to not sell the company. You could have told me that.”

“I am telling you,” says Larry. “But, yeah, I should’ve told you before. Frankly, didn’t know if you’d agree but shoulda told you. So now you know. You don’t have to look for a job. Unless we get a really great offer — and I don’t think that’s gonna happen — we’re still here. Dom’s been working better lately; I think he grew up some. We just do our shit and we pull it out.”

“It’s not so simple, Larry. Maybe I should have told you I was talking to headhunters like you should have told me that we aren’t really in play, that you have a plan to stop a pussy Board from selling us out. I’m actually pretty far along with one deal. Pretty good one for me. They’ll even go a long way to compensate me for hackoff options that are underwater anyway.”

“They gonna make you CEO?”

“And Chairman, I insisted on that.”

“Care to tell me who it is?”

“No. I’m sorry, Larry. I really am. I thought we were gonna be sold out and I looked around and this is pretty good for me.”

“You locked in?”

”It’d be very hard to say ‘no’. Cost me a lot of credibility. And, I have to tell you, the alternative’s not great. So, we don’t sell the company. I stay on as CFO. Do the same old shit. It’s a long slog back, Larry. For what? I can move right on to being Chairman and CEO. Now that I know I have the offer, that’s really the right thing for me to do.”

“I don’t think I can do it without you, Donna. Hate to say it but it’s the truth.”

“I don’t think you have an option, Larry. I appreciate your saying that. I really do. Means a lot to me. ‘Specially because I think you mean it. But I think it’s one of those times when we go our separate ways. It’s happened before. Maybe we meet again in some other gig.”

“Okay, you’re not leaving me any choice.”

“You gonna sell? Better get another banker if you really want to. I’ll help you with that. Help you with the sale. I can buy some time for that.”

“I already told you I’m not gonna quit. You know me better than that.”

“You just said you had no choice.”

“I’ve got no choice; I gotta keep you here,” says Larry.

“How’re you gonna do that? You gonna chain me up? It was fun when we tried it a million years ago but it isn’t gonna work now.”

“Look, Donna, you’re sick of being CFO, right?”

“Yeah, right. I said that.”

“And you see I’m sick of being CEO, right? Been there, done that.”

“You want to switch jobs?”

“Be serious. You see me as a CFO? I could wear your little black dress better than I could be CFO. No, look, here’s the deal: You stay and fight this out with me. First we make sure we don’t get sold out for a shit price. Then we get ready to save the company. But, like you said before, I pull back to Chairman only and you be CEO. Only you got to train the new CFO. That’s your first job. So your career keeps going. You don’t have to take some dumb offer at some other company. We do the strategy stuff together — as a team. You get your rocks off being CEO — it’s not as great as you think, but you wanna do it. You’ll like it at first. You’ll do a good job. We’ll all be rich again.”

“Larry, you never cease to surprise me.”

“Okay, then?”

“You think this is a date? We get to the door; you’ve made me laugh. Now you just ask ‘Okay?’ and we jump in bed?”

“Happened like that twice before with us.”

“When was the second time?”

“When you joined hackoff.”

“Bullshit, I did all kinds of diligence. Asked everyone I knew about a company with a weird name and an ex-con running it. Had to think a lot.”

“Bullshit, yourself. You did all that stuff after the fact. I saw your eyes. They said ‘yes’ when I told you what the plan was.”

“I’m not saying ‘yes’. I’m older now.”

“Are you saying ‘no’?”

“No.”

“No, you’re not saying ‘no’? Or just ‘no’. Didn’t I teach you anything about being clear?”

“Yeah, you taught me that it was a bad idea. I gotta think. I’ve got some questions.”

“Shoot.”

“When do I get to be CEO if I stay?”

