9

IRRATIONAL EXUBERANCE

The Dot-com Bubble

If you were looking for a single company that exemplified the dot-com era, you could do worse than Priceline.com.

Priceline was founded by Jay Walker, a forty-two-year-old entrepreneur with a clever solution to a real problem: every day, 500,000 airline seats were going unsold.[1] Priceline would offer these vacant seats to online customers who could name the price they were willing to pay to fill them. Consumers would (theoretically, at least) get cheaper flights; airlines would be able to sell excess inventory; inefficiencies would be ironed out of the market; and Priceline would take a cut for facilitating the whole process: your garden-variety win-win-win-win that only the Internet could make happen.

Launching in April of 1998, Priceline was a dot-com "overnight success," growing from 50 employees to more than 300 and selling more than 100,000 airline tickets in its first seven months of business. By the end of 1999, it was selling more than 1,000 tickets a day.[2] Believing in Amazon's Get Big Fast business strategy, Priceline attempted to expand into hotel bookings, car rentals, home mortgages—seemingly every market with excess inventory that a consumer might want to name a lowball price for. On the strength of this idea, Priceline was able to raise $100 million in working capital. Airline tickets were just the proof of concept. Walker's intention was to take this idea to every applicable market. "Priceline is just the beginning," he told the *Industry*

Standard.[3]

Walker intended to get to ubiquity the way Yahoo had done: by building a brand through relentless marketing. In its first six months, the company spent more than $20 million in advertising, the keystone of which was clever radio and TV ads featuring *Star Trek*'s William Shatner.[4] The ads were reportedly scripted by Walker himself, and Shatner was compensated with 100,000 shares of stock instead of the originally offered $500,000 in cash ("Wasn't *that* a good move?" Shatner asked a *Fortune* writer in September 1999 when the shares were worth about $7.5 million).[5] All of this succeeded in placing Priceline fifth in Internet brand awareness by the end of 1998, behind only AOL, Yahoo, Netscape and Amazon.[6]

Forbes put Walker on its cover as a "New Age Edison." He told the *Industry Standard*: "The long-term legacy of Priceline [will depend on] whether or not we can successfully introduce the first new pricing system in probably 500 years."[7] In March 1999, Priceline went public at $16 a share, and on its first day of trading went up to $88 before settling at $69. This gave Priceline a market capitalization of $9.8 billion, the largest first-day valuation of an Internet company to that date.[8] After such a high-profile debut, few investors were concerned about the fact that in its first few quarters in business Priceline racked up losses of $142.5 million.[9] Or that it had to buy tickets on the open market—at cost—in order to fulfill the lowball bids its customers were placing, thereby losing, on average, $30 on every ticket it sold. Or that Priceline customers often ended up paying *more* at auction than they could have paid through a traditional travel agent.[10] Investors were more interested in grabbing a piece of a company that was going to change the future of business.

Because hey, by 1999, losing money was the mark of a successful dot-com. And few could lose money as prolifically or creatively as Priceline. The head of a rival travel website named CheapTickets complained that his company couldn't compete with Priceline's hype. "We've got a policy here at CheapTickets," founder Michael Hartley groused. "We need to make money. It hurts our valuation."[11]

Priceline's market valuation was doing just fine. At its highs, Priceline had a market cap larger than any of the airlines it sold tickets for, and Walker's 49% personal stake in the company was worth as much as $9 billion.[12]

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SO MANY OF THE COMPANIES that would embody what we think of when we

remember the dot-coms shared some or all of Priceline's traits: a business plan that promised to "change the world"; a Get Big Fast strategy to reach ubiquity and corner a particular market; a tendency to sell products at a loss in order to gain that market share; a willingness to spend lavishly on branding and advertising to raise awareness; and, above all, a sky-high stock market valuation that was divorced from any sort of profitability or rationality.

