GRADUATE SCHOOL OF BUSINESS
STANFORD UNIVERSITY

CASE NUMBER: E-100
AUGUST 2001

FOGDOG

On December 28, 2000 Tim Harrington, the CEO of Fogdog, Inc., completed the sale of Fogdog to Global Sports, Inc. for approximately $22.3 million in Global Sports stock. Fogdog was an online sporting goods retailer that offered an extensive product selection, detailed product information, and other value-added services, including a selection of up to ninety thousand distinct stock keeping units representing more than six hundred brands in all major sports categories. Fogdog featured a collection of specialty shops, including soccer, baseball, golf, outdoors, memorabilia, and other popular categories, organized to appeal to a broad base of customers from the avid enthusiast to the occasional participant. The company also provided information and analysis authored by its own experts, helpful shopping services, innovative merchandising, and an emphasis on customer service to help customers make more educated purchasing decisions. Fogdog had been a public company for a little over one year and was one of the companies that had "caught the Internet wave" of the late 1990s.

Since joining the company as its president in June 1998, when it had approximately twenty employees, Tim had facilitated the closing of Fogdog's first significant round of venture capital, helped re-focus the company's strategy from e-commerce and Web site development to just e-commerce, and re-launched the company and its Web site under the "Fogdog" name. In January 1999, Tim rose to the position of CEO and under his leadership Fogdog raised two more rounds of venture capital and made an initial public offering ("IPO") of its stock in December 1999. However, during the course of 2000, the market for Internet stocks turned bearish and the share prices for many companies began to fall precipitously. Fogdog performed according to its plan, but by fall 2000, its board recommended selling the company. In light of the significant amount of time required for Fogdog to reach profitability and the challenging financing environment faced by Internet companies, the company's directors considered it too risky for Fogdog to remain as a stand-alone entity.

Tim knew that Fogdog's rapid growth and eventual sale was affected by the extraordinary business climate for Internet companies in 1999 and 2000. When he joined the company in the summer of 1998, he envisioned building a great online sporting goods retailer. He and his

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This case was prepared by Christopher S. Flanagan under the supervision of John W. Glynn, Jr., Lecturer in Business, Stanford University Graduate School of Business, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

This case was made possible by the generous support of the Mayfield Fund.

Version (A): 08/29/01

management team were disappointed not to have the chance to continue building Fogdog. As he drove away from the closing meeting on December 28, 2000, Tim wondered what, if anything, could have been done to keep Fogdog an independent company.

BACKGROUND

Fogdog was founded in 1994 by three Stanford University undergraduate classmates — Brett Allsop, Robert Chea, and Andrew Chen. Also part of the founding team was Marcy von Lossberg, hired in January 1995 as the company's CFO. The company originally was called the Cedro Group, Inc., after the three co-founders' freshman dorm at Stanford. Originally, Cedro provided Web development and design services to sporting goods manufactures, trade associations, retailers, and other industry members. Early on, the co-founders convinced two Stanford instructors, Mark Jenkins and Sam Comfort, to become advisors to the company. Cedro's initial capital was raised from Jenkins, Comfort, and the Allsop family. Comfort facilitated the raising of additional capital, which closed in September 1996, from a small venture capital firm called Novus Ventures. By late 1997, the company launched a Web site called "SportSite.com" and established partnerships with sporting goods catalog and distribution companies to process orders, manage inventory, and ship goods directly to customers. Those orders were shipped under the partners' names, not under SportSite. SportSite.com eventually became a Yahoo! endorsed e-commerce sports portal. In late spring 1998, as Internet and e-commerce companies began to attract increased attention from the venture capital community, Cedro sought to raise significant capital from more established venture capital firms in order to complete the entry into sporting goods retail and leave behind the web development business. The company managed to secure a $4.5 million term sheet from Rayburn Smith Adams ("RSA") and J. R. Simpkins ("Simpkins"), two prominent venture capital firms. However, as a condition to investment, RSA and Simpkins required that the company hire a more experienced president to complement Brett, who had served as president since the company's inception, but had limited experience running a growing, institutionally funded enterprise.

TIM HARRINGTON

Through his position at Cedro, Brett had become acquainted with Tim Harrington, who was general manager at GolfWeb, Inc., a golf information and e-commerce Web site. Tim had previously held management positions at IBM for sixteen years, and at Cobra Golf, a manufacturer of golf equipment. Tim had an MS degree from Stanford University Graduate School of Business, where he had been a Sloan Fellow, and a BBA degree from Siena College.

Brett thought highly of Tim and thought Tim possessed the right characteristics to take over leadership at Fogdog and felt that Tim would fit in well with the Fogdog team. Tim responded favorably to Brett's inquiry about his interest in the position and was brought in to interview with management, the board, and the company's investors. "Tim was well-liked by all," recalled Comfort, and in June 1998 was hired as the company's president and chief operating officer and was appointed to the company's board of directors.

With Tim on board as president, Cedro was able to close the $4.5 million investment by RSA and Simpkins, which gave the company a $10 million post-money valuation. Upon closing the transaction, RSA appointed Ed Rayburn, one of its senior partners, and Simpkins appointed Jesse Newfield, also a senior partner, as representatives to the company's board of directors. At that time, Cedro's board was comprised of seven individuals: Allsop (chairman), Harrington (president), Comfort and Jenkins (Angel directors), Dan Tompkins of Novus Ventures, Rayburn, and Newfield (venture capital investors). (See Exhibit 1 for a chronology of the company's board membership and Exhibit 2 for selected management biographies.)

FOGDOG RELAUNCH

Tim rapidly began growing the company's management team, adding senior-level executives in marketing, merchandising, site design and production, and operations. The number of employees grew from twenty-two to more than seventy in just under six months. Cedro's new management team decided to sell its Web site development business and focus on building its e-commerce brand and retailing operations. During the second half of 1998, Tim focused on redirecting the company based on those directives. Jenkins commented on the effects that raising institutional venture capital and the "frothy" new economic environment had on the company:

> RSA and Simpkins came in and wanted to make the company into the Amazon.com of sporting goods. Cedro's strategy shifted from being profit-focused to fast-growth-focused. At that time, when it was relatively easy to raise capital, the company's objective became: raise large amounts of money, gain a first mover advantage, and win by might, muscle, and brawn. As a result, the core business plan was lost along the way. It was a product of the heady times in the venture capital and public financial markets.