“Well, you know I haven’t had a lot of time to think about this. But, what I think is, we get to the end of ‘exploring strategic alternatives’; that’s a couple a more months, right? Got to be sure we’re looking out for the shareholder’s interests and all. Then we make an announcement: ‘We’ve looked at all the alternatives. Some very attractive offers. But, you know, we figured out that nothing is as attractive as going the course by ourselves. Things are looking up. Got this great new plan. And we promoted Donna Langhorne — blast of trumpets — to be the new CEO for hackoff version 2.0. Girl — excuse me — woman’ll set the place on fire. Old Larry, he’s best at scheming. We’re gonna give him lots of time, because he’s gonna devote himself to strategy and changing the Board’s diapers. So Larry’ll make these great schemes — with Donna’s buy-in, of course — Donna’ll beat or charm the troops into submission as required. And hackoff’ll rise again.”

Donna stifles a laugh and says: “What if the Board doesn’t go along? I know where one ‘no’ vote comes from. Woman’s intuition tells me she may be able to sway Joe, too.”

“May be a problem, but I don’t think so. Once they decide not to take any shitty offers — and that’s gonna be the hard part — they can’t make me be CEO if I don’t want to. The company’s got to come out swinging; can’t do a CEO search. We present a united front. Dom’ll join in. He won’t want to work for anyone except me or you. He’ll be afraid a newbie won’t appreciate him. Might rather work for you than me, actually. They got no choice but we gotta play hardball.”

“You gonna play hardball?” Donna asks.

“You ever know me to have soft balls?”

“I could sue you for harassment,” she says, smiling.

“You won’t,” he says. “You’re having too much fun.”

“Don’t count on it. Next question: Do I get to end the ‘equity’ stuff? Can we sell just for real money?”

“That’s not a CEO call. It’s a Board call and my call. This isn’t the time to give up on that.”

“Larry, you’re right, it isn’t a CEO call but I’m asking now as part of ‘let’s make a deal.’ I don’t want to take the job if we can’t win. And, as good an idea as it was, I think it’s time has passed.”

“You drive a hard bargain.”

“You want a CEO who doesn’t?”

“Look, here’s what I’ll do on that. I think you’re wrong. I think equity works; you don’t give up on it at a market bottom. But I’m gonna give you that call when the time comes. When we announce our new strategy. You just gotta promise me you’ll keep an open mind. You look at the facts the way they are before you make the call.”

“Done,” says Donna.

“So you stay?”

“Yeah. I guess, for now. You wore me down. What’s a girl — I mean a woman — supposed to do? One more thing, though.”

“Great, you stay. I get to give you a hug?”

“You keep your hands off. You’ve done enough damage already. Anyway, I got one more thing.”

“What, one more thing? Can’t be one more thing when we’re through bargaining?”

“This is post-bargain. Part of implementation. Look, we got the meeting coming up with the vulture buy-out firm next week.”

“So?”

“So let’s not have your dumb banker in that meeting. These guys are junkyard dogs but they’re smart. We can’t have someone dumb there. Too many variables.”

“She won’t want to miss it...”

“Too fucking bad. She’s so dumb she’s dangerous.”

“Yeah. Okay. Whatever. Remember, she’s gonna send you this CYA email about not lying...”

“Yeah, I won’t flame her back. Part of the deal. Just don’t let her in the meeting with the vultures.”

#

That night Donna tells Francis: “I sort of fell into it, to tell the truth. I didn’t know he had a plan — should of known, but I didn’t — and I didn’t know he needed me to pull it off. Then I saw his reaction when I started talking about headhunters so I just took it from there...”

“You have been talking to some headhunters,” he says.

“Yeah, but nothing good, at least not yet. It’s not a good time for CEOs even if I convinced Larry it is. I just winged it, and he did just what I hoped. I really would rather be CEO at hackoff than anywhere else. It is a good company; it does have the best product. Once we get rid of that stupid equity instead of cash stuff that Larry’s in love with and stop managing for quarterly results, we’ll do fine. I can do this.”

“I’m sure you can. Babe, I’m sure you can. Once you guys get out of being in play — and I don’t think that’ll be as easy as either of you think — once you get out of being in play, are you sure Larry’ll keep his word?”

