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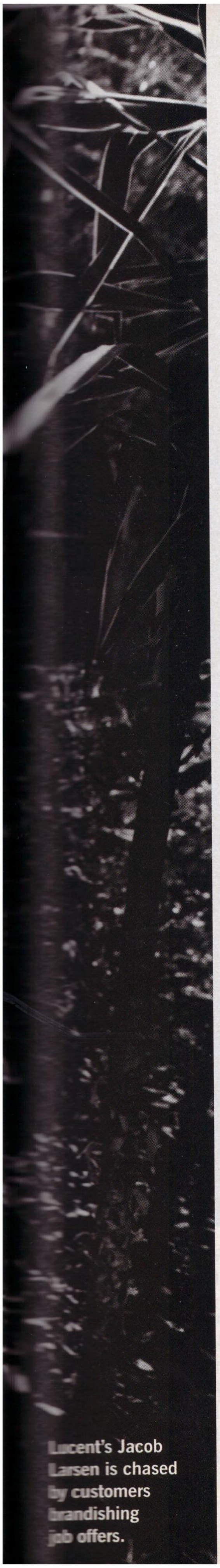
Lucent's Jacob Larsen is chased by customers brandishing job offers.

THEIR TACTICS ARE INCREDIBLE!

THEY'RE COMING TO TAKE YOU AWAY

Headhunters, venture capitalists, dot-coms—even your customers and friends—are coming after you. What do they want? Nothing less than your brain. And they'll do anything to get it.

by Devin Leonard

Max Michaels is getting annoyed. For the past half-hour, the 36-year-old co-founder and CEO of KnowledgeCube, a ten-month-old startup, has been trying to persuade a young banker to come to work for him. Michaels loves the guy's résumé: Harvard Business School and a stint as associate at a major Wall Street firm before taking his current position at a boutique investment bank. This is their second meeting, and Michaels is doing all he can to pull him in. But the kid keeps throwing this unreal number at him.

Michaels tells the banker about the generous salary he could expect at KnowledgeCube and the stock options that would make him fabulously wealthy. The handsome young banker leans forward, resting his perfectly chiseled chin on his clasped hands. He nods politely. Then he reminds Michaels that he is making more than $500,000 a year. He won't come to KnowledgeCube for less.

"I can't bring you in for that much," Michaels sputters. "It would be totally unfair to everybody else."

Michaels is sitting on a faded green sofa in his office overlooking the Rockefeller Center skating rink in Manhattan. The young banker is in a matching chair on the other side of the coffee table. Michaels picked up the furniture on the cheap from the previous tenant when KnowledgeCube moved in two months earlier. Soon, he hopes to throw it all in a Dumpster and remodel the place into KnowledgeCube's corporate headquarters, the hub of branches around the world where the company plans to provide space and financing to high-tech entrepreneurs in exchange for a sizable ownership stake.

Michaels is such a fast-talking, single-minded

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PHOTOGRAPHS BY MICHAEL LEWIS

ESCALATING MENACE
Body snatcher Max Michaels (front) has invaded McKinsey and Lucent. Your company could be next.

dealmaker that, like a character out of a David Mamet play, he can almost convince you that he's really creating "the next KKR or Kleiner Perkins." In his former life, Michaels was a McKinsey consultant and then a Morgan Stanley Dean Witter investment banker. Now, having raised $40 million in capital, he's running his own show. After just ten months in operation, he has outposts up and running in Boston and Seattle. But he needs more bodies.

So he's spending most of his time trying to woo talent to KnowledgeCube. Yes, Max Michaels is a body snatcher. He is after your best employees. He probably has some of their résumés in his briefcase right now—the four executive search firms he has retained send him stacks of them. But that's not enough. Michaels will work any angle to find the employees he needs. He offered this FORTUNE reporter $7,000 a pop to refer names of people interviewed for this article. (Nice try, Max.) Many of his other tactics work. His newly hired managing director is a former McKinsey strategy consultant. His senior managing director is from Lucent. Sitting beside Michaels on one of the sickly green chairs is his latest

catch, Raghu Ram, a technology investment banker from ING Barings who joined KnowledgeCube just before the Nasdaq plunged 355 points on April 14.

Now it's April 19 and Michaels isn't letting a market slide get in his way. "I don't understand," he tells the chiseled recruit. "You're young. If this came along when I was your age, I would have jumped on it."