In November 1998, after a great deal of work, the company relaunched as a pure-play e-commerce sporting goods company. The name "Fogdog" was proposed by an outside naming firm, and was derived from a nautical term meaning "an arc or ray of light seen burning through the fog." Prior to the Fogdog launch, the company's e-commerce business took orders online and then forwarded those orders to back-end catalog partners who carried inventory, fulfilled orders, and registered sales. In order for Fogdog to become a true e-commerce company, it had to take credit cards online, buy inventory, and begin building direct relationships with its customers. Preparing the company for those changes to its business model required significant effort in engineering, distribution, marketing, and operations. At the time of the November launch, Fogdog operated under a mixed model; some of the company's orders were handled in-house and others were handed off to third parties in return for a commission. However, management's stated goal was to take all credit cards and have all of the company's sales come from direct sales rather than commissions. By the second quarter 1999, Fogdog had achieved that goal.

Phil Winters, who joined the company in January 1999 as vice president of business development, was instrumental in Fogdog's effort to fine-tune its business and order fulfillment model. Prior to joining Fogdog, Phil had spent twenty years in United States Naval Aviation focusing on such areas as global logistics, operations, and strategic management. Phil commented on Fogdog's strategy for fulfilling orders and distributing its products:

> We didn't have a distribution center. Initially, we had two partners that fulfilled orders on the back end and our model was based on leveraging inventory that we owned, as well as inventory that our partners owned. Ultimately, we anticipated that Fogdog would own about 35 to 40 percent of the inventory, and our fulfillment and distribution partners would own the other 60 to 65 percent. Our

> goal was to focus on what we believed to be Fogdog's core competencies — marketing and building the brand — and not be encumbered by inventory issues that often burn traditional sporting goods retailers. Fogdog had one distribution partner in sporting goods, one team sports distributor and, eventually, an outdoor catalog partner. With those partners we set up a system whereby we could leverage their capabilities (i.e., inventory and/or their ability to pick, pack, and ship). When one of our partners sent out a package to a consumer, after receiving the order from us, it was branded and labeled Fogdog inside and out — the packing slip, the box, everything. So, to the consumer, the product came from Fogdog and these partners were invisible. Over time, we worked to build up this virtual distribution network and it became a real strength of ours.

In early 1999, Fogdog management also began to explore the possibility of forming a "brick and mortar" partnership with traditional sporting goods retailers that wanted a Web presence. Although Fogdog was considered a "pure-play," or Internet-only, online sporting goods retailer, which was, according to Tim, "a strength at the time," management viewed a "brick and mortar" partnership as important to the long-term success of the company. Presumably, a brick and mortar partner would benefit Fogdog in inventory and customer acquisition, providing relationships with sporting goods manufacturers, as well as customer service. Those manufacturer relationships were critical to acquiring the key branded products that are instrumental in driving sporting goods sales. Fogdog would benefit a brick and mortar retailer by offering a new distribution channel, technological expertise, and a new means of acquiring customer information. Initially, however, Fogdog and potential brick and mortar partners had difficulty coming to terms on how such a partnership would be structured. Brick and mortar retailers seemed unwilling to take on any more inventory risk than they normally possessed. In addition, according to Fogdog management, the brick and mortar retailers believed that they brought more value to the partnership table, particularly as the costs to develop an e-commerce strategy came down. Nevertheless, management endeavored to form some sort of brick and mortar partnership and continued to hold discussions with potential partners.

SERIES C FINANCING

In March and April 1999, with the venture capital financing markets continuing to prove favorable, Fogdog raised an additional $18 million in Series C preferred stock, giving the company a post-money valuation of $43 million. The new money was put up by Fogdog's existing investors as well as several new investors, including Venrock Associates, Marquette Ventures, Sprout Group, Vertex Management, and Intel. Two of these firms appointed representatives to the board of directors and Dan Tompkins stepped off, which increased the size of the board to eight: Allsop (chairman), Harrington, Comfort, Jenkins, Rayburn, Newfield, and Ross Sanders and Charlie Parker, the two new venture capital directors. As a result of the Series C financing, the composition of the board shifted considerably, such that half of the board seats were held by venture capitalists.

At that time, the company's investors encouraged management to push forward aggressively with its business model. A number of other Internet companies at similar stages in their business cycles had made initial public offerings or filed for IPOs, so Fogdog considered doing the same. Management began to hold preliminary discussions with investment bankers. At the same time, management continued to hold discussions with potential brick and mortar partners, but was unsuccessful in making much progress. Tim commented on the challenges the company faced in securing a favorable brick and mortar partnership:

> Potential partners saw us as an early stage company that did not bring much value to the table. Consequently, they wanted 90 percent of the economics of any potential partnership. Our view was that they did not understand technology or the Internet and that any partnership should be more balanced than they were proposing. Thus, we did not get very far in our discussions because our partners did not give us much credit. I remember one guy who said, 'Hey, I could just hire seven engineers and I could have the world's best Web site up in a day.' That was how naïve they were relative to the situation.

DYSFUNCTIONAL BOARD?

By the end of the summer of 1999, the composition of Fogdog's board had shifted again. This time, there were no new board seats added; rather, a couple of the venture capital firms that had board seats switched out their representatives. Ed Rayburn, whose abilities had been stretched due to other portfolio company commitments, decided to step off the board and asked one of his associates, Tom Ford, to serve in his place. Sam Comfort agreed in principle with this change, indicating that he had "never laid eyes on Rayburn" in the year he had been a board member. Earlier, Jesse Newfield had handed over his board seat to another Simpkins representative, who subsequently dropped off the board leaving Simpkins to be represented by Chris Timmons. Ford and Timmons were bright, talented guys, but they were young and possessed much less experience than some of the other board members. After the changes in board composition, the overall membership stayed at eight. Allsop, twenty-nine years old at the time, remained as chairman, though he relocated to London to establish Fogdog operations there. Tim was the only other company representative. The two Angel directors, Comfort and Jenkins, remained, but they had stated their interest in stepping off the board if and when the company went public. Two of the four venture capitalist board members were in their late twenties and early thirties, respectively.

