Interview of Craig Huffaker

Interviewed by:
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James Pelkey: April 9, 1992, I'm with Craig Huffaker in Palo Alto. As I indicated, Craig, I will get a copy of this transcription, this interview transcribed, and sent to you for your approval and give you an opportunity to respond to any of the things in the book itself. If you could help by just beginning with why you came to DCA in the early days and Bert coming, and . . .

Craig Huffaker: I came DCA on Halloween in 1977. DCA was five years old at the time. It was founded in June of '72 by John Alderman. I came with the company as the first financial person. They had no comptroller, no vice president of finance, so I came in as the comptroller of the company. The company was doing about a little over $1 million in sales and had 23 employees. We were in the, the company was in the statmux business, and what attracted me to DCA was the fact that my background, while financial, I had served two years in the U.S. Army Signal Core and had been exposed to multiplexing with radio communications and telephone communications. So, what DCA was doing I could understand and found very interesting. I'd always been kind of interested in scientific things, so it attracted me to DCA, so that's how I kind of came to get interested in DCA.

Pelkey: Ok. Now, at that point in time they were largely a statmux company?

Huffaker: They were purely a statmux, really just a statmux company. The . . .

Pelkey: And they had gone through some transitions earlier before you arrived, and doing different things and . . .

Huffaker: Yeah, originally they had worked on, I don't remember what their first product was called, it had to do with DEC computers and it was basically for switching, a kind of a front-end sort of device. And then, they got into statmuxing and at the time I went with them, the statmuxes were driven by PDP-8 computers by DEC. There were no microprocessors in the box. And it wasn't until the fall of 1980 that we introduced --actually started delivering product that was microprocessor based, and it was statmuxes.

Pelkey: You must have been aware at that point in time of Micom.

Huffaker: Yes, Micom was a -- DCA was small, our competitors at the time were Timeplex, Micom and Infotron, and those were the three companies that we really saw the most competition. The . . .

Pelkey: And you didn't have a direct sales force at that time?

Huffaker: Did not. What we had -- well, we did. When I went with DCA, our direct sales force consisted of two people and John, who was president, also worked in sales, so, we had two people and it wasn't until in January of '78 that we hire a fellow named Bill Goldstein and he came in to be our vice- president of sales. His experience, he'd really been selling typewriters and these machines that take tape and print names and stuff, so he really had no computer experience at all. He developed for us a rep firm and that's how we started really selling our product, and that kind of helped get our sales jump-started. Now, DCA up until '81 never had any venture capital in it. John Alderman, the founder, never really, didn't have any money personally. So, he put $7,000 in the company to get it started so the company always had to be profitable, it couldn't afford to lose money because there was nothing there to buffer. So, I think, in a way, that was really good for the company early on because it made us pay attention to profits and being successful. So, that was a very key in the --

Pelkey: And, what prompted them wanting to bring the venture capital in, because that and Bert coming were concurrent.

