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MINNESOTA BUSINESS

FEBRUARY 2004

LEADERSHIP ▸ OPPORTUNITY ▸ GROWTH

Inside

Full Speed Ahead

Launching IntraDyn Inc., Gary Doan is chasing a $3.7 billion market. Can this unflappable entrepreneur improve his luck and finally get the payday he deserves?

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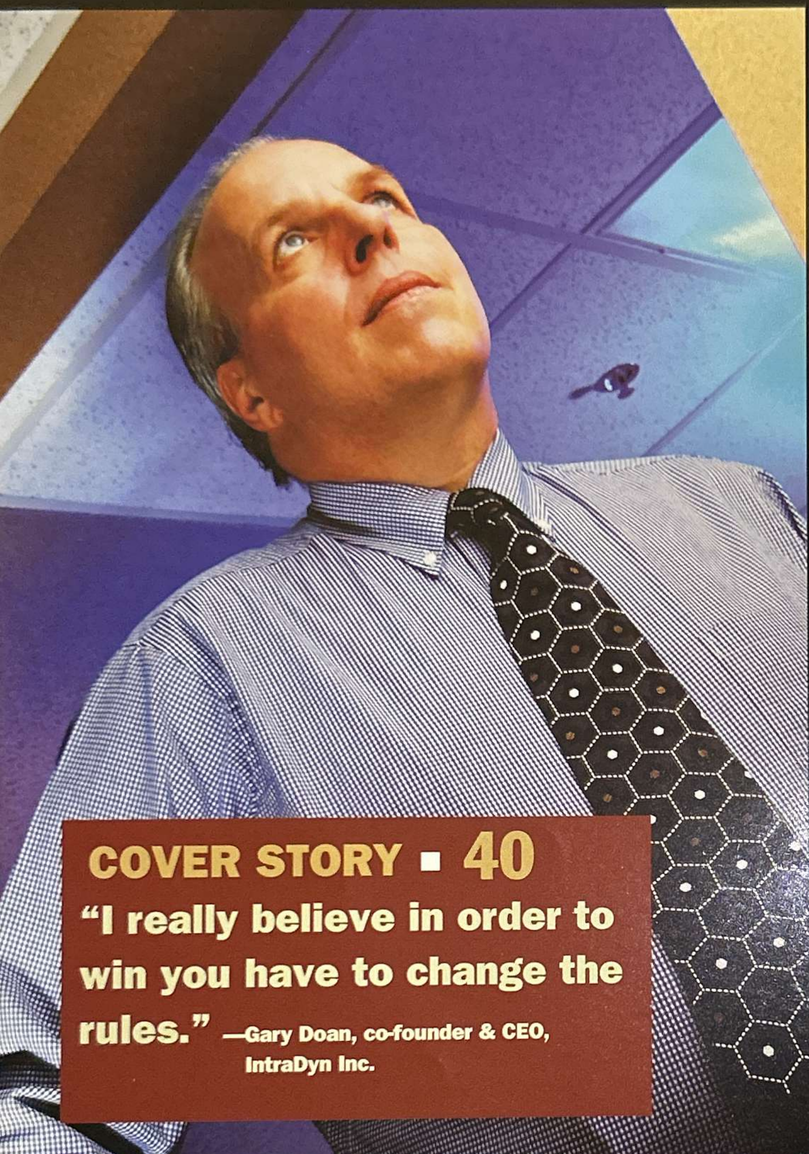

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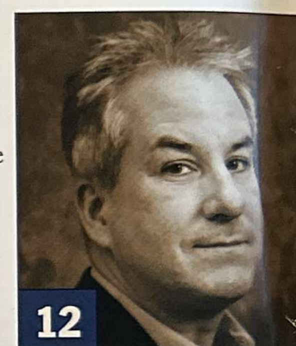

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FROM THE EDITOR-IN-CHIEF

Meet Gary Doan, co-founder of IntraDyn Inc., in this month's cover story, page 40.