The dot-coms that tend to have lingered in popular memory were the ecommerce companies, which, like Priceline, were targeting mainstream consumers. Amazon had effectively killed the category of books online, and so, hundreds of ecommerce companies were founded to become the "Amazon for *X*," where *X* was whatever flavor of retail one could imagine.

Children's toys were estimated to be a $22 billion annual market. (Yearly spend on toys per child? $350.)[13] And so, eToys took a crack at this segment. Of course, there were established players in the toy space already, especially Toys "R" Us and Wal-Mart. But then, Amazon had "Amazoned" Barnes & Noble, hadn't it? So, in a similar way, eToys cofounder Toby Lenk intended to establish an online beachhead before the incumbents could react. "We can out-Barbie and out-Lego the mass merchants out there," Lenk told a reporter.[14] By October 1998, eToys could crow about attracting as many as 750,000 visitors a month. Those were actually great traffic numbers for that time period, but, of course, not all of those visitors bought something. By December 1999, after more than two years in business, eToys could only boast lifetime revenues of $51 million. That was about as good as the combined yearly sales of seven Toys "R" Us real-world stores—and Toys "R" Us had nearly 1,500 stores worldwide.

No matter. eToys went public in May of 1999, selling 8,320,000 shares at $20 apiece. On the first day, the stock leapt to $85, before settling at $76, a 282% pop. eToys had a market capitalization of $7.6 billion, compared to Toys "R" Us's $5 billion. Toby Lenk's 7.36% share of the company was worth a cool $559 million.[15]

Entrepreneurs are always eager to grab a piece of the insane amount of money Americans spend on their furry friends ($23 billion in 1998; $60 billion as recently as 2015).[16] And so, as if out of central casting came four pet-centric entrants in the dot-com ecommerce sweepstakes: Pets.com, PetStore.com, Petopia.com and PetSmart.com. In February 1999, Pets.com was launched by an entrepreneur named Greg McLemore. If Get Big Fast was a matter of necessity for most dot-coms, it was especially so for Pets.com, as it was facing so many competitors. Pets.com enjoyed some powerful backers, including, coincidentally,

Amazon.com, which took a 54% stake in the company.[17] The requisite IPO raised the company $82.5 million in February 2000, only a year after the company's founding. But, the devil was in the details. In the Pets.com IPO prospectus, the company stated that from the time of its inception through December 31, 1999, the company lost more than $61 million on sales of only $5.7 million. Why so much red ink? It didn't help that the cost of the $5.7 million in goods sold was $13.4 million. Pets.com was selling things for less than they cost! In fact, it was losing 57 cents on every dollar made in sales. It also didn't help that Pets.com's bestselling product—pet food—was a heavy, bulky item. Pets.com charged only $5 for shipping, even though the actual shipping cost of a 30-pound bag of kibble was reportedly twice that.[18] This was a not uncommon problem for the ecommerce players. A startup named Furniture.com raised $75 million only to learn a lesson that Ikea had known about for years: you can't exactly send a couch via UPS. "There were many cases when we would get an order for a $200 end table and then spend $300 to ship it," a former Furniture.com engineer would admit. "We never could figure it out."[19]

Okay—books, toys, pet food, furniture? What was left? How about one of the biggest retail markets imaginable? The total U.S. market for groceries, drugstore merchandise and prepared meals was over $650 billion in 1998 and by the end of the nineties, Americans were spending, on average, $5,000 a year on groceries, or 10% of their income.[20] Hoping to capture this spending by bringing it online were startups like Peapod, MyWebGrocer, Streamline and, especially, Webvan.

Webvan was the brainchild of a man who had already seen his previous business "Amazoned." Louis Borders was the founder of the bookstore chain Borders Group, Inc., and he was determined to do to grocery retailing what Amazon had done to book retailing. Borders knew that for every $100 in grocery store sales, $12 was eaten up by the cost of simply running the grocery store. In a famously low-margin business (for every $100 in sales, the typical grocery store sees only $2 or less in profit), eliminating a big cost center like that could be transformative. "Intuitively, I knew I'd have a great financial model if I could eliminate store costs," Borders told *Businessweek*.[21] And that was the promise of ecommerce, right?