Huffaker: Concurrent. What happened was, in the, probably in the fall of '79, the company decided that we were going to have to raise some sort of capital to support the company. We had been using bank financing, accounts receivable financing, but the company was growing faster than it could build capital to support the growth, and so we were really out-stripping our capital base and a couple of times in the history of the company, we had actually taken some significant losses at a particular month to make a commitment to do something and we had been able to always make a profit by the end of the quarter. But, we didn't have the money to really commit to going off and doing things. Like when we decided to build our rep firms we, in effect, basically stopped selling. Two salesmen stopped selling for a couple of months and went out and actually contacted rep firms to bring them on, so when you're doing that, you can't be out selling. So, all of a sudden you don't have any income coming in, so it was a real problem for us. So we realized we had to raise venture capital. We went out and we first went to a venture capital firm in Boston and they turned us down. And then, Frank Bonsal with NEA came by to see us and he appeared very interested. And, so we eventually started developing a deal with them and that was in the summer of '80. And the deal fell apart because one of the venture capital firms, it was the firm out of Boston that we'd originally contacted, was going to go in with Frank and another firm, Weiss, Peck and Greer, to put a deal together to give us a million and a half dollars. And, the firm in Boston started having some internal problems so they just stopped doing any investments with anybody, so that took money out of the deal and so Frank and Weiss, Peck didn't feel comfortable going ahead with the deal. So, then, also, the company didn't make quite as much money that year as we had anticipated -- as a little side note, you may or may not find this interesting -- we were in the process of doing our audit and we had a local accounting firm doing our audit so they were confirming our receivables and they called an account that we had a receivable with, a university, and the university said, "Yes, we owe them that money and that's the correct amount, however, we haven't told them yet and we don't want you to tell them but we're going to return that gear," so, we ended up making an adjustment back out, but that was a little bit of a surprise. Anyway, the venture capital deal kind of fell apart, and as it turned out, the attorney in Atlanta that we were using to represent DCA knew Bert when Bert had lived in Atlanta previously and had sent him a copy of the deal we were doing. So, in the Fall when Quantel was selling itself to Mohawk Data, Bert found the copy of the deal in his desk and he called the attorney to see what had ever happened to it and he told him the deal had fallen through. And, so Bert said, "I'm leaving Quantel and what if I can get some of the venture capital you list here and come with me?" Because one of the deals that was part of the deal with Frank Bonsal and NEA originally was that we had to have a new president. And, so we had agreed and that was a hard thing for John to accept but he accepted it because he wanted to do what was right for the company. So, we talked him into accepting that as a condition and so we did that. One other side story about what happened to the company - what was interesting was that when our deal fell through, the company was really hurting for money, so Frank Bonsal with

NEA offered to give us a bridge loan until we could ultimately put another venture capital deal together. And they were going to loan us 4 to $500,000 for the interim and as part of that deal, though, John was supposed to pledge his stock in DCA and then if for any reason he was terminated from DCA, they got the stock. So, in effect, they were going to be in a position where they could fire him and they could get the stock, and John felt very uncomfortable with that so we were down to the point where we really had to have some money. So, John and I talked about it and that night I went home and I played with some numbers and worked up some cash flow stuff and the next day we went to our bank and explained to them that we were going to have to take this bridge loan that we thought was just awful and had unconscionable terms in it, but the only way that we could avoid doing that was they were going to have to give us a loan. They looked over the numbers I had prepared and on the spot, gave us the loan for $500,000 so we could go tell Frank to shove it.

Pelkey: Wow.

Huffaker: And they were absolutely flabbergasted the next day when we told them we didn't want their money.

Pelkey: That's a great story.

Huffaker: Yeah, so, but anyway . . .

Pelkey: John must have appreciated -- he must have bought you lunch for that one.

Huffaker: Yeah, so we had a real good relationship with our banker. We always thought that was important because we relied on them whole-heartedly, so we played very straight with the bankers and they always supported us every time we needed them. The -- in Atlanta that was a problem at the time because nobody was loaning to high-tech companies because there just weren't any -- and a lot of the banks in Atlanta were in trouble with the real estate industry at the time during that period, so that was very difficult for us. We –

Pelkey: What was the bank?

Huffaker: Bank South. It was the smallest of the big four in Atlanta at the time. As it turned out, the chairman was a ham radio operator, I never met him, but he always had an interest in kind of technology, so he was interested in the bank kind of taking a flyer to kind of see what would happen and we did very well because of it.

Pelkey: How about that.

Huffaker: They were always willing to step in any time we really had to have something, and never put overbearing terms on us – so that was very good. But, so what happened then is Bert tried to bring a venture capitalist in to bring us money and we told him we were trying to raise $1 million and he and John met and John liked Bert. So, we told Bert that we were trying to raise $1.5 million and Bert said that's too little, we ought to be going for 2 - $2.5 million -- you know, get all the money you can while you can, and that was always our philosophy, get the money while you can. So, Bert started putting a deal together. Well, about the same time, Bruce Anderson with Welsh, Carson, Anderson and Stowe had heard about us and our first deal and he'd been kind of interested in it, but the first deal was about to go together when he got interested so he passed -- he felt like he wouldn't get into the deal, but he'd heard that we were putting together another deal so he came out one day at lunch time and John was out of town so another fellow and I took Bruce out to lunch and we chatted with him about the company. And, when he left, he said that he wanted in on the deal, and that if he had to buy the deal by putting up all the money himself, he would do it, but that Bruce Carson wanted in on the deal. So, they became a major player. They put up $1 million. NEA put up $1 million. Weiss, Peck and Greer put up $500,000. What is now Merrill Pickard, they were then part of Bank of America, they put up $500,000. And, a venture capital firm out of London put up another $500,000. So, we raised $3.5 million.

