

Mediation of Patent Disputes *-- The WIPO Experience*

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Presentation Syllabus:

➤ *WIPO and the WIPO Arbitration and Mediation Center*

1. WIPO itself and what it does
2. WIPO Arbitration and Mediation Center
 - a. Its role
 - b. Its historic caseload and e-facilities

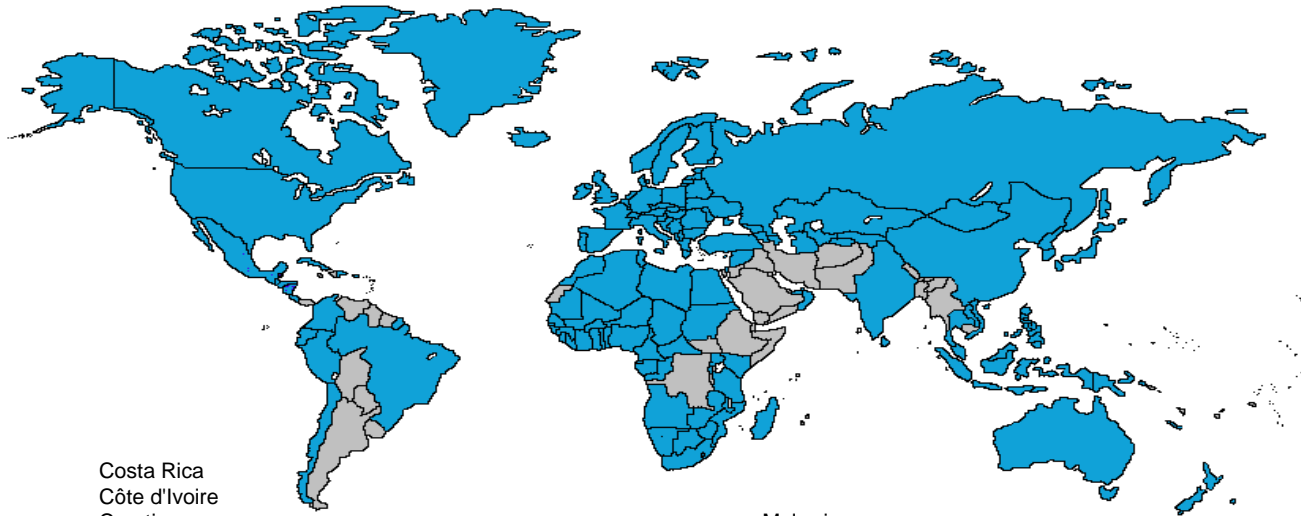
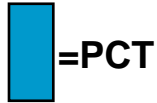
➤ *Patent Mediation through the WIPO Center*

1. Patent mediation in general
2. General patent mediation process and
 - a) Pete Michaelson's WIPO mediation process
3. Actual detailed example of an international patent mediation Pete conducted through the Center

World Intellectual Property Organization

- WIPO's Mission: To promote the protection of IP rights worldwide and extend the benefits of the international IP system to all Member States
- Status: specialized agency of the United Nations
- Member States: 185
- Treaties Administered: 24
- WIPO activities:
 - ❖ Norm-Setting
 - ❖ Economic Development
 - ❖ Services (e.g. Patent Cooperation Treaty, Madrid Protocol for Trademarks, Arbitration and Mediation Center)

144 PCT States



Albania
Algeria
Angola
Antigua and Barbuda
Armenia
Australia
Austria
Azerbaijan
Bahrain
Barbados
Belarus
Belgium
Belize
Benin
Bosnia and Herzegovina
Botswana
Brazil
Bulgaria
Burkina Faso
Cameroon
Canada
Central African Republic
Chad
Chile
China
Colombia
Comoros
Congo

Costa Rica
Côte d'Ivoire
Croatia
Cuba
Cyprus
Czech Republic
Democratic People's
Republic of Korea
Denmark
Dominica
Dominican Republic
Ecuador
Egypt
El Salvador
Equatorial Guinea
Estonia
Finland
France
Gabon
Gambia
Georgia
Germany
Ghana
Greece
Grenada
Guatemala
Guinea

Guinea-Bissau
Honduras
Hungary
Iceland
India
Indonesia
Ireland
Israel
Italy
Japan
Kazakhstan
Kenya
Kyrgyzstan
Lao People's Dem Rep.
Latvia
Lesotho
Liberia
Libyan Arab Jamahiriya
Liechtenstein
Lithuania
Luxembourg
Madagascar

Malawi
Malaysia
Mali
Malta
Mauritania
Mexico
Monaco
Mongolia
Montenegro
Morocco
Mozambique
Namibia
Netherlands
New Zealand
Nicaragua
Niger
Nigeria
Norway
Oman
Papua New Guinea
Peru
Philippines