Ram joins in the assault. The tall, balding Ram has been on his cell phone for the past hour talking excitedly to his friends and overseas clients about his new job. Now this arrogant pup might as well be mocking him. "I'm 40 years old, I have a 5-year-old kid who is autistic, and I'm trading away $2 million a year to do this," Ram explodes.

Michaels presses the banker for a quick decision: "The value [of our options] has gone up a lot since you first came in. If I were you, I'd sign up now."

"What's your doomsday scenario?" the banker asks.

"What's yours?" Michaels shoots back. "Right now, you're just one of 20,000 investment bankers in [one Wall Street recruiter's] database. My scenario is better than your current scenario."

The banker says he has a plane to catch. Matt Bruck, a KnowledgeCube managing director, shows him to the door. Michaels stays behind in the room with Ram. He takes a sip of his Dean & DeLuca takeout coffee. He is starting to wonder if he is wasting his time. "My concern with this guy," says Michaels, "is I bring him in and I'll be having the same conversation every Friday about why he's not making as much money as everybody else." He winces at the thought.

Just then, Bruck sticks his head in. "He just asked me if I could get together over the weekend," Bruck says.

Michaels cocks an eyebrow and grins. He's not through with the banker yet.

Max Michaels' no-holds-barred recruiting approach is swiftly metastasizing through the business world. The reason is obvious: Recruiting smart, capable people is the single most important job in corporate America today. The most important, that is, after keeping smart, capable people out of the hands of other body snatchers.

Customers? People are still spending. Financing? Capital's plentiful. What companies need these days is talent. That, however, is in short supply. Start with the fact that in the past three decades the nation's economy has doubled while the birth rate has dropped by 24%. In April the national unemployment rate fell to 3.9%—dipping below 4% for the first time in 30 years. The most frightening shortage is of skilled employees, and companies are in an all-out war for them. On the frontlines are the recruiters. According to Hunt-Scanlon Advisors, a Stamford, Conn., firm that tracks the search industry, the number of corporate headhunters skyrocketed 45% over the past three years, to 9,500. But even with 3,000 more recruiters on the prowl, some industries are still pleading for résumés. The Information Technology Association of America predicts that 1.6 million new jobs involving computer, Internet, and telecommunications expertise will be created in the next 12 months—and more than half are likely to go unfilled. Whoever winds up with those empty cubicles loses bigtime.

What's made all of this completely ridiculous, of course, is the explosion of high-tech startups. Armed with venture capital dollars and business plans promising swift public stock offerings, they are sucking people out of the FORTUNE 500. "We open several searches a day now in the dot-com arena," boasts Jim Boone, a top executive at recruiting firm Korn/Ferry International.

This invasion has created nightmares for anybody trying to run a business. Your skin crawls every time a valued employee requests a closed-door meeting. Not another dot-com defector! You cringe when one of them answers the phone and starts speaking in hushed tones. Is it a headhunter call? Why won't they leave your people alone? Sounds paranoid. But sometimes the paranoids have it right. When New York recruiter Çynthia Remec surveyed Wall Street investment bankers this year about their interest in dot-coms, she found that more than half had already been approached by Internet companies.

Snatching a programmer out of IBM or an e-commerce expert from PricewaterhouseCoopers is no easy task. That's why

MICHELLE DOWNIE, 22

- JOHNS HOPKINS
- MAJOR: INTERNATIONAL BUSINESS AND RUSSIAN
- NEW JOB: PRODUCT EVANGELIST, ADVENTA

CLAUDIO VAZQUEZ

TALENT FROM THE CLASS OF 2000

Downie (GPA: 3.93) turned down offers from Andersen Consulting, Sterling Communication, and the Carson Group to take a marketing job at Adventa, a six-month-old Silicon Valley startup still in stealth mode. She'll be working with 37 other employees. She started May 1, before graduation, which means no post-matriculation world travel. No problem. Adventa's informal hierarchy and stock options were a big draw, and there's still hope that her degree will come in handy if the company expands overseas.

to the business," says Jordan Levy, cofounder of Seed Capital Partners in Buffalo, an early-stage VC fund. "Businesses will live and die based on your ability to attract the right talent for the job."

So venture capitalists, like heart surgeons, have to be ready to intervene with extraordinary measures. Levy once flew to Denver and showed up, unannounced, at the front door of a CEO candidate for one of his startups. It was the only way he could talk to the busy executive. Every time Levy tried to call his home, the man's wife hung up on him. Why? She didn't want to move to Buffalo. The impromptu visit also gave Levy a chance to sell the man's wife on relocating, and relocate they did.

