

Chapter 2: The Beauty Contest, February - March 1999

Early February can be an ugly time in New York City. Outside the east-facing windows of the hackoff.com boardroom, dirty snow swirls towards its doom in the dark East River. The crews of the tankers, ferries, tugs and barges rushing downstream or pushing upstream look cold as they huddle into their coats and parkas. They spend as little time on deck as possible. The passengers in the ferries from Brooklyn, New Jersey, and other Manhattan docks are invisible until the boats reach the Wall Street Landing; then they scurry to disembark, hunched over against the wind and blowing snow.

Inside the hackoff.com boardroom, Chairman and CEO Larry Lazard presides over a board meeting from the middle of the oval table. His back is to the dark snow and river. Larry is a little over six feet tall but slumps as if to look down on shorter people. He has brown hair and eyes. His most singular feature is a dark brow which brooks no interruption as it crosses the bridge of his nose. His large brow and his small, thin-lipped mouth gives his face a triangular look. His well-fitted hackoff tshirt makes it clear that he works out although his muscles are tight rather than massive. He wears casual slacks and loafers with no socks. One of his knees is on the table and his chair is tipped back.

To Larry's right is CFO and Board member Donna Langhorne. Her naturally-blond hair is just short of shoulder-length and drawn back in a loose bun with an elastic around it. Donna's face is a classic oval, eyebrows dark, eyes blue, nose small, mouth full but just short of pouting, chin appropriate for the oval but with slightly visible diagonal cleft. She dimples on the left side when she smiles as she is now doing. She's wearing a bulky hackoff sweatshirt but it doesn't hide the swell of her large, high breasts. Her jeans are tailored

At the other end of the table from Donna is Board member Joanne Ankers from Big Router Inc. She is an attractive flat-chested woman stylishly dressed in a tailored blue suit jacket. She wears her brown hair short. Big Router's venture fund invested in hackoff when the company raised its second round of venture capital last September, and Joanne — a junior member of Big Router Ventures staff — became a Board member of hackoff as a consequence of that investment. Joanne is thirty-two.

Aaron Smyth, forty-seven, hackoff General Counsel, sits directly across the table from Larry behind a mass of papers and a laptop computer open for typing. Although not a board member, he is its secretary and prepares resolutions and takes minutes. He is as casually-dressed as his boss except that he wears socks.

The final two board members flank Aaron and face Larry and the window. They are both venture capitalists and are on the board as a condition of their firms' investments. At six-foot-three with broad shoulders, Joseph Windaw of Windaw Wallar Ventures is imposing. The blond hair on his large head is thinning and going white. He's the only man in the room wearing a sports jacket. It's clear from both his bulk and his presence that this is a one-time athlete who, at forty-five, keeps vigorously in shape.

Franklin Adams of Silicon Alley ad-Ventures looks New York Jewish, despite his name. He has curly brown hair and skin that hasn't seen the sun in a long time. Below a large nose, he sports an ineradicable trace of mustache. He's thirty. Franklin Adams is talking intently. It is what he is saying that's making Donna smile and dimple.

"Strange as it may sound, it's time to start preparing for our IPO. I hear that antihack is already talking to bankers and, if we're not careful, they'll get out ahead of us. I know this is a full year earlier than we initially planned; I know we haven't done all the things I said we'd have to do before we could go public — like get profitable or at least cash-flow positive. But that was then and this is now. There's never been a market like this one." Franklin sprays very slightly as he talks.

"It's a huge distraction while we're still building critical mass in our operations — still staffing up," says Donna, without sounding argumentative.

"I agree," Joanne answers Franklin, ignoring Donna's intervening comment. "Many of our portfolio companies are already public, some with less actual track record than hackoff. It seems they're all preparing to go. We may be behind."

There's a silence. "What do you think, Joe?" asks Larry of the big man.

"It's crazy," Joe Windaw says. "There's never been anything like it, probably never will be again."

"So you think it's too early?" Larry asks. "We should stick with the plan?"

"No, we have to do it now," says Joe. "We can't NOT take free capital when everybody else is doing it. We've got to go."

"Even if everyone else is crazy?" Larry persists. "My mother would say 'just because everyone else is jumping off a cliff would you jump off, too?'"

"Your mother was right about cliffs," says Franklin. "But this is NASDAQ and this is now and now is different."

"Donna, what do you think?" asks Larry.

It's unusual for him to seek consensus. His usual chairing technique is either to dominate the discussion or sit back and listen until he gets bored or makes a decision.

"I think we may have to do it, Lar." Her lips are moist and she is breathing slightly heavily.

"We should do it because it the right thing to do," says Joanne prissily. "We don't have to raise money; we are somewhat behind plan, I think, although Donna still owes us some numbers on that."

“So what DO you think, Joanne?” asks Larry. “I thought you said we should go. Now are you saying we shouldn’t?”

“No, no, not at all,” says Joanne. “I just want to make sure we have all our ducks lined up properly.”

“Are any of our ducks out of line, Joanne?” Donna asks.

“Well, as we were saying earlier in the meeting, we don’t have a great handle on...”

“Yeah, yeah,” interrupts Larry. “We know we have to have everything locked down. We can do that. Donna can do that. Okay, you’ve talked me into it. If we decide now that we want to go public as soon as possible, what happens when? When do we get rich and famous?”

Franklin and Joe both start to answer at once, Franklin at about twice as many words per minute as Joe. Each stops in deference to the other.

Joe gestures to the younger man to go ahead. “You’ve played the game according to the new rules as many times as anyone, Franklin,” Joe says. “Tell them how it’s done.”

“As you know,” says Franklin rapidly, “there are two things we need before we can get on the road in front of investors: bankers and an approved prospectus. By the way, we don’t get rich this time even if the company does. When companies go public this early these days, investors don’t expect insiders to do any selling.” He sprays quite a bit on the twin sibilants of “insiders” and “selling” but Larry leans forward eagerly nevertheless. “We get to sell if and when there’s a secondary, but it’s too early to talk about that,” Franklin pauses then says: “We let the bankers compete for our business,.”

“That’s called a ‘beauty show,’ right?” asks Donna.

“Right, Donna, a beauty show,” says Joanne balefully.

“So how do they compete?” asks Larry. “I thought the bastards all charge the same commission.”

“They do,” says Franklin. “They’ve got that part figured out. What we *really* care about is how well they’re gonna sell the deal and cover the company afterwards. It’s very important that their sell-side analyst — the analyst they’re going to have cover us — really understands the company and its story and is well enough respected to sell it. He or she is gonna have a lot to do with the success of the IPO and then with the success of the stock in the aftermarket. We WANNA hear from the VP who’s gonna own the deal. We’ll check our sources for you, that’s part of VC value-add, right Joe?”

Joe nods.

Franklin doesn’t break stride. “We’ll find out if the VP’s got a big enough dick in the firm to make things happen. There are a lot of deals going on now and we have to do what we can to make sure OUR deal’s gonna get enough attention. We may hear from one of their senior sales guys, but that’s not too important because they all say the same thing — they’re sales guys. They tell you they’re closer to Fidelity and Semper and Janus and all the big funds than anyone else and that they’ll get the best set of appointments.

“We may hear from the trading guy, too. They all run pretty good desks but it’s worth listening to those guys to see if you like ’em. The stock’s in their hands once trading opens. They also count the orders during the roadshow so they can give us a handle on what’s going on.”

