

## Beatraged by Dre?

CPM client Noel Lee says he built the headphones Apple paid \$3 billion for. His take? \$0. Now he's suing for his share.

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The most fateful product test of Noel Lee's career took place in 2007 on a sunny day in Santa Monica, Calif. Starting in a proverbial suburban San Francisco garage, Lee had built a successful company called Monster that made and sold high-end speaker cables. In the mid-Aughts, he decided consumers would part with a couple hundred dollars for a more stylish set of headphones. After burning through millions of R&D dollars, Lee finally got a meeting in the office of entertainment magnate Jimmy Iovine, co-founder of Interscope Records. Joining Iovine was his business partner Andre Young, better known as Dr. Dre, the rap pioneer and a mogul in his own right. It would be difficult to identify a duo whose influence on popular culture in the 1990s exceeded that of Iovine, collaborator with everyone from Bruce Springsteen and U2 to Eminem, and Dre, a member of the seminal hip-hop group N.W.A., known for such anthems of black anger as *F--- tha Police*.

A large man with a shaved head, Dre put on Lee's headphones. He turned up the volume on 50 Cent's bass-heavy *In Da Club*. "That's the s---!" he exclaimed.

Beats by Dr. Dre, the headphones built by Monster and backed by Dre and Iovine, reshaped the audio marketplace almost from their debut in January 2008. Lady Gaga, Justin Bieber, Sean "Diddy" Combs—all wore their signature branded Beats models marked with a lowercase "b." LeBron James and Serena Williams favored Beats; so did British soccer idol David Beckham and Apple co-founder (and longtime Iovine friend) Steve Jobs. The candy-colored headphones became required accessories not only for celebrities but also for subway riders and mall rats everywhere.

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For several years, Lee lived an entrepreneur's dream. "Dre is an icon," he says. "He's the pinnacle of pop music. Jimmy Iovine is a legend. And I [was] in business with them." In late May 2014, Apple agreed to buy Beats by Dr. Dre and a co-branded streaming music service for \$3 billion, in the tech giant's largest acquisition ever. Lee got nothing.

"We designed, built, and marketed the headphones, and we were getting none of the credit," he says. In January he filed suit in California state court, accusing Dre and Iovine of stealing the design, manufacturing, and distribution rights to Beats. Lee alleges the duo achieved this "corporate betrayal" by shuffling ownership of Beats and triggering a contractual provision that cut him out of the action.

Although Lee didn't name Apple as a defendant, its lawyers are defending Dre and Iovine, now employees of the company. Apple has retained Boies, Schiller & Flexner, the New York-based firm headed by preeminent corporate litigator David Boies. Company spokeswoman Rachel Wolf declined to make Dre, Iovine, or Apple executives available for comment. "Lee apparently regrets his business decisions and now asks that he and Monster be excused from as many of their contractual obligations as possible, but regret is insufficient," Apple's attorneys assert in court papers.

Lee concedes he was naive in his dealings with Iovine and Dre; the legal question is whether he was also a victim of fraud. "We've got a real claim that a jury will understand: Someone got cheated," says Joseph Cotchett, the well-known Northern California trial lawyer Lee has hired. Cotchett estimates his client's damages should be at least \$150 million.

Cutting past the legalities, the suit represents a cry of emotional pain by a star-struck nerd-engineer who thought he'd made real friends in the shark tank that is the music business. One senses that, as much as he'd like a pile of Apple lucre, Lee would also value an apology and access to the VIP lounge. "They've erased Monster from a great business story," he says. "That's not right."

Lee receives visitors at Monster's headquarters south of San Francisco not in his spotless office, decorated with heavy oak audio units of his own design, but in a brightly lit salesroom chock-full of plastic-wrapped merchandise. Dressed black-on-black, à la Johnny Cash, Lee, 66, wears oversize aviator glasses and combs his auburn hair straight back. He's a classic low-tech geek who grew up taking appliances apart and putting them back together. He loves the virtuoso guitarists of two generations back, men like Carlos Santana and George Benson. He's an obsessive fan who got to know these heroes and prominently displays autographed photos and electric guitars to prove it.

Lee gets around on a chrome-plated two-wheel Segway, necessary because of nerve damage he attributes to his work in the 1970s as a junior nuclear technician at the Lawrence Livermore National Laboratory. Workplace protections weren't what they should have been, he says, and employees unwittingly exposed themselves to heavy doses of radiation, the effects of which weren't immediately understood. Lee

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suffered spinal problems that made it difficult and then impossible for him to walk. All the same, he never sued the government, because, he says, “it didn’t seem worth the trouble.”

He tells a classic American immigrant story, beginning with his parents’ arrival on a freighter from China in October 1948. Noel was born in San Francisco three months later. He attended public schools through college at California Polytechnic State University, where he received a mechanical engineering degree in 1971. He played drums in an all-Asian-American folk-rock group called Asian Wood (Crosby, Stills & Nash covers in matching Hawaiian shirts and white bell-bottoms). To support a wife and young son, he took the lab job, but given the choice, he preferred tinkering at home with stereo gear. “Noel is wired internally—no pun intended—to have a passion for sound reproduction,” says David Frangioni, a close friend in Miami who builds recording studios and luxury home-audio systems. “Some people listen to the melody, to the lyrics—Noel and I listen to those—but what we’re really eccentrically obsessed with is how to make the overall sound amazing.”

