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Barry Riceman at NetD (B)

Brandon Fogg returned to his office after the discussion with his manufacturing team to find a voice mail marked urgent from NetD's general counsel, Liz Williams. Apparently, Riceman had refused to disclose his breakthrough to NetD unless he retained sole ownership of the IP. Fogg quickly punched 88 to return the call.

"Liz, what do you mean Barry won't sign over the ownership? He signed the standard employment agreement, didn't he?"

Williams responded, "Yes, he did sign it, but . . . he is refusing to assign us ownership. He says that he is happy to give us a nonexclusive license for free, but that's not how things work. When I reminded him of his obligations to the company and the agreements that he signed—just like you and I and everyone else at NetD—he simply said, 'Fine, then, I just won't work on it anymore.' Honestly, Brandon, I was a bit speechless."

"That's completely unacceptable. He signed the same agreements as everyone else; he needs to live up to those agreements, or he's not working at NetD anymore!"

"Well, Brandon, you can certainly go down that road, but I suspect you may end up with him quitting. Barry is a strong-willed person and as you know can pretty much write his own ticket at any company around here. And it's not like we're in the position of being able to dump this idea of his. You know better than I do that it's a home-run product waiting to happen. So, unless you want to plan on having a round of layoffs a couple months from now as our cash reserve sags, we need to think of something else."

"So what are our options, Liz? Better question: what does he see as *his* options?"

"Assuming he's not just practicing brinksmanship, then this can play out one of two ways. We could hold the line, but if he refuses to work on Bodie—but that won't work; our VCs will be asking what's going on, and if we say our prime engineer is holding us hostage, then neither you nor I will be working here much longer. So say we threaten him, he doesn't blink, and we fire him. We *might* be able to complete the patent application without him, though frankly we don't know enough to take it very far. We might be able to get his coinventors—Joan, Ranjay, and Xing—to BS it enough to pass the patent examiners, so if he leaves and develops the technology elsewhere we can pursue him for infringement. Of course it takes two to five years for a patent to make its way through the patent office, which is more than enough time for Barry to develop the invention elsewhere. So the best we could do is threaten a lawsuit based on a patent we haven't been awarded—and now that the patent

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Professor Lee Fleming and doctoral student Matt Marx prepared this case. HBS cases are developed solely as the basis for class discussion. The company mentioned in the case has been disguised. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

office website publishes most patent applications, he can read our filing and simply work around it. Realistically, the only option we have is to pursue noncompete litigation, depending on where he starts a firm or who he works for. On top of all this, Barry wouldn't say if he would license the technology to competitors."

"Thanks, Liz. Feels like he's got us in checkmate. I should go fire him right now for insubordination or at least try to talk some sense into him." Fogg went to Riceman's desk but, as usual, he was elsewhere, this time at Chilcott's cubicle. Fogg found them talking about Kai-Fu Lee's recent court case with Microsoft (see **Exhibit 1**) and a $43 million settlement against an employee who violated his noncompete.[1] Riceman thought Microsoft had played a weak hand as well as they could, given that they could only prosecute the case in Washington or California. Fogg approached Riceman, and the two ducked into a conference room. Riceman stared straight ahead at the whiteboard, careful to avoid eye contact.

"Barry, so . . . I just had a call from Liz. She said she was working with you to get our outside counsel moving on the patent filing but that you told her you didn't want to sign the patent over to the company. You know you signed the standard IP disclosure agreement just like I did."

"Yeah, but that IP assignment agreement doesn't mean a thing for managers, since managers don't actually *invent* anything," joked Riceman. "It's just a tool to capture the real source of innovation in the company—the engineers. It's just like Shuji Nakamura versus Nichia" (see **Exhibit 2**).

Fogg realized he was not going to win a logical argument. "Barry, you and I—we've both been here since almost the beginning. We've been in this together for nearly three years now. I'd be preaching to the choir director if I told you how important this is to the company—and not just the company, but the people you and I work with every day. After your demo last week, I couldn't get the investors to stop talking about it. NetD needs this—we all need this."