“Well, funny thing, as much of a liar as he can be, he’s always told me the truth — pretty much. I think he will. I’ll cut his balls off if he doesn’t, but I think he will.”

“Good. Babe, we’ve ... you’ve worked hard for this. I’m happy for you.” He reaches over and runs a fingertip down her cheek. “Ready for bed?”

“No, not yet. I’ve got a lot to think about.”

###

Larry, Donna, and Dom are discussing outsourcing to Jenin Associates. Larry has explained that they work very cheaply and are willing to do a trial job with payment depending on satisfactory completion.

“You know, Larry, a year ago I would’ve been against it on principle,” says Dom. “I mean it is easier for me to control all the programming if it’s done here. And there isn’t a better team anywhere. Price-per-hour doesn’t mean a lot either, because we know a good programmer can be fifty times as productive as a mediocre coder. And bad programmers are a negative — they take you backwards...”

“But?” asks Donna gently.

“But, there’s more work for the core group here than it can do. Monitored Service needs lots of tweaks. Staying ahead of the hackers is a bigger and bigger job, even for us. I’d take some relief if we can get it. And I know the pressure we’re under; I do understand that we have to manage for profitability...”

“You hardly sound like a phreak, anymore,” says Larry. “Phreaks don’t ‘manage for profitability’. You sure you can still do your job?”

Dom pauses, looks, sees Larry is smiling. “Yeah, well, way it happens. There’s no one could do it better. But, you know, I do understand this profitability thing. When the rules of a game change, they change. Can’t just whine about it. Got to learn the new rules fast and win. Nothing new about that. So, anyway, I can see doing the outsourcing thing. Even willing to believe we could manage these guys remotely wherever they are. Hope they don’t strap on a belt in the middle of a job and go blow themselves up at a bus stop.”

“Supposed to be, we give them jobs, they don’t feel like blowing themselves up anymore,” says Larry. “At least it’s supposed to work that way.”

“So now Dom’s ‘managing for profitability’ and Larry’s a do-gooder,” says Donna. “This mean everybody’s growing up? Might not be fun to work around here anymore.”

“Seriously, Donna,” says Dom.

“It’s okay Dom. I was just kidding. I like working with you guys. I like where we’re going with this. I just wanted to give you some shit for old time’s sake. Go ahead with what you were saying; don’t pay any attention to me.”

“So,” says Dom. “I can see doing this, I really can; but...”

“Smart guy once told me ‘disregard everything before the “but”’,” says Larry. “What do you really want to say?”

“Security’s the problem. I mean we can’t lose control of any of the source code. We can’t have anybody outside knowing how the shit works. Too dangerous. What’s to stop these guys, once they know how we do it, from turning into super-hackers, financing a whole *jihad* by raiding our customers. Nothing against them but...”

“I even worry about the code here,” says Larry. “I know what you’re saying. So what could they do without any source code?”

“Here’s what I’ve been thinking,” says Dom. “It’s like you’re reading my mind. There is stuff could be done without the source code. There’s UI and administrative stuff that I give the newbies before I have real confidence we’ll want to keep ‘em. Don’t need the source code for that.”

“Even having them do the UI scares me,” says Larry. “Sure, we don’t show them the source code and that’s good. But it runs at the customer sites so suppose there’s a Trojan horse in it? Suppose they can use that to open a back door?”

“Right. Had the same thought. So that leaves the administrative stuff that runs here. The crap for Donna — no offense. We already make sure there’s no connection between the administrative systems and the security systems. They’re on different networks that don’t talk to each other.”

“Right,” says Larry. “That’s safe, but do we have enough of the administrative stuff to make a difference? Is it worth doing? I don’t think so.”