What's an appropriate definition of success? In business, I think it's fair to say, the most widely used ruler is money. What else could it be? We evaluate the progress of our companies by various financial measures, it is only natural we'd apply the same benchmarks to ourselves.

The problem with only using money to judge success is that it ignores a lot of intangibles, things that aren't "worth" anything in a pecuniary sense, but are valuable nonetheless.

Take Gary Doan, the focus of this month's cover story, as an example. In most ways, Gary is a success. He's founded or helped found a half dozen different companies in highly competitive industries, and has been a technological innovator whose ideas have been widely recognized. Gary himself believes he's not lacking. "I've done pretty much what I've liked in my life," he says.

Yet the one thing Gary does not have on his resume is a big payday. The closest he came was Minnetonka-based NeoNetworks, a red hot router maker Gary co-founded in 1996. But that company never quite made it.

So as Gary dives into his latest enterprise, IntraDyn, the question waiting to be answered is, "Is this the one?" Gary himself may not care, and after speaking with him that's the impression you get, but nonetheless it would secure his position as one of Minnesota's top technology entrepreneurs — a distinction he probably already deserves [see "Full Speed Ahead," page 40].

Also in this issue we're pleased to talk with other accomplished entrepreneurs. Phil Hotchkiss of Big Charts fame [page 32] and Bob Walker, inventor of the Select Comfort bed [page 10]. These men are at it again looking to bring two young companies to market. Plus we speak with Tim Giehll of eEmpACT [page 36] who has big plans for a little human resources software company, and Tom Stein of Metafarms [page 12] who's looking to change the way livestock production companies operate.

You should be sure not to miss our upcoming After Hours business social event this month (see page 19 for details). It takes place on February 12 in downtown St. Paul at the beautiful Radisson Riverfront.

Kenan Aksoz

KENAN AKSOZ
EDITOR-IN-CHIEF

Correction: Argosy University's new Eagan campus was incorrectly identified in the January 2004 issue (page 22). Its Web site is www.argosyu.edu.

MINNESOTA BUSINESS
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PUBLISHER & EDITOR-IN-CHIEF
Kenan R. Aksoz, *kenan@minnesotabusiness.com*

EDITOR AND ON-LINE CONTENT EDITOR
Mark Druskoff, *markd@minnesotabusiness.com*

EDITORIAL CONTRIBUTORS
Sheree R. Curry, Dan Emerson, John Hammett, Marc Hequet, Harlan Jacobs, Pat Mack, Douglas Petty, Kate Rubin, Barbara A. Wrigley

ASSOCIATE PUBLISHER
Maureen Whaley, *maureen@minnesotabusiness.com*

ADVERTISING SALES
Steve Nelson, *steven@minnesotabusiness.com*
David Fieger, *david@minnesotabusiness.com*

DIRECTOR OF EVENTS
Kim Hansen, *kim@minnesotabusiness.com*

DESIGN AND PRODUCTION
Sarah Sucansky, *sarahs@minnesotabusiness.com*
Yola Hartmann, *yola@minnesotabusiness.com*