Borders convinced Goldman Sachs, Benchmark Capital, SoftBank, and Sequoia Capital to invest a total of about $400 million in four rounds of venture financing, one of the largest capital raises of the dot-com era.[22] To test its

concept, Webvan built a 330,000-square-foot warehouse in Oakland, California, to serve customers in the San Francisco Bay Area. The company also spent three years and hired eighty software engineers to design the inventory management, delivery and logistics systems required to make the operation function.[23] The idea was that once San Francisco proved the market, Webvan would expand to other cities and regions, building similar distribution centers, to the tune of $35 million per facility. Webvan promised that each distribution node would serve the equivalent customer base of eighteen conventional supermarkets, but with less than half the labor costs and double the selection of items.[24]

Launching in June 1999, Webvan began by offering prices it claimed were 5% lower than conventional grocery stores.[25] In order to entice customers, it often waived the delivery fee that was crucial to covering costs. In essence, Webvan tried selling groceries at a loss in order to achieve scale. But that was standard practice at this point, and in no way prevented Webvan from enjoying a typically buoyant IPO. When it went public in the fall of 1999, the company had recorded only $4 million in revenue in its entire existence. Nonetheless, the stock went out at $15 and rose to $34 before ending the day at $25. Webvan had an $8 billion valuation.[26] One executive from the competing grocery chain Safeway, which had been in operation for nearly a century and had hundreds of locations, complained: “They have the sales of two of our stores and one-fourth of our market cap.”[27]

Webvan stated that if approximately 1% of Bay Area households, about 120,000 families, used its service on a regular basis, it would be profitable. The problem ended up being that even though about 6.5% of Bay Area households tried Webvan at least once, only half that number ever placed a second order, and even fewer became weekly or even monthly customers.[28] The distribution centers needed to operate at 50% capacity in order to cover costs. But by the first quarter of 2000, the Oakland warehouse was operating at only 35% capacity and reported a $38.7 million loss.[29] Webvan nonetheless ignored these hiccups and barreled ahead, opening additional warehouses serving Atlanta, Chicago and Sacramento, where the losses only widened. None of the warehouses reached an order volume that allowed them to break even, and by the spring of 2001, the company was losing $100 million a quarter.[30]

Of course, even this unfolding high-profile disaster didn’t stop other entrepreneurs from chasing the same dream. On the East Coast, two companies, Kozmo.com and UrbanFetch, took instant gratification a step further: both promised same-day delivery. But the question was, could anyone make money doing that? That pint of Ben & Jerry’s a customer ordered on a rainy afternoon?

doing that? That pint of Ben & Jerry's a customer ordered on a rainy afternoon? Kozmo would send it to them for less than it would cost to buy at the local bodega across the street. And Kozmo still had to pay the army of bike couriers who made the delivery. It was retail without the overhead of real estate, sure, but what about the costs of warehousing, of labor, of the website and logistical back-end systems? Neither Kozmo nor UrbanFetch were much worried about this. Ubiquity came first. Profits later.

Again, no one was focused on inconvenient details like the costs of doing business or profit margins. Investors, entrepreneurs, venture capitalists and Wall Street tended to prefer numbers like those from an OECD report in 1999, which assured everyone that by 2005, online commerce would be a $1 trillion market, representing 15% of overall retail sales. So, hurry up! Stake your claim! There was nothing but growth ahead, so if you locked consumers in with low prices now, you could always raise prices later, once you had killed your category.