“You’d be surprised,” says Donna. “There’s stuff I don’t even ask for that could help us control expenses, collect bills, analyze customers, measure marketing, control salesmen — well, maybe control salesmen. Anyway, I don’t ask for it because I know Dom hasn’t got the horses to do it with what else’s on

his plate. And there's gonna be more we have to do because of Sarbanes-Oxley. I think we can find some administrative jobs to try them out on and, if they're good and cheap, there's more."

"When I think about it," says Dom. "There's some UI they could do, too. The stuff for the website. That's in its own firewall; doesn't run at customer sites. Doesn't run here either. If they're good at the administrative stuff we could give them some of that."

"Dom," says Larry. "I really appreciate the way you're thinking. I want you to do one more thing for me, though."

"Sure, Lar, what?"

"Put your hacker hat back on. Be as bad as you can. Think if there's any way we can get burned, or our customers can get burned from this. If you were the guys in Jenin, how could you use this to crack us? Tomorrow, if you can't think of anything we can't guard against, then we'll give it a try."

"You got it," says Dom. "Gotta go play racquetball. See ya."

"Since when did Dom play racquetball?" asks Donna.

"Beats me," says Larry. "Used to not want to be in the court because of the claustrophobia but he got over that. Says it's a new game."

"He's saying that a lot lately."

"Yeah, but still a game. Once a hacker, always a hacker."

"What about you?"

"I was never really a hacker — not like Dom," says Larry. "I play my games. I was good. Dom is the true hacker."

"Whatever," says Donna. "Whatever's going on is good. I think maybe you're right: we can get out of being in play. We can make all this work. It just takes a little longer than we thought. It's starting to be fun again."

"Glad you feel that way," says Larry. "Keep it up."

###

**From:** Donna Langhorne  
**Sent:** Thursday, March 14 8:52 AM  
**To:** Larry Lazard; Dom Montain; Rachel Roth  
**Subject:** Meeting with Condor Partners

Larry Lazard and I met with Condor partners at their offices in Manhattan yesterday. Hal Slozik, managing partner, and James Williams, associate, from Condor were there for the whole meeting. Partner Helen Curtis was there for the first half hour. Told us in the beginning that she'd have to leave early.

Slozik was visibly bored during Larry's pitch. Frequently checked his Blackberry. Curtis paid attention as long as she was there. Williams was the only one to ask questions during the pitch. Most seemed to be just for general understanding. He's pretty dumb and didn't understand much.

Curtis did ask if there was anything that differentiated us from antihack. Larry told him about the equity strategy. I told him about our technology lead and patents. Curtis said that he heard that the technology was identical. We showed him the slide again on how we've been able to protect our customers faster and better but he said that, as far as they were concerned, they couldn't see any real differentiation. I pushed on the patents which antihack clearly doesn't have but Slozik got impatient and said to go on with the presentation, then tuned out again.

At the end, Slozik refocused and asked how much we wanted for the company. Larry told him that's not the way we're doing the exercise. He explained that we're doing the pitch to those who have shown interest, then soliciting expressions of interest including a bid from those who have interest.

Slozik asked how much the company is worth. I told him that depended on what someone was willing to pay but we weren't going to let it go for a price below what we thought it was worth. Would get best value for shareholders whether that was through a sale of by continuing to run the company.

Slozik asked what was the minimum bid, then. Larry said we're not answering that question. To some degree depends on what happens with the company in the next couple of months as we look at our own results, which are looking up.

Slozik said he thinks we're not serious. Either we want to sell or we don't. He's heard lots of these pitches and everybody always talks about intangible value but he knows people who come pitch to him are sitting on a business that's losing value.

Larry said maybe we're at the wrong place, then, because we're gaining, not losing value. I pointed out the good things that are happening with cash flow.

Slozik said maybe we are at the wrong place but not from what he hears. He hears we need to get out, be private. Maybe the company succeeds, maybe the assets just get sold. Doesn't matter to him. He's not going to buy anything except at a good price and then he's going to get his money's worth out of it. That's what they do. Happy to pass on something if the price is too rich. Never looks back if he does. Doesn't care if he should have paid more. But, when they buy, 99% of the time they get their money out and more. Don't forgive themselves if they overpay.