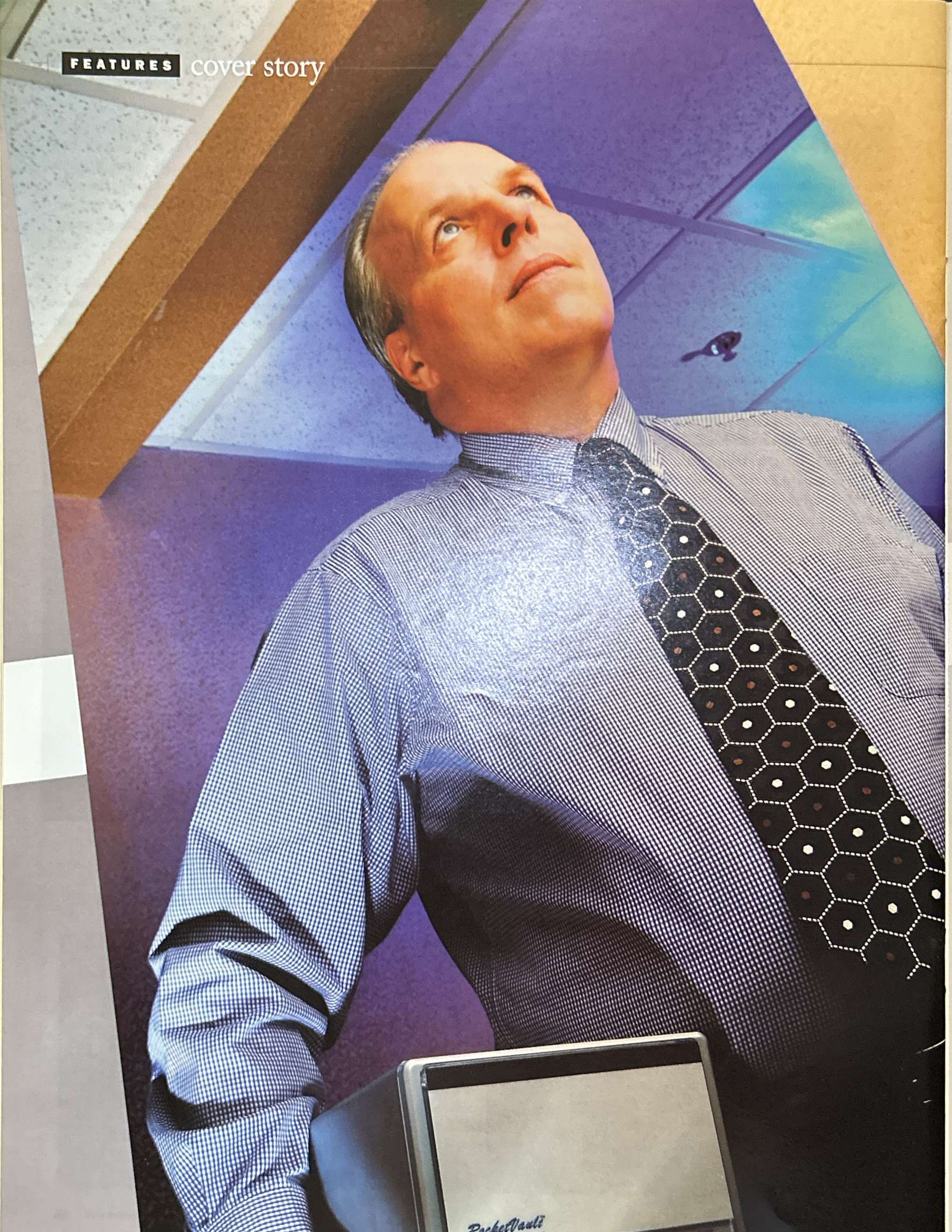
CIRCULATION/PROJECT DIRECTOR
Corey Monssen, *coreym@minnesotabusiness.com*

ACCOUNTANT
Carol Linkert, *carol@minnesotabusiness.com*

SPECIAL PROJECTS MANAGER
Anton Medved, *anton@minnesotabusiness.com*

COVER PHOTO
david neiman

BBN PUBLISHING
CHIEF EXECUTIVE OFFICER
Kenan R. Aksoz
PHONE: 952-844-0400


PocketVault

Full Speed Ahead

WRITTEN BY MARK DRUSKOFF

PHOTOS BY DAVID NEIMAN

Launching his third venture, tech visionary Gary Doan got educated at the school of hard knocks.

Can this unflappable entrepreneur improve his luck and get the payday he deserves?

Voracious might be the best way to describe Gary Doan's appetite. Not for food, mind you, but rather for research. Talk to anyone who knows him, and you quickly discover that Doan is in a league of his own when it comes to keeping up to speed on technology and related trends.

