

Was Excite@Home marriage doomed at the altar?

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REDWOOD CITY, Calif.—Excite@Home picked a fitting venue for its management revival meeting last summer, perhaps unwittingly: Paramount’s Great America amusement park has been home to some of the country’s most terrifying roller-coaster rides for 25 years.

The company was in the midst of its own harrowing journey, and some managers took offense at the event’s cheerful veneer. They scorned a pep speech in which then-Chief Executive George Bell asked participants to stand up and shout a somewhat dubious new company mantra, “Recommit!”

“Everyone thought it was ridiculous,” said a former employee who attended the retreat in Santa Clara, Calif., in the heart of Silicon Valley. “They didn’t acknowledge any of the problems that were going on. They just wanted everyone to ‘recommit.’”

Excite weighs heavy

Despite an early boost from a booming stock market, Excite@Home fell victim to growth and cash concerns, leading investors to jump ship.



and a head start over would-be competitors. Billed as a “new media network for the 21st century,” Excite@Home is still by far the largest high-speed Internet service provider in the United States, and it is among the top 10 ISPs overall when measured by subscribers alone.

But these accomplishments are easily overshadowed by the obstacles Excite@Home must overcome to survive in the post-apocalyptic Internet landscape. The company’s stock is trading around 50 cents, a sliver of the \$99 share price it commanded in April

1999.

Managers had reason to be disillusioned. In September, only weeks after his pep talk, Bell resigned as CEO, sparking a broad management defection. What would follow for Excite@Home was a plunge more frightening than any Great America ride.

Despite a stock boost Wednesday over rumors of new investors, bankruptcy looms. On Thursday, Excite@Home said it does not plan to meet lenders’ demands that it pay up to \$50 million by Friday, saying the deadline is unjustified.

Only two years ago, @Home’s \$6.7 billion merger with Excite—the largest of two Internet companies—appeared to have all the makings of an industry leader: heavy traffic, popular technology, major-league financing

Sources close to Excite@Home say the marriage of the Web portal and high-speed Internet service fell disastrously short of expectations largely because of a series of management blunders. The most

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extreme problems involved integration issues—a point of particular irony because the main financial backer for both companies, Silicon Valley powerhouse Kleiner Perkins Caufield & Byers, is known for espousing the Japanese-inspired keiretsu philosophy of integrating businesses harmoniously.

“Of course, there are a thousand things you can go back and look at operationally and say, ‘Should you have done this?’ or ‘Should you have bought that?’” said Thomas Jermoluk, former chairman and CEO of Excite@Home and now a partner with Kleiner Perkins. “But if there’s one thing that you need it’s that your team needs to be singing off the same page of music. And that has never been the case with this company.”

Excite was driven largely by marketing and sales people who considered themselves pioneers of the New Economy. By contrast, those in @Home’s camp proudly branded themselves “cable guys”—older, more experienced, more hardware-oriented and suspicious of the dot-com culture. The two sides rarely, if ever, saw eye to eye.

The clash was most daunting for senior executives who suddenly found themselves confronting people with vastly different backgrounds. Sources say much of the antagonism was directed at Excite co-founder Joe Kraus, who took responsibility for cable operations after the merger. Born in 1971, Kraus personified the youth-oriented dot-com culture that others depised.

“These guys, especially the middle managers, are lifers. They’re 40, 50

years old,” a former @Home manager said of many cable veterans. “And here’s this guy who is 27 years old going in there, and the cable guys are like, ‘It’s all going to be about this? Who are you?... We own you guys.’”

It is impossible to pinpoint a single reason for the company’s decline, but some people who were at Excite and @Home in 1998 say the contentious, hastily crafted merger was doomed from the start.

At that time, the stock prices of many Internet companies were reaching stratospheric levels. Many executives knew they could not meet Wall Street’s demands for double-digit quarterly increases in revenue and customers, so they began hunting for possible mergers and acquisitions to help boost sales and traffic.

@Home, which provided high-speed Internet access through cable lines, was talking to Excite, Yahoo and Lycos in search of a partner that could give it millions of new subscribers. The goal was to get consumers who used Excite to upgrade from standard dial-up services to @Home cable modems and increase revenue by charging for ads surrounded by online articles and videos.

Excite was already in serious merger talks with Yahoo, its largest competitor. The two had all but finalized a deal in mid-December 1998, with Yahoo agreeing to purchase its portal rival for a price between \$5.5 billion and \$6 billion, sources say.

The meeting that changed everything

Then, on Dec. 19, @Home’s Jermoluk met with Excite Chairman and Chief

A broadband anatomy

Aug. 27, 2001

Promethean Investment Group demands payment for notes worth \$50 million by the end of August.

Aug. 22, 2001

Excite@Home dismisses its accounting firm, Ernst & Young.

Aug. 20, 2001

Company warns in an SEC filing that it is running out of cash and may not be able to continue as a “going concern.”

Aug. 17, 2001

Excite@Home cuts 200 jobs in its third round of layoffs.

July 23, 2001

During a second-quarter earnings call, Excite@Home CEO Patti Hart calls the company’s media properties “a disappointment.”