For a couple of years there, it seemed like everyone was begging us to buy cheap stuff, subsidized largely by generous, unseen piles of venture capital money. Ironically enough, far from engendering customer loyalty, consumers tended to treat the dot-coms as a fly-by-night bonanza, taking the deals when they presented themselves, but often not repeating the experience. "They all e-mail me specials," one New York pet owner told *Businessweek* of her experience with the pet dot-coms. "I order from whoever has the special. Sometimes, it's even free."[31]

Pets.com was losing money on every dog leash it shipped. But if you looked at the company's bottom line at the time of the IPO, the biggest expenses, at $42.5 million—a whopping 76% of total operating costs—were for marketing and sales. Advertising. And that's why we remember Pets.com, if, indeed, we remember it at all. Priceline might have had William Shatner, but Pets.com had the sock puppet.

Soon after launching, Pets.com hired the ad agency TBWA\Chiat\Day to produce a reported $20 million initial ad campaign.[32] TBWA had recently produced a series of ads for Taco Bell featuring a talking chihuahua, and, perhaps taking a page from that campaign's success, the ad men proposed a talking dog–like sock puppet that would commiserate with real-life pets in a series of commercials (tagline: "Pets.com. Because pets can't drive."). The puppet was voiced by the comedian Michael Ian Black, but was deliberately nameless, "so consumers would always have to say 'Pets.com' when referring to it."[33] Soon, the puppet was airing in radio and television spots nationwide. Pets.com paid nearly $2 million for an ad on Super Bowl XXXIV and the puppet

became a float in the 73rd Annual Macy's Thanksgiving Day Parade.[34] After appearances everywhere from *Live with Regis and Kathie Lee* and *Good Morning America*, to "interviews" in the pages of *People* and *Entertainment Weekly*, Pets.com began to license the puppet as a popular toy for children.

In a single quarter, Pets.com reportedly spent $17 million promoting the sock-pooch. Was it worth it? Well, not when you consider that in that same quarter it had only $8.8 million in total revenue.[35] By October of 1999, Pets.com was third in the race for website visitors among the pet competition, attracting only 551,000 unique visitors (behind leader Petsmart.com's 1.1 million), and it was paying $158 for every new customer it acquired.[36]

DOT-COM COMPANIES FELT they had to spend in order to brand themselves like Yahoo had done. They felt they had to be first to their particular market in order to lock in customer loyalty, just as Amazon had done. They spent because they felt they had to be the first in their category to IPO, like eToys had. Spending big on marketing could help you get that IPO. And then, after the IPO happened, it could help keep your stock price high. "You could reasonably argue that every additional $1 of revenue this quarter might increase your market capitalization by $300 next quarter," PetStore.com's Josh Newman said.[37] Higher stock price, higher market cap: more money, both tangible and on paper. Spending, spending, spending became a vicious cycle that artificially turbocharged everything in the dot-com era. It became a joke that the very dot-coms that started out promising this grand vision of a more efficient way of doing business were—almost to a company—unprofitable. It's entirely possible that a lot of them could have focused on the very real efficiencies that selling online made possible, and thereby slowly grow sustainable businesses. But that was not the name of the game in the late nineties. The name of the game was Get Big Fast.

The venture capitalists who backed these companies were aiming for supernova IPOs, because that's when they got paid. Any IPO meant an "exit" for venture investors. Those incredible first-day "pops" that dot-com stocks experienced when IPOing? That was the early money cashing out, selling their shares to the investing public, who would now be holding the bag, waiting to see if that fancy new business model would ever work out. The dot-com bubble was a fantasy period when a lot of VCs actually *didn't care* if a business model made sense, because it didn't need to. "We're in an environment where the company doesn't have to be successful for us to make money," a venture capitalist at Benchmark admitted when mulling over a pre-IPO investment in Priceline.[38]