"He reads half his weight in research every day," remarks Dan Leach, only half jokingly. Leach and Doan are co-founders of Edina-based IntraDyn, a two-year-old startup that makes an electronic data archiving appliance. "In the course of that [research], either through design or serendipity, he comes to the eurekas." This is Leach's first startup experience. He formerly worked as an investment banker for Miller Johnson Steichen Kinnard (MJSK). For Doan, however, IntraDyn is his third company. His first two efforts were in the related field of data communication networks.

It's an interesting career path for someone who had no formal training in technology — Doan completed just one year of college at Mankato State. His interest in technology emerged gradually. Moving from Minnesota in his early 20s, he took a job in Los Angeles selling high-end camera equipment to television and movie studios. Curious about the technologies he sold, he began to learn more and more about them.

From that beginning, Doan's pursuit of knowledge ultimately led him down a number of unforeseen paths. From cameras, Doan branched out into hawking electronic components. From electronics, he transitioned into selling computer cabling for mainframes. From computer cabling to computer components. Each twist and turn took Doan in a new direction, ultimately landing him back in Minnesota working for a startup called Computer Systems Products (CSP) Inc.

Brainiac on the Loose

Duncan Lee, owner of CSP with his father Peter, says that he hired Doan to take the company into the, then, very young market of data communications. "Once he came on board, he amazed me with his knowledge of the

Biz Briefing

IntraDyn Inc. ▸ **Headquarters:** Edina ■ **Inception:** 2001 ■ **Revenue:** $4.5M (projected) ■ **Seed capital:** $400,000 ■ **Venture capital:** None ■ **Patents:** 0 ■ **Employees:** 8 ■ **Description:** Maker of data archiving appliance ■ **Web site:** www.IntraDyn.com marketplace," recalls Lee, who is now CEO of Engineered Products, Inc. and Lee Communications. "He always seemed to be one step ahead of everyone else in what was coming next."

That ability came from Doan's capacity to absorb huge quantities of information.

"He is as well-read as anybody you're going to meet in the industry," observes Tim Andersen, founder and CEO of Eden Prairie-based Bailiwick Data. Doan hired Andersen to work for him at CSP. "I'd guess he spent anywhere from 2 to 4 hours a day reading," says Andersen. "I just can't imagine you'd find anyone that's got that much knowledge." It wasn't uncommon, Andersen says, for Doan's desk to be piled several feet high with trade magazines and research.

At CSP, Doan was given free reign to innovate and create new products, which he did to its owners' pleasure. (During Doan's tenure, sales went from essentially zero to $5 million.) Doan had risen to director of marketing by 1987. In that year he decided to leave CSP, however.[1] It was a move precipitated by a lack of equity compensation and a desire to explore new technologies and markets. Doan immediately went out and founded his first company, Transition Networks.

The timing was such that he was well positioned to benefit from shifts in the data communications market. Computer networks of the day consisted of bulky and expensive coaxial cables that hard wired dumb terminals to central computers. For large corporations, the number of cables added up so quickly they hogged up valuable office space.

Doan saw an opportunity to solve this pain by taking advantage of a new technology that allowed signals to pass over much thinner, twisted-pair telephone wire, which would save companies space and money. Doan's solution was to market an adapter, called a balun, that enabled the transition from one type of line to the other and back again.

Although Doan's technology assessment proved to be correct, he had a hard time raising money. "I started Transition on a shoestring, literally in my kitchen," says Doan. "I thought I could do it. That doesn't necessarily make you successfu, but it's a good place to start." Investors wanted to know how he would compete with established players that had the advantage of scale.

"It didn't take me long to recognize that Gary had a bead on the marketplace that was very different than most entrepreneurs I'd come in contact with."

—Dan Leach,
co-founder & CFO, IntraDyn Inc.