“How do we hear from these guys? They come here, right?” asks Larry. “Can’t we bargain on commission? What if we did? Wouldn’t we be showing strength?”

“You won’t get anything on commission, Larry, trust me,” says Joe. “As much as these guys are hungry for deals like ours, as much as this is found money to them, they’ve got too much at stake to crack on commissions. They’d rather pass on a deal than do that. They know what happened to the retail side of the business when they had to compete on commissions; they don’t make any money there now. They have to leave most of that to the discount brokers, so they’re not about to crack on the corporate side. The good thing is that, because THIS is where they make their money—“ He presses an index finger into the glossy top of the conference table. “—they work for us, not for the retail accounts.”

“How can businesses be such patsies?” says Larry. “Retail customers bargain on commissions and companies don’t? Doesn’t make any sense.”

“Maybe not, Larry,” says Joe as calm as usual, “but everyone’s making too much money to worry about it.”

“So we’ll get the usual guys in,” Franklin resumes, “Lehman and Barcourt and Morgan Stanley and Oppenheimer — Merrill is probably too retail-oriented — maybe a few of the boutiques who could end up below the lead on the deal. But we want a bulge bracket (he means the big, huge investment banks everybody’s heard of) to be the lead. Joe and I can call them if you want...”

“I know someone at Oppenheimer,” says Joanne. No one looks at her.

“We’ll refer them to Donna,” says Franklin. “She can set up the meetings.”

“You guys wanna be there?” Larry asks Joe and then Franklin.

“If I can be helpful...” Joanne starts.

“No,” says Joe after exchanging nods with Franklin. “Too hard to schedule if we get involved. We know a lot of these guys and there has to be rapport between management and the bankers or the roadshow doesn’t play well. You guys do it. Call us when you want help. Give us the short list and your recommendations. Of course, the final choice has to be a formal Board decision.”

“And the final commission?” asks Larry.

“Drop it, Lar,” says Donna gently.

“So bankers we get,” Franklin continues, “but an approved red herring is gonna be another story.”

By “red herring” he means the prospectus which is the official solicitation for investors. Before a company can solicit investors, the Securities and Exchange Commission must approve every word of the prospectus which,

according to regs, is the only substantive written communication the company can make while marketing its new stock. Other than the prospectus, companies are forced to enter a “quiet period” just before and after their IPOs.

“So the problem,” Franklin says, “is that the SEC is overworked right now, to put it mildly. Every Tom, Dick, and Harvey is going public and there just aren’t enough examiners to keep up with the volume. They can’t hire more because Congress is feeling a little pissy about the boom and won’t give them more budget. So we could wait longer than we’d like to get approval...”

“How long?” asks Larry.

“Used to be thirty days, now forty-five minimum,” says Franklin. “Depends.”

“On what?” asks Larry.

“Just depends,” repeats Franklin. “Don’t know. How big the pile, how slow the examiner. Whether there’s a supervisor free to review it. And that’s just for the first round of comments. Then we get the comments back and we gotta respond to every one of them. Then we gotta have to wait for their responses back to our responses. Those usually take at least ten to fifteen working days if there aren’t too many comments. Important thing is that we’re out on the road by July. August everything shuts down. Slip past July and we have to wait until September, and then it really gets crowded.”

And so it is decided that hackoff.com will go public forthwith.

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Someone once said that when Donna Langhorne enters a room, she sucks all the oxygen out of it. The three male bankers in the hackoff.com conference room certainly look as if they are having difficulty breathing when she walks through the door.

“You guys don’t have to dress up to come here,” says Larry Lazard. “We’re casual.” He’s in jeans and a hackoff polo shirt. The male bankers are in pin-striped suits with tailored shirts and yellow ties. They’re all looking at Donna, who is wearing slacks and a hackoff sweatshirt.

“Next time we’ll know better,” says Harvey Maklin, a Barcourt & Brotherson Vice President and would-be lead banker for the hackoff IPO. He is trying not to look at Donna but has a hard time maintaining eye contact with Larry. Barcourt is visiting hackoff as part of the “beauty contest” to choose a lead investment bank for the planned IPO.

“How was your weekend?” asks Harvey. “Did you get some golf in?”

“Let’s start the meeting,” says Larry.

“Uh ... okay,” says Harvey. “Again, I’d like to thank you for considering Barcourt as the lead on this transaction. Sam Gutfreund is our chief trader. If we’re your bankers, he’ll get you opened well and make sure the after-market is orderly. John Braxton is our chief software analyst. We’ve decided that John is the right analyst to cover hackoff.com and he’s been getting up to speed on the story. He—”

“Why?” asks Larry.

“Why is he getting up to speed?”

“No. Why is he the right analyst? He’s a software analyst. We’re in the e-commerce business. I don’t think he knows squat about e-commerce.”

Harvey has a reputation for being unflappable. CEOs have been getting increasingly arrogant as their IPOs soared. “We considered whether to cover hackoff.com as an e-com or a software company. We discussed it with a few of the big funds and they think of you as software. That’s what you sell. If you were in e-com, people would always be asking ‘how many eyeballs have you got?’, ‘how many hits are you getting?’, ‘what is your website ranked?’. Hackoff grows by selling licenses, not by attracting eyeballs. That’s the software business. So we’ve asked John to cover you as a software company and he has been getting up to speed on the story, as I said—”

“And he still doesn’t know squat,” Larry interrupts.

Donna says: “John, why don’t you tell us something about how you see the company. How are you going to tell the story?”

Everyone except Larry and Harvey look relieved. Larry leans back in his chair, though, and listens.

“We have a presentation we’d like to show you,” says Harvey. “It should tell you something about us and how we see hackoff and the IPO. I think it’ll give you a good idea of our thinking.”

Larry slams the front feet of his chair back on the floor and leans forward toward Harvey who flinches before he can get himself under control. For a long moment, Larry allows an uncomfortable silence to compound. “Spare us the presentation, please,” he says with ominous softness. “We want to know what John thinks. We already know what’s in the presentation. You’re the fourth bank to come through.”

“I think you’ll find it interesting,” Harvey persists.

“Let me tell you what’s in the presentation,” says Larry. “First, the title page has the logos of Barcourt and hackoff. Then, there is a page with the logos of all the companies you’ve taken public and helped to raise money in the last year. The logos of the software companies — because you idiots think we’re a software company — will somehow be set off from the others. Then there is a graph that shows that, even though you’re really only number three or number four in terms of money raised, you’re really number one for some esoteric reason. There may be a chart showing how successful companies you’ve taken public have been in the aftermarket. Can you tell me I’m wrong?”

“Well,” Harvey says with a forced smile, “you’re not exactly WRONG but ... but that’s just the intro stuff; the stuff you may want to show your board. Then we get to the specifics of our vision for the IPO, for the positioning of hackoff — the things you were asking about. That’s what I expect you and Donna will be most interested in.”

“You’re forgetting the page with your resume and John’s resume and the trader, I forget your name,” Larry says.

“Sam, Sam Gutfreund,” says Harvey. “Yes. You’re right; there are some resumé pages. I’ve also put in the resumé of our US and International Sales VPs since they’ll be important to the transaction.”

Larry says: “So why do you want to waste our time with all this?”

“I have an idea,” Donna interjects. “I’m sure John can tell us how he sees positioning the company and telling the story without the slides. Our Board will want to see them as part of its decision, of course. We’ll take the books and look at them later.”