June 29, 2001

The company shutters operations in France, Germany and Spain.

June 19, 2001

Excite@Home plans to sell its fiber-optic network to AT&T for \$85 million. The company will pay \$8.8 million annually for the next 18 years to access the network.

June 5, 2001

Byron Smith, executive vice president of Excite Network, and Mark O’Leary, executive vice president of Broadband Services, leave the company.

April 30, 2001

Excite@Home cuts 13 percent of its work force, or 380 employees, its second round of layoffs for the year.

April 23, 2001

Former Telicity CEO Patti Hart is named chairman and chief executive after CEO George Bell resigns.

Jan. 23, 2001

The company cuts 8 percent of its work force, or 250 employees, in its first round of job cuts.

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Executive George Bell, according to documents filed with the Securities and Exchange Commission. Both companies' fates would change forever.

On the surface, a union of the two companies seemed destined by fate: The companies' headquarters were only a few hundred feet apart, separated by a small pond and sharing a common parking lot. John Doerr, a partner in their shared venture capital firm, Kleiner Perkins, cast a conspicuous shadow over both compounds when he rented a plane that flew over @Home headquarters with a congratulatory banner after the company went public.

More important from a business perspective, the companies had negligible overlap among customers and could share cross-marketing promotions and other resources.

In early January, Vinod Khosla, a Kleiner Perkins partner and Excite director, quietly approved the deal. The merger fit neatly into Kleiner's version of the keiretsu school, which emphasized the "interlocking operating relationships" between companies backed by the firm. Kleiner partners Khosla and Doerr could not be reached for comment on the Excite@Home deal.

The deal proved a lucrative exit strategy for Excite investors who were growing increasingly concerned about the company's prospects. Generally, the goal of venture capital firms is to deliver a large return to investors, either by selling stock after a company goes public or by selling the entire company at a premium.

Excite's stock wasn't falling, but it was stuck in the mid-\$40s while its competitors were soaring. More troubling to investors, some analysts were warning that Yahoo would quickly dominate the portal business, squeezing out smaller portals such as Excite, Snap and Lycos.

"The writing on the wall was that Excite would not make it on its own and needed to find a partner," said a consultant close to the deal. "The only way for Kleiner investors to get money out (of Excite) was a sale. It was going nowhere. It was clear there were more aggressive players, and Yahoo was eclipsing everyone."

A company in disarray

After the merger was thrown together, according to sources inside and outside the company, executives failed to forge an inspiring business strategy for the combined organization. Within months, rank-and-file workers were confused and disappointed.

"We were all over the map," said one middle manager from the Excite side. "We had no mission, no common vision."

In particular, sources say, tension between the board and senior executives stymied strategy. Two months after the merger was complete, directors still clashed over the merits of the deal engineered by Jermoluk, referred to as "T.J." both affectionately and derisively.

Jermoluk was one of those who departed from the traditional cable background that permeated @Home's ranks, shunning the corner office in favor of a plebeian cubicle where he

A broadband anatomy

Jan. 9, 2001

The company's worldwide subscriber base rises to 2.95 million. Also, the company scraps plans to buy Pogo.com, an online gaming site.

Sept. 19, 2000

Excite@Home CEO George Bell announces that he will resign his position yet remain chairman until the end of 2001.

Aug. 23, 2000

Subscribers top 2 million.

May 8, 2000

Tom Jermoluk resigns his chairman position to George Bell, taking a position with prominent venture capital firm Kleiner Perkins Caufield & Byers.

May 4, 2000

Several senior executives, including Adam Grosser, president of subscriber networks, and David Pine, senior vice president and general counsel, make plans to leave the company.

April 19, 2000

Following a first-quarter loss, the company says it will focus on growth rather than earnings.

March 29, 2000

Excite@Home scraps plans for a tracking stock for its media properties.

Jan. 20, 2000

The company names George Bell, former CEO of Excite, to replace Tom Jermoluk as chief executive.

Dec. 6, 1999

The company tops 1 million broadband customers.

Nov. 22, 1999

The company's board of directors approves plans for a tracking stock to track the performance of Excite@Home's media properties.

Oct. 25, 1999

Excite@Home announces plans to buy online greeting card site Blue Mountain Arts for \$780 million.

Jan. 19, 1999

@Home buys Excite in a \$6.7 billion deal.

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kept his surfboard. But others at the company loathed his management-by-consensus style and, behind his back, scoffed at what they called the Hawaiian native's "hang loose" attitude.

"He said, 'I don't want to run call centers' and all that stuff that you need," one source said of Jermoluk. "He said, 'I want to sit around the Coke machine and give rah-rah speeches.'"

@Home executives recall many conflicts between Jermoluk and then-AT&T cable Chief Leo Hindery, who adamantly opposed the merger. AT&T, which inherited its @Home stake and board representation from its acquisition of cable TV leader Tele-Communications Inc., had been a shareholder in the cable Net company for only a few months before its directors voted to acquire Excite—a second-tier Internet portal whose dot-com culture contrasted starkly with Ma Bell's conservative sensibilities.