He said he knows someone at Barcourt. He'll talk to him, find out what he needs to know, then he'll make a bid or not make a bid.

Larry said he presented the information that's available for those who want to make an expression of interest. Also pointed out that, since we're public, more information is available in our filings.

Slozik had Williams show us out.

It is obviously important that Barcourt remember that it is hackoff they are representing here. I don't know whether there are other dealings between Barcourt and Condor or whether Slozik will actually contact anyone there but Barcourt should not give Condor any additional information without explicit approval from hackoff management.

Donna

**From:** Rachel Roth  
**Sent:** Thursday, March 14 9:52 AM  
**To:** Larry Lazard; Dom Montain; Donna Langhorne  
**Subject:** RE: Meeting with Condor Partners

Of course, Barcourt is representing hackoff in this transaction. We are fully aware of that. I've checked and Condor and Barcourt have been involved in deals together. One of our partners also plays golf with Slozik. Our Chinese wall is firmly in place so, obviously, there is no leakage of information between the teams working with the two entities.

Frankly, I wish I could have been on the call. I am familiar with the way the buy-out firms work and may have been able to make the presentation go more smoothly. Nevertheless, I consider it a good sign that they said they'll get back to you after checking with Barcourt. They don't usually say this unless they mean it. Perhaps we'll learn more about their level of interest when they call us. If so, we'll be sure to pass it on to you.

**From:** Rachel Roth  
**Sent:** Thursday, March 14 9:58 AM

**To:** Larry Lazard  
**Subject:** RE: Meeting with Condor Partners

I don't want to "rub it in" but I know it was Donna who insisted I not be allowed to accompany you on the call. I really do believe I would have added value with this important prospect. I also resent her insinuation that we might act unethically and reveal inappropriate information to Condor.

**From:** Donna Langhorne  
**Sent:** Thursday, March 14 9:58 AM  
**To:** Larry Lazard  
**Subject:** RE: Meeting with Condor Partners

Yeah, right, she would've made the meeting better. That was just what we didn't need. Notice that there's a "Chinese Wall" but they'll tell us what they hear from Condor. A Chinese Wall means they'll tell both sides exactly what it's best for Barcourt to tell us. Maybe we can figure some way to use that to our advantage.

**From:** Larry Lazard  
**Sent:** Thursday, March 14 10:00 AM  
**To:** Donna Langhorne  
**Subject:** RE: Meeting with Condor Partners

Cool it; she's doing her job.

**From:** Larry Lazard  
**Sent:** Thursday, March 14 10:01 AM  
**To:** Rachel Roth  
**Subject:** RE: Meeting with Condor Partners

Cool it; she's doing her job.

###

"Larry, I shouldn't be doing this," says Rachel. They are in a noisy Italian pizza place in Dumbo under the lights of the Brooklyn Bridge.

"I won't tell," says Larry. "Trust me. What are we doing by the way?"

"I'm giving you a heads-up that I shouldn't be giving you."

"I was hoping we were having a ... uh ... another tryst."

“We agreed that was a one time thing,” Rachel says.

“Before that we agreed that it was never going to happen,” Larry reminds her.

“Larry, we have a problem...”

“Ahmed found out? Louise found out?”

“Larry, this isn’t about us. You’re not going to want to hear this and, frankly, I shouldn’t be telling you.”

“Why are you?”

“Honestly, I’m not sure. I like you. I wanted things to come out differently. I hoped they would but...”

“Are you marrying Ahmed?”

“Larry, be serious. This isn’t about Ahmed.”

“Then it must be about us, right?”

“Not exactly. Look, this is hard enough. Please let me say what I have to say.”

Larry says nothing.

“Larry, you know we both hoped that, once hackoff was known to be in play, the stock would go up enough so we could get some bids that you’d consider attractive...”