Poland
Portugal
Qatar
Republic of Korea
Republic of Moldova
Romania
Rwanda
Russian Federation
Saint Lucia
Saint Vincent and
the Grenadines
San Marino
Sao Tomé e Príncipe
Senegal
Serbia
Seychelles
Sierra Leone
Singapore
Slovakia
Slovenia
South Africa
Spain
Sri Lanka
Sudan
Swaziland

St. Kitts and Nevis
Sweden
Switzerland
Syrian Arab Republic
Tajikistan
Thailand
The former Yugoslav
Republic of Macedonia
Togo
Trinidad and Tobago
Tunisia
Turkey
Turkmenistan
Uganda
Ukraine
United Arab Emirates
United Kingdom
United Republic of Tanzania
United States of America
Uzbekistan
Viet Nam
Zambia
Zimbabwe

WIPO Arbitration and Mediation Center

- Offices in Geneva and Singapore
- ADR of IP Disputes requires a specialized ADR provider
 - ❖ WIPO panel members experienced in IP and technology - able to efficiently deliver informed results
 - ❖ Very competitive WIPO fee structure
 - ❖ Status as international agency
- Services include mediation, (expedited) arbitration and expert determination
 - ❖ Parties can shape the process with the help of WIPO rules and contract clauses
 - ❖ Active case management: time- and cost-effective
 - ❖ WIPO ECAF (online case management)
 - ❖ Procedural guidance and training programs

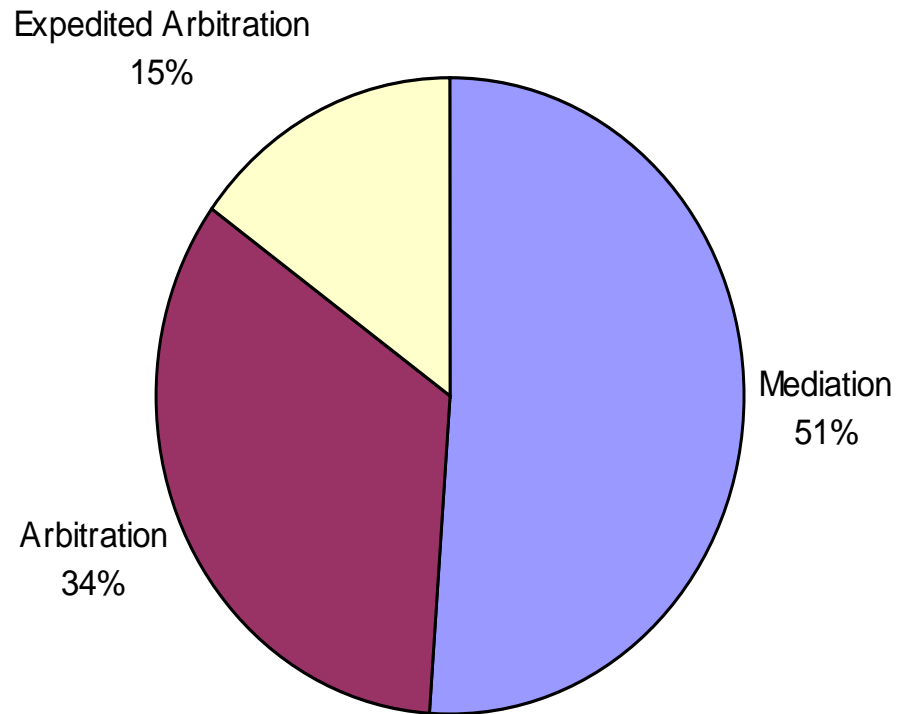
WIPO Survey: International Dimension of Technology Disputes

- 91% of respondents conclude agreements with **parties from other jurisdictions**
 - ❖ >25% of respondents indicate that 60% of agreements are concluded with parties from other jurisdictions
 - ❖ Only 9% of respondents conclude agreements exclusively with parties from the same jurisdiction
- >75% of respondents conclude agreements relating to **technology protected by patents in several countries**
 - ❖ 30% of the respondents: >50% of the agreements relate to such patents
 - ❖ Only 20% of respondents conclude agreements relating to technology protected in one country