Corporate Timeline

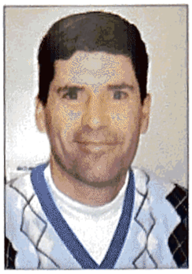
1983	- Joins Computer System Products (CSP)
1987	- Leaves CSP, founds Transition Networks, Inc.
1988	- Sells majority interest in Transition Networks
1996	- Resigns from Transition Networks, voided options, sales $15 million - Co-founds NeoNetworks with Hemant Trivedi, CTO, and Tim Anderson
1997	- Raises $11M in VC
1998	- Resigns from NeoNetworks because of health concerns, ownership stake 10 percent; - Transition Networks acquired by Communication Systems for $8.5M
1999	- Former-NeoNetworks employees Mark Cree and Clint Jurgensen co-found NuSpeed
2000	- NeoNetworks closes doors - Cisco acquires NuSpeed for $450M
2001	- Co-founds IntraDyn with Dan Leach, CFO - Receives liver transplant in August - Hemant Trivedi buys NeoNetworks technology and founds Terago
2002	- NeoNetworks sues NuSpeed, its founders, backers and Cisco Systems - Terago shuts doors
2003	- IntraDyn rolls out first product, RocketVault - IntraDyn capital raised to date: $400,000
2004	- Projects $4.5M in sales - Rolls out data storage product to securities broker
Future	- Roll out product to health service provider verticals - Raise venture capital - Explore mergers or going public

As a result, Doan paid a steep price for the equity to launch the company. In 1988 he sold his majority interest in Transition Networks for options on 10 percent of the company. He'd find out later that he'd committed a major blunder. In the meantime, the company grew nicely, doubling every year and generating double digit profits.

As the massive demand for changing coaxial to twisted pair petered out, Doan says he jumped feet first into the next wave in data communications — the Ethernet, developed by the big brains at Xerox's Palo Alto Research Center, that powers computer networks. Transition Networks began making converters for the new technology, and sales continued to grow, reaching $8 million in 1996.

All the while, Doan says he spent large amounts of time attempting to buy back the company from the investment group he sold out to. "I spent most of my time at Transition Networks trying to acquire the company from the parent company," retells Doan. "We had several conversations of being acquired by public companies or investment bankers taking us public, but every time it got to the board, it was rejected."[2]

Fed up with the situation, Doan quit and asked to cash in his options. He discovered to his dismay that his contract stated he could only quit on his anniversary date, otherwise he forfeited his options. "That was not really any fun at all," says Doan. "I learned a good lesson there. After that I determined I'd only own stock. I don't want any options."



"He is as well-read as anybody you're going to meet in the industry. I'd guess he spent anywhere from 2 to 4 hours a day reading. I just can't imagine you'd find anyone that's got that much knowledge."

—Tim Andersen, founder and CEO, Bailiwick Data

Enter the Matrix

Not pausing to lick his wounds, Doan almost immediately moved on to his next much more ambitious project. Such an outlook was typical of Doan, says Andersen, adding, "This guy's as optimistic as they come. I think his toes are happy."

The two men stayed in touch after Doan left CSP; Doan mentored Andersen through the process of launching his own startup, MTI Netforce, and then the second, Bailiwick Data. Doan and Andersen also partnered to launch Doan's next business, NeoNetworks. They were joined by a third entrepreneur, Hemant Trivedi, an engineer Doan had hired while at Transition Networks.

Doan's vision for NeoNetworks was ambitious. He wanted to build a super-fast switch for the network. But his was not the only company pursuing that goal. There were plenty of well-funded startups on the East and West coasts looking to do the same. But he said most of them were using standard hardware and standard software to solve the problem. Doan chose a different tact.

"I really believe in order to win you have to change the rules," says Doan. "You almost have to create a new category, but I enjoy doing that." The key he says is that it has to be a very logical solution. "Who's going to listen to me that this is the way they should do things?"