“Well, it went up and it went down. Story of my life. Not your fault we didn’t get better bids. Now we’ve just got to go ahead and make the company the success it can be. I know it’s a disappointment for Barcourt that it won’t get the big commission but you get what — more than a million — just for the fairness opinion.”

“Larry, we have offers.”

“Nothing real. An offer for some shit antihack stock to let us go down the tubes with them and an offer from the junk dealers — what’s their name — Condor, for about ninety cents on the dollar for our hard assets. Look, it’s not your fault—”

“Larry, PLEASE let me say what I’ve got to say. This is the part I really shouldn’t be telling you yet, but you’ll know soon enough...” She tails off, but Larry says nothing.

“You know,” Rachel resumes, “we have a very formal policy we go through in giving these fairness opinions...”

Larry says nothing.

“We have to be very careful and very thorough in what we do. We are working for the Board of Directors and indirectly for the shareholders.”

“And?” asks Larry.

“Of course, I’ll be able to show you the details later, but how it come out ... how the fairness opinion is going to come out is that the right thing for the shareholders is hackoff accepts one of these offers.”

“You’re shitting me?”

“Larry, I told you you wouldn’t like it. But there it is.”

“You’re telling me that Barcourt is going to say that best thing for our shareholders is we sell their assets to vultures for ninety-fucking-cents on the

dollar, that we just throw away all the value of the intellectual property, the patents, all that?”

“At the current stock price we’d recommend going with the antihack deal.”

“Oh, is that what ‘we’ would recommend?” asks Larry, snarling now. “We’ recommend that hackoff be part of that piece of shit antihack. That we let Georgie-boy Wrobly run both companies into the ground at the same time. That—”

“Larry, I’m sorry. I knew you wouldn’t like that. But it’s just numbers. With the stock where it is, the antihack offer is worth more to the shareholders than the Condor offer. If the stock goes down, maybe Condor is the better alternative. At this point, I think we want to get them both into a final round of bidding, hopefully improve both offers.”

“This isn’t going to happen,” says Larry. “This isn’t happening. We gave you the projections; we showed you what the company can be worth.”

“We can’t disregard the auction process we’ve been through. And we can’t disregard what the market is telling us through the stock price. We have to take all those things into consideration.”

“This is fucking circular. I’m not an idiot!”

Rachel leans across the table. “Larry, no one said... Please keep your voice down.”

“This is a con game to get a commission for Barcourt. You got two jobs. One: get us good bids. Didn’t happen. Two: figure out what is a fair price for the company in case there are no good bids. So what you’re saying is, since there’s no good bids, what the company is worth is something less than the bad bids. Bullshit! Didn’t you look at the numbers we gave you?”

“Of course we did, Larry. Of course we did. But, even if we accept them as gospel — and we all know that there’s risk in those projections — we’ve still got to look at how the market is likely to view those results. Equally important, we have to look at how the market is going to value the company in the interim. We’ve got to look at the stock price actually coming down further if we say there have been no good offers and we’re just going to do more of the same.”

“We showed you how this can be a company that makes lots of money even if the stock doesn’t go up again.”

“Even if we accept those as a starting point — and we did — the numbers would be even better in combination with antihack.”

“WHY?” demands Larry combatively.

“It’s obvious...”

“Not fucking obvious to ME!”

“Please don’t shout, Larry. You could be overheard — even in this place. If we put the two companies together, they dominate the industry — of course, we don’t use the D word with lawyers around, but you know what I mean. If we assume that the market will someday value this segment again, then a single major company is going to get more value than even the sum of two competitors beating their heads in—”

“There aren’t gonna be two competitors.”

“Not if you two combine. That’s why it makes sense. I know you understand.”

“antihack can’t stay in business,” says Larry. “They’re lucky they got as far as they did, mainly by copying us. They don’t have the technology; they don’t have the patents.”