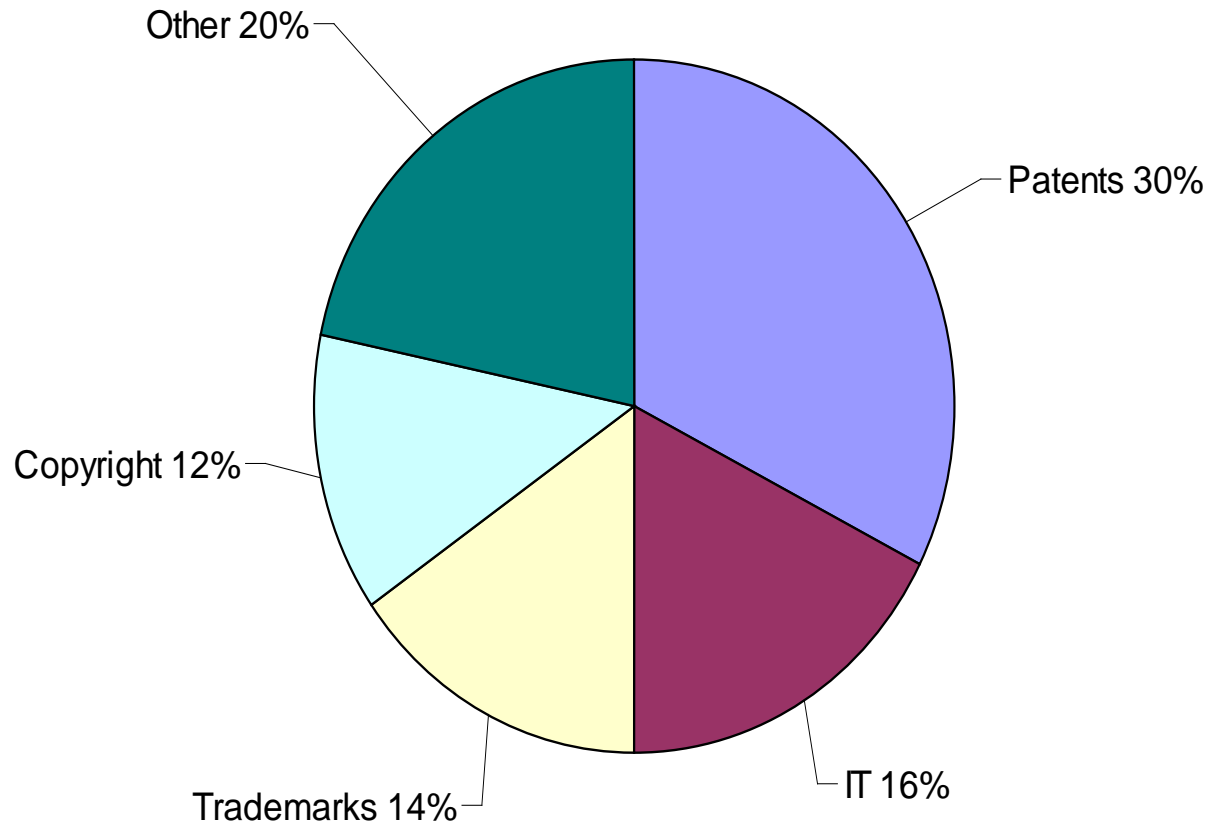
Areas of WIPO Cases

- Contractual: patent licenses, software/IT, research and development agreements, patent pools, distribution agreements, joint ventures, copyright collecting societies, trademark coexistence agreements, settlement agreements
- Infringement of IP rights
- International and domestic disputes
- IP disputes and other commercial disputes
- The WIPO Center also administers Internet domain name disputes (37,000 since 1999)