Pelkey: Do you remember the valuation?

Huffaker: They got about -- I believe they ended up with about 40 to 45% of the company.

Pelkey: And then Bert came aboard.

Huffaker: And, part of that condition of that deal was that Bert came in as president and CEO and John remained as chairman. Then we had the money to . . .

Pelkey: This was '81?

Huffaker: We closed the deal in January of '81.

Pelkey: By this time you're doing 3 - $4 million?

Huffaker: We were doing -- yeah, I think our last year end before that we had done a little over $4 million, and we'd just introduced our new statmux product which had the microprocessors in it. And, we went through the very classic mistake in the summer of '79, no, I'm sorry, in the summer of '80 -- we were going to a trade show in the late spring and we had this product under development, it wasn't quite ready for introduction, and Bill Bilstein said, "Well, I want to introduce the product at that trade show," and we said no because our sales reps for our current products will die and it'll be an absolute disaster, and he said it wouldn't be any problem, we'll tell people they can take the old product and we'll swap out the new later or something --- we'll work out a deal. So, he wanted to introduce it so he introduced it and so we rushed the product out in the fall of '80 and it didn't work well at all, it was an absolute disaster and so once Bert came on –

Pelkey: And this is all happening when you're running out of money and you've got no venture capital?

Huffaker: That's right, trying to raise venture capital and it was a real zoo. So, Bert came in with the money and we were forced to deliver a product that was not working very well. So, we stopped delivery for 30 or 60 days and just straightened out the product, fixed bugs, and then we started delivering and it went very well.

Pelkey: Incredible. Then your IPO was in '83?

Huffaker: Yes, we did an IPO in February of '83.

Pelkey: Now, had you acquired any companies before that?

Huffaker: No, that was done in the Summer of '83. We acquired Technical Analysis Corporation. We grew the company on up and we had thought we would go public probably around the Fall of '83 to '84, but the market got real hot. Our venture capitalists were having a board meeting in the -- October of '82 and our board members came and they said, "The market's real hot. You're doing real well. Go public now." So we proceeded to go public.

Pelkey: And, Alex Brown and Robinson?

Huffaker: Alex Brown and Robinson Coleman did the offering -- and what was interesting was that we interviewed a number of firms and we decided that Alex Brown and Robinson Coleman were probably the two firms to use. And, Robinson Coleman the -- Bob Harris was with them, the guy at corporate finance who was going to do the deal, and we thought he might ought to run deal and be out there kind of pulling everybody because Alex Brown was more conservative so we thought, maybe, they should be in the deal to help hold back the horse but let the horse be the -- leading the charge. And Alex Brown threw a fit because they felt like they had to be on the left, so we let Alex Brown be on the left. Robinson Coleman was on the right, but Robinson Coleman ran the book and the prospectus was printed in Robinson Coleman's color blue . . .

Pelkey: Sounds like movie making.

Huffaker: It was. We couldn't believe the petty argument over the left and the right, but that's the way we resolved it.

Pelkey: Now, what prompted the acquisition?