“Larry, there’s perception and there’s reality and it’s perception that matters because that’s what people act on. I know you don’t like to hear it, but the one theme we’ve heard through this whole process is that no one sees any difference in the technology of the two companies.”

“So what happens next?”

“Larry, I want you to understand...”

“WHAT HAPPENS NEXT?”

“Well, it’ll be more than a week before we finish the preliminary fairness opinion and the recommendations. Another week to go through internal review at Barcourt. Then we can show them to the management team first, if you like, but we do have to show them to your Board.”

“And just to make sure I understand, what is your recommendation going to be?”

“Well, it depends some on the stock price at the time, but basically it’ll be that we attempt to solicit firm bids that are somewhat higher from both parties — don’t want to eliminate either one yet — and that we get into a final negotiation process, which is hopefully a bidding war.”

“Two weeks?” asks Larry.

“What? Yeah, about two weeks. If you want to schedule a Board Meeting then, it might be helpful. But, please, I shouldn’t have told you anything. There’s still a lot to go through at Barcourt. Please don’t tell anyone.”

“See ya,” he says and leaves Rachel alone in the noisy restaurant.

He puts on his coat as he leaves the restaurant and heads uphill to the subway. On the way to the station, he calls Donna and Dom and arranges to meet them at the office.

#

On April 18, 2002, a large number of e-commerce sites are attacked by a hacker who calls himself or herself “Paul Revere”. A significant number of credit card numbers and authorization codes are stolen and quickly used. Even traditional shopping is affected since so many people have to cancel their compromised credit cards.

For the first few days, neither antihack nor hackoff has anything to say publicly about the attacks. Initially, the stocks of both companies decline as analysts and chat groups alike speculate on what liability they have and how they will be affected by the general drop off in e-commerce. On April 23, hackoff closes at eighty-five cents, down from \$2.05 the week before. antihack is down a slightly larger percentage.

“At this price, Larry,” Rachel says in a phone call, “it looks like the Condor offer will be the better one.”

“Is that right?” asks Larry.

“Yes, that’s right. You don’t sound interested. We’re ready to send you a draft of our report. Is there a date set when we can meet with the hackoff Board?”

“Not yet. We’ve been sort of busy with this virus thing.”

“That’s certainly not very helpful coming right now,” says Rachel. “I hope Condor doesn’t use this as an excuse to lower their bid. But, knowing them, they might. Exactly how many hackoff-protected sites were hit by Paul Revere?”

“We have nothing to say about that currently.”

“Larry, we’re your bankers. This could be something material to factor into our analysis.”

“We have nothing to say about that currently.”

“I’m sorry, but you’re being unreasonable. We can’t do our job unless we have all the relevant information.”

“Yeah, well,” says Larry, “being you’re a banker, you’re probably not a security expert, right?”

“Why does that matter to what we’re doing?”

“Because this is a security problem, not a banking problem. Hackers would like very much to know which sites have been hit and which haven’t, who’s vulnerable and who’s not. I tell you anything, you’d have to send it out over email at Barcourt. You think your email’s secure?”

“Well, I don’t know, but I would think so.”

“So did all the sites that got hit. Trust me, your email’s not secure. I wouldn’t even trust my phone if I were you. I’m not trusting any information to Barcourt that could be useful to hackers.”

“So how are we supposed to finish our job? How do we know how much damage this is going to do to your valuation?”

“That’s why you get paid the big bucks,” says Larry. “See ya.” He hangs up.

###

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**For Immediate Release**

**HACKOFF.COM CUSTOMERS PROTECTED FROM ‘PAUL REVERE’**

April 29, 2002 — New York, NY — hackoff.com.® (NASDAQ: HOFC) has concluded an investigation of the effects of attacks by the hacker called “Paul Revere” on sites using *hackaway*™ software. Preliminary results indicate that no site which was using the software as instructed was penetrated by Paul Revere despite a large number of attempts.

The company investigated fully reports by several customers that they had been compromised. However, in each such case, it was clear that the customers were not using the software in accordance with hackoff documentation. hackoff is working with all customers to assure their understanding of the proper use of the software.