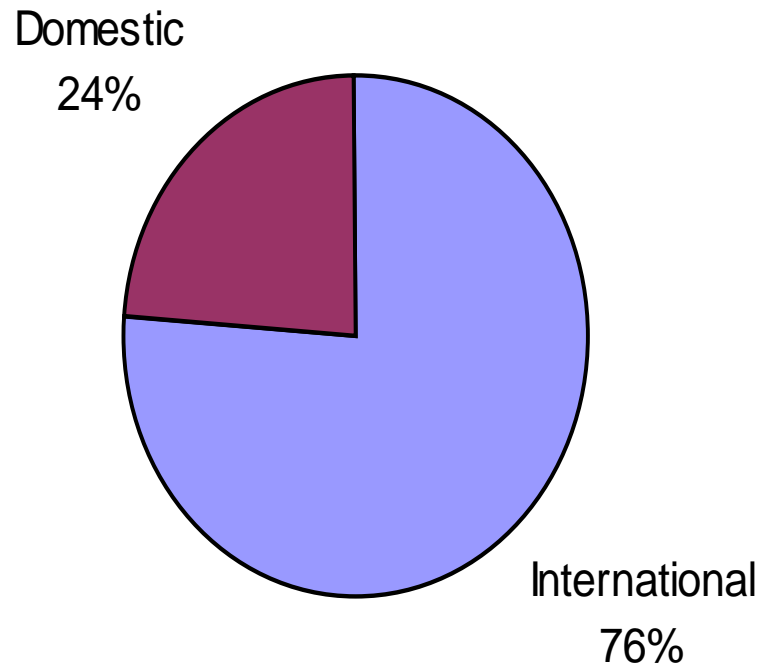
WIPO Cases: Types of Procedure



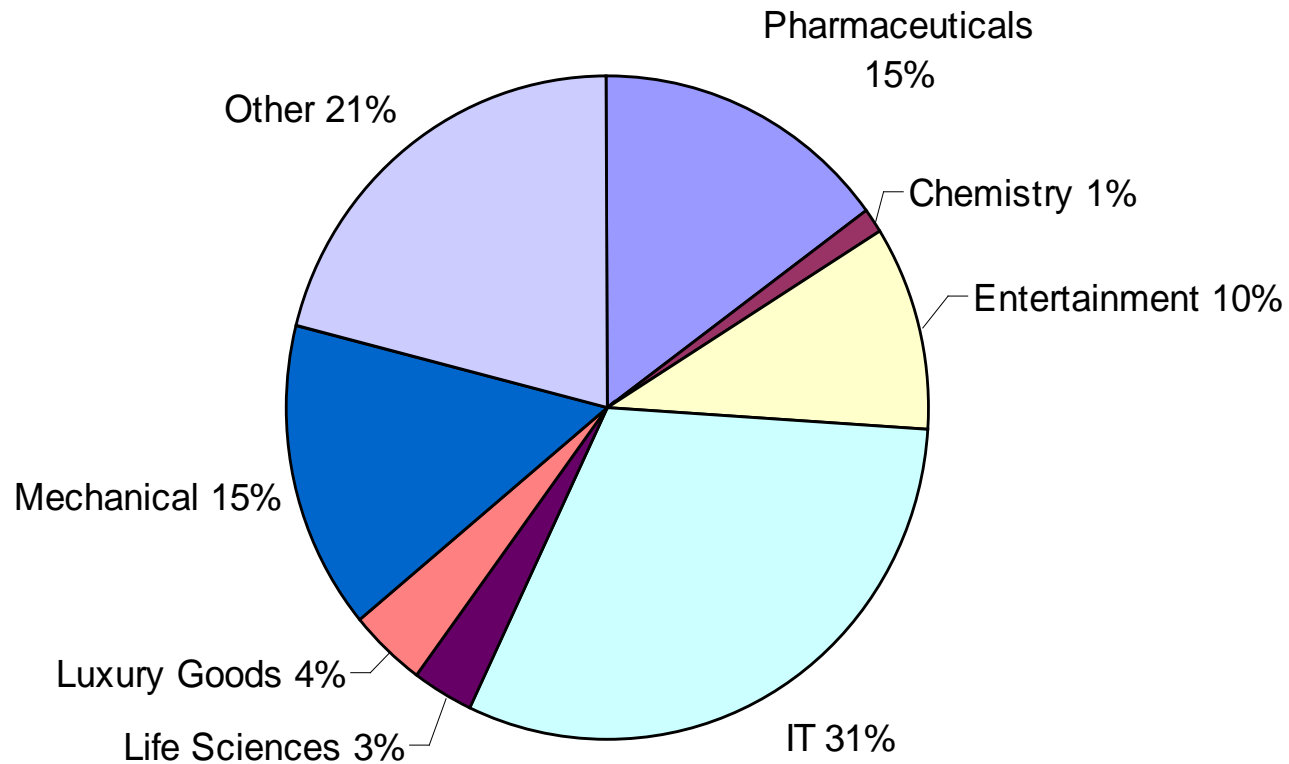
WIPO Cases: Subject Matter



WIPO Cases: Domestic / International

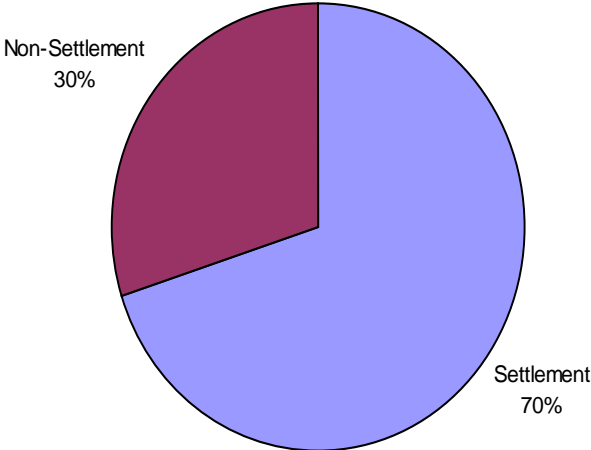


WIPO Cases: Business Areas

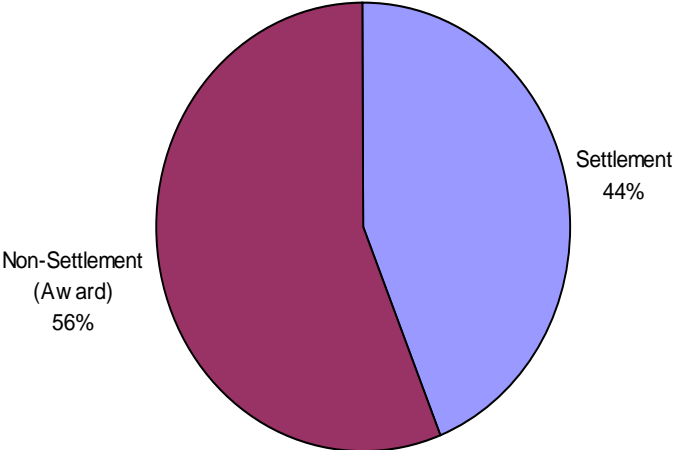


Settlement in WIPO Administered Cases

Mediation



Arbitration



WIPO Electronic Case Facility (ECAAF)

- Web-based custom-created application
 - ❖ For WIPO arbitration and mediation cases
 - ❖ By party agreement
- Electronic case file
 - ❖ Filing, storage, search and retrieval functionalities
 - ❖ Email alerts to all participants for each use of case file
- Case management information
 - ❖ Case overview and contact details

Advantages of Mediating Patent Disputes

- **Fast and efficient:** Entire process takes place over a few weeks or a couple of months; session itself is often just a day or two
- **Basically unlimited solution space:** Mediation is about “**finding a deal**” that satisfies parties’ interests and does not involve deciding between legal positions; everything can be “on the table”, not limited at all to legal remedies
- **Forward-looking process:** preserves and enhances business relationships and promotes future business dealings
- **Very flexible:** parties and mediator design process tailored to dispute
- **Totally confidential:** two-levels of confidentiality (basic level at joint session, higher level at caucuses)
- **Cost-effective:** far less expensive than litigation or arbitration; perhaps 3-5% of cost of litigation, often less than 1% (including fees of mediator and WIPO Center), high probability of success in patent disputes: 50% (court annexed) to 60-80% (non-court annexed, including ad hoc) settlement rate
- **Parties choose their mediator:** in patent matters, subject matter/industry expertise may be very useful as mediator is familiar with industry practices and “lingua franca” of underlying transaction and technology
- **Discovery, if any, is very limited and focused:** generally just a targeted document exchange
- **Non-binding if settlement not reached:** status quo preserved, parties leave mediation with useful additional knowledge they would not have received any other way; settlement often occurs later

Routes to WIPO Patent Mediation

➤ ADR Clauses