It became apparent to several directors that the board as a group was becoming somewhat dysfunctional. According to many, the primary reason was a lack of strong leadership on the board. Comfort reflected:

> When Tim was promoted to CEO, the board did not want to 'de-motivate' Brett too much, so he remained as chairman. Brett was a great guy, but given his age and experience it was challenging for him to lead the board effectively. Fogdog needed a strong chairman. The board needed to divvy up tasks and drive things to conclusion. Instead, issues would sit and fester. There was little to no process on the board. Tim might have been an obvious candidate to take over the role of chairman, but he did not communicate enough with all of the directors and, consequently, became at odds with a couple of them. Given that some of the directors were disappointed with Tim, it would have been difficult to try and push for him to become chairman.

Charlie Parker also commented on the leadership challenges the board faced: "Brett was basically ignored as chairman. Thus, the reason that the board did not function very well was because of the CEO. Tim wanted to run the company without interference from the board.

Several decisions were made before board meetings, without the board's input, which caught directors by surprise."

Tim Harrington commented on the process for Fogdog board meetings, as well as on informal communication at the board level:

> As a private company, Fogdog held monthly board meetings. On average, one representative would miss each meeting, but no individual person was absent more than any other. A couple of days in advance of each meeting, we would send out a board package that included a meeting agenda, financials, and charts on other topics to be covered. In my opinion, several folks never looked through the package before they arrived at the meeting. In between formal board meetings, I frequently called Comfort and Jenkins to solicit their opinion on some matters. I probably needed to do a better job soliciting the opinions of other directors, but I felt that some of the directors often took views and positions that, in my opinion, lacked a real understanding of the business. This might have been a result of their being 'stretched' by other board and business commitments they had. Thus, my view was 'better to ask for forgiveness than beg for permission,' especially in light of the fact that we were making our numbers and had significant interest for additional investment.

In addition to board leadership issues, Fogdog also had a couple of new and relatively inexperienced board members who were eager to add value. "They were full of ideas, but not a lot of experience," stated Comfort. "Because they were so young, they really did not understand what the role of a director was." As a result, Tim and some members of his management team had to spend considerable time responding to some of the younger directors' requests for certain information, analysis, and answers. Comfort recalled one instance when Ford went around Tim and contacted Fogdog's vice president of engineering, giving him a list of "to dos" for the company's next Web site rollout. "I had to send Ford an e-mail telling him that he shouldn't go around the CEO and issue orders to one of his direct reports," stated Comfort. "He meant well, he was just relatively inexperienced and overly enthusiastic."

Despite the communication challenges Fogdog faced among its board members and between directors and management, Tim and his team continued to execute, more or less, according to plan. "Tim and his team did a fantastic job in terms of execution," recalled Comfort. Jenkins added that Tim had executed effectively with respect to the CEO job as it was represented to him by the board. Management and the board knew that the financing winds were at the company's back and that Fogdog needed to continue pushing towards an IPO. In September 1999, Fogdog added Ralph Parks to its board, the company's first independent, outside director. That addition increased the board membership to nine. Parks had previously been president of Footaction USA, a footwear retailer, and brought to the company a wealth of sporting goods experience.

NIKE DEAL

In addition to recognizing the value of a potential brick and mortar partnership, Fogdog management also realized the value of other possible partnerships, most notably with strong-branded sporting goods manufacturers. Unquestionably, the king of the sporting goods manufacturing world was Nike. Fogdog management contacted Nike early in the summer of 1999 about forming some sort of alliance. Tim recalled that Fogdog management's attitude was "if we can convince the best brand in sporting goods to partner with us, then other brands will fall into line." After a few preliminary meetings, Nike eventually became intrigued by the idea of a partnership and in September 1999, the two companies announced an agreement whereby Fogdog would become the exclusive Internet-only retailer of Nike products, with the exception of Nike's own Nike.com. The exclusive nature of the agreement with Nike would expire in March 2000, but Fogdog management considered winning the alliance to be a real coup in enhancing the credibility of Fogdog's brand. As part of the deal, Nike received warrants to purchase just over four million shares of Fogdog stock at the Series C price of $1.54 per share. Fogdog offered the warrants as part of the deal to align Nike's incentives. If Fogdog did well, then so did Nike. In that sense, the structure of the deal was modeled after the agreement that Priceline, the leading online retailer for discounted airline tickets, had formed with Delta Airlines. Tim reflected on Fogdog's value proposition to Nike:

> We told Nike that we could be incredibly strategic for them in building and portraying their brand in the new Internet medium. We explained to them how, through us, they could leverage the Internet not just in selling stuff, but also in communicating with their customers. We were pitching a tremendous communication vehicle that manufacturers had never had before and did not know quite how to administer and interpret. We executed on what we told Nike we would do. We built online brand shops for them and they loved that! They saw value in what we were doing, we made good on our promises, and by doing that we broke through the noise in the marketplace. Nike also wanted to extend its leadership role in sporting goods to the Web space, and by making its first-ever investment in a retailer, it pre-empted other players in one bold move.

As Fogdog management negotiated its retailing agreement with Nike, it also was in the process of recruiting Tim Joyce, a twenty-year Nike veteran, to serve as the company's president. When Joyce accepted the position in August, management worried about the implications of hiring Joyce on the pending business deal with Nike. "Fortunately for us, Nike embraced the fact that the person who was going to be president of Fogdog was someone who understood how Nike felt about its brand," recalled Winters.

As the fall of 1999 progressed, Fogdog closed a Series D round of financing, raising approximately $15.3 million at a post-money valuation of $170 million. The vast supply of private capital available to a company like Fogdog astounded some of the company's own directors. Jenkins recalled that in that environment, "the cost of capital was virtually zero." "It was all about the money and the company's investors pushed Fogdog to file for an IPO while the window was open. The venture capitalists never wavered from their objective, which was to gain liquidity." Fogdog did file for an IPO in the fall of 1999, securing CS First Boston as its lead investment banker. The company also explored expanding into Europe at the time, but decided to hold off until after the IPO was complete. The company raced to complete its IPO in early December 1999 for several reasons: Y2K concerns were still rampant, so the bankers weren't sure what would happen to the IPO market in January, and the company wanted the holiday quarter to be its first public reporting period. Tim and Marcy, along with the company's legal and audit teams, raced to file and execute the IPO in less than four months.