When it comes to recruiting, VCs *never* relax; after all, the right touch at the right moment can seal a deal. In March, Susan Blum, an advertising executive at A&E Television Network, was riding the chair lift up a Lake Tahoe ski slope with her husband. They struck up a conversation with another skier, who turned out to be Scott Walcheck, general partner of Integrity Partners. Walcheck told them he was investing in interactive television. What a coincidence! Blum was considering a job at RespondTV, a San Francisco company in that very field. Perhaps the venture capitalist knew the company.

Walcheck reached over and shook her hand. "I sit on the board," he said. "That company rocks." And then he whispered in Blum's ear: "You're going to be rich!"

Blum was close to accepting the job. Her ski slope encounter clinched it.

Once venture capitalists win their perfect CEO, they expect that person to recruit just as aggressively as they do. With investors looking over his shoulder, Max Michaels knows the pressure is on. He needs 60 people ASAP, which is why he's not above resorting to hardball tactics—like massaging the facts.

On that April day when he interviews the young $500,000-a-year banker, Michaels' first appointment is with Ophira Segal, a 26-year-old executive recruiter at Magdalin Weiss, a New York City search firm. Michaels wants her on board—he needs another body snatcher. But it may not be easy. Segal is nervous. She sits with her legs crossed, her hands folded in her lap, reluctant to give up her $160,000 annual income one week after the Nasdaq spill. So Michaels offers to match her current pay with a $75,000 salary, a $25,000 bonus, and KnowledgeCube options worth $60,000 at the company's current valuation. He tells her they could be worth $6 million in ten years. "I only own mutual funds," Segal says. "What if my options turn out to be worthless?"

"Come on," Michaels says. "It's very unlikely all this will go down the drain. And what's your downside really? You are going to have a great company on your résumé and you will have learned a lot. That in itself is downside protection."

Segal also feels loyal to her superiors at Magdalin Weiss. But Michaels has an answer for that. "Maybe you can help them," he insists. "Maybe we'll retain them. So you'd be doing them a favor. As long as they make money, they don't care."

Later, Michaels interviews a clean-cut associate from a major Wall Street firm, who snuck out of his office for the interview. He's definitely interested, but he also has an offer from Warburg Pincus. "It's a really tough decision," he laments.

Michaels is glad to be of assistance. He paints a picture of Warburg Pincus as an old-economy mastodon mired in a tar pit of tradition and timidity. His startup is way cooler, and Michaels assures the associate that he won't be alone if he accepts an offer. The CEO says many other bright young winners are flocking to KnowledgeCube: the recruiter from Magdalin Weiss, the chiseled banker, a Ph.D. from Cal Tech. Trouble is, Michaels hasn't hired any of them yet.

At the end of the day, Michaels interviews his final candidate. The guy's résumé includes stints at Bain & Co., Lehman Brothers, and the U.S. Air Force. But more recently, he has launched two failed startups. He is unemployed and a little too eager. Michaels has the upper hand.

"I don't know about you," Michaels scolds him. "You canceled a meeting on us. [KnowledgeCube Chairman] Richard [Berman] was pissed."

"Oh," says the startup veteran, laughing nervously. He is not sure if Michaels is toying with him. (The answer: He is, like a cat playing with a small furry animal.)

"Yeah, the chairman was pissed," Michaels says. "So I think we should make you an offer and you should accept before he comes back from vacation."

Pressure tactics? You bet. This is war. And like good generals, dot-com CEOs study up on the enemy. Startup heads who poach regularly from the same big companies get a tactical edge—a blueprint of the enemies' counteroffensives.

Last September, Larry Deaton, CEO of Technauts, an Internet software startup in Cary, N.C., wanted to steal Steven Petric-

CLAUDIO VAZQUEZ

LOUIS STERLING, 21

- HOWARD UNIVERSITY
- MAJOR: FINANCE
- NEW JOB: ANALYST, GOLDMAN SACHS

TALENT FROM THE CLASS OF 2000

Sterling decided he wanted to work in investment banking during his sophomore year. So he majored in finance and kept up a 4.0 grade point average. He also leveraged internships. He tried a stint at Bank One in Chicago (his hometown) and spent two summers at Goldman Sachs in New York. After his internship at Goldman last summer, he was offered a job as an analyst. He starts in June. He was also a peer mentor and a member of the Howard University Undergraduate Board of Trustees.

a priority as delivering the next product."