“I am very proud that our product withstood these relentless attacks,” said hackoff Chairman and CEO Larry Lazard. “The danger from hackers is clearly on the increase and we are dedicated to protecting our e-commerce customers and their customers from this danger.”

#

hackoff stock closes up twenty-six cents at \$1.42 after trading as high as \$1.67 during the day.

On April 30, antihack announces that “a large number of its customers’ sites” had been successfully penetrated by not only Paul Revere but a number of other hackers as well. A preliminary investigation by the company has revealed that there was rogue code called a “back door” in an emergency upgrade antihack distributed to its customers in mid-March. This back door allowed the hackers who discovered it easy access to the sites of antihack customers.

The preliminary investigation also found evidence that the antihack development facilities themselves had been hacked. The back door was apparently inserted during part of antihack’s software build process. Because security of the development site has been compromised and the exact compromise has not yet been found, antihack is unable to say when it will be able to deliver a fix to its customers. In the meantime, antihack advises customers not to assume that they are protected from Paul Revere and similar attackers.

antihack stock closes down fifty-percent on the day at less than a dollar. hackoff stock continues to climb and closes up thirty-eight cents at \$1.80 after almost reaching two dollars during the trading day.

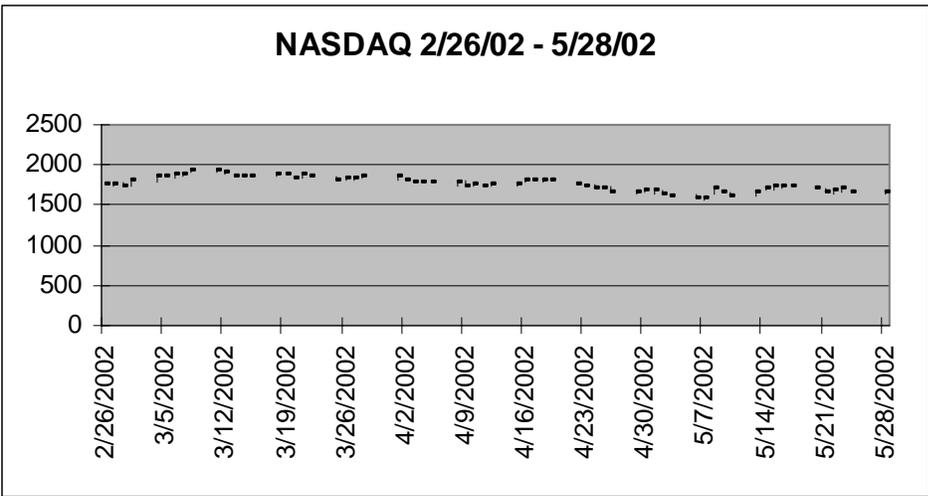
On May 6, hackoff announces a “competitive upgrade” program for licensed customers of antihack. The company will give a fifty-percent credit towards hackoff’s *hackaway* software for those who pledge to remove the antihack product from their servers. Larry Lazard explains that the requirement that antihack software be removed is necessary for the safety of

the customers since known and unknown problems with it might prove an end run around the *hackaway* protection.

On May 16, hackoff stock falls twenty-five cents to \$2.08 when the company announces that it has decided that the best course for stockholders is NOT being acquired. The company reveals that it has had several offers — one of which was from antihack — but these offers are below the price the stock is trading at and do not reflect the fact that hackoff protection was not penetrated by the largest attack on e-commerce sites ever to have occurred while software provided by hackoff’s major competitor was badly compromised. The announcement includes the fact that the company’s bankers, Barcourt & Brotherson, have issued an opinion that declining these offers is “fair” to stockholders.

On May 28, antihack announces that it will not come anywhere near the sales or earnings which it had forecast for the second quarter. hackoff stock soars over \$2.50 and closes at \$2.47.

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