"FOGD"

On December 9, 1999, Fogdog issued common stock to the public in an initial public offering. Its shares traded on the Nasdaq Stock Market under the ticker symbol "FOGD." The company issued six million shares at an offering price of $11 per share, and exercised about half of an over-allotment option for an additional nine hundred thousand shares, raising a total of about $66 million, after fees. On its first day of trading, FOGD traded as high as $22. In the few weeks following the offering, Fogdog's stock price closed as high as about $15 per share before settling in the $10 range, where it remained for the next two months (see Exhibit 3 for the company's historical stock price graph). As a result of the offering, Fogdog had about $90 million in cash. Although substantial, this amount was not scheduled to sustain Fogdog to profitability.

Having successfully completed Fogdog's IPO in the United States, in early 2000, Tim and Brett started to spend considerable time in Europe establishing Fogdog's presence there. Over the previous several months, there had been a lot of interest in Fogdog from the European financial community, so management thought it wise to take advantage of that interest and become an early mover in the European marketplace.

In addition, management continued to hold discussions with potential brick and mortar partners in the United States; however, those discussions continued to progress slowly. In the wake of Fogdog's IPO, management believed Fogdog should be able to extract more favorable terms than those proposed in earlier partnership discussions. Tim explained:

> At one point, I think we had an $850 million to $900 million market capitalization, which was a higher valuation than many of the parties with whom we were in discussions. So I went to the negotiating table and said that the economics for any deal should be more favorable to us. The potential partners were not interested in such a deal because there was not a lot of upside for them if Fogdog possessed a majority of the economics.

After the company made its IPO, Fogdog's board began to show signs of change as well. Comfort and Jenkins reaffirmed their interest in stepping off of the board, as neither of them had ever intended to be directors of a public company. Comfort resigned from the board in March 2000, as did Chris Timmons, reducing board membership to seven. Tim had an interest in replacing some of the company's venture capitalist directors with independent, more operations-focused board members. As such, he identified several potential candidates and proposed them to other members of the board. However, according to Tim, several of the venture capitalists were reluctant to give up their board seats.

By the end of the first quarter 2000, the previously favorable public markets in both the United States and Europe started to retreat, causing Fogdog's stock price, as well as those of a host of other Internet companies, to tumble. As a result, the European financial community's interest in the company dried up. Management had pledged not to use any of the money raised in the United States to finance the build-out of the Fogdog's European operations; thus, it was decided that the company would pull out of Europe early in the second quarter 2000.

TENSION MOUNTS

At the time of Fogdog's annual shareholders' meeting in April 2000, Jenkins decided not to stand for re-election to the company's board. In addition, Brett Allsop, who had moved overseas to establish the company's European operations, decided he wanted to remain in Europe for personal reasons. Brett left the company and resigned from his position as chairman. The board elected Ralph Parks as the company's new chairman. Shortly thereafter, Donna De Varona, the former Olympic swimming champion, was added as a director, with the hope that she would be able to assist the company in tapping the women's market, as well as in securing various media partnerships being explored by management. Charlie Parker reflected on the resignations of both Comfort and Jenkins: "Comfort and Jenkins were good guys, they came to meetings prepared and offered sound counsel. Their resignations from the board were a loss to the company." After the various director changes, board membership had decreased to six individuals: Parks (chairman), Harrington, Sanders, Parker, Ford, and De Varona. Harrington remained as the only company representative on the board and, with less than two years experience with the company, was its most senior director.

In the next few months, management continued to pursue partnership talks with a number of brick and mortar companies, as well as media entities. Between the time Tim had joined the company in 1998 and the middle of 2000, management had held discussions with several major sporting goods retailers in the United States. Several of them had aligned with Global Sports, a public company that was arguably Fogdog's chief competitor, although many remained independent as either significant stand-alone entities or relatively smaller players that seemed ripe to form some sort of potential online partnership (see Exhibit 4 for a listing of brick and mortar sporting goods retailers).

By June 2000, the post-IPO "lock-up" period had ended and Fogdog insiders were free to sell previously restricted shares; however, the company's stock price had sunk below $2 per share by that time and continued to slide. Potential brick and mortar partners became increasingly nervous about a Fogdog partnership given the state of the public markets. According to Fogdog management, the brick and mortar players once again regained a more favorable negotiating position in the partnership discussions. "Because of the market dynamics, we could never lock in on a valuation that was a win-win for both parties," stated Tim. As a result, partnership talks stalled.

The external environment quickly began to take its toll on the internal workings of Fogdog. Functional challenges experienced by the board seemed to exacerbate. Three board members shared their feelings about the state of affairs at Fogdog, the way the company and the board were being managed, and their experiences as directors:

> My experience as a director of Fogdog was not a positive one. The board was not as cohesive and functional as other boards that I have served on in the past. I was disappointed in a couple of the directors' agendas, and, in general, believed that the board could have done a better job for the company and a better job supporting the CEO.
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> In my mind, being a public company did not change the fact that Fogdog was still a start-up. The company merely became a start-up in public clothing. It is too difficult for a young company to try and re-engineer its business model after it

> becomes a public company, which was what Fogdog was trying to do. The company had too much money and did not spend that money in a wise fashion. It was all part of the times.
>
> I did not want to step off of the board because I thought that I was the only director raising tough issues. By mid-summer 2000, it became apparent to me that the company's customer acquisition costs were too high. In my opinion, the company could not sustain itself if it had to keep paying the levels it was paying to acquire customers. It was then that I recommended that the company consider putting itself up for sale.

By the end of August, Fogdog's stock price hovered around $1 per share, or 91 percent below its IPO price of eight months earlier. Selected board members became concerned about the company's future prospects, particularly since the $42-plus million in cash it had left was only scheduled to sustain the company for a little over a year given its burn rate at the time. And the capital markets were virtually closed to companies such as Fogdog. However, management remained optimistic since the company continued to meet or exceed its sales and margin targets (see Exhibit 5 for selected company financials).