Nortel's main competitor, Lucent, is also striking back. The company got tired of watching fast-moving startups snap up prime candidates. So, in January, the corporation started hosting quick-hire job fairs around the country. Recruiters meet job applicants who have been prescreened over the telephone or via the Web. The candidates are interviewed, drug-tested, and hired the same day if they meet Lucent's standards. Some 6,000 people recently went through the grueling 12-hour process in New Jersey. At the end of the day, 200 walked out with new jobs and T-shirts announcing their career change. "They literally walked out with a starting date," says Jim Baughman, Lucent's recruiting director.

Lucent is also trying to make sure that dot-coms don't seduce its star employees. Plenty have tried to woo Jacob Larsen, a 30-year-old director in Lucent's optical networking group. You can hardly blame them. He speaks four languages, got his MBA from Dartmouth, and entered Lucent's Global Leadership Development Program in 1997. Larsen's customers regularly drop hints that they'd like to hire him. Frankly, it gets tiresome. "It kind of screws up the business relationship," he says. "I'm trying to generate interest in breakthrough technology and they are interested in me personally."

Then again, it's always nice to get an offer. Larsen has gotten four serious ones, and he used them to evaluate his deal at Lucent. His conclusion: His situation at the FORTUNE 500 company is hard to beat. Lucent has assigned Larsen a career mentor, given him more stock options, and sent him off on a Caribbean vacation in recent months. "I have a personal friend who is on his sixth startup and is poor as a dog," Larsen says. "Meanwhile, I'm going to the Bahamas with my wife. So I'm at peace with my decision to stay at Lucent."

In this climate, any valued employee who shows a touch of wanderlust is likely to be accosted by a manager with a menu of financial treats. Disney gave certain managers the authority to award salary increases on the spot. "It's responsive to the dot-com speed," says William Wilkinson, Disney's senior HR vice president. Managers at FedEx, too, have the power to reward employees with instant raises and bonuses.

It was probably inevitable that some companies would seek revenge on the body snatchers. In May, Andersen Consulting sent a letter to nearly 3,000 of the firm's recently departed alumni telling them the door was open if they wanted to come back. "We actually started this before the recent Nasdaq roller coaster, but we couldn't be happier with the timing," gloats David Reed, Andersen's director of U.S. recruiting. "There are a lot of people out there whose options are underwater and whose IPO aspirations are dashed."

It's a big change for a giant consulting firm that once treated former employees as *personae non gratae*. But Andersen was hit hard by the body snatchers. Famously, its former CEO George Shaheen abandoned ship last fall to go to Webvan, an Internet grocer. In the May letter, Andersen boasts of changes: the newly created internal venture capital fund, the pre-IPO startups it is investing in and nurturing at its 22 Dot.Com Launch Centers, and the profits the firm hopes to share with employees. Come back before Aug. 31, the letter promises, and get extra equity! Maybe Shaheen is on the mailing list.

Andersen sent a letter; PricewaterhouseCoopers directed its people to drag back defectors. Bob Hallman, a partner in the company's Falls Church, Va., management consulting division, didn't have to be told. In March he learned that Gregg Shaw, who had left his group ten months earlier to join an e-consulting startup, was fed up with his new colleagues. Hallman called immediately, hoping Shaw's old cell-phone number still worked. It did. He reached Shaw in Atlanta as he was driving home after a tiring day. "Gregg, I hear you might be interested in coming home," Hallman said.

"Well, I've been thinking about it actually," Shaw admitted. "Is it possible?"

"When do you want to start?" Hallman asked. Shaw got his old job back.

Hallman was so exhilarated by the experience that he is trying to steal another former group member from a rival consulting firm. "It just got my wheels spinning," Hallman says. "They raid us, so I have no qualms about raiding them."

In other words, corporate America is finally catching on—bodysnatching isn't just important, it can be a rush! Just ask KnowledgeCube's Max Michaels. He hired one of the people FORTUNE watched him interview. He's in serious talks with two others. And remember the $500,000 investment banker? Lately, he has been calling KnowledgeCube a lot. The other people at the company are prodding Michaels to hire the kid. But the CEO wants him to suffer a little. "That guy?" Michaels says, laughing. "I'm not even returning his telephone calls right now." F