How a hot LA startup went bankrupt: Inside the 'stress cage' that was Fuhu

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When graphic designers at children's tablet and app maker Fuhu Inc. put up a Christmas tree with wacky ornaments for the holidays, an executive ripped them off and trashed them.

They couldn't get a whiteboard for brainstorming or leave colored pencils or markers on their desk.

Former employees said the edict against untidiness emanated from a single leader, co-founder and President Robb Fujioka, whose marching orders effectively banned fixtures of office life as common as filing cabinets and snacking at the desk.

Fujioka has said he runs a democratic dictatorship at the struggling, 8-year-old Los Angeles-area company. His micromanagement - closely monitoring, for instance, details as small as packaging labels and the waist size of animated characters - represented an asset as Fuhu tried to find its footing.

But as Fuhu grew to dominate the market for tablets tailored to children, Fujioka became a liability with a penchant for neatness that stifled creativity, a hot temper that drove workers to tears and a focus on minutiae that stalled projects, interviews with 19 people who worked at or with the company suggest. They are left to wonder whether Fujioka held on too tight, for too long.

"The fundamental issue is that when you have a vision and start the venture, that's markedly different than taking the company to the next level," said Suren Dutia, a former entrepreneur who advises startups on leadership transitions. "Founders must be brutally honest: Are they still qualified to steer the ship?"

With a parking lot overflowing with exotic cars and a string of office renovations, Fuhu appeared a success story, generating nearly $200 million in sales in 2013. But several lawsuits and disputes with vendors, including a $100 million unpaid tab with Taiwanese manufacturing giant Foxconn, had left Fuhu in financial turmoil by last year.

Toy maker Mattel Inc. acquired the more than 400-employee startup for $21.5 million in January out of a bankruptcy auction. It was well below the $1 billion valuation Fujioka had hoped to reach through an initial public offering that he repeatedly vowed was 18 months away. Banks such as Goldman Sachs privately rated the company as far from IPO shape, though it eventually worked with JPMorgan Chase to secretly file a prospectus.

Fuhu spokespeople have refused to make Fujioka available for an interview since the bankruptcy. In Inc. magazine's September issue, he admits many internal issues stemmed from him.

"There was a bankruptcy of the business, but there was also a bankruptcy of the corporate culture," he said.

Fuhu by email denied or disputed characterizations by former employees.

Designers, for instance, had collaboration tools beside whiteboards, eating at desks was welcome and no one discarded decorations, the company said.

"As much as it was able to triumph and overcome, there were many things that could have improved and serve as key learnings that help the team continue to grow," a company statement read.

Fujioka, 46, had run several online marketing companies before he launched Fuhu alongside brothers Steve and John Hui, who had sold a PC business to Gateway. His supporters said Fuhu's downfall primarily is a result of market dynamics. Tech giants such as Samsung and Amazon.com flooded stores with more affordable alternatives to Fuhu tablets. Demand fell as smartphone screens grew larger and people held onto tablets for many years. Fuhu also lacked big contracts with schools.

But former employees say the disorganized and grueling workplace took a toll on company culture and output.

Warned by reviews on jobs site Glassdoor or by friends and family close to the company, many workers expected long hours. They were lured, though, by the buzz around tech startups, their meritocracies and get-rich-quick potential.

But many soon found the conditions extreme.

"People were treated like adults, but being monitored like they were on a playground," said a former worker, who, like others, spoke on the condition of anonymity to avoid reprisal from Fuhu and Fujioka.

Many felt pressure to stick around late despite having completed their tasks for their day.

"You sat there like a dunce," another former worker said.

Graphic designers packed notebooks and other supplies into drawers when not in use to appease management.

"It was a giant stress cage," said a former designer. "I felt unsecure worrying about how many implements I had out on the table."

Employees received perks: Unlimited vacation, an office gym with personal trainers, free lunches, loosely monitored overseas work travel and celebrations including a nearly all-expenses, two-day trip to the Hard Rock in Las Vegas in 2014.