EXPLORING ALTERNATIVES

In early September 2000, Global Sports secured a $41 million investment from Comcast and QVC. The investment put Global Sports in an especially strong cash position and solidified Global Sports as a formidable competitor to Fogdog. Over the previous several months, Global Sports had established partnerships with a number of brick and mortar sporting goods retailers, making it a true "brick and click" player in the sporting goods retailing industry (see Exhibit 4). Fogdog's management and board began discussing the company's competitive position and brainstormed about alternatives available to the company at the time. Taking a "hard line" view, Parker suggested that Fogdog's only real remaining value was its cash. "Fogdog was not an asset intensive business, so it did not possess much in terms of asset value. Similarly, the company's expertise, although important, did not hold much economic value. Thus, I believed that cash was the only real value left in the company," recounted Parker.

Since management projected that Fogdog would need at least an additional $15 million to $20 million to reach profitability, the board outlined the alternatives available to the company given the cash it had. Due to the extremely tight financing environment for Internet companies at the time, raising more capital was not a viable alternative for Fogdog. The company's investors would not commit to putting in more money, and it was very difficult to raise more capital without their endorsement. Furthermore, any potential new investors would have difficulty committing to an investment without knowing the company's fourth quarter 2000 results, Fogdog's most important fiscal quarter. As a result, the board determined that Fogdog management possessed four alternatives: (1) amend the company's business model to achieve profitability with the cash available; (2) use the company's cash to start a new business; (3) shut the company down and distribute the cash back to Fogdog's shareholders; or (4) sell the company.

The second option was soon dismissed, for there were no new business ideas that merited investment of Fogdog's cash. The third option was also dismissed since the venture capitalists that made up half of Fogdog's board were inherent optimists, and liquidation costs would use up a lot of cash, leaving a relatively small amount for distribution. Thus, the Fogdog board and management team focused on pursuing option one, which still might have included a partnership with a brick and mortar retailer. Option four was reserved as an option of last resort.

Tim felt as if Fogdog's venture capital investors were deserting him and his management team. From his perspective, the passion that his investors had exhibited when he joined the company had waned, despite the fact that the development of Fogdog's business was proceeding according to plan. Tim elaborated:

> Early on, what Fogdog set out to do had never been done before. Yet, our venture capital investors were full of confidence, took financial risks and backed us in every private financing round. Then, once we were a public company and were more or less hitting our metrics, they lost their enthusiasm. Where did their confidence and desire to build and run a great business go? I don't know whether they lacked confidence in me closing a brick and mortar deal or whether they did not spend enough time with the company to truly understand Fogdog's market. Whatever the reason, I think they began to panic a little too early.

In response to Tim's sentiments, Charlie Parker expressed that the attitudes exhibited by Fogdog's venture investors at the time were driven by the overall environment faced by Internet companies and were not necessarily Fogdog-specific. He also commented that, in general, venture capitalists were over-committed in terms of the number of board seats they held, which limited the amount of time they could spend with any one company.

Regardless of the reasons why Fogdog's directors grew concerned about the company's prospects, Tim and his management team diligently revisited the company's business plan to determine what could be amended in order for Fogdog to reach profitability with the cash it had on hand.

OCTOBER 8, 2000

Over the course of September, management worked to find a way for Fogdog to reach profitability without raising any additional capital and continued to hold discussions with potential brick and mortar partners. By the middle of the month, discussions with one potential partner had progressed significantly, but independent of that partnership, Tim and Bryan LeBlanc, Fogdog's new CFO, had difficulty devising a plan that would enable Fogdog to reach profitability. According to their analysis, the company needed $30 million in quarterly revenue to achieve profitability, versus the $10 million in quarterly revenue projected for the fourth quarter. Tim and Bryan worked on a number of scenarios, but they came to the conclusion that there was no way Fogdog could achieve profitability with the just cash on its balance sheet. In response to that conclusion, Tim and Bryan received some "push back" from their board. Tim recalled:

> Ralph Parks, who was a conservative, old economy, sporting goods industry guy, basically did not believe us. He said 'there has to be a way.' He thought we could achieve profitability if we cut staff and dramatically reduced expenses. The rest of my management team and I believed that the company needed to grow to reach profitability, and it needed to spend money in order to grow. Ralph's

> response to that was 'if the company does not have enough cash to get to profitability, then it is pointless.'

Although a brick and mortar partnership would not have guaranteed that Fogdog would reach profitability with the cash it had, it might have increased the company's chances. Partnership terms being discussed at the time would have involved a cash payment to Fogdog by a brick and mortar retailer. In addition, such a partnership would have enabled Fogdog to spend less money on inventory and customer acquisition, as the company could have benefited from the inventory and customer base possessed by a brick and mortar partner.

By the beginning of October 2000, despite management's best efforts, the brick and mortar retailer with whom management had negotiated extensively decided to back out of the deal. Time was running out, but management did not want to give up yet. Tim scheduled a board meeting for Sunday, October 8, 2000 to present a series of "what if" scenarios that would enable Fogdog to achieve profitability. Tim commented on the content and tone of the October 8 meeting:

> Bryan and I walked through a number of scenarios and our basic attitude was that Fogdog did not need the market to turn around tomorrow to succeed. There was a good chance that we would make our fourth quarter numbers, we had $42 million in cash and there remained some potential partnership deals that could have been worked. If we continued to deliver good value to the customer, then a lot of opportunity still existed for us. We had enough cash to carry us to 2002. We were not desperate for cash tomorrow.
>
> However, there was no buy-in from any of our directors. I think they had made up their minds before the meeting even started. Their view seemed to be 'okay, we have had several conversations with potential brick and mortar partners, but we still don't have a deal. The company is burning cash every day, but there is no independent scenario that will get us to profitability. There is no hope that the market is going to turn around and if the company does not make its fourth quarter numbers, we are finished.'