It became imperative to keep the pipeline of new companies—and therefore, new IPOs—coming. Fortunately enough, the bubble era engendered a sort of fever for entrepreneurship that probably hadn't existed in this country since before the Great Depression (the Roaring Twenties, the age of the tinkerer-developers of the automobile, the telephone, the radio, the airplane). By the spring of 1999, one in twelve Americans surveyed said that they were in some stage of founding a business.[39] If so many of these new entrepreneurs were chasing the fortunes that dot-coms seemed to be minting every day, who could blame them? In 1994, the venture capital firm Draper Fisher Jurvetson received 376 business plan proposals. By 1995, the year of Netscape's IPO, that number had reached 1,075. By 1999, there were more than 12,000 business plans to sift through.[40] The supply of entrepreneurs was more than met by eager venture capitalists who were all but begging the new companies to take their money. In 1998 alone, 139 new venture funds were created, with more than $17.3 billion in new capital to invest with, an increase of 47.5% over the previous year.[41] "It was absurdly easy," a young Harvard Business School graduate said of the fundraising process during the dot-com era. "You would walk into offices in New York and people would immediately offer money to you if they thought you looked smart. We didn't have any data on the market; we didn't have a product demo; we didn't have anything. We had a business plan, but that was it."[42]

Venture capitalists know that they have to kiss a lot of frogs before they find a prince, but the dot-com era was a uniquely good time for VCs, because the willingness to take companies public under any circumstances—profitability be damned—meant that VCs weren't punished for being indiscriminately promiscuous. Even the ugliest frogs could be winners. The average yearly return for venture funds that focused on early-stage startups was 25% by 1998, and plenty of the top-tier funds were earning well in excess of 100% or 200% yearly on invested capital.[43] VC is a game of blockbusters; one home-run investment like an eBay, returning 100,000%, can make up for a lot of losers. And even then, what did it matter if you backed a loser when you could take it public and cash out one way or another in less than nine months?

Over the course of the entire 1980s, IPOs rose on average 6% on their first day of trading and there had only been seven IPOs that had doubled.[44] In the first quarter of 1999, Internet IPOs gained an *average* of 158% on their first day.[45] In the first quarter of 2000, technology companies were going public and doubling, just about every other day.[46] Several companies we've mentioned in

earlier chapters benefited from this IPO mania. MarketWatch went public on January 15, 1999, and enjoyed a 473.5% first-day pop; iVillage, on March 19, 1999, 233.9% pop; Broadcast.com, on July 17, 1998, 248.6%. And the IPO madness didn't mean the takeover madness ended. On the contrary, it intensified. Broadcast.com and GeoCities had enjoyed successful IPOs (a 119.5% pop for GeoCities), but the founders of both companies eventually succumbed to takeover offers they couldn't refuse. In January 1999, Yahoo paid $3.6 billion to acquire GeoCities. At the time, GeoCities was generating only $7.5 million a quarter in revenues and had no profits.[47] But Yahoo followed this up by purchasing Broadcast.com in April, in a deal then valued at $6.1 billion, or 474% more than the value of the company on the day of its IPO. Why did Yahoo do these deals? For traffic. For eyeballs. At the time, GeoCities had 19 million unique monthly visitors, making it the third-most-trafficked site in the world behind AOL and Yahoo itself. In the case of Broadcast.com, Yahoo was purchasing the most mature play in the world of streaming media. The portal was bulking up in anticipation of doing battle with AOL to become the premier media company of the twenty-first century.

Of course, Yahoo could afford it. With all of the advertising money flowing in from other dot-coms, and the portalization efforts paying off to the tune of traffic numbers approaching 100 million unique visitors per month, Yahoo's market cap surpassed $120 billion at its peak around the turn of the millennium.[48] Its price-to-earnings ratio got as high as 1,900.[49] It had plenty of money to throw around. Woe be to the other portal sites that had to keep up!