- ❖ WIPO Center provides its own; parties can draft their own, though, if they do, pathologic clauses can result that can be quite problematic in practice
- ❖ Usually pre-dispute in nature and included in underlying agreement between parties
- ❖ Through ADR clause, parties may customize the chosen process to their needs

➤ Voluntary Decision of the parties

- ❖ After dispute arises (no ADR clause in underlying contract)
- ❖ Disputants can execute post-dispute ADR agreement
- ❖ Clauses govern with parties often tailoring the process to their own needs

➤ Court annexed

- ❖ Court ordered; though parties can request Court referral to WIPO Center
- ❖ Can use mediator on WIPO list, WIPO can screen and select neutral per parties' requirements

Core of any Patent Mediation

Two essential steps:

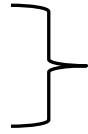
1. First, a mediation over process
(i.e. what will the process be?
 - party autonomy: they choose it;
they have ownership of it)
2. Then, a substantive mediation using the agreed process (same is true for arbitration and hybrid approaches)
 - with iteration back to step 1 and then continuing forward with step 2, and so forth as appropriate, until conclusion

Patent Mediation – Essential aspects to enhance likelihood of success

- Proper timing:
 - Mediation must not be too early.
- Proper knowledge:
 - Parties need to know enough information to adequately assess their risk calculus (and that of their adversary) to:
 - ❖ make an informed business decision, with reasonable confidence, regarding parameters of any settlement (BATNA, WATNA, options, etc), and
 - ❖ conduct meaningful settlement negotiations to a satisfactory conclusion.
- All stake-holders must participate, with every party having settlement authority present or readily accessible.

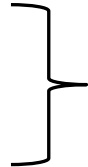
General Patent Mediation Process

Mediation request filed with WIPO Center, Center contacts prospective mediator directly



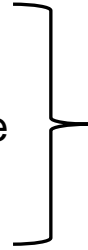
COMMENCEMENT

Mediator selected by parties, Formal appointment of mediator by WIPO Center



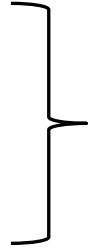
MEDIATOR APPOINTMENT

Process mediation (procedural) -- usually ≥ 1 teleconf; in complex and/or multi-party case, may have actual conf(s) with reps of all stakeholders present