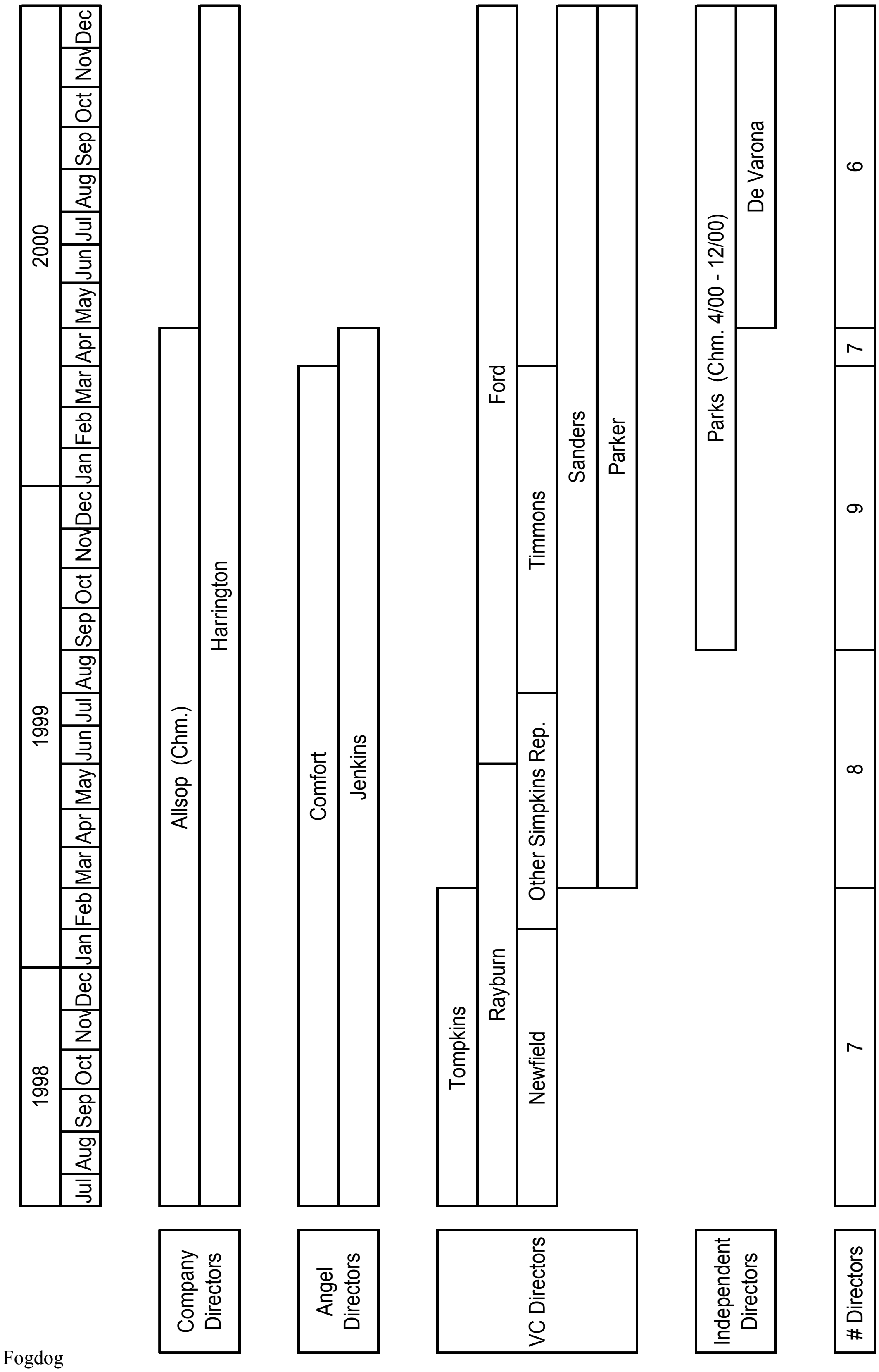
There was some discussion but not a lot of debate among the board members, and upon conclusion of the meeting, the majority of the board agreed that Tim should proceed with an expeditious sale of the company. "It was almost 'sell it at any price,'" stated Tim.

Conclusion

On Monday, October 9, 2000, Tim placed a call to the CEO of Global Sports to discuss the potential sale of Fogdog. On Tuesday morning, October 10, Global Sports' CEO was at Tim's house discussing the terms of a potential deal. Within two weeks, the two companies had agreed on a definitive term sheet with no "outs." On October 24, Fogdog and Global Sports announced a deal whereby Global Sports would acquire Fogdog's brand, technology, and assets for approximately 4.95 million shares of Global Sports' stock. At the time, the deal was valued at approximately $38.4 million. As part of the acquisition, only twenty-five members of Fogdog's technical staff would stay on with the combined company, and the rest would be let go. According to Tim, Fogdog's employees were shocked by the merger announcement and the overall turn of events at the company. The majority of them had believed that Fogdog would have remained independent and true to its original mission.

On October 28, Fogdog management laid off twenty-four employees and more layoffs occurred over the course of the fall. Depending upon an employee's position and time of service with the company, one-to-four month severance packages were granted. On December 28, the deal closed and was ultimately valued at approximately $22.3 million, due to a decrease in value of Global Sports' stock in the two months between the announcement of the merger and closing. Fogdog, the brand, would survive, but its existence as an independent company was over. Tim and his management team realized that the rise and fall of Fogdog was a function of some extraordinary times in both technological innovation and in the financial markets. However, they could not help but wonder what would have happened if Fogdog had hit its fourth quarter numbers as an independent company, and if it had been given the chance to wait out the tight financial markets with the cash it possessed. Considering the unique environment at the time, it is not clear whether anything would have changed the end result, but, as Tim drove away from the closing meeting, he could not help but wonder what could have been done differently.