Leach, still at MJSK working to raise money for NeoNetworks, said he realized that Doan had the intellectual firepower needed for the job. "It didn't take me long to recognize that Gary had a bead on the marketplace that was very different than most entrepreneurs I'd come in contact with," says Leach.

An investment banker, he'd worked with many new businesses and their founders. "Everyone has got that 'new new thing' that they're developing," explains Leach, "but a lot of times it's a product looking for a market. What Gary was able to do, and better than anyone I'd ever met, was to look at the marketplace that had a tremendous problem that needed to be solved and then, using that as a starting point, begin to do research from a technical standpoint as to what kinds of existing technologies could be brought to bear, or developed, to solve that problem."

Initially, Doan discovered that although the argument for his product made sense, it cast into doubt money already invested in a competing technology standard. "When we went out to raise money, many of the VCs we talked to didn't really want to hear that because they had billions of dollars invested in ATM [the competing technology]."

"He just struck fear into their hearts," notes Leach, who worked as NeoNetworks's investment banker to help raise money. "His idea, if he was able to productize it and take it to market, would have thrown a wrench in whatever they had a hand in at the time." But he adds, they all wanted to hear what he had to say because "his ideas had magnitude behind them. You could really see that not only were they ingenious and clever, but they were going to have a big impact on the marketplace. They were going to change the way the industry was thinking about how to solve the problem."

Ultimately, Doan was able to convince enough backers to raise $11 million, and industry experts also started to line up behind Doan's ideas. But there was still one fundamental problem — the company could not deliver a finished product. All the momentum meant nothing without something to sell.

Epilogue, NeoNetworks

The saga of NeoNetworks continues. In the months before the company shut down, two employees, Mark Cree and Clint Jurgens, left to start NuSpeed. Less than a year later, Cisco Systems Inc. (Nasdaq: CSCO) acquired NuSpeed for $450 million in stock.

But according to an article in *Byte & Switch*, a data communications trade publication, NeoNetworks filed a lawsuit in 2002 against Cree, Jurgens, Cisco and 50 other NuSpeed shareholders, officers, directors, employees, investors and agents, alleging NuSpeed stole technology and business relationships developed by NeoNetworks. The Minneapolis law firm of Anthony Ostlund & Baer is representing NeoNetworks.

Having resigned as CEO in 1998, Gary Doan's only interest in the lawsuit now is as a passive shareholder — he still owns 10 percent of the company's stock.

NuSpeed was not only the only company to come out of NeoNetworks. Hemant Trivedi, one of the original co-founders with Doan and Tim Andersen, and two other NeoNetworksNetwork employees, Scott Sarkinen and Jerome Meyer, purchased the assets of NeoNetworks and founded Terago Communications Inc.

Briefly based in Maple Grove before moving out to California, the company raised $15 million in venture capital to build a microprocessor to be used in high speed data networks. Terago, however, closed its doors in 2002. **—M.D.**

Management Style

"Incent everybody" is Gary Doan's philosophy when it comes to employee compensation. But he notes, "I've found it's not as simple as it sounds. Different things motivate different people. Everybody assumes money motivates people. In fact, money is not a great motivator, especially when you're talking about technical people."

One area that Doan feels strongly about is giving employees equity, at least in the early stages. Having learned the hard way that securing equity, actual stock certificates not options, is the best form of compensation in a startup, Doan says, "I like to have each employee have a piece of the company."

For instance, he gave nearly 50 percent of the company to the two software developers, Adnan Olia and Azam Qureshi, that created IntraDyn's proprietary software.

After his own experiences, he says it's surprising how many employees would rather trade in the equity for money. But, he says, "It's almost like you've got to give it to them for their own good. ... It's just incredible, few people will take options because they really don't see the value in them. But as they see the success starting to happen, all of sudden things start to click." **—M.D.**

Doan believed the best thing he could do to help the company was to step aside and bring in another CEO who might be able to speed product development along. He was leaving NeoNetworks with $5 million of the $11 million in venture capital still in the bank and a growing industrywide acceptance of NeoNetworks' vision.