Riceman was unfazed but cordial. "Brandon, I'm sorry I didn't come by your office first, but Liz was being pretty pushy, and I told her to back off. I'm just not sure what I want to do yet. I know I've invented something huge, but I question frankly whether NetD is the right place to bring it to market. Plus, some buddies of mine back in Boston want to start a firm, and I'd like to get back there. These guys have already done a successful IPO, so they know what they're doing."

Fogg respected Riceman immensely and asked him about his moral and legal responsibilities. Riceman remained unconvinced. "I can see your point, Brandon, but I've already given you guys a bunch of good ideas. It's up to you to make money out of them. This one's mine—and look, I've offered you guys a license to my idea if you need it that bad."

Writing the Bodie Disclosure without Riceman

Fogg knew that Riceman did not bluff, and as a former engineer himself he understood how valuable Riceman was to the firm, both in general and for the Bodie project. Unfortunately, Fogg realized he was in a very weak bargaining position. He also knew, however, that Riceman was most creative when he worked with others. Fogg's next step was to sit down the three coinventors, Joan Chilcott, Ranjay Singh, and Xing Wu. He asked each of them to review their understanding of the breakthrough so that they could write the disclosure without Riceman. With the patent in hand, the

[1] J. Banks, "$43 Million Award Shows Complexity Of Noncompetes," *Corporate Legal Times*, 2005, p. 15.

firm would be able to commercialize the invention—assuming Fogg could fix the problem of not being able to successfully commercialize ideas like Riceman's. Without the patent, the only legal recourse would be the noncompete Riceman signed upon joining NetD. They all assembled with Williams.

Fogg began, "You're probably all aware that Barry has refused to sign over the rights to the invention behind Bodie. I'm more than a little upset at him, but before I get mad, I'd like to make sure that we can't build the patent application without his help.[2] He said all of you were coinventors, so I figure that we ought to be able to proceed. Have you each had a chance to write up the disclosure, as I asked?"

Each of the coinventors hesitated to speak first. Chilcott broke the silence: "So I wrote down what I know about the hardware, but to be honest, I really don't understand all of it. I couldn't describe it well enough on my own." Singh concurred, "Same here, I understood the programming because Barry came to me to code it up, but I don't understand the math behind it."

Wu had a Ph.D. in math and had sketched the preliminary proofs behind the breakthrough. She understood the work she had done, though she had not written any of the code. She was reluctant to step forward, however. "It really is Barry's breakthrough. He is the one who put it all together. Each of us contributed a part, to be sure, but he assembled the ideas flowing between us and came up with the novel combination. It was one of those you-put-your-chocolate-in-my-peanut-butter moments."

Fogg persisted for two hours but did not feel they could put together a feasible application. Williams was willing to try, but it was not clear that they could write claims that would stand up to the patent examiners. The possibility of continuing research without Riceman remained, though doing so would inevitably distract from the efforts to fix the manufacturing problem.

Fogg's Options

Fogg pondered his options for handling the two problems he faced. First and foremost, he had to solve the commercialization problem; he wondered what he should do and how he should do it. With Riceman, he could "roll over" and agree to let Riceman keep ownership with a license back to NetD. If he stood fast, he needed a strategy for whether or not to pursue legal action if Riceman left for a competitor or to start his own firm. Fogg's anxiety grew as he pondered the implications of rolling over on what he had thought was an industrywide and non-negotiable issue. He also worried about what such an action would mean for his own career and for his ability to lead the company.

Fogg had left a message with a NetD angel investor who had 40 years of experience in the valley. The angel had been busy but phoned a short, emphatic message: "Brandon, you have two options: fire him, or fund him." Riceman's demands had obviously complicated the commercialization issue as well. Furthermore, the pressing question remained: could he solve both problems in time to avoid layoffs—including his own? As he pulled into the parking lot just a few minutes before his meeting with NetD's lead director, he knew he had to make up his mind quickly.

[2] U. S. patent law was very clear in requiring that all inventors who had contributed to an invention be listed as coinventors on the patent application and grant. Inventors did not necessarily own the patent, however, since this right was granted to the assignee, which was generally a firm but could be an individual or individuals or a university or government agency.