Huffaker: In the Summer of '83, I believe it was NEA, Frank Bonsal, had met with Waverly Graham of TAC and they were interested in either raising venture capital or going public or doing something. Roger Hallock, the other principle owner of TAC, he was wanting to basically -- whatever they did, after they did it, he kind of wanted to retire, so he was kind of on the way out in exit strategy. So, they really didn't have the infrastructure built up to go public. They really didn't have their CFO on board yet. They really hadn't done all the things they needed to do. They were trying to bring a CFO in and do these things, but they just hadn't had time to get their systems in place and do all the things they really needed to do to go public. So, their alternatives were really either to merge with somebody or to raise venture capital, and I think because Roger wanted out, they probably -- the merger looked a little more attractive because that gave him tradable stock so he could eventually move on fairly easily -- and we liked TAC because of their IBM technology. That was a place where we were lacking -- that we really didn't have the IBM technology yet. We were good in the DEC markets and the other markets, but we weren't good in the IBM arena. So, we liked their technology, they had just introduced IRMA and it was starting to sell a few boards and it was doing alright, so -- I think they had probably gotten up to about 1,000 boards a month and so our big concern was we had the officers go in and check that the sales would still continue to be at least that level. We figured even a short-term product would even give us some revenue as we developed the IBM technology. So, that's how the deal came about and we closed in the summer of '83.

Pelkey: And, as I recall, some of the things that I read from that period were very complimentary in terms of how your management dealt with the integration of them into your company, and you treated them and . . .

Huffaker: Yeah. They were a local company, in Atlanta, which was very good -- it was our first deal. The lease on their space was about to run out so they were going to have to move, and we had extra space so we just moved the two companies in together. So, from a cultural viewpoint, we just had to put everybody together so that had to work right off the bat. The other thing that happened was; Bert, when we did our contract that we presented to them for the acquisition -- and we could never use the word acquisition, nowhere in our contracts, and we did this everywhere we did it, except when later on we did buy a few companies outright; the attorneys were always instructed in drafting the contracts: you could never use the word acquisition unless you were legally required to for some reason, it's always a merger. And, we always took the stance that, you know, if you acquired a company or merged with a company, you did it simply because you wanted to grow and they had good people so you didn't want to run them off, so we really tried to make the thing work. Now, during the TCA deal there were a few people who became surplus because of the fact that we moved their manufacturing in with ours, so their manufacturing had to go. They had just hired a CFO, but when they hired him, they told him the idea was they wanted to go public but they'd already worked out with him a deal where if something happened and they were acquired, that he had a nice severance package. So, we honored all of that and so anybody who left was well taken care of in their departure. So, we did minimal of that, but, Bert really set the attitude up front that there's a merger, we're working together, we're a total team, and that's just the approach we've always took.

Pelkey: Now, Rixon was your next . . .

Huffaker: Yeah, the next thing we were going to do was in the -- I guess it was the winter of '84 -- the opportunity came along to acquire Rixon. We were not so much interested in the modem business, although we would have liked to have had it, as we were in the fact that they were already selling muxes from CASE. We were interested in that and they already had a sales force, and we needed to develop this direct sales force -- at this point, we were still using reps out selling our products.

Pelkey: And, I gather at this point IRMA was starting to . . .

Huffaker: IRMA was starting to pick up, but IRMA was sold through distributors. Small, not any of the big distributors you have today but very small mom-and-pop distribution, but it was sold that way and there were 2 or 3 salesmen in the company that took care of taking the orders for IRMA.

Pelkey: And the statmux business was still through the reps and doing well, but your competition had more products and . . .

Huffaker: That's correct. And they had a direct sales force and we felt like that's something we really had to have, because what we had found is the rep sales force really, there were a couple of exceptions, but the majority of the reps did not have the technical knowledge to really sell the product, so what they were really turning out to be were bird dogs who would find a deal, try to get the people interested and then we would have to go in and actually make the final sale.

Pelkey: You were aware at this point of time of Micom's stocking reps and the fact that they were being very successful in this kind of rep distribution field for their products . . .

Huffaker: Yeah, they had better luck. They ran ads in the Times showing this little orange, concentrated orange container, they were really pushing it was a small box easy to sell. But, we were selling networks and our boxes were very sophisticated so it wasn't a box that you could easily stick in the mail. It was just too complicated, that's all, to allow for that.

Pelkey: So you really felt that in order to compete successfully you had to go direct. Building a direct sales force would take a long time . . .

Huffaker: -- long time. Very expensive.

Pelkey: -- and here's a salesforce that's been selling statmuxes and . . .

Huffaker: -- here's a way that we can pick that up and roll with it. And, the problem that occurred in that deal -- one of a history of problems -- the problem that occurred in that deal was that CASE had a contract with Rixon to sell their products in the U.S. and CASE got very upset when they found out that Schlumberger was going to sell Rixon to us and they started raising a lot of Cain and they got in there and -- fought the whole deal. And . . .

Pelkey: And, Schlumberger said, "Look, you've gotta work it out with CASE,"

Huffaker: Right. They really didn't want to get involved. Technically, under the legality of the agreement they could have told CASE to go fly a kite but they wouldn't do it. They didn't want to get involved in any lawsuit. So, they were going to -- eventually what was going to happen was they were going to divide up the company. Part of it would go to CASE and we were going to get the modem business and the direct sales force and all, and the fellow who was running Rixon at the time for Schlumberger, he was not going to go -- we had decided we didn't want him, and -- so, Schlumberger said that since he basically wasn't voting with anybody they would let him decide who went with what, which company. So, he divided the employees but he took all the good people, what we considered the people we really needed and put them on CASE's list and we said, "This is unacceptable," and walked away from the deal.

Pelkey: So, that must have been a blow at the time because, I mean, you thought you had it.

Huffaker: Yeah, we thought we had it. We really did, and we should have had it. I think if the Texaco lawsuit had occurred prior to that, with Pennzoil, that if that law were out there, I think we could have scared CASE off but that wasn't law at the time, so -- because they really came and interfered with a contract that was really in place.

Pelkey: Yeah. Wow. So, what did you do subsequent to that in terms of your strategic thinking?

Huffaker: Then, at that point, we had to go out and build a sales force, so we proceeded to hire salesmen and put a sales force into place and we just slowly built it. As we built that sales force we would terminate various rep firms. But, even back in '90 when we sold, in January of '90, when we sold the networking business, we still had two rep firms so we never totally got out of the rep firm business.

Pelkey: And, was that because they were performing and . . .

Huffaker: Well, one of them which was Dataport which was in the Missouri area, Missouri-Kansas area, they had just done exceptionally well and were really capable of selling a statmux or a T1 network, really had the knowledge to put it together and had brought in some very good customers like Mastercard and some others, very large customers for us, McDonnell Douglas. The other one was in New York. What had happened there is they really had an exclusive contract that was very difficult to terminate and was in the process of terminating, and had we kept the business would have terminated in the summer of '90, but they had kind of an exclusive on part of the New York area and the way their contract had been designed is that got kind of an exclusive for awhile so -- we were having trouble getting them out.

Pelkey: So, the next company that you acquired was Fox?

Huffaker: No, the next company we acquired was Forte which was out here.

Pelkey: Ok. Yeah, and . . .

Huffaker: And we had -- Dan Erlin was the principle stockholder and James Ottinger was the president and it was in the emulator business -- and, just before we, what we did is in the November time frame of '85 Bert found out that Forte was interested in selling or doing a deal with somebody, merging with somebody. We were very interested in their technology that competed directly with the IRMA business, and they had some technology that we needed that we had been slow to develop, so we decided we'd like to merge with them because we thought it was a very nice fit between the two companies and they liked the idea. The problem we ran into was that the market was hot again and we thought we ought to raise some more capital going under the theory you never have enough cash. So, we went out to raise money and the Forte deal kept getting in the way or the deal kept getting in the way of the Forte deal, and we came out to San Francisco to start the offering, went down to meet with Forte later that afternoon and the attorneys all had a stroke saying, "Well, gee, you're in the midst of an offering, you can't be talking," so we told Forte that we were going away, that we were doing an offering and maybe we could get together afterwards. So, we did our offering in December, and the day that the offering was done, Bert and I came back to San Francisco to meet with Forte and to start negotiations for a merger. And, the attorneys again had another stroke because they said it was too close even though it was part of the deal. We said we were raising money to do acquisitions. So, and they said we should break it off for at least a couple of months, but we felt like we couldn't wait that long so we broke it off until January and then we got back together and put the deal together doing it as a pooling of interest. So we did that merger and just as fast as we closed that, Bert came up with Cohesive. Then in March or April of '86 we started negotiating a deal to merge with Cohesive, and they were venture capital controlled so there wasn't one person like Dan to deal with.

Pelkey: Now, two things. One is, during that period of time, you felt pressured being in the T1 business.

Huffaker: That's correct. Yeah, we felt like we needed to be in the T1 business -- as a matter of fact, we had tried to be in the T1 business before we did the deal with Cohesive -- and, about the, probably around the '83 - '84 time-frame, we became aware of a company in Sydney, Australia called Citek and they had point-to-point T1. So, we struck a deal with them as to where for a sum of money payable over a period of time, we could get their technology. We would buy boxes from them to a point and then we had the right to manufacture and we would pay them a royalty. So, they had just developed their box and so we started buying boxes from them and they didn't work very well. So, we decided that we were going to have to develop this tech, develop it ourselves. Re-design the box and increase the reliability of it. So, we -- and Citek was real weak. They just weren't able to -- they were just having a lot of trouble, so Jose Puerto and myself went to Sydney and struck a deal where we were going to put equity into them. We got down there and they really didn't want equity they wanted a royalty stream so we could basically accomplish the same thing, so we agreed to increase the payments on a monthly basis to get the guaranteed minimum royalties to -- to give them the cash flow they needed so they could continue their development. And then we got the rights to do the development of the box the way we wanted to do it. And, while we were there, Jose and I met with Citicorp venture capital people there in Sydney and convinced them that they ought to be investing in Citek, and they went over and actually did after we left, they did go over and invest in them and kept them afloat so we could get this technology. But, we just never were able to develop the technology because we didn't have total control of it to do what we wanted to do. We felt like we needed a bigger box and so that's what got us interested in Cohesive.

Pelkey: And there was some conversations -- you analyzed NET a little bit.

Huffaker: Yeah, we also had conversations with NET. NET was not public at the time. They were thinking about going public and -- we actually, Bert actually talked with both firms about acquisition and we could have done either one. But, Bert was adverse to paying the kind of price tag NET thought they were worth, so we went to Cohesive.

Pelkey: And, NEA was in Cohesive?

Huffaker: No. None of the venture capital people that we were . . .

Pelkey: Ok. They were in Network Switching Systems?

Huffaker: NEA -- I don't believe they were in either one of them. They may have been NSS but I'm not sure. So we did the Cohesive deal. Now, NET got real upset that we were doing a deal with Cohesive and they thought it was going to be a major blow to them for us to acquire Cohesive because we already had a salesforce, we were out there selling and we were already publicly trading which gave us more credibility and all, and so they were very concerned about that. So, just before our deal was to close, they filed a $10 million lawsuit against Cohesive claiming a bunch of garbage in hopes that we would walk away from the deal. So, we examined their lawsuit and talked to the Cohesive people about it and decided it really didn't have a lot of merit, so we told the venture people at Cohesive we'd close the deal and we would assume the lawsuit, we wouldn't throw it back on them, we'd take the lawsuit. So, we accepted that and we closed in September of '86 and then shortly after we closed, I called our attorney and had him call NET's attorney and tell him that we wanted to meet him here in Palo Alto, in the building across the street, and we met and I told them they had to have somebody there who could settle the lawsuit, had authority to settle. So, Bruce Smith showed up with his attorneys and I showed up from DCA with our attorney and what we had done is, under California law, if someone files a lawsuit against you, when you respond to that lawsuit, any possible claim you have with them you have to raise at that time, related or unrelated to their lawsuit, or you lose it. So, Cohesive, some of the founders of Cohesive or some of the people who helped start it, had left and started NET so there was always this nagging issue in the back of the minds of some of the people at Cohesive as to whether they had stolen some of their technology or not. So, we walked in that morning to the settlement discussions and we had drawn up a lawsuit countersuing them for stealing our technology and we threw it on the table. Bruce just about had a stroke because he was afraid that if we filed the lawsuit, right or wrong, it would kill his offering and he was about to try and go public. So, the attorneys ranted and raved and nobody would give…[1]

END OF THE INTERVIEW

[1] [Editor's note] Tape ends.