“Sounds good to me,” says Harvey quickly.

Larry again prolongs a silence as everyone looks at him, then nods curtly to John: “Go.”

“The big question,” says John Braxton, senior software analyst for Barcourt & Brotherson, “is: What metric is The Street going to use to value hackoff? Since you don’t have positive earnings, it can’t be that. But that’s not too bad because no one else going public these days has positive earnings either. It’s hard to measure the dollar value of your sales since you take an equity position in so many of your customers and they don’t have any earnings either. In this new economy, it is essential to have an alternative to earnings in determining a company’s value. We have to find the metric that we teach The Street to use in valuing hackoff. IF you were an e-com company...” He carefully looks at Donna and not Larry. “IF you were an e-com company, then you’d be measured on hits or eyeballs or unique logins or something like that. Clearly, you’re not. So the obvious metric for hackoff is the quarter-end value of the stocks in your portfolio.”

“That’s easy,” says Donna. “That number shows up on our balance sheet each quarter.”

“No,” says John, “No, it doesn’t. Not the number I want to base our story on. The GAAP number is too low.”

Generally Accepted Accounting Principles are supposed to define how US companies report their financial results to securities markets. Following GAAP, *hackoff* values each stock in its portfolio at the value it had (or was believed to have had) on the day *hackoff* was paid in that particular stock. The stocks in *hackoff*’s portfolio have been going up, but this doesn’t show up in *hackoff*’s GAAP reports unless *hackoff* sells some of these stocks and “recognizes” profit. If some of the stocks were to go down below the initial price— not something which happens much at this time in market history, then *hackoff* would have to write down the value of these stocks in its portfolio to reflect current market conditions.

“We think it’s pretty good,” says Donna. “The book value of the equities we were paid in was ten mil at the end of ’98. It’ll probably be around fifteen mil at the end of the first quarter and those are the numbers investors are going to see.”

“With all due respect,” says John, “these are piss-ass numbers. You’re looking for the market to value the company somewhere around five-hundred mil at the IPO. And we want it to go up quickly from there. That’s not going to

happen given a portfolio value of fifteen mil. I figure the true value of the stock in your portfolio at something like thirty million at the end of '98 and more like ninety million or even a hundred million when we go on the road. That's exciting."

"John," says Donna, "are you suggesting that we sell the stock in our portfolio so we can report higher values? That's brain-dead."

"Of course not, Donna," says John. "Only an idiot would sell in a market like this. We know you're smart people and certainly don't want to do anything that would make investors think otherwise. What I'm saying is that, besides the GAAP number, which we have to report, we report a 'non-GAAP' number as well. This number doesn't show up in P&L or your balance sheet but you highlight it in the text of the quarterly press release and you talk about it on the call."

"Can we do that?" asks Donna thoughtfully.

"Of course we can." Larry has been following intently but silently. "In fact we owe it to investors to tell them the true value of our portfolio. We owe it to them to tell them how well our equity strategy is working. How else can they make an informed investment decision? It's not our fault that GAAP is stupid and irrelevant, invented by accountants for another universe long, long ago."

Harvey Maklin jumps in: "We've checked with our attorneys. They believe you can provide this non-GAAP number. You will want the opinion of your own attorneys, of course. We'll want that number to appear in the prospectus so if the SEC people who review that don't barf all over it, we can feel reasonably free to keep using it in quarterly reporting."

"John," asks Donna, "how do you calculate the current value of the customer equity we hold? Most of our customers aren't public yet. There isn't any usable valuation data for them."

"That's the beauty," says John. "We get to establish the value. We do it 'conservatively', of course, just take their potential value at IPO. For the ones that *are* public, we use their current stock prices. When I explain this to the fund managers, they'll realize that I'm being very conservative because obviously stocks go up after IPO and obviously, in general, the e-com stocks will go up from here. They like a conservative story because it gives them more upside — more room to win. I always leave them room to be a little smarter than what I'm telling them, so they can earn their bonuses by having the stock go up while they hold it. Everybody wins."

"What if NASDAQ has a down quarter?" Donna asks. "We'll get clobbered even if we have a good quarter."

"Good question," says John. "Someday that may happen, of course, even in this new era. You have some protection as long as some of the companies in your portfolio go public during the quarter because those'll get an up pop even in a down market and help the whole portfolio. It's dangerous and could hurt us in the short term someday, but I think it's a risk worth taking; this number lets you benefit not only from your own success but also the success of the

industry and the NASDAQ stocks. And, after all, that's really what your business plan is all about. You're e-com squared."

"Cubed," says Larry. "You're right about our business plan but it's 'e-com cubed', not squared."

"Cubed?" ask Donna and John together and then smile at each other when they realize they've said the word in stereo. John almost giggles when Donna smiles.

"Cubed," says Larry. "The more e-com flourishes, the more licenses we sell; that's one dimension. Then, as you said, the higher our licensees' stocks go, the greater the value of what we got paid. So that's another dimension and brings us to squared. But we know that this is a market that feeds on success, so, as we succeed in the first two dimensions, our stock will trade at a higher multiple of our portfolio value — that's the third dimension. You're not as dumb as you look. I'm beginning to like this."

"You ought to be a securities analyst," says Harvey Maklin. "But, if I may: a word of advice."

"Go ahead," says Larry now preening and good-natured.

"Just do the squared bit on the roadshow; don't talk about 'cubed' with the investors you'll be presenting to."

"Why not?" asks Larry, suddenly not as genial.

"It's better for us to do it than you," John Braxton explains. "Investors want management to talk about the company and not about the stock. That's what they expect even though they really only care about the stock. Then WE talk to them about the stock. Many of them'll call me after you do your pitch. Then I can tell them, if they liked e-com squared, they're really getting e-com cubed. That'll hunt with the ones who are quants..."

"I get it," says Larry, "what's a 'quant', though?"

"The quantitative ones, the ones that like numbers," John says. "some like people — they want to know all about the management team; some like technology; and some like numbers. Part of a good pitch is telling them apart and putting the right spin on the story for who you're pitching. Our sales team will help with that; they know these guys pretty well. And you'll get good at it, too. They ask questions in the areas they're comfortable with. The quants always ask number questions; the techies always ask technology questions."

"Okay," says Larry, "but be sure that you do it."

"Do what?" asks John.

"Tell them about 'cubed' if I'm only talking 'squared'," says Larry. "I'm counting on you."

"Trust me," says John. "This is a good strategy; this dog'll hunt. We want hackoff priced at a multiple of the value of its portfolio. One problem, though, is that we won't be able to use the portfolio value for the whisper number."

"What the fuck's a 'whisper number'?" asks Larry.

"It's a number higher than the number you gave in guidance that analysts tell their clients you are actually going to make for the quarter. It helps us with our clients to give them the inside scoop, but it's very bad if you

don't deliver what we promise. So you've got to help us figure out what the whisper number should be and then you've got to beat it slightly or we're all in deep doo-doo and the stock is in the toilet."

"Why don't we beat it by a lot?" asks Larry.

"Because then we lose credibility and it looks like you're sandbagging and The Street will make really inflated estimates for you and you'll miss them and everyone loses," explains John.

"So what is this metric?" asks Donna. "I understand that it can't be the portfolio value because we won't give guidance on that and you won't want to guess what it'll be at the end of the quarter a quarter in advance."