Perhaps the most incredible deal of the time was Excite@Home's acquisition of Blue Mountain Arts for $740 million dollars in cash and stock. Excite@Home was a company formed when the broadband ISP @Home merged with the search portal Excite.com. Blue Mountain Arts operated the website Bluemountain.com, where users could send each other electronic greeting cards by email. That's right. Bluemountain did nothing but send Grandma electronic "get-well-soon" greetings. But Bluemountain.com was getting 9 million unique users a month to do this, and at the time, traffic was the sine qua non for a Yahoo-chasing portal player like the Excite half of Excite@Home.[50] As the *New York Times* noted in its article announcing the deal, Excite@Home "predicted that the acquisition would increase its audience by 40%, to encompass approximately 34% of Internet traffic."[51] So, Excite@Home was willing to pay $82 per user to attract additional eyeballs to its network of properties and try to keep pace in the portal race.

The merest association with the word "Internet" could suddenly make a

company seem more valuable, as when K-Tel, the "as seen on TV" music retailer of such music series as Hooked on Classics, announced that it was launching a website to market its CDs over the Internet. K-Tel stock went from $3.31 to $7.46 in a single day. Less than a month later, it was trading at $33.93.[52] Nothing fundamental had changed in K-Tel's business. It had merely launched a website. A similar thing happened with Active Apparel, owner of the boxing and activewear brand Everlast. When it announced an ecommerce website, its stock exploded by more than 1,000% in the following two trading days.[53]

In the midst of this sort of frenzy, there was space for plenty of dubious companies to receive funding. iHarvest.com was able to raise $6.9 million to create a tool for web surfers to save copies of web pages for later offline browsing. This, despite the fact that almost all browsers already had bookmark buttons.[54] Iam.com raised $48 million to host the headshots and portfolios of aspiring actors and models.[55] Officeclick.com raised $35 million to create a community site for secretaries and administrative professionals. Other companies continued to take stabs at reinventing ecommerce. Mercata.com raised $89 million to create a group-buying marketplace where thousands of people would buy items in bulk in order to get better pricing. One day after its IPO was canceled, the company declared bankruptcy.[56]

If Mercata sounds like an eerily similar idea to later social-buying companies like Groupon, that's not exactly unusual. Plenty of dot-com startups were founded around concepts that were quite possibly good ideas but were just a bit too early for the time. eCircles.com pioneered online photo albums, and Myspace.com and Desktop.com rented what were essentially virtual hard drives —what we now call cloud storage. After going bankrupt, the Myspace.com domain would later be put to use by another startup we'll discuss shortly.

A lot of companies were nothing more than IPO plays. And in the worst instances, some of the bubble companies were platforms for outright fraud. Pixelon was a company that raised $35 million in venture financing, promising to develop "full-screen, TV-quality video and audio streaming technology" in an era of dial-up modems.[57] It promptly turned around and blew $16 million of that on a company launch party at the MGM Grand in Las Vegas that featured performances by KISS, the Dixie Chicks, Sugar Ray, and a reunion concert by the Who. It was later revealed that Pixelon founder Michael Fenne was *really* a man named Paul Stanley (no relation to the guitarist from KISS) who was wanted by the State of Virginia on stock fraud charges. Pixelon never released a

product before it was eventually forced into bankruptcy.

The parties, the hype, the headlines, it was all part of the milieu. In any fad or bubble, eventually the scenesters show up. And when the pretty people arrive, that's usually a sign that a bubble is at its height. This was especially true in the media capital of the world, New York. And if one company exemplified hype-as-a-business-plan, it was Pseudo.com. Pseudo was the brainchild of Joshua Harris, a technology early adopter who had previously founded the tech research company Jupiter Communications. Pseudo's stated goal was quite simple: to bring television online. To this end, Pseudo invested in studios and creative talent to produce dozens of different "shows"—about 240 hours of original programming a month—that it broadcast over the web from its SoHo headquarters.[58]

The shows that Pseudo produced ran the gamut of subjects, from sports to video games to music to talk shows. Pseudo combined video with online chatrooms to create programming that was self-consciously interactive. The on-air talent mixed freely with the viewers who lurked in the chatrooms and often impacted what was happening on air, in real time. Like a public access channel on hallucinogens, Pseudo claimed it was establishing an entirely new medium that would be like the second coming of television—but two-way and interactive.