Frustration with Jermoluk became clear at a meeting in March 1999 in the boardroom of AT&T's headquarters in New York, when several directors suggested spinning off Excite as a separate company—essentially undoing the merger only two months after the deal had closed.

"I remember the look of astonishment on T.J.'s face as he said, 'We just put this thing together, and now you're saying we should split this apart?'" said a former Excite@Home board member who attended the meeting. "Other members of the management team were civil, but you could see some of their faces turning red."

In an interview Thursday, Jermoluk acknowledged that his dot-com management style often put him at odds with the more formal AT&T veterans and directors. But he defended his approach as appropriate and even necessary to compete in the Gold Rush frenzy that had gripped the Internet industry.

"It was a go-go time. We were hot. We could raise capital at will and had an opportunity to build something that couldn't be duplicated," Jermoluk said. "But had we not, you could have just as easily said, 'Why didn't you build when you could?' And there was competition from DSL. So there were reasons why we had the accelerator to the floor. Personally, I don't look back and think that was a mistake."

Boardroom brawls and absentee landlords

Infighting and rumors weren't the only impediments to crafting a cohesive business strategy.

Executives were also preoccupied with the so-called open-access battle for cable lines. The issue flared in November 1998, only weeks before the merger, when an Oregon regulatory agency forced TCI to share the @Home network with other Internet service providers. Adding Excite's content to @Home's Net connections intensified the regulatory scrutiny already focused on the company.

"It opened a political Pandora's box, the likes of which the cable industry hasn't seen in years, which was content blended with access—which is motherhood and apple pie," one source said. "It opened the cable operators to open-access regulatory

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Thomas Jermoluk,
former CEO of Excite@Home

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A consultant close to the
Excite@Home merger deal

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issues. It was about using distribution to discriminate your content against another man's...and it was a black hole financially."

Battered by the mounting pressures inside the company and beyond, Jermoluk "checked out" of day-to-day operations, according to executives who worked with him at the time. In his remarks Thursday, he blamed his conspicuous absences on the long-simmering open-access issue, which required him to spend more time with lawyers at AT&T's headquarters in Basking Ridge, N.J.

"I moved to New York to do nothing but run the business development and legal process with AT&T's lawyers," Jermoluk said, adding that he needed to be close to AT&T executives on Excite@Home's board because they were considering buying out stakes held by Cox Communications and Comcast or selling portions of the Excite@Home business to Microsoft, Disney or Yahoo. "It was all-consuming for me...I couldn't possibly have handled both the day-to-day operations and worked with AT&T on these various business deals."

About a year after the merger was announced, he resigned as CEO, staying on as chairman but handing the chief executive role to president and former Excite Chief Executive Bell. But that did little to resolve the absentee problem at the helm of the company.

A few months after he took over, Bell told senior executives that he would work from Massachusetts. Sources close to Bell said his wife disliked Silicon Valley, and the couple enrolled their children in a Boston school late

in the spring of 1999. Last summer, they moved to New England.

"T.J. became an absentee landlord, and then passed it to George, who moved to the East Coast. That's two fatal things right there," said one of the early Excite executives who resigned from Excite@Home after the merger. "The guy who built the company checked out, and the next guy who takes it over moves away? You can't run a company that way."

With no clear direction, senior executives turned to what they knew how to do best: spend money. The company doled out hundreds of millions of dollars in acquiring smaller companies to grow Excite@Home's customer base, but the advances were only incremental.

In July 1999, Excite@Home purchased iMall for about \$425 million in stock. In December 1999, Excite@Home acquired online greeting-card site Blue Mountain Arts for about \$780 million in cash and stock. Under the terms of the agreement, Excite@Home issued about 11 million shares, worth about \$430 million, and paid \$350 million in cash—a highly unusual payment in a bull market that favored stock swaps.

"@Home's ability to grow was not exponential, but one household at a time. We were on a linear growth path, while the whole industry around us was on an exponential growth curve," said Charles Muldow, who was on @Home's founding team and served as vice president of business development and media sales and marketing. "The idea was, let's acquire some businesses."

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An Excite executives who
resigned after the merger

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Jermoluk casts the situation in a broader perspective: "You've got to remember that at the time AOL had just bought Netscape, and Yahoo and everyone was trying to partner with everyone else. And it was clear that what people wanted to emulate was AOL with their content. It seemed like a good idea at the time."

The plight of @Home may be one of the more striking tales of the Internet era, but the histories of countless other online companies will be told with Icarus-like metaphors. In the colossal bust that has befallen the Internet industry, it is unclear how well Excite@Home would have fared even if it had done everything right.

"As we move through these challenging times, Excite@Home is evaluating all its options, including potentially selling the media assets, negotiating relationships and seeking funding," the company said in a statement Thursday. "We will continue to make decisions that enable the delivery of the best broadband experience on the market."

It may be interesting to see what role Kleiner Perkins plays in those decisions. One consultant said Excite@Home's failures should make executives question the motives of all venture capitalists, contending that Kleiner partners look only for ways to cash out rather than create a sound company or protect employees.

"This one I'd chalk up to something the VCs pushed, then walked away from," the consultant said. "Just like they pushed too many companies into public markets, they pushed too many companies together...We'll see a lot more of these." ■

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