Exhibit 1
Chronology of Fogdog Board Membership
1998–2000



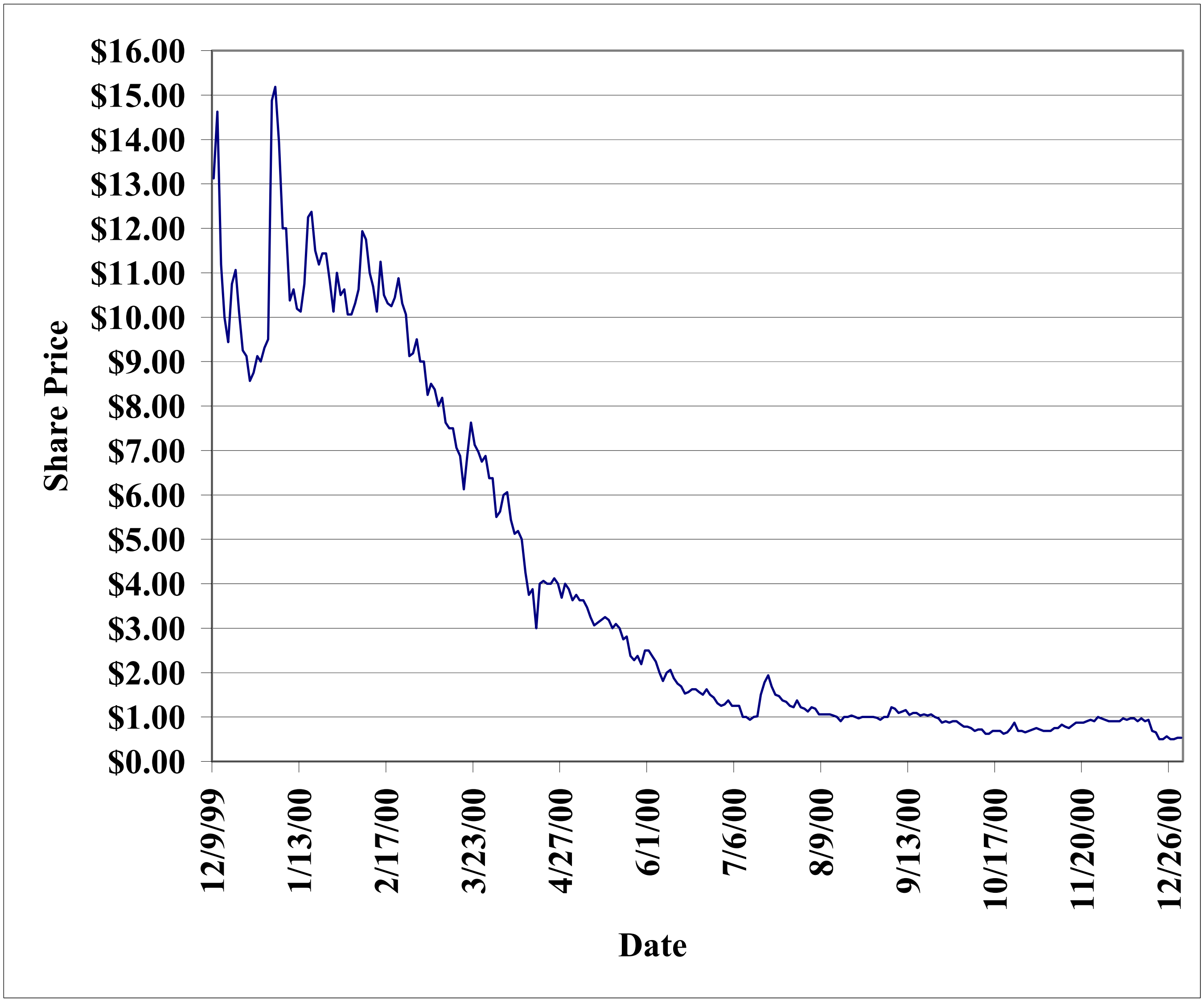
Source: Fogdog

Exhibit 2
Selected Management Biographies

Ralph Parks Chairman	Mr. Parks has served as a director of Fogdog Sports since September 1999. Mr. Parks served as President of Footaction USA, a footwear retailer, from 1991 to 1999 and as Footaction's Executive Vice President and Chief Operating Officer from 1987 to 1991.
Tim Harrington CEO and Director	Mr. Harrington joined Fogdog Sports in June 1998 as President, Chief Operating Officer and a director. In January 1999 he became Chief Executive Officer and ceased serving as Chief Operating Officer. Prior to joining Fogdog Sports, from March 1997 to April 1998, Mr. Harrington served as General Manager of GolfWeb, Inc., a golf information and e-commerce web site. From June 1996 to December 1996, Mr. Harrington served as the Director of National Accounts for Cobra Golf, Inc., a manufacturer of golf equipment. Prior to working with Cobra Golf, Inc., from June 1979 to June 1996, Mr. Harrington served in various financial management positions with International Business Machines Corporation, a computer systems corporation, including Chief Operating Officer for International Business Machines' education division. Mr. Harrington was a Sloan Fellow at Stanford University's Graduate School of Business. Mr. Harrington holds a B.B.A. in accounting from Siena College and an M.S. in business management from Stanford University's Graduate School of Business.
Tim Joyce President	Mr. Joyce joined Fogdog Sports in August 1999 as President. Prior to joining Fogdog Sports, from April 1980 to August 1999, Mr. Joyce held various positions at Nike, Inc., an athletic apparel and footwear manufacturer, serving as Divisional Vice President for Global Sales from February 1997 to August 1999, Director of European Sales from August 1994 to February 1997, Director of USA Footwear Sales from May 1990 to August 1994 and Regional Sales Manager from March 1987 to May 1990. Mr. Joyce holds both a B.A. and an M.S. in sports administration from Ohio University.
Phil Winters VP Business Development	Mr. Winters joined Fogdog Sports in January 1999 as Director of Business Development and served as Fogdog's Vice President of Business Development from April 1999 through February 2001. Prior to joining Fogdog Sports, from June 1978 to December 1998, Mr. Winters served in United States Naval Aviation in positions including global logistics, operations, strategic management, and command of a squadron. Mr. Winters served as a commanding officer from January 1997 to December 1998. Mr. Winters holds a B.S. in engineering from the United States Naval Academy and an M.S. in management from Stanford University's Graduate School of Business.
Bryan LeBlanc CFO	Mr. LeBlanc joined Fogdog in November 1999 as the Director of Finance and Planning. In March 2000, Mr. LeBlanc became Vice President of Finance and Chief Financial Officer. Prior to joining Fogdog, Mr. LeBlanc was the director of corporate finance for Documentum, Inc., a public enterprise software development and consulting corporation. Prior to that, between 1988 and 1997, he held various financial management positions with electronic design automation software company Cadence Design Systems, Inc. Mr. LeBlanc holds an MBA from the University of Santa Clara and a BA from Holy Cross College.
Brett Allsop Co-founder and former Chairman	Mr. Allsop is a co-founder of Fogdog Sports and served as Chairman of the Board of Directors and President of the International Division of Fogdog Sports from January 1999 through April 2000. From June 1998 to January 1999 Mr. Allsop served as the company's Chief Executive Officer. From October 1994 to June 1998 Mr. Allsop served as President. Mr. Allsop holds a B.A. engineering degree in values, technology, science and society from Stanford University.
Robert Chea Co-founder	Mr. Chea is a co-founder of Fogdog Sports and served as Vice President of Engineering from October 1994 through the company's sale to Global Sports. Prior to joining Fogdog Sports, from January 1994 to September 1994, Mr. Chea served as an engineer at Award Software International, Inc., a firmware software vendor. Mr. Chea holds a B.S. in electrical engineering from Stanford University.