"Smart woman," says John. "The portfolio value is too volatile to predict, so we need something else. We don't want to use earnings — both because you aren't yet profitable and because the number is too small. It misses the increasing value of the stock in your portfolio." He glances at Harvey. "We think the right number to use is the number of sites using your software; this is the first dimension of your e-com cubed or squared story so it all fits in. And it's a number that should always go up, which is important for the whisper number. Of course, this doesn't correlate to earnings or even revenues, but nothing does these days and that's no problem. The fund managers will understand that this number can keep growing forever since the number of e-com sites keeps increasing and so the stock will always have growth potential as it tracks this number."

"Won't work," says Donna. "A lot of flaky sites come and go. They license from us and then they're gone. In a summer quarter when there are fewer startups and more failures, the number of active licenses could actually go down. It happened last summer; it may happen this summer while we're selling the deal."

"That's easy," says John. "Don't count the licenses that disappear. Do like McDonalds: so many sold. It's a number that has to keep going up. You will have to condition The Street for seasonality; it won't go up as much in the summer as in the winter but they'll understand that. The important thing is that you be able to give good public guidance. You also need to give us good guidance on what the whisper number should be and then keep beating it. That's what successful companies do. Look at Microsoft. Every quarter they talk about why things can't keep being as good. Every quarter they give a lowball estimate. Every quarter the whisper number is a penny or two over what the company has indicated. Every quarter they beat the whisper number by a penny or two. That's the way a company should be run."

"But that's real fucking earnings," says Larry. "That's not some made-up metric as a proxy for earnings. That's why we can't be covered as a software business; we're not Microsoft; no one will believe we are. We're an e-commerce company; look at Amazon's price — they're a book store that doesn't make money; look at Yahoo — they're mostly a free service. We've got to be an e-commerce company. This has to be an e-commerce story. You just agreed

that we're e-com cubed and now you want to talk about us like a fucking software company."

"In many ways Microsoft is an old fashioned company," says Harvey, shielding John from Larry's vehemence. "You're the software company of the future. All Microsoft gets is a little revenue each time a customer buys a product; they get a nice share of the revenue stream of the computer manufacturers through Windows and Office royalties; but they don't actually get a piece of their customers the way that hackoff does. That's the beauty of your story."

"Tell us the new software story, John," says Donna. "Tell us this new bedtime story."

John drops a beat at Donna's mention of bed but goes on: "Okay. The key metrics for hackoff.com are the value of its portfolio and the cumulative number of sites that have licensed the software. Obviously, the bankers are going to have to build those into the PowerPoint presentation they put together for the roadshow. I'll build my spreadsheet model based on those metrics. Of course, I still have to come up with an argument about what multiple of the portfolio value you should trade at based on your growth rate in licenses. This is tough because there are no real comparables so we can't just compare you to some other company in the same business. So I'll put together a model that relates the number of licenses you've sold so far to the value of the equity you hold PLUS the present value of the revenue streams you'll get. That part hardly matters but it does generate the cash you need to operate so you don't have to keep going back to The Street and diluting everybody's equity."

"But we WANT to go back to The Street," says Donna. "We WANT to do a secondary offering. That's when we get the really high value and that's when the VCs and founders get to take some cash off the table."

"Of course you do," says Harvey. "We want to handle your secondary, too. We want you to go out many times, collect all the money you can — it's a sin not to. But no one wants you to do a secondary because you *have* to; you get a lousy price if you need the money. You do a secondary because you can; because The Street WANTS you to; because The Street loves your story and NEEDS to have more of your stock to trade."

"As long as that's understood," says Donna.

"Understood," says John, "trust me. So we establish a ratio between licenses sold and equity value acquired. Over time, equity per license goes up, obviously, as e-com companies continue to grow and you get further market power and can demand a better share. So there's a double upside, the growth in the number of licenses and the growth in the equity from all licenses past, present and future. And cash needs are taken care of by the cash licenses. Smart fund managers will realize that, over time, you'll spin out or sell some of the equity and further enhance cash flow — but we won't complicate it with that now. In fact, the only thing wrong with the story is that it's complicated. We're going to have to work hard to dumb it down for the roadshow. Fund managers and buy-side analysts don't think a lot; they don't have time to.

They go to eight or nine pitches a day. They're only half listening unless something catches their interest and they'll make up their mind before you leave the room. They have to make sure they get the hot issues or they'll be out-performed by other funds and that's the way to the door for them."

"Of course," Harvey picks up smoothly, "when you come in with Barcourt & Brotherson, they know you're a good story and that you're worth paying attention to. And, even if they can't focus that day — problem with the wife, losers in the portfolio, too much partying the night before — they're still likely to buy because of their relationship with Barcourt. Even if they don't like the particular company, they value their relationship with us and want to take a piece of almost everything we bring them because then they know we'll give them a piece of the really hot deals."

"So the pitch doesn't matter?" asks Donna. "There going to buy us because we're with you?"

"The pitch matters," Harvey says. "It all has to do with the aftermarket. One, we want them to want more stock than we're willing to allocate them. That has to be, or they won't buy in the aftermarket. A good pitch'll make them greedy. Two, we don't want them to dump on the initial run-up; that's no way to start trading for the stock. If they don't even hear the story, they'll buy for the initial kick and then flip the stock. Of course, if they flip too often or don't give us aftermarket support, then they don't get any more allocations from us. But that's a different story."

"I have an idea," says Larry. "Investors are going to buy the stock partly because of the number of licenses we sell. So they should get reminded about our licenses. We let websites that license from us put the *hackmenot* logo on their websites; no, we MAKE them do it. Then every fucking site becomes an ad for our stock..."

"That will help more with retail investors than the funds..." John begins.

"Good idea, Larry," Harvey interrupts. "Very good idea. I thought you were technical, not marketing."

"Sam, you haven't said anything," says Larry, not responding to the compliment. "Did you come all the way here just to listen to all this bullshit?"

"I have nothing to say," says Sam the Trader.

"Isn't the great trading desk you run the real reason we should use Barcourt for our IPO?" asks Larry. "All the other traders tell us that."

"Sounds like you already know that," says Sam, smiling slightly.

"Sam, tell them what the trading desk can do for them," says Harvey.

"They already know," says Sam. "The trading desk gets the stock opened right. The toughest part is the first hours and the first days when volumes are enormous and the stock is getting a lot of attention but hasn't found a level or a pattern yet. Yada yada yada — I'm sure the other traders all told you that. The difference is that my trading desk is the best at doing this. Most of them will give you a trader part-time right after you open, then quickly lump you in with a bunch of other stocks. You get lost. The stock gets lost. It wanders around. It gets a bad rep.

“I give you a dedicated trader, a GOOD dedicated trader for the first couple of days. And I keep you with a select group of stocks as long as I have to. That way your stock gets a good reputation. That’s important because all the funds you’ve sold to are trying to figure out whether to flip or not. If they see an orderly stock moving up in a good way, they stick with us. If they see a stock flopping around, they get spooked and they pull the trigger and sell. They’ve already got their profit. It’s important to keep them during that first week. They get used to you and keep you in the portfolio for a while ... if you don’t screw up.”

“Whaddaya mean ‘if we don’t screw up?’” asks Larry. His tone is harsh.

“He means...” Harvey starts to interject.

“Let HIM answer.”