But workers said high turnover crowded workloads, starving chances to go on vacation unless Fujioka favored the individuals. Contractors couldn't access free food (although friends sneaked it to them), and one former employee said she got scolded for taking too many snacks.

New hires said they never received a walk-through of Fuhu's tablets and apps. Those who requested a tutorial said they waited months for the experience.

Fujioka's insistence on approving small details distracted him from bigger issues, said two people who interacted with him closely. It's unclear if Fuhu's board of directors recognized the apparent mismanagement or why investors such as Foxconn didn't act sooner. Many, including film studio DreamWorks, declined to comment. Fuhu also had an advisory board, though an industry heavyweight on the panel said he hadn't talked to Fuhu in at least four years. Fuhu said its directors "met regularly and were a part of all key decisions."

Erik Beyer, a veteran game designer who spent a year at Fuhu, described Fujioka as the antithesis of a good leader.

"You've got to trust your employees, that's why you hired them," Beyer said. "Anyone in that role should be focused on the big picture and propagating a vision, but that vision shouldn't include work for the sake of work."

Fujioka's oversights included not enforcing stringent budgets. A former finance staffer - whose assertions Fuhu denied - left stunned that the company spent five times as much to ship tablets by air versus sea for no particular reason.

When it filed for bankruptcy, Fuhu owed Foxconn more than $61 million as cash flow suffered from slowing sales, failed products and thin profit margins. Fuhu also entered a $50 million dispute with distributor D&H, contributing to the bankruptcy of manufacturer Keen High Technologies Co., according to court records.

The Foxconn partnership destabilized over several transgressions, the ex-finance worker said. At one point, Fuhu agreed to sell tablets for less than Foxconn would ever agree to. Last year, Fuhu publicly blamed Foxconn's "mishandling" of tablets for lackluster sales - allegations that Foxconn called "unfounded" and threatened to sue over. Creditors continue to seek repayment from Fuhu.

Daniel Choi, an animator who after two years was laid off, said he should have seen the bankruptcy coming sooner.

"You see poor management," he said. "You see it every day."

Product ideas - unsupported by broad market research - often came from Fujioka talking to his kids. Two former managers said plans to develop baby monitors didn't have any research behind them. Technologists at the company didn't get solid answers to why tablets began requiring proprietary cables. Thorough vetting occurred, and Apple's strategy of proprietary accessories inspired its own, Fuhu said.

Workers felt rushed to complete projects so managers had time to get Fujioka's approval. The rush contributed to faulty products, including a weak charging system now at the center of potential multimillion-dollar class-action litigation.

Fujioka also created "the partnership," a handpicked group of about 20 employees who met with him every Monday. Former employees said partners toted around walkie-talkies, racing over just to hand him eating utensils.

Fujioka viewed the partnership as a motivator. Many partners were young. They received promises of both large stakes in Fuhu and grooming for top positions, according to someone nearly named partner. They served as posse and advisors but never questioned Fujioka's decisions, the person said. Chief Executive Jim Mitchell, largely in charge of relationships with contractors and investors, went along with Fujioka's orders, several people said.

The partnership and other quirks knocked at morale. Although Fuhu denies the allegation, one set of workers expressed distress because its team received public evaluations, with names and performance measurements posted in red pen on a wall.

The only former employees who described a pleasant experience were among the few dozen software developers at the company's technology offices in Silicon Valley and Colorado. Their lone dread was a visit from headquarters - it meant that developers would have to wipe down their desks.

A Fujioka backer described him as an aggressive entrepreneur whose style may have worn thin over time.

In one incident, which Fuhu said never happened, a freelancer complained aloud that his chair had gone missing. Fujioka, who held 10 percent of company shares entering the bankruptcy, overheard.

"That's not your chair, that's my chair," Fujioka said, according to a person who witnessed the encounter.

"He's saying everything in this office is his. He storms off," the person said. The freelancer was soon let go.

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