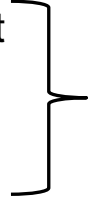
PRELIMINARY CONFERENCE

Substantive mediation -- Usually initial joint session, then separate caucuses, further joint sessions as needed, and so forth; possibly pre-session caucuses

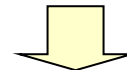
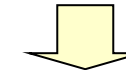
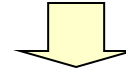
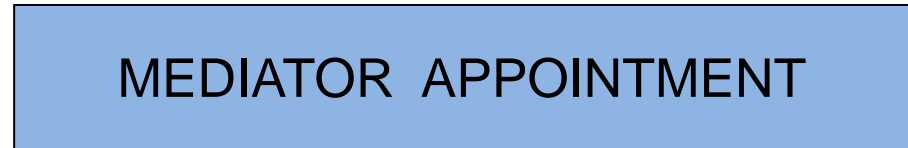
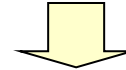
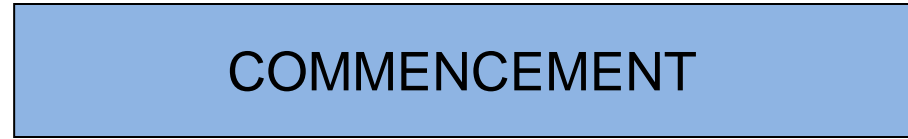


SUBSTANTIVE SESSIONS

Often post-session pre-settlement activity (telephone calls, etc); if impasse, parties may adjourn session and re-engage later



SETTLEMENT or IMPASSE



Pete Michaelson's WIPO Patent Mediation Process

Pre-session activities:

- Preliminary teleconference with all counsel (discuss logistics, discuss and agree on process going forward – “process” mediation)
- I will discuss amount of deposits and necessary logistics with WIPO case manager
 - ❖ Be sure all deposits are received before I expend any appreciable time
- Separate confidential pre-session teleconference (or in-person meeting) with each party and its Counsel
- Targeted exchange of docs and very narrowly focused discovery (to extent necessary)
 - ❖ Basic purpose of mediation is not to find truth, but to make a business deal that meets the parties' needs. Relatively little documentary discovery, if any, is required for mediation. Depositions are rarely necessary, if at all. No need for any litigation-style discovery at all.
- Mediation statements submitted to me
 - ❖ Highly confidential, not exchanged to encourage openness and candor of parties; “loose” page limit so as not to either overwhelm me or overly constrain parties
- Conduct further separate telephone caucuses (meetings) with each party and its counsel, to the extent needed and useful; Joint teleconference(s) and/or joint meeting(s), if beneficial, etc.

Pete Michaelson's Patent Mediation Process (cont.)

Substantive mediation session(s):

- Two days minimally are reserved (difficult to reconvene everyone later, so schedule sufficient time early on; if the mediation session ends early, fine)
- Opening joint session: presentations by business people first (may be first time business adversaries have met and/or discussed the dispute), Q&A of business people, lawyer presentations, Q&A of lawyers (with "no interruption" rule)
- Then, continue in joint session or break into caucuses, and/or subsequently more caucuses and/or joint session(s) as needed – with their selection and timing depending on inter-party dynamics and negotiation context

Conclusion:

- If settlement reached, have counsel prepare and sign written term sheet before session concludes, and parties and counsel leave (counsel can draw up a formal settlement agreement later)
- If settlement not reached, schedule further sessions (telephonic and/or in-person) at a later date, etc. – be relentless until "unbreakable" impasse or settlement reached
- Report back to WIPO Center that mediation session was held and whether or not case was resolved, and other status info

Request WIPO's assistance throughout process, as needed and when needed; keep it fully informed of status and changes to process

A War Story – P v D

– an actual WIPO patent mediation

P and D directly compete in the design and manufacture of a specific "application type" of auto parts and supply large auto manufacturers in the US, including Chrysler, Ford and GM, and others overseas. P is American co. D is European co.

Each had numerous patents, in the US and overseas, covering their technology. P is particularly active in obtaining US patents (had 97 US patents and pending apps). D is somewhat less so.

P and D had a prior patent dispute where each asserted patents against the other. During 11/07, they entered into a settlement agr which established a graduated royalty scheme which (Provision 1.3) "shall motivate the Parties to use best efforts to avoid infringements of the other Party's intellectual property." Parties jointly recognized their need to not: endanger supply of their parts to their end-customers (auto manufacturers) as doing so could be very disruptive to those users, so there is never to be an injunction. Parties did not want to engage in litigation in a US court.

Agreed royalty arrangement:

- products of each side commercialized prior 5/07 – grandfathered, fully licensed worldwide under patents of other side, exempt from royalties;
- parts commercialized after 5/07 subjected to 3-tier royalty:
 - a) **willful infringement, 6% of net sales** of corresponding part(s);
 - b) **non-willful infringement, 2% of net sales** of that part(s);
 - c) **if willful infringement is alleged, party has 24 months to redesign infringing part so no longer infringes; but if infringement then continues, royalty increases from 2 to 4% of net sales** of that part(s).