“There’s nothing I can do if you don’t deliver your numbers,” says Sam. “Nothing at all. You heard that stuff about the whisper number: you put out a number, you get John to put out a number, and you miss it, you’re toast. Stock drops like a rock. I try to keep it orderly, but the truth is there’s nothing much we can do. Or even TRY to do — don’t want to get rope burn. We don’t stop you if you screw up and fall.”

“But Sam can help...” Harvey again interjects.

“He’s telling me the truth and you’re trying to bullshit me. Stop!” commands Larry.

Harvey starts to say something and then thinks better of it. The silence is uncomfortable and continues until Donna asks: “You guys ready for the tour?”

“Yes, Thank you very much for your attention. We’re looking forward to learning more about hackoff and we’d very much like your business. We want to do this transaction. We want to do your secondary. We want to help with every liquidity event you and the company have,” says Harvey obviously relieved. “Here are the books.” He hands over perfect-bound books with the hackoff and Barcourt logos on the cover. “We covered most of this and I’m sure your Board will find them helpful.”

“If you make the short list, we’ll be sure the Board gets them,” says Larry. He stands up to shake hands with Harvey but doesn’t smile.

He says, “Remember, ‘cubed’,” to John Braxton as he shakes hands with him.

“You play poker?” he asks Sam Gutfreund in a friendly tone.

“Not anymore; too much like my day job,” says Sam.

“Thought so,” says Larry. “See ya.”

Donna’s goodbyes and handshakes are all warm but she holds John’s hands slightly longer than the others. “Thanks for coming,” she says. “I like the way you tell the story.”

“You got the hots for Braxton?” Larry asks Donna when the bankers have been escorted off by Eve Gross from marketing for their tour of hackoff.

“All CFOs have the hots for their analysts,” says Donna. “What really turns me on is actually doing this IPO and then the secondary and getting filthy rich. It’s a B-School wet dream.”

“Down girl,” says Larry. “Don’t overheat. We’re not there yet. The market could always tank and we’d have to go back to making money the old-fashioned way. And who says Braxton’s our analyst? We haven’t chosen Barcourt. Maklin is an asshole. I like the trader, Sam, though.”

“You just told him he was our banker, Lar. You told him not to forget ‘cubed’. Talk about the hots; I thought you were going to come in your pants when they started the ‘squared’ stuff and then you told them it was ‘cubed’. What happened to the old poker face?”

“I didn’t promise them shit. We still gotta listen to three more of these pitches; then tell the Board what we want to do. And, seriously, I’m worried about Maklin. He has no *cajones*; how can we believe he has the big dick we need in the firm?”

“You did give him the patented Larry Lazard test for balls,” says Donna.

“At least I didn’t rub them like you did with Braxton.”

“They’re both good tests,” she says. “We’ll get the Board to check him out.”

“Yeah, maybe we can get Joanne Ankers to use her contacts to check him out,” says Larry mischievously.

“Yeah, once she gets out of her training bra, she might be useful,” responds Donna. “I’ll e-mail Windaw and Adams and see what they know.”

“Sexist,” says Larry.

They both seem very pleased with themselves.

###

E-mail, February 26, 1999

From: Donna Langhorne [mailto: donnal@hackoff.com]
Sent: Friday, February 26, 1999 8:30 AM
To: Joseph Windaw; Franklin Adams
CC: Larry Lazard
Subject: Harvey Maklin

Joe, Frank:

Got a favor to ask. Larry and I like John Braxton at Barcourt even though he’s a software analyst and we think we like their trader, Sam Gutfreund, but not sure whether Harvey Maklin, the VP who would own our transaction, is the “big dick” Franklin says we need. Frankly, seems to be a bit of a pansy.

What do you guys know about him?

Thanks.
Donna

From: Franklin Adams
Sent: Friday, February 26, 1999 8:32 AM
To: Joseph Windaw; Donna Langhorne
CC: Larry Lazard
Subject: RE: Harvey Maklin

Don't know him. Will check and get back to you. Gutfreund is a mean poker player. Braxton'll burn you big time if you miss your numbers but can tell a story.

Franklin

From: Joseph Windaw [<mailto:jwindaw@windawwallar.com>]
Sent: Friday, February 26, 1999 10:00 AM
To: Franklin Adams; Donna Langhorne; Joanne Ankers
CC: Larry Lazard
Subject: RE: Harvey Maklin

Donna:

I agree about John Braxton but don't know Sam Gutfreund. I did some checking around and found that Harvey is "respected but not well-liked" at Barcourt. Most of his companies are big so he's usually doing secondaries or debt placements or complicated hedge stuff for them but he does have a pretty good track record with IPOs, too. Mostly software, of course. With the companies he has, he must be able to get stuff done at Barcourt, which can be rather bureaucratic, because these companies would insist on it. However, it is easier to get things done for big companies than for small ones like us.

Regards,
Joseph

From: Joanne Ankers [<mailto:joanne.ankers@bigrouter.com>]
Sent: Friday, February 26, 1999 10:02 AM
To: Donna Langhorne;
CC: Larry Lazard; Franklin Adams; Joseph Windaw
Subject: RE: Harvey Maklin

Donna:

I'm sure it was an oversight but would really appreciate it if you would copy me on e-mail like this; I could have started helping earlier if I didn't have to wait until I got the copy of Joe's mail.

I will get back to you on what experience Big Router Ventures has had with Barcourt and these gentleman.

Joanne

From: Larry Lazard
Sent: Friday, February 26, 1999 10:10 AM
To: Donna Langhorne
Subject: RE: Harvey Maklin

You got your tit in a wringer on that one:-}

From: Donna Langhorne [mailto:donnal@hackoff.com]
Sent: Friday, February 26, 1999 10:12 AM
To: Larry Lazard
Subject: RE: Harvey Maklin

That'll never happen to her :-{. Probably why she has to try so hard to add value. Besides, she's dumb.

From: Franklin Adams
Sent: Friday, February 26, 1999 8:32 AM
To: Joseph Windaw; Donna Langhorne; Joanne Ankers
CC: Larry Lazard
Subject: RE: Harvey Maklin

I'm hearing about what Joe heard about Maklin. One strange story: he's made a bundle of dough - bonuses the last couple of years so he moves into town from the burbs. Got a couple of small kids so that costs a bundle to start.

About a year ago buys a co-op on Central Park West, big one in one of those big old renovated buildings. But no one from Barcourt that anyone knows is ever invited there. One day this

woman has to bring some stuff up for him to sign – he's being Mr. Mom because his wife is doing something. He invites her in while he reads the stuff.

The place has NO furniture – at least not in the rooms that she can see. Like not a stick. A few kids toys around but thats it. Strange after a year and strange that he doesn't use the place to entertain.

But probably not here or there. He seems to get the job done.

Franklin

From: Joanne Ankers [mailto:joanne.ankers@bigrouter.com]
Sent: Friday, February 26, 1999 2:00 PM
To: Donna Langhorne; Larry Lazard; Franklin Adams; Joseph Window
Subject: RE: Harvey Maklin

Gentlemen and Donna:

No one here has had direct experience with Barcourt or any of the other people mentioned. Of course, there are very few software companies in our portfolio so that may be the reason. We understand that Maklin has a pretty good relationship with Microsoft so that makes us a little nervous.