If producing television for the twenty-first century was the stated goal of Pseudo, the delivery method seemed to be a 24/7, never-ending party. Harris and Pseudo became, briefly, ground zero for the New York City art scene, and Pseudo's regular events and parties put Pixelon's Las Vegas bash to shame by rivaling the artiness and excess of Warhol's Factory ("I think I'll be bigger actually [than Andy Warhol]," Harris said).[59] The Pseudo soirees featured DJs, poetry and art, but also computers and video games. "I remember that some exhibitionistic fat guy with a really tiny penis started taking a shower while dinner was going on," said a gossip writer the *New York Post* dispatched to report on one Pseudo event. "The food was quite good, but I couldn't really enjoy it because some half-naked people who seemed to think they were very important kept dancing on the table."[60] These fin de siècle bacchanals were all funded by Harris and the more than $25 million that he was able to raise from the likes of Intel and the Tribune Company, ostensibly to turn Pseudo into a broadcaster for the twenty-first century.[61]

Silicon Valley was comfortable celebrating the dot-com companies with unquestioning adulation. After all, the Valley's whole industry is predicated on

churning out the new. But New York was especially susceptible to dot-com envy, and it was there that the backlash against the bubble first began to take root. Journalists and old-media types began to look jealously at these kids, with their raves and their computers and their stock options that made them (on paper at least) worth millions of dollars for—what, exactly? Or, they could look at peers like iVillage founders Nancy Evans and Candice Carpenter Olsen, both of whom had come from publishing but had crossed the divide into digital moguldom, and were now pictured smoking enormous cigars in the pages of magazines after celebrating their record-breaking IPO.

When former Surgeon General of the United States C. Everett Koop became the eponymous public face of Drkoop.com, it must have felt like a thumb in the eye to any media celebrity who hadn't been smart enough to jump on the dot-com bandwagon sooner. Drkoop.com was nothing more than a general-interest health portal with a celebrity figurehead. Its traffic numbers were nothing special, and of course the site didn't make any money. Nonetheless, Drkoop.com enjoyed a nearly 100% first-day IPO pop and raised $85 million from investors despite reporting lifetime revenue totaling only $43,000.[62] Following this lead, veteran news anchor Lou Dobbs shocked the media world in June of 1999 by leaving his decades-long stint at CNN to launch Space.com, a space-focused portal financed by VC firms Greylock and Venrock Associates.[63] "I think most of the people here would be very insulted if somebody said the reason they are here is because of the potential of an IPO," Dobbs said of the company he quickly staffed up to about thirty employees. "I'm not saying that's not part of the equation, but it sure as hell isn't the primary reason," Dobbs was quick to add.[64]

By 1999, the faces in the annual list of the "Silicon Alley 100" included the usual suspects like Kevin O'Connor and Dwight Merriman of DoubleClick and Craig Kanarick and Jeff Dachis of RazorFish, but also Sam Donaldson of ABC News, who, late in 1999, launched a fifteen-minute, thrice-weekly, web-only video news show.[65] The Silicon Alley 100 was the yearly status list of the magazine *Silicon Alley Reporter*, launched by the New York tech gadfly Jason Calacanis to cover the New York tech scene with a slavish vigor that was intended to rival the way *Vanity Fair* covered Hollywood. Calacanis's magazine came to be seen as the calling card of what appeared to be a new media establishment, with Calacanis as the new media maestro.