In 1979, having left his government job, Lee launched Monster based on the insight that serious music fans would pay more for heavier copper speaker wire that conveyed “more dynamic sound.” Until then, hi-fi cable had been an afterthought. “We un-commoditized a commodity product,” he says.

He describes Monster Cable as selling “the cure with no disease.” Apparently not alienated by the patronizing slogan, consumers began forking over \$50 for Lee’s more expensive wire. Performers ranging from Guns N’ Roses guitarist Slash to Keith Richards of the Rolling Stones became loyal Monster Cable users.

Over the years, Lee applied the same strategy to other audio accouterments. He got consumers to trade up from a \$10 power strip to a \$150 Monster Power device that promised both surge protection and “sound filtration” for a clearer musical tone. He alchemized a \$2 bottle of spray cleaner into a \$20 product suitable for swiping dust from a gigantic plasma TV. In pep talks to salespeople, he suggested adapting McDonald’s “Would you like fries with that?” approach. “We were the accessory kings,” he says.

It wasn’t a huge leap in Lee’s mind to persuade mobile device listeners to graduate from cheap earbuds to high-priced headphones. In 2005 he introduced the padded over-ear Monster Turbine Pro. At \$400, the Turbine didn’t fly off the shelves. At the same time, the company was looking for business partners for high-definition audio software that Lee had developed to remix and remaster two-channel recordings for “surround-sound” play.

Lee sent his son, Kevin, then a Monster employee, to Los Angeles to look for partners for the new audio software. Kevin scored an audience with Iovine, then at Universal Music Group. Iovine wanted to talk about headphones. That meeting, according to the Lees, led to Iovine and Dr. Dre paying a call. Photos of the 2006 gathering at the company’s offices show Dre in a dark-colored designer sweatsuit, a grinning

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Noel Lee with his hand on Dre's expansive shoulder, and Iovine in a ball cap and faded jeans.

"We gave Dre and Jimmy an education in sound," Lee says. "They were talking about building a better speaker, and I said, 'Headphones are the new speakers. Let's make headphones together.' And that's where Beats came from."

Iovine and Dre tell a different creation myth. Theirs begins on the Santa Monica beach next to a sparkling Pacific Ocean. The two old friends bumped into each other while exercising in 2005. They fell into conversation about next steps in their professional lives. Iovine had begun as a recording engineer in the 1970s for John Lennon and Springsteen, later produced records for Tom Petty, Stevie Nicks, and U2, and in the 1990s turned Interscope into one of the most successful labels by selling hard-edge black rap to white suburban teenagers. After releasing his 1992 debut album, *The Chronic*, on Death Row Records, Dre moved to Aftermath Entertainment, a division of Interscope, where he lent his Compton (Calif.) street cred to Iovine's burgeoning business. Dre helped shape the careers of fellow rappers Snoop Dogg, Xzibit, and The Game, while Iovine produced the Academy Award-winning Eminem movie *8 Mile* (2002) and was executive producer of the 50 Cent documentary *Get Rich or Die Tryin'* (2005). Dre and fellow former N.W.A. member Ice Cube share producer credits on the film *Straight Outta Compton*, which is due in theaters in August and recounts the group's rise. (Already soaked in controversy, the film made news when another rap producer, Suge Knight, was charged with murder for running over two men on the set of a promotional video shoot. Knight claims it was an accident.)

Describing their 2005 beach encounter at a New York conference last October, Iovine said he'd just negotiated a new contract with Universal Music that allowed him to pursue tech innovations. Dre's lawyer had proposed that he endorse sneakers. Iovine said he advised his friend to sell speakers instead. Dre's version of the story has him saying, "F--- sneakers. Let's make speakers." Whoever came up with the sneaker/speaker quip, the conversation eventually shifted to headphones, according to Iovine. Dre proposed the brand "Beats by Dr. Dre."

In their telling, Iovine and Dre selected Monster merely as their manufacturer—the company that would oversee the factories in China, among other things. Lee describes Monster as the prime mover and Iovine and Dre as the frontmen. Monster, says Lee, shifted 100 of its 600 employees to the newly named Beats project and later hired Robert Brunner, a former designer for Apple, to refine the headphones' sleek Apple-esque look. Financing the initiative, Monster built more than 30 test models, culminating in the one Lee brought to the late 2007 listening session during which he says Dre issued his scatological blessing.

In January 2008, Monster signed a licensing agreement under which the company would make, market, and distribute the headphones and pay Dre and Iovine a 19 percent fee for use of the Beats name and their access—the ability to get the product onto the heads of top entertainment and sports figures in videos, news conferences, and clubs. In his lawsuit, Lee alleges that at the time, Beats "had no employees,

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no engineers for headphone technology, and had no role in engineering or developing the ‘Beats by Dr. Dre’ high-end headphone line.”

To call the headphones a winner would be an extreme understatement. In 2007 the \$100-and-up headphone segment generated less than \$500 million in total sales. By 2012 the total had grown to \$1.2 billion, with Beats grabbing two-thirds of the high-margin market. The rest was divided among established rivals Bose and Sony and several smaller upstarts.

Audiophiles gave Beats mixed reviews, with some praising their thunderous bass thump and others carping about crude sonic overkill. What wasn’t disputed: Beats turned headphones into a must-have \$200-to-\$300 fashion-statement-cum-status-symbol. Many consumers wore their Beats around their necks even when they weren’t listening to music. “Like he did with wire, Noel created a new category with headphones,” says Gary Shapiro, head of the Consumer Electronics Association, a trade group. “He’s a marketing genius.”... *(To read the entire article, please click [HERE](#))*