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## Competing Interests in Tech Development Agreements

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Probably the most critical set of provisions in a technology development contract is the one that defines the parties' respective rights to use and exploit the developed technology—and its individual components—outside of the relationship formed by the contract.

At its core, the relationship between the developer and “developee”—the entity who is need of development assistance—has certain natural tensions and the parties' interests are somewhat in conflict from the outset. To better understand, let's look at the hypothetical relationship between a “developee”—who we'll call ACME, and the developer—who we'll call JCN Corp.

ACME's core business is designing and manufacturing products to assist canine predators in capturing their prey. ACME's chief thinking officer has conceived of a project for an electronically-triggered, laser-targeting slingshot. The revolutionary feature of the slingshot is the automated, feather-recognition system in its laser targeting module. Problem is that such a system doesn't exist and ACME doesn't have the capability to design and build it.

Enter JCN Corp. JCN has been building target recognition systems for years. It has just never built one to specifically recognize feathers. However, it has the capability to do it.

ACME decides to ask JCN to develop the feather recognition system for it. ACME figures it's worth a substantial payment to JCN because JCN, with its experience and background, will be able to design and develop a system for ACME to incorporate into its product much faster than if ACME tried to do it on its own. That would give ACME a jump on its primary competitor, Ace, which also might be looking into such a system, but which also didn't have the capability to design and build it on their own.

So ACME contacts JCN and offers to pay \$10 million to have JCN design, develop and build the feather-recognition system. JCN says ok. Wow, that was a quick, easy negotiation, wasn't it? Wrong. Because now

ACME and JCN need to raise, discuss and, hopefully, resolve those rights issues mentioned at the top of this piece. And, as I said, that's where these development agreements get interesting.

You see, as far as ACME is concerned, it wants to pay JCN \$10 million and have exclusive rights to the feather-recognition system and all of its underlying components. It wants the broadest possible work-for-hire arrangement, meaning that any technology developed by JCN-which ACME paid for-is owned by ACME.

From ACME's standpoint, this is a perfectly legitimate position. If it wasn't for ACME's project, JCN would never have undertaken this project on its own. If ACME is paying \$10 million for the system, shouldn't it be entitled to own it outright, including all of the components built into it, and reap all of the possible benefits from it, including preventing its competitor, Ace, from having access to the system?

But, naturally, JCN has a different view. It has spent years developing its capabilities, including its expertise in building target recognition systems. Any system that it builds for ACME will include a variety of components and other technology that JCN has already independently developed, without any involvement or investment by ACME. In addition, the know-how and methodologies that it creates as it works for ACME can have broader applications beyond the feather recognition system, including projects that JCN may undertake for Ace. Shouldn't JCN be able to further exploit and profit from that know-how? In fact, JCN will argue, unless it is able to do so, the project isn't worth the \$10 million that ACME is paying because JCN would be losing substantial future opportunities.

So how do these differences get reconciled? Vigorous negotiations regarding the parties' respective rights. Perhaps they agree to restrict JCN from using the technologies in a way that competes with ACME (i.e. in projects for Ace) for a certain period of time. Or perhaps they agree that ACME owns the technologies developed by JCN but JCN is granted a license to further exploit the technologies. In doing so, JCN has further profit opportunity but ACME, which invested in the work, can also benefit from JCN's additional work. Alternatively, perhaps ACME agrees to pay a license fee to JCN for any use of the technology beyond the feather recognition system. Thus, ACME can profit from business that JCN does with ACME's competitors, like Ace.

Regardless of the ultimate outcome, it requires an intense amount of focused, creative and long-term strategic thinking by the parties-and their counsel-to ensure that any agreed provisions enable the parties to maintain their competitive advantages.

Looking for a real world analogue to ACME and JCN (and Ace)? In their new book "The Race for a New Game Machine", David Shippy and Mickie Phipps, two senior IBM developers, tell the story of the development of the processors that ultimately formed the core of Sony's PlayStation3 console and Microsoft's Xbox. According to the Wall Street Journal, the book details how IBM was initially engaged by Sony to develop the PS3 processor but, before completing the project, used some of the technology it had developed for the processor in work IBM was performing for Microsoft on the Xbox, unbeknownst to Sony. While Sony was apparently aware that the technology developed by IBM would be further exploited in other consoles and applications, it apparently was caught off-guard in learning that IBM was exploiting the technology before completing the work for Sony.

While not having all of the details of the various contractual relationships, it would seem that somewhere an unintended loophole was exploited. As with ACME and JCN, careful thinking and drafting of development contracts is necessary to avoid the type of unintended consequences, including, perhaps unwittingly funding a competing product.

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