Joanne

From: Donna Langhorne [mailto:donnal@hackoff.com]
Sent: Friday, February 26, 1999 2:30 PM
To: Larry Lazard
Subject: RE: Harvey Maklin

Boy, I'm sure glad we got her input.

From: Joseph Window [mailto:jwindow@windowwallar.com]
Sent: Friday, February 26, 1999 10:00 AM
To: Franklin Adams; Donna Langhorne; Joanne Ankers
CC: Larry Lazard
Subject: RE: Harvey Maklin

Joanne :

This is good input. However, I think we can forgive him for being close to Microsoft if he can get a good deal done for us.

Regards,
Joseph

###

The hackoff Board meeting on March 5 is telephonic. Larry, Donna and Aaron Smyth are in Larry's office in New York. Joseph, Franklin, and Joanne are in other places, connected through the Polycom on Larry's conference table.

"Joanne, sorry to get you up so early," Donna says. It's 8:30 AM on the East Coast; 5:30 AM on the West Coast where Big Router is located. "It was the only time that everyone was available and we want to move fast."

"I'm used to it," Joanne says shortly.

"Okay," Larry says, "we've talked to all the bankers and we have a recommendation. I think all of you have the information they left for us."

"I didn't get anything from Oppenheimer," says Joanne.

"It was Fedexed out last week," says Donna.

"Well I don't have it."

"Do you want me to get the tracking number?" Donna asks.

"What difference does it make? She either has it or doesn't have it," says Larry.

"Well, I do like to have all the material," says Joanne.

"Management isn't recommending Oppy, anyway, are you?" asks Franklin.

"No, we're not," says Donna. "So it's sort of a moot point."

"It's not moot," argues Joanne. "I should have all the material. There's a reason why you're not recommending them; that's a recommendation in itself."

"I only have half-an-hour," says Franklin. "Donna, I'm sure you'll get a copy of the Oppy material to Joanne for her file. Won't you? Let's go over the recommendation if that's okay with everyone."

"Fine," says Joe.

Joanne doesn't reply.

"Okay," says Larry. "As you know, we're recommending that Barcourt & Brotherson be the lead. John Braxton understands the value of our portfolio and our strategy better than anyone else. We think he'll do the best job of telling the story to investors. I like the trader, Sam Gutfreund. I get the feeling he'll do a good job at the desk for us. On the down side, Harvey Maklin, who's the senior guy on the transaction is sort of an asshole, but all the feedback we've had is that he does a good job for his companies. On the downside is that

we don't think Barcourt is as close to some of the high-tech funds at Semper and Fido and other places that we want to target as Oppy is."

"Then why aren't we going with Oppy?" asks Joanne. "Big Router HAS had experience with them."

Donna starts to answer but Larry waves her quiet and says: "Good question, Joanne. The problem is that the Oppy analyst who would've covered us just left and the new guy doesn't know shit from shinola. He doesn't understand e-commerce; he doesn't understand software; he doesn't understand our strategy. He used to cover shipping and I doubt if he understands that either."

"Yeah," says Franklin. "I know him. He doesn't understand shipping either."

"But it would still seem..." Joanne begins.

"Joanne, let's let management finish," says Joe gently. "Franklin has to get off quickly and I've got another appointment as well."

While Donna makes rude faces at the Polycom, Larry puts on a conciliatory voice and says: "We would have liked to have Oppy on the deal. They were willing to be a co-lead with Barcourt and Donna asked Barcourt about that and they turned us down flat. They'll take the lead or nothing. You know I believe in taking a hard line with these assholes, but I don't think they're bluffing. And Oppy won't take any position less than co-lead. So it's either Barcourt or Oppy as the lead and the other one out. Also, Oppy is talking to anithack about their IPO and we don't want their bank as lead; too much chance for leakage, despite all the Chinese walls. Maybe Oppy would've agreed not to do antihack if we could've got them the lead but we couldn't."

"I might be able to get my boss to talk to Barcourt about letting Oppy be co-lead," says Joanne. "He's in Asia now, though; he'll be back next week."

"Could you get him to call today?" asks Larry.

"No. I don't think I'll be able to reach him until at least Monday. It's already the weekend in Asia and he doesn't like to be disturbed on the weekend. Maybe I can get to him late Sunday — it's already Monday there — but that's hard to do without help from his assistant here. I'm not sure he can do anything until he's back and we can have a thorough discussion. Then he might decide that a call wouldn't help. Larry, I think it's important that we have all pertinent information before we make such a critical decision. I mean..."

Donna pushes the mute button on the Polycom and says to Larry: "Dumb bitch thinks she's still in B-School. 'All the information!' You don't get 'all the information' except in a fucking case study. This is the real world. She doesn't even have enough clout to reach the guy without going thru his EA. What does that tell you?"

Larry unmutes the Polycom. "Joanne, we really would like his help. However, we're on a very tight schedule. There's no way to predict how long it will take to get the prospectus through the SEC. In my opinion, it would be very bad to miss the window and have to wait until September. Antihack might

even beat us to market and position themselves as number one. It is critical that we make a decision during this call.”

“Even if we don’t have all the information we need?” objects Joanne.

Donna rolls her eyes.

“I’m sorry,” interjects Franklin, “but I only have fifteen minutes left. I think Larry’s right; we’ve got to move before the window closes. That’s my two cents.”

“Joe?” Joanne appeals.

“Joanne,” says Joe, “in ordinary times I’d agree with taking our time and getting it right but these aren’t ordinary times. You’ve said yourself that there’s no guarantee your boss’ll make a call or that it’ll change Barcourt’s mind if he does. By all means, let’s keep him in reserve for future dealings with Barcourt, but I think we have to move ahead. Your help is very valuable in this.”

“Please go ahead with the rest of the management recommendation,” says Joanne.

“Thank you,” says Larry. “We are recommending that FCBC and Web & Stinger also be on the book. We’ve sent you the stuff on them. FCBC has some of the same contacts Oppy does so they’ll help set up pitches. Plus, their analyst isn’t completely brain dead. Web & Stinger is a boutique firm—”

“Never heard of them,” says Franklin.

“That’s because they’re in St. Louis, Franklin,” says Larry. “You probably flew over it a couple a thousand times but it’s in the middle of the country where you bi-coastal types don’t land.”

“Not if we can help it.”

“So, anyway, they’re a boutique firm in St. Louis that concentrates on software. They’ve got a following in the Midwest — we know we’ll be stopping there on the roadshow even though Franklin never does — and their software analyst is really good; a woman who used to write code. Doesn’t know shit about e-commerce, but understands the difference between our technology and antihack’s, which no one else does. So we’re recommending they be on the prospectus cover as well. For what it’s worth, our buddy Harvey Maklin does want FCBC on the deal — I think he likes having them on the right side of the cover with Barcourt on the left — and he didn’t want Web & Stinger on because he never heard of them. But we insisted—”

“I don’t want to beat a dead horse, but why couldn’t we insist on Oppy being co-lead if we could insist on Web & Stinger?” Joanne interrupts.

“I’ve really got to go,” says Franklin. “Aaron, do we need a motion?”

“Yes,” says Aaron, “I’m still waiting to hear from outside counsel on a part of the wording so I’ll probably get it to you in e-mail this afternoon. Substance is that the Board chooses Barcourt as the lead and FCBC and the St. Louis guys for the book runners and authorizes management to sign the usual and appropriate documents to make it happen.”

“So moved,” says Franklin.

“Seconded,” says Joe.

“Any objection?” asks Larry.

There is only silence.
"See ya," says Franklin.
"Thank you all," says Larry. "Meeting adjourned."

###

E-mail, March 5, 1999

From: Joanne Ankers [mailto: oanne.ankers@bigrouter.com]
Sent: Friday, March 5, 1999 9:05 AM
To: Joseph Windaw
Subject: Board Meeting

Joe:

It frosts me the way management doesn't do their homework, especially Donna, and then there's a big hurry and we can't get all the information we need.

I appreciate your mentoring and backed off because clearly you felt this was right. But it does bother me.

Joanne

BTW: I will be in NYC March 24-26. Any chance of dinner or a drink? I'm free both the evenings of the 25th and 26th right now.

From: Joseph Windaw [mailto:jwindaw@windawwallar.com]
Sent: Friday, March 5, 1999 12:07 PM
To: Joanne Ankers
Subject: RE: Board Meeting

Joanne:

Your diligence is praiseworthy.

It would be my pleasure to take you to dinner on the night of the 26th. Anne and the kids are in Europe then (she sends her best).

Can you join me at 7:00 PM at the Harvard Club? It's at 27th W. 44th, just West of 5th Avenue. The food is good although you may

be appalled by the head of an elephant that Teddy Roosevelt or some other grad killed and sent to the club.

Regards,
Joe

###

RR Donnelly, the world's largest financial printer, has a squat rectangle of a building with no architectural pretensions a block north of the North Tower of the World Trade Center. The third floor of the building has conference rooms reserved for companies preparing financial documents. There used to be just a couple of these, but the explosion of IPOs has led to the whole floor being converted to accommodate teams of bankers, lawyers, accountants, and company executives furiously producing the documents required by the Securities and Exchange Commission of companies making public offerings.

Even with the expansion, it looked for a while as if the hackoff.com IPO might be delayed by lack of an available conference room at Donnelly. Both Harvey Maklin of Barcourt & Brotherson and Board Member Franklin Adams take full credit for having used their clout to obtain a room.

A torn sign on the door says "hackof".

Larry and Donna are in the hackoff room today, though they haven't been there for most of the process. The hope is that all outstanding editorial issues can be resolved before 5:30 PM so that Donnelly can be told to "push the button." When Donnelly does this, the draft prospectus will be transmitted electronically to the SEC and entered into the SEC's EDGAR database. A recent innovation has made EDGAR accessible to anyone with a Web browser (also a recent innovation). So, once Donnelly pushes the button, all the information in the prospectus will become public.

Besides Larry and Donna, hackoff's chief counsel Aaron Smyth is there. There are two lawyers each from hackoff's outside law firm, Barcourt's outside law firm, and FCBC's outside firm. hackoff's auditors have sent three accountants. Barcourt has four bankers with various jobs and two admins who keep coffee, Snapple, and health food drinks flowing and sometimes clean up debris. They make a lot of copies, too. The junior of hackoff's outside attorneys is an expert with Microsoft Word and keeps up with revisions as they're made. FCBC has two bankers present; Web & Stinger has one, although she has not been there for the whole process.

There are a fluctuating number of people from Donnelley. A couple of them are experts at converting text from the Microsoft Word master to the proprietary Donnelley software that will be used to send to the SEC and typeset the printed versions of the prospectus.

There is a huge table in the middle of the room. Most of the editing and most of the meetings, arguments, and redrafting happen here. There are a couple of tables around the edge which mainly serve to hold used Styrofoam cups and Snapple bottles but also sometimes have papers piled on them. There

are inevitably some Krispy Kreme crumbs. The donuts themselves are long gone. Krispy Kreme is also doing an IPO.

The room has a couple of recessed windows on the west side, its only outside wall. These are usually occupied by people trying to get better cell phone reception.

“So this is the draft where we should say whatever the fuck we want to say,” says Larry. “Investors get to read this one before the SEC tells us what we are and aren’t allowed to say.”

“That’s very dangerous,” says Aaron Smyth. “The SEC can hold us up for as long as they want in review. If they think we’re playing games with them, they’ll do just that. Also, if we have to make big changes, people might notice. The change process is public too. Besides, Larry, I keep telling you — no one reads these things. At least not investors. Maybe the guys at the funds look at them when you’re doing the roadshow, but they don’t see this version.”

“Our customers’ll read it,” says Larry. “Antihack’ll read it. The SEC doesn’t want me to tell our customers why we’re good but DOES want me to tell antihack where we’re weak and much too much about our business.”

“That’s the price of being a public company, Lar, get used to it,” Donna joins in. “You sure you wanna do this?”

“Yeah.” Larry doesn’t hesitate.

“Good,” says Donna so only Larry can hear. “If you didn’t I might have to kill you.”

On the front page of the online document is a warning label:

#

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and we are not soliciting offers to buy these securities, in any state where the offer or sale is not permitted.

#

This warning label is not removed until the SEC staff has given its final approval to the FORM of the document, thereby making it “effective”. The company cannot begin its roadshow — the process of pitching the company’s stock to large prospective investors — until everything in the prospectus other than the final price of the stock (and all the numbers that depend on it) has been approved by the SEC. Even when that approval is granted, the prospectus will say: “Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.”

It’s sort of *caveat emptor*. The SEC makes sure that the prospectus is in the proper form; it will diligently protect the public from malformed

prospectuses, but it's not their job to make sure that any of the statements or numbers in the prospectus are accurate.

Plaintiff lawyers, a species of attorney that specializes in class action lawsuits against public companies "on behalf of" investors, will tell you that THEY are responsible for protecting the investing public. In early 1999 the investing public doesn't perceive it needs to be protected. All the investors seem to want is a chance to get in on the next IPO. And why not? With minor fluctuations and a few easily explained exceptions, stocks go nowhere but up.

"That may be true," Aaron Smyth is telling Larry. "It is certainly true that investors aren't going to read the prospectus. But the plaintiff's lawyers are licking their lips. They may be the only people in the world who DO read prospectuses."

"So what?" asks Larry. "If the investors aren't going to read the fucking prospectus anyway, why are we larding it with eight pages of risk factors, most of which aren't even risks? Why do we tell them six times as much about what can go wrong as about how we're going to make money for them? Maybe they don't read it because it's full of all the bullshit they DON'T want to know and doesn't say word one about what they DO want to know."

"The risk factors are your insurance policy," explains Aaron. "If you put something in a risk factor, you can still be sued, but you won't be sued SUCCESSFULLY. You told them even if they didn't read it. When things do go wrong, the plaintiff lawyers are going to pore over this. And if the thing that went wrong wasn't a risk factor and there was any conceivable way management could've known about it, break out the champagne for them. The only question then is how much do we settle for. Look, Larry, it doesn't cost us anything except paper and ink to put these in. My best advice: Don't look for risk factors to take out; think of risk factors that we haven't put in. They're your insurance policy."

"Okay," says Larry. "I get it. I'll look at them as 'insurance' — by the way, I never buy any. I don't even take insurance in Las Vegas when the dealer has an ace showing."

"Why am I not surprised?" says Aaron.

Larry reads, muttering to himself.

#

RISK FACTORS

You should carefully consider the following factors as well as the other information in this prospectus before deciding to invest in shares of our common stock.

As a company with a limited operating history in a new and rapidly changing industry, it is difficult to predict our future growth and operating results.

Our limited operating history makes predicting our future growth and operating results difficult.

Before investing, you should consider the risks and uncertainties that an early stage company like ours will face in the new and rapidly evolving market for Internet security services. Before investing, consider that we have not proven that we can:

- . increase awareness of our brand and continue to build customer loyalty;
- . maintain our current, and develop new relationships with our customers;
- . manage the portfolio of equity we have received instead of cash payments from our customers;
- . respond effectively to competitive pressures; and
- . continue to develop and upgrade our software and technology.

If we cannot accomplish these goals, our business may not succeed.

We have not been profitable and expect future losses.

To date, we have not been profitable. We may never be profitable or, if we become profitable, we may be unable to sustain profitability. We have incurred significant losses since inception.

The growth of our business depends upon the growth of the Internet, which may not continue.

The growth of our business depends on continued growth in the use of the Internet generally and on the growth in the use of the Internet for commerce. Growth of the Internet may be inhibited by a number of factors, such as:

- . quality of infrastructure;
- . security concerns;
- . technological failures, such as viruses;
- . the appearance of a more attractive technical alternative;
- . inconsistent quality of service; and
- . lack of availability of cost-effective, high-speed service.

Even if Internet usage grows, the Internet infrastructure may not be able to support the demands placed on it by this growth or its performance or reliability may decline.

Growth of the use of the Internet for commerce may be inhibited by a number of factors, such as:

- . effective competition from traditional retailers;
- . unreliable fulfillment of orders; and
- . a perception that use of credit cards on the Internet is not safe.

#

“That hits sort of close to home,” says Larry, “seeing that I did the Gotcha attack. Why don’t we just say that people might think our CEO is a credit card crook. That’s a risk factor.”

“Now you’re thinking,” says Aaron, “I’ll draft it.”

“Fuck you.”

“No, I’m serious. That’s a good idea. Won’t say crook, of course. But that’s the right way to think.”

“Okay. Okay,” says Larry. “I can’t read this anymore. I’m just going to do the headlines.”

#

We are growing rapidly, and effectively managing our growth may be difficult.

Our software may not be able to handle increased volumes which could hurt our reputation and result in a loss of customers.

Failure to attract and retain customers will harm our business.

Our quarterly operating results may fluctuate and could fall below expectations of investors and industry analysts, resulting in a decline in our stock price.

The lack of compatibility in e-commerce servers produced by different vendors makes it difficult to test our software in every possible environment.

Competition could reduce our revenue.

We may need additional capital in the future and it may not be available on acceptable terms or at all, which could force us to curtail or cease our operations.

Our proprietary rights may be difficult to protect.

Acquisitions may disrupt our business and divert the attention of our management.

Year 2000 compliance efforts and uncorrected errors could interrupt our business and subject us to claims.

#

“This Y2K stuff is real bullshit,” says Larry. “I know a guy who made millions, hundreds of millions, from it. And nothing is really going to happen.”

“I think we took him public,” says one of the Barcourt bankers.

“No, Lehman took him out,” says Larry. “You guys blew that one. Must’ve taken out one of his competitors. Still a lot of bullshit.”

“How do you know?” asks a banker.

“Look, it’s 1999,” explain Larry. “There’s all kinds of software running now that is adding a year to current dates and getting a date next year in the next century. If there were going to be a problem at the end of the year, there’d be big problems now. And there aren’t. Unless they’re all being covered up. New software’s not affected, not because programmers are so smart now but because dates are handled in binary and just translated for display. Nothing special about 1/1/2000 in binary; it’s just another day.”

“There’s certainly a perception of a problem,” says one of the auditors. “We have a whole department doing Y2K compliance for our customers.”

“That’s not a problem” says Larry. “That’s an opportunity. Maybe hackoff needs a Y2K product.”

“I know a guy,” says one of the lawyers, “is inviting his cardiologist to his New Year’s Party. The guy told him the software in his pacemaker wouldn’t have any problem at midnight but he said he’d feel better if his cardiologist is there just in case.”

“Gentlemen, I hate to interrupt, but we’ve got to get through the final read and get this down to the SEC by 5:30,” says the senior banker on the

team. “Donnelly’s got someone else scheduled in the room for tomorrow and we want to start the clock ticking. Sorry to break up the fun.”

At 5:28 Donnelly is instructed to push the button and does. Within a few minutes, the document has been transmitted in its “EDGARized” form. In half an hour, the text is available on the World Wide Web. In a matter of minutes, some potential investors are reading it, despite the warnings that it’s preliminary, not guaranteed to be accurate, and not approved in form or substance by the SEC.

All skip the risk factors.

Beer and wine are brought into the room at Donnelly to celebrate. The tallest of the supporting admins, a thin, shapely girl, lets down a startling profusion of reddish-brown hair from what had been a small bun. The accountants retrieve their suit jackets from the chair backs and put them on. The lawyers, on the other hand, loosen their ties.

“Do you know why they call the prospectus a ‘red herring?’” Aaron asks Donna.

“I always thought it was because of the red ink on the cover that says its preliminary,” she says.

“No,” says Aaron proudly. “A red herring is something you drag across a trail to put the bloodhounds off the scent. That’s why the prospectus is called a ‘red herring’.”

Further uptown a few hours later, Joseph Windaw and Joanne Ankers are lying naked on their backs in a bed in one of the nicer rooms in the older part of the Harvard Club. It has crimson drapes, which are drawn. She is no more than half his size in any dimension and, lying next to him, looks like an exquisite doll with well coifed head and pubic hair. His long penis lies limp on his left thigh. Even with his clothes off, he looks extremely fit. His sparse chest hair is gray but his pubic hair is the same blond as the hair on his head. Both of them have their hands by their sides and are looking toward the high ceiling.

“Now why did we do that?” Joanne asks.

“I think we wanted to,” Joe answers languidly. “I certainly did. I find you very attractive. And you being smart as a whip certainly helps.”

“Won’t this complicate our ability to work together on the hackoff Board?” asks Joanne.

“Doesn’t have to,” Joe says. “I respected you before. Respect you now. Hope you feel the same about me.”

“Yes, of course,” says Joanne. “You’ve been a valuable mentor.” Uncharacteristically, she giggles and then blushes. “I mean on the Board, of course.”

“Right,” says Joe. “Us old guys have nothing to teach you youngsters anywhere else.” He grins at the ceiling but doesn’t turn towards Joanne.

“Is there an Ethernet connection in this room?” asks Joanne.

“No. Afraid the Club is a little backward in technology. Just got their website working. You can get a decent dial-up connection from some of the rooms, not others for some reason.”

“I’m going to have to go back to my hotel,” says Joanne. “Big Router people only stay where they can get high-speed connections and I’ve got a bunch of stuff I’ve got to download for a conference call tomorrow morning. How do you know what kind of connectivity there is in all the rooms? Do you do this often?”

“I’m on the Rooms Committee here,” says Joe. “I get all the complaints. This was an unexpected, and I should add — unique — pleasure. I’m sorry you have to leave early but look forward to working with you on hackoff and possibly some other opportunities.”

“They did get the prospectus filed,” says Joanne. “I was afraid that would get hung up. They can be sloppy. Seriously though, Joe — do let me know about any other opportunities. I’m looking for ways to learn more and expand the range of what we do at Big Router Ventures.”

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