He also had another more serious reason, unbeknownst to his business colleagues, for the move. In the 1970s he had contracted Hepatitis C from a bad blood transfusion he received after a car accident. By 1998 the disease had progressed to the point where doctors were giving him only a few years to live, unless he received a liver transplant. But he was still too healthy to make it to the top of the waiting list for a new liver.

At nearly the same time, Doan's marriage broke up. His life turned inside out in a span of months, Doan decided to not only resign, but retire.

Darkest Before the Dawn

Just 45 years old, Doan had good reason to believe he could retire comfortably. He'd received no equity at CSP and been outmaneuvered at Transition, but he figured it was just a matter of time for his payday to come through. Around the country, companies similar to NeoNetworks were selling for hundreds of millions of dollars. Therefore, on paper, his 10 percent stake in NeoNetworks made him a multi-millionaire.

That dream evaporated in 2000 when NeoNetworks shut its doors. Never having shipped a single router, NeoNetworks entered the graveyard of could-have-been businesses. Doan's paper millions vanished.

"My perception is that things haven't turned out quite as well financially as I would have thought based on how intelligent he is and how many things he's created," says Denny Stanton, a vice president at Anixter, where Doan worked in the 1980s, who has known Doan professionally for many years. "I feel bad that he doesn't have a lot monetarily to show for having made money for so many other people. But when you look at Gary, you'd never know. There's no hard feelings. He doesn't get caught up in blaming the world. He doesn't do that, he moves on."

Doan reconsidered his options and decided that retirement was not for him. It was quite a bold decision given his health condition, which was deteriorating rapidly. But he believed he had more ideas in him that could be spun out into a company. Doan's business partner for the new venture was Dan Leach.

"I pretty much let him know that if and when he started to develop another company from the inception stage, I very much wanted to be a part of that," says Leach. His responsibilities had shifted to working on developing MJSK's online business unit, Stockwalk.com, which piqued his interest in starting his own company.

Together they began the process of building all the pieces for a new company in 2001, which would come to be called IntraDyn Inc. To avoid repeating past mistakes, however, Doan approached IntraDyn's creation with care.

Proceeding with Caution

The first step was to make sure the company had a product finished and ready to sell before going out in the marketplace. He did that by adapting his vision for IntraDyn's first product to the resources available to him. That included using off-the-shelf components for the hardware and open source Linux software for the operating system — which had the dual benefit of keeping costs low. Plus, Doan chose a niche to address — removing the headache of data archiving for small businesses.

Doan's idea was to create an affordable network appliance that could automate data archiving. The macro indicators that such a product might succeed were promising. "You could see all the things lining up," recalls Doan. "We live in a digital world, and that creates a lot of data that you have to store."

Typically a time- and personnel-intensive operation that required trustworthy but slow data tape, few small businesses took the time to protect their data. Yet data was becoming increasingly valuable to companies. Plus, the amount of data generated by companies was piling up rapidly. Doan notes that a typical small company requires tens to hundreds of gigabytes of storage to save just the most essential data.

Doan approached the task of raising money with caution. "In talking about the company, we would have started competition," says Doan. So instead of chasing down money from venture capitalists, which would remove the possibility of a stealthy introduction into the market, Doan, Leach and an unnamed investor pooled together $400,000 to launch the company. "Now we've made it a little late for them [competitors]."

Amazingly, while all the work of starting the company was taking place, Doan was finally selected for a liver transplant operation. In the summer of 2001 he underwent the operation, which saved his life.

After testing a beta version of the product, IntraDyn rolled out RocketVault in June 2002. Doan says his efforts since then have been focused on gaining "mind share" with key opinion leaders. He launched a focused campaign to reach technology columnists and analysts throughout the U.S. [illegible]

The efforts have paid off. *Network* [illegible] named RocketVault Best Product of [illegible] And online retail giant Amazon.com contacted Doan with the proposition of offering RocketVault on a new small business site due to launch in 2004. RocketVault, which has a base cost of $1,500, will be just one of six products featured initially. By outsourcing manufacturing and fulfillment, Doan believes his company will be able to adapt to any surges in demand easily.