Exhibit 1 Kai-Fu Lee Story in *The Seattle Times*

Thursday, December 22, 2005

Microsoft, Google reach settlement over employee hire

By Allison Linn
The Associated Press

SEATTLE — Microsoft Corp. said late Thursday it had reached a settlement with rival Google Inc. and former employee Kai-Fu Lee, ending a legal battle that had exposed behind-the-scenes rancor between the companies.

In a statement, Redmond-based Microsoft said the three parties had entered into a "private agreement that resolves all issues to their mutual satisfaction."

Google confirmed the settlement and released a statement from Lee saying he was "pleased with the terms of the settlement agreement."

Microsoft spokesman Jack Evans would not say when the settlement was reached. He also would not provide details of the settlement, calling it confidential. Google also declined to comment further.

Lee had worked at Microsoft since 2000 and helped develop its MSN Internet search technology, including desktop search software rivaling Google's. He left in July to lead Google's expansion into China after Google offered him a $10 million compensation package.

Microsoft sued Lee and Google in a Washington state court, contending that Lee's job at Google would violate terms of the noncompete agreement that prohibits him from doing similar work for a rival for one year. Microsoft also accused Lee of using insider information to get his job at Google, based in Mountain View, Calif.

Google responded with its own lawsuit against Microsoft in U.S. District Court in San Jose, Calif.

Because of the settlement's confidential terms, it's unclear what tasks Lee can perform until his noncompete agreement runs out. A Washington state judge ruled in September that Lee could not work on products, services or projects he worked on at Microsoft, including computer search technology, pending the trial. But the judge said Lee could recruit and staff a Google center in China.

The case has shed light on bitterness between software titan Microsoft and search engine king Google, two high-tech powerhouses who seem increasingly to be edging into one another's turf.

Court documents released in September said that Microsoft CEO Steve Ballmer, in an obscenity-laced tirade over another former employee's having been hired away by Google, threw a chair and vowed to "kill" Google. Ballmer has called the characterization of his response a "gross exaggeration."

Also last fall, Microsoft released an internal e-mail from a Google executive that suggested the search-engine company pursue Lee, then still a Microsoft executive, "like wolves."

Microsoft had offered to settle in September, hours after the state judge ruled that Lee could do limited work for Google pending a full trial. That trial was set for next month.

Exhibit 2 Wikipedia Entry for Shuji Nakamura

Shuji Nakamura (中村 修二 *Nakamura Shūji*, born in May 22, 1954, Ikata, Ehime, Japan) is a professor at the University of California, Santa Barbara (UCSB).

Nakamura graduated from the University of Tokushima in 1977 with a degree in electronic engineering, and obtained a master's degree in the same subject two years later, after which he joined the Nichia Corporation, also based in Tokushima. It was while working for Nichia that Nakamura invented the first high brightness GaN LED which has the distinctive advantage of producing blue light, and which went into production in 1993. He was awarded a Doctor of Engineering degree from the University of Tokushima in 1994. He left Nichia Corporation in 1999 and took a position as a professor of engineering at the University of California, Santa Barbara.

In 2001, Nakamura sued his former employer Nichia over his bonus for the discovery, which was originally 20,000 Yen (~US$180). Although Nakamura originally won an appeal for 20 billion Yen (~US$180 million), Nichia appealed the award and the parties settled in 2005 for 840 million Yen (~US$7 million), at the time the largest bonus ever paid by a Japanese company.

Nakamura has also worked on green and white LEDs, and blue laser diodes, which are used in Blu-ray Discs and HD DVDs.[1]

In 2006, Nakamura was awarded the second Finland's Millennium Technology Prize for his continuing efforts to make cheaper and more efficient light sources.[2][3]

References

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2. Shuji Nakamura wins the 2006 Millennium Technology Prize [1]
3. Top prize for 'light' inventor. BBC News (2006-09-08). Retrieved on 2006-09-08.

Source: http://en.wikipedia.org/wiki/Shuji_Nakamura.