

2020 CNNC: ROUND 3 PROBLEM—ACVs

Confidential Information for Motorco's Representatives

This meeting is an embarrassment and a pain in the neck for Motorco. However, the company has little choice: it needs to head off bad publicity and use every opportunity to gain the support of consumer groups, government and other organizations. Motorco has paid \$10 million of an agreed \$20 million to Teleos for the right to use TeleoLogic, and has promised an additional \$5 million for a version customized especially for Flyt. But there has been nothing but delay from Teleos, whose principals keep talking about the difference between “top-down” and “bottom-up” programming approaches. This seems like so much mumbo-jumbo to Motorco's board of directors, and the car is now more than 10 months beyond the predicted release date. Motorco's board is upset with the CEO, Elmo Sunk (from whom you receive instructions) and other members of Motorco's management team, especially as some directors opposed the deal when it was first proposed. However, Sunk said that this is neither the time nor the setting to publicly criticize Teleos for the delay. Motorco needs TeleoLogic, and the system needs to work well for Flyt to take off. After all, Motorco has a huge stake in its brand: “At Motorco, we put your safety first.”

Teleos may try to use this meeting to try to revisit the terms of the agreement between the parties. If that's how Teleos sees the negotiation—an effort to leverage pressure from other groups so that Teleos can extort more money from Motorco—the CEO will be very upset. Sunk would rather sink the whole deal—and admit that the dissident directors were right—than pay a dollar more than already committed. However, he is also a pragmatist, and his recommendation to the board is that Motorco pay up to an additional \$5 million if absolutely necessary for safety reasons (over and above the \$25 million already promised—\$20 million for the right to use TeleoLogic and another \$5 million for the customized version for Flyt), if that will allow it to get Flyt to market or testing quickly at a high level of automation (at least SAE 3 and preferably SAE 4), and if Motorco can have exclusivity over the intellectual property associated with the TeleoLogic system, including any innovations to that system, for a reasonable time—preferably for five years after Flyt is introduced, but at least two years.

There is a “plan B,” albeit a risky one. Sunk's been secretly wooing one of Teleos's co-founders who helped develop TeleoLogic. This co-founder, an ace developer, has confided that there are probably ways of developing a TeleoLogic-like system without violating Teleos's intellectual property rights. But it would require a large upfront investment, could take several years, and would likely spur litigation with Teleos, which would be a drag on Motorco's resources and potentially expose trade secrets to the public eye.

The ideal outcome for Motorco would be to work with Teleos on a plan and a story that would get Flyt to market or to testing, as the case may be, at an automation standard of SAE 4 within the next six months—up to a year if absolutely necessary and if there are compelling safety reasons—and appease CDC, CEAI, and other groups that might decide to enter the fray. In particular, Motorco hopes that any evidence submitted by CDC and CEAI in the Senate hearing will not derail its plans. The Senate report should endorse an approach

that would let Motorco and Teleos collaborate on a testing protocol that will satisfy the relevant authorities. However, Motorco would prefer to minimize government involvement in the safety testing process, as this is likely to slow the approval of Flyt given the bureaucratic and risk-averse nature of government and its agencies. Motorco wants to do all of this by spending as little additional money as possible and with the expectation of having exclusive rights to the TeleoLogic system.

You may provide additional non-self-serving information and details consistent with the facts stated above and in the General Information for All Parties.