Andrew Chen Co-founder	Mr. Chen is a co-founder of Fogdog Sports. From October 1994 to June 1996, he served as Director of Technical Development. From June 1996 until August 1998, he served as Vice President of Production. In August 1998, he became the Vice President of Quality Control and in January 1999 was appointed Vice President of Team Sports.
Marcy von Lossberg Former CFO	Ms. von Lossberg served as the company's Chief Financial Officer from its founding through the IPO, raising more than $110M in capital for the company. Prior to joining Fogdog, Ms. von Lossberg worked in strategic planning at the Walt Disney Studios from March 1993 through December 1994, and in investment banking with Bankers Trust Company from 1991 through 1993.

Exhibit 3
Fogdog
Historical Stock Price Graph



Source: Fogdog

Exhibit 4
Overview of Selected Brick and Mortar Sporting Goods Retailers

Global Sports Partners	Significant Stand-Alone Retailers	Smaller Retailers
Dunham's Sports	Copeland's Sports	Bob's Sports
MC Sports	Dick's Sports	G.I. Joe's Sports
Oshman's Sports	Gart Sports	
Sport Chalet	Jumbo Sports	
The Athlete's Foot	Modell's Sports	
The Sports Authority	Venator Group (Champs and Footlocker)	

Source: Fogdog

Exhibit 5
Fogdog
Selected Historical Financial Information

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands; unaudited)

	September 30, 2000	December 31, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 41,587	$ 26,451
Short-term investments	987	46,450
Accounts receivable, net of allowances	689	216
Merchandise inventory	4,964	2,765
Prepaid expenses and other current assets	3,044	1,963
Total current assets	51,271	77,845
Property and equipment, net	3,352	2,427
Other assets and intangibles, net	16,934	27,920
Total assets	$ 71,557	$108,192
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 6,395	$ 5,638
Current portion of long-term debt	418	473
Other current liabilities	2,952	3,283
Total current liabilities	9,765	9,394
Long-term debt, less current portion	-	300
Stockholders' equity:		
Common Stock	37	36
Additional paid-in capital	147,510	145,441
Notes receivable	(58)	(50)
Unearned stock based compensation	(4,848)	(11,534)
Accumulated deficit	(80,849)	(35,395)
Total stockholders' equity	61,792	98,498
Total liabilities and stockholders' equity	$ 71,557	$108,192

Source: Fogdog

Exhibit 5 (cont'd.)
Fogdog
Selected Historical Financial Information

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except per share amounts; unaudited)

	Three Months Ended September 30, 2000	Three Months Ended September 30, 1999	Nine Months Ended September 30, 2000	Nine Months Ended September 30, 1999
Net revenue.........................	$ 5,893	$ 1,493	$ 16,443	$ 2,577
Cost of revenue.....................	5,004	1,510	14,786	2,551
Gross profit........................	889	(17)	1,657	26
Operating expenses:				
Marketing and sales.................	10,789	6,201	35,710	10,326
Technology and content..............	1,313	997	3,891	2,205
General and administrative..........	1,257	429	4,598	1,181
Amortization of intangible assets...	332	120	996	144
Amortization of stock-based compensation	1,045	842	4,529	1,582
Total operating expenses............	14,736	8,589	49,724	15,438
Operating loss......................	(13,847)	(8,606)	(48,067)	(15,412)
Interest income, net................	726	118	2,613	276
Net loss............................	(13,121)	(8,488)	(45,454)	(15,136)
Deemed preferred stock dividend.....	-	(12,918)	-	(12,918)
Net loss available to common stockholders	$(13,121)	$(21,406)	$(45,454)	$(28,054)
Basic and diluted net loss per share available to common stockholders....	$ (0.36)	$ (4.44)	$ (1.26)	$ (6.04)

Source: Fogdog

GRADUATE SCHOOL OF BUSINESS
STANFORD UNIVERSITY

CASE NUMBER: E-100
AUGUST 2001

FOGDOG
STUDY QUESTIONS

1. Evaluate the development and composition of Fogdog's board of directors. What is the ideal mix of skills and experiences to be represented on a board of directors at different stages of a company's evolution? Who is/are responsible for ensuring that a company possesses the most effective board possible on an ongoing basis? Recommend a strategy for executing best practice board development and composition.

2. Evaluate Tim Harrington's efforts in managing Fogdog's board and private investors, with particular emphasis on those actions taken in the two months prior to the board's decision to sell the company. What, if anything, could Tim and his management team have done prior to the October 8th board meeting to increase the chances of Fogdog's survival as an independent company? Comment on Tim's view of "better to ask for forgiveness than beg for permission."

3. As a venture capitalist director of Fogdog, comment on your reactions to what happened to the company. How much was your decision to sell Fogdog influenced by your responsibilities to your constituencies? Be prepared to show the thought process involved in making your final decision that it was best to sell the company. Try to identify and rank the factors that were most important to you.