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Software Defectors From Microsoft Resettle Together to Form 'Spinouts'

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The [Microsoft](#) brain drain has entered a new phase.

Over the years, many talented engineers have left the software company for greener pastures. But now, the Seattle area is growing a new crop of what might be called [Microsoft Corp.](#) ([MSFT +0.04%](#)) spinouts: technology start-ups built around teams of software developers who have defected en masse from the Redmond, Wash., company.

Some of these new businesses could compete with Microsoft; and to make matters even more delicate, some are securing funding from other former members of the Microsoft family. It's a trend that Microsoft may not be able to reverse, and one that highlights the less-dominant market position of the software giant.

For Microsoft and the tech center of Washington state, the growing network is "the beginning of what already exists in the [Silicon] Valley," says Brad Silverberg, a former Microsoft senior vice president who is now chief executive of Ignition Corp. in Bellevue, Wash. Ignition, a venture-capital company, was founded by eight former Microsoft executives, among others.

At least a half-dozen high-tech companies have been spawned by groups of former Microsoft employees. The latest example: Avogadro Inc., a Seattle wireless-infrastructure start-up founded by former Microsoft Web-browser whiz Thomas Reardon and a small team of his former colleagues. Monday, Avogadro will announce that it has closed a \$7.5 million round of financing led by Ignition. Mr. Reardon worked for Mr. Silverberg for a time and calls him and John Ludwig, another Ignition partner and former Microsoft executive, "people I swear lifetime allegiance to."

Mr. Reardon, who has gone snowboarding out of helicopters with Mr. Silverberg, says only eight of Avogadro's 25 employees come from Microsoft, and he feels he has a good relationship with his old company. Mr. Silverberg adds that Ignition simply wants to fund the best start-ups, not raid his former employer. But for Mr. Reardon, the Microsoft connection has clearly proved valuable: Other investors in his company include Rob Glaser, who left Microsoft in 1993 to found Internet-media firm [RealNetworks](#) Inc., and Mike Slade, another ex-Microsoftie who works at Seattle venture-capital firm Second Avenue Partners. Mr. Glaser, in fact, says Ignition's endorsement of Avogadro helped him decide to back the company, though he is a longtime fan of the 31-year-old Mr. Reardon.

As they grow, most large technology companies lose employees to start-ups. Many of the recent refugees from Redmond cite a desire to work in a smaller, more entrepreneurial environment -- the way Microsoft once was. But some also acknowledge that Microsoft's antitrust troubles with the government became a distraction.

"To have it get that political, that's not what we signed up for," says Mr. Reardon, who served as a consultant for Microsoft in Washington during the antitrust trial.

What does Microsoft think of all this? Chief Executive Steve Ballmer says he doesn't view outfits like Ignition as a threat, even when they fund other Microsoft spinouts. Ignition "is doing things which I think would be very complementary to what we're doing," he said in a recent interview, adding that he still keeps in touch with Mr. Silverberg. Acknowledging an increase in start-ups run or funded by Microsoft alumni, he nevertheless downplayed them: "Three or four [companies] do not a trend make."

But Tony Audino, a former Microsoft marketing director and now a managing director in the Seattle office of Voyager Capital LLC, says he has noticed more groups of ex-engineers leaving one company together to start another. From the point of view of a Microsoft, he says, it's like losing a whole branch from a tree instead of a few leaves.

Voyager is funding one such "branch," a local online-payments company called CheckSpace Inc. built around a core of Microsoft engineers who worked in a similar business at Microsoft. They joined up after Microsoft sold its stake in Internet-payments venture TransPoint LLC. Another investor is Sam Jadallah, a former Microsoft vice president now at investment firm Internet Capital Group Inc., whose brother is one of CheckSpace's founders.

Another group of developers specializing in the hot XML computer language have found a new home at Crossgain, founded by ex-Microsoft developers Adam Bosworth and Rod Chavez. Across Lake Washington, Sung Rhee, who ran Microsoft's Outlook Express product, has hired several of his former colleagues to form ViAir Inc., which is building software for wireless-service providers.

Mr. Rhee says his company has "consciously tried to not just hire from Microsoft" and that Microsoft hasn't been upset by the number of hires at ViAir.

But Microsoft's legal department does growl at times. Many Microsoft employees sign noncompete agreements, and the company's lawyers can take action against any defectors who join competing businesses. Mr. Rhee acknowledges that ViAir received a letter from Microsoft lawyers about an employee who Microsoft thought might have brought proprietary information to ViAir, but he says nothing ever came of it. And Tellme Networks Inc., a Web-based service that offers information like stock quotes and weather reports over the phone, got a letter reminding it not to directly solicit employees of Microsoft's WebTV unit after it hired some former employees.

Mr. Ballmer said Microsoft is eager to work with former employees who play by the rules. He cited digiMine Inc., a software outfit started by former Microsoft researcher Usama Fayyad that bases its product on Microsoft technology. "I'm sorry Usama is not doing stuff at Microsoft," Mr. Ballmer said, though the two companies "stay in touch. We know what they're doing. They're adding value."

Where Microsoft in the past tended to view defectors as disloyal, Mr. Ballmer is showing signs of being more accepting. He met recently with four top executives of Tellme, Mountain View, Calif., which employs large contingents of ex-Microsoft engineers as well as developers from Netscape Communications Corp., Microsoft's arch-enemy in the Web-browser wars. Mike McCue, a former Netscape executive who is Tellme's CEO, says he was impressed by Mr. Ballmer's intelligence and cordiality.

Mr. Reardon, of Avogadro, recalls that he approached Mr. Ballmer at a conference in Arizona a month or so after Mr. Reardon had started his new company. "He came right up and said hello and greeted me in that incredibly loud voice," Mr. Reardon recalls. "I said, 'Steve, you almost had me coming back with that speech.' He said, 'Come back, little Sheba!'"

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