The Ramp Up

The next steps for IntraDyn are to divide up the approximately 5 million small businesses in the United States into separate viable segments and focus on solving their particular needs. The first vertical IntraDyn plans to attack is small securities brokerage houses, who are being required by the SEC to improve email archiving. The new product will be called the Compliance Appliance.

Beyond financial services, small medical offices are next on the list as the Health Information Portability and Accountability Act (HIPAA) regulations are forcing all health care providers from big to small to secure patient health information.

"There's a ground swell right now, we're in the right spot," says Doan. To further refine IntraDyn's marketing strategy, the company will focus on working with value added resellers (VARs) and systems integrators to create new distribution channels.

With all of the opportunities opening up, Doan says his eight-employee company will soon be experiencing significant growth, including higher sales, adding employees and forming a senior management team and board of directors. The company is predicting sales will soar to $4.5 million in 2004. To assist in running the company, Doan hired Sal Mondelli as president. Doan knew Mondelli from his days at Transition Networks. Mondelli took over as CEO after Doan left Transition Networks in 1996.

"Sal is more the manager type and is more tactical than I am," says Doan, who describes his own management style as "loose." "I'm more of an entrepreneur," he continues. "I'm sort of CEO by default."

The challenges ahead for IntraDyn are many. First, competition will be fierce. The data storage market has been the only industry in the tech sector to have passed through the recent downturn in good shape. And it's a growing market, just the segment IntraDyn is interested in is estimated at $3.7 billion. Doan's solution is to rely on speed and innovation to stay a generation ahead of the competition.

"There are companies locally that are taking our message and trying to adapt their product to our message," says Doan. "Well, good luck because we'll change the rules in three months. All they're seeing is the beginning. We won't be there when they get here."

Even more crucial to the long-term success of IntraDyn is to avoid the troubles that have plagued his previous ventures. "I think that we've got to scale it out properly," notes Doan. "I've learned that things come back to haunt you. If you do it wrong, it's very hard to fix it. ... Timing is very, very important to us right now."

"I know when it's all said and done Gary is going to come out on top someday," asserts Anixter's Stanton. "I don't know that finances are necessarily a way to measure your life, but I'm confident that someday Gary is going to get a payday."

"Once he came on board, he amazed me with his knowledge of the marketplace. He always seemed to be one step ahead of everyone else in what was coming next."

—Duncan Lee, CEO, Engineered Products, Inc. and Lee Communications

Leadership & Governance

Management Team ▸ Gary Doan, Co-Founder & CEO ■ **Dan Leach,** Co-Founder & CFO ■ **Sal Mondelli,** President

Outside Directors ▸ None (planning to form)

Professional Advisers ▸ Attorney: Lindquist & Vennum ■ **Accountant:** Ellingson & Ellingson ■ **Public Relations:** S&S Public Relations [Chicago]

Leader Profile

Name: Gary Doan ■ **Title:** Co-Founder & CEO ■ **Ownership Stake:** 20% ■ **Age:** 51 ■ **Hometown:** Richfield ■ **Education:** Mankato State (1 year) ■ **First Job:** Paperboy ■ **Directorships/ Trusteeships:** None ■ **Family:** Twins (one son & one daughter) ■ **Best Advice You've Gotten:** "Stay focused."

Mark Druskoff *(markd@minnesotabusiness.com)* is editor of *MinnesotaBusiness Magazine.*

1) CSP was acquired by APA Optics (Nasdaq: APAT) [Feature Story, September 2000] in 2003 for an undisclosed sum.

2) After Doan left, Transition Networks was ultimately sold to Hector-based Communication Systems Inc. (AMEX: JSC) [Cover, February 2003] for $8 million.