At the end of 1999, in its final issue of the twentieth century, *Time* seemed to make the supremacy of the dot-coms official when it named Amazon's Jeff Bezos as its Person of the Year. At age thirty-five, he was the fourth-youngest

person to receive this accolade, after Charles Lindbergh, Queen Elizabeth II and Martin Luther King Jr.[66] James Kelly, *Time*'s deputy managing editor, wrote that Bezos had been selected because "he has helped guarantee that the world of buying and selling will never be the same."[67] When he was asked if it truly was his intention that Amazon would one day to be able to sell anything, any item, Bezos responded: "Anything, with a capital A."[68]

BY OCTOBER 1999, the market cap of the 199 Internet stocks tracked by Morgan Stanley's Mary Meeker was a whopping $450 billion, about the same size as the gross domestic product of the Netherlands. But the total annual sales of these companies came to only about $21 billion. And their annual profits? What profits? The collective losses totaled $6.2 billion.[69] "People come in here all the time and say, 'The last thing I want to be is profitable,' " one investment banker bragged in June of 1999. " 'Because then I wouldn't get the valuation of an Internet company.' "[70]

The continued craziness of the market, coupled with the increasing dubiousness of the companies and stocks that were going public, eventually pushed the bubble toward its end point. Over the second half of 1999, it wasn't a question of whether or not a bubble existed, it was a question of how big a bubble it was, and when it would pop. The entire nation seemed to be engaged in a "greater-fool" standoff. You bought stock or founded a company because you knew everyone else was doing the same. Most people knew the irrational exuberance was unsustainable, but no one wanted to be the first to admit it. After all, if you could squeeze your IPO out before the window closed, or if you could hold your Yahoo stock long enough for it to double one last time, then you could pick your moment to cash out, hopefully before everyone else got the same idea. In the meantime, you kept your own counsel and shook your head quietly as the last flood of dubious companies rushed the public markets.

Sensing this cynicism, the backlash among the New York media establishment began to creep onto Wall Street. *Barron's* came out with a widely read cover story analyzing the balance sheets of especially the ecommerce companies and warned that investor patience with continued losses was probably running out. This was coupled with distressing quarterly reports from some of the weaker dot-coms that sent their stocks downward. Even the big names began to come in for questioning. Another highly publicized *Barron's* cover story was titled "Amazon.bomb" and said, "Investors are beginning to realize that this

storybook stock has problems."[71] If Amazon, the standard-bearer for the dot-coms, was in trouble, what did that mean for everyone else? A Lehman Brothers analyst named Ravi Suria began writing scathing reports questioning Amazon's very solvency as a going concern. Suria wrote that Amazon would likely run out of cash within four quarters "unless it manages to pull another financing rabbit out of its rather magical hat." The *New York Post* headlined, "Analyst Finally Tells the Truth About Dot-Coms." Around the time Jeff Bezos was feted as *Time*'s Man of the Year, Amazon's stock hit its all-time high, a split-adjusted $107 a share, and then slowly began to drop in price.[72] In February 2000, Wall Street was shocked when Amazon announced it had sold a $672 million convertible bond offering.[73] Why did Amazon need so much cash, unless it feared it was running out?

For the better part of two years, the dot-com mania had been fueled by the This Time It's Different™ mass faith that Americans had in the promise of the Internet. That sort of new-economy mumbo-jumbo worked for the dot-com companies—until it didn't. Get Big Fast and profits-someday were valid business strategies—until they weren't. The hundreds of new companies created in the dot-com era simply pushed credulity a bit too far, for a bit too long. The flood of crap companies, especially those that came to market near the end of the bubble, could not be ignored forever. If the "good will out," as they say, then the opposite is true as well: the bad will out eventually, if given enough time.

One by one, the weakest of the dot-coms, those with the flimsiest business plans, or those that were the most blatant copycats of other flimsy ideas, began to underperform the market. Dot-coms ceased being sure stock market winners —at first in a trickle, and then all at once. Falling stock prices turned into stock market delistings and then became actual bankruptcies. Like any good game of musical chairs, when the music stopped, there simply weren't enough seats for everyone. As investors suddenly began to demand that companies show a profit for the first time, the collective response from the dot-coms was "What? You can't be serious!"