P v D (cont.)

Dispute Resolution Clause – 3-level stepped: negotiation, WIPO mediation, WIPO arbitration

Negotiation:

6.1. In case of an alleged Infringement, the Party whose IP is allegedly Infringed shall without unreasonable delay from the discovery of the Infringement give **notice to the other Party indicating the nature of Infringement** (i.e. Infringing part, IP being Infringed). In case of any other breach of the Agreement, the Party shall indicate to the other Party the nature of the breach.

6.2. The Parties' **corporate business representatives shall first attempt to resolve the issue within 2 months** of the date a notice pursuant to clause 6.1 was given. If within this delay the issue cannot be settled, **it will be immediately presented to the CEO's of both Parties' mother companies for resolution.**

6.3. If the CEO's of **both Parties fail to find a solution within 4 months of the date a notice pursuant to clause 6.1, clause 11 shall apply.**

Mediation:

11.1. Any dispute, controversy or claim arising under, out of or relating to this Agreement and any subsequent amendments of this Agreement, including, without limitation, its formation, validity, binding effect, interpretation, performance, breach or termination, as well as non-contractual claims, shall be submitted to **mediation in accordance with the WIPO Mediation Rules**. The place of mediation shall be **Geneva, Switzerland**. The language to be used in the mediation shall be **English**. The mediation shall take place within 30 days from the expiration of the period of clause 6.3.

P v D (cont)

Arbitration:

11.2. If, and to the extent that, any such dispute, controversy or claim has **not been settled pursuant to the mediation within 60 days of the commencement of the mediation**, it shall, upon the filing of a Request for Arbitration by either Party, be referred to and finally determined by **arbitration in accordance with the WIPO Arbitration Rules**. Alternatively, if, before the expiration of the said period of 60 days, either Party fails to participate or to continue to participate in the mediation, the dispute, controversy or claim shall, upon the filing of a Request for Arbitration by the other Party, be referred to and finally determined by arbitration in accordance with the WIPO Arbitration Rules. However, any Arbitration hereunder shall be conducted expeditiously, so that the proceeding is concluded and the decision of the tribunal rendered within 6 months from the date of submission of the dispute to Arbitration.

11.3. Unless the Parties agree otherwise, as a result of the mediation, the **Arbitration Tribunal shall consist of three arbitrators** (each of which shall be experienced and licensed patent practitioners in the jurisdiction of the disputed patent), which shall be appointed in accordance with the WIPO Arbitration Rules, within a period no later than one month from date of submission of the dispute to Arbitration.

11.4. The place of Arbitration shall be **Geneva, Switzerland**. The language to be used in the arbitral proceedings shall be **English**. The Arbitration Tribunal shall be authorized to decide issues of validity and/or enforceability of a particular patent, but only upon assertion of infringement of such patent. This Agreement confers no right or obligation to arbitrate the validity and/or enforceability of any patent that has not been asserted as being Infringed.

P v D (cont.)

Other provisions in 11/07 agreement:

Notice of infringement:

In case of an alleged Infringement, the Party whose IP is allegedly Infringed shall without unreasonable delay from the discovery of the Infringement give notice to the other Party indicating the nature of Infringement (i.e. Infringing part, IP being Infringed).

Willful infringement defined:

The **Infringement** shall be deemed a **Willful Infringement** if (i) the Infringing Party had knowledge (or should have known because of information being publicly available) of the IP's existence at the time when the Infringement commenced, and (ii) the Infringing Party proceeded to commercialize **unless it was reasonably and objectively assumed based upon accurate technical assumptions, that the IP was not Infringed, was invalid or both.**

P v D (cont.)

What happened this time?

D manufactures and sells two particular parts (of the "application type") to a big-three US auto co and a major Japanese auto co. P claimed that D willfully infringed 7 of P's patents. Under terms of existing settlement agreement, P claimed additional royalty payments were due. D disputed infringement, let alone willful. Direct, but amicable, negotiations between the parties occurred over 6 months, but ultimately failed. Parties reached impasse.

P filed Request for Mediation with WIPO Arb/Med Center on 5/09

Requested mediator qualifications: "licensed patent practitioner having understanding of United States Patent Laws, being fluent in English, and having experience in mediating patent infringement disputes"

P represented by its Int'l Controller (French) and its outside US patent counsel. D represented by its Group GC (Swiss), Head of its relevant business subsidiary, and its outside US patent counsel.

Pete's actual mediation process (start to finish) – "100 foot view":

- 6/3/09 – Ignacio de Castro of WIPO Center contacted me by phone to query about my serving as mediator on an expedited matter. I agreed. Ignacio followed up with the Center's formal invitation to serve.
- 6/3 – I accepted Center's invitation and returned executed declaration of neutrality, impartiality and independence to the Center. To educate myself, I performed simple web research to learn about the parties and their named outside US counsel.
- 6/4 – Center formally appointed me as Mediator.
- 6/5 – I conducted a preliminary mediation teleconference w/Counsel and party reps of both sides and Ignacio de Castro of Center: gained overview of dispute and its historical background and identification of persons involved; determined whether any info exchange was needed; discussed my proposed mediation process; set dates to receive mediation statements from both sides (confidential, not to be exchanged); set tentative date of mediation session for 6/18, 19 or possibly 6/20 in Geneva; informed all of my hourly rate; received parties' agreement to split all mediation costs 50/50; and set initial deposit requirements for each side. Ignacio would send formal letter by 6/8 to Counsel requesting deposits and providing WIPO wire transfer banking details.
- 6/9 – I fixed mediation session for 6/19. I'd fly over to Geneva on evening of Wed 6/17. I arranged use of appropriate facilities at WIPO; and prepared agenda to discuss during separate teleconf caucus w/each side: probe for further interests/needs, discuss risk assessment, BATWA/WATNA, further exposure of parties, nature of relationship of both parties (complementary, competitive, etc.) and description of each party.
- 6/10 – I received and reviewed mediation statement from P.
- 6/12 – I conducted pre-mediation teleconference caucus with P and its Counsel to discuss its mediation statement and all related issues and questions I had; and gained certain info I could share with D regarding P's interests and settlement options.
- 6/13 – For my own use, I performed a simple probabilistic decision tree analysis of each side's legal position given amounts at stake and transaction costs, and with appropriate probabilities to gain a better understanding of each side's risk profile. I received and reviewed mediation statement from D.

Pete's actual mediation process – "100 foot view" (cont.):

- 6/15 – I conducted pre-mediation teleconference caucus with D and its Counsel to discuss D's mediation statement, related issues and questions I had, and gained D's perspective regarding its interests and settlement options. I conveyed certain info from P's caucus session to D; gained certain info I could share back with P. After the caucus, I then provided my further thoughts back to D re: matters discussed during its caucus.
- 6/15 – I conducted another teleconference caucus session with P and its Counsel to convey permitted info from D.
- 6/16 – I prepared a list of preliminary matters to discuss at mediation session (as I usually do for any large mediation) and coordinated a joint dinner (both parties' reps and Counsel) for 7PM on 6/18 at Intercontinental Hotel.
- OK, EVERYTHING IS SET FOR MEDIATION SESSION LATER THAT WEEK. I'M SET TO FLY OFF THE NEXT WEDNESDAY 6/17 TO GENEVA, I HAVE A CAR SERVICE PICKING ME UP AT 2:45 PM ON WED TO TAKE ME TO NEWARK AIRPORT. I'M READY TO ROLL!

Pete's actual mediation process – "100 foot view" (cont.):

WELL, NOT SO FAST –

6/16 -- 6:23 PM -- I receive e-mail from P's Counsel (E): P's Counsel may be ill.

6/16, 7:01 PM (delay only due to length of time I need to type my responding message) – I canceled the mediation session by e-mail to P's Counsel, copied to both parties, all other Counsel and Ignacio de Castro.

6/17 – midnight, D's Group GC (not surprisingly) writes:

“I am sorry to hear about P's Counsel's swine flu.”

As to the suggested course of action:

“We have insisted heavily on having the mediation this week. ... We all agreed to this date. People with swine flu stay at home and don't participate in such meetings, this includes people with contact to a serious type of flu like this one. Therefore in our view the mediation must take place on Friday.”

6/17 – 8:25 AM I informed Erik Wilbers (Director of the WIPO Center) of the cancellation. I formally informed everyone that 6/19 mediation session was canceled and will be rescheduled for August. I then canceled my travel reservations. Obviously, the Center was quite appreciative – certainly for its own well-being.

Later 6/17 and a few days thereafter – I had e-mail correspondence with Counsel and eventually mutually re-scheduled mediation session for two days 8/24-25. I asked WIPO to reserve the same facilities for use then.

Pete's actual mediation process – "100 foot view" (cont.):

I GAVE THE PARTIES MY "MARCHING ORDERS" TO USE THIS 2 MONTH PERIOD CONSTRUCTIVELY:

- ENGAGE IN CONTINUED DIALOGUE WITH ME, WHETHER BY TELECONF CAUCUS AND/OR E-MAIL, AND WITH EACH OTHER, and
- FURTHER CONSIDER/REFINE THEIR INTERESTS AND SETTLEMENT OPTIONS, EXCHANGE SETTLEMENT PROPOSALS AND BASICALLY DO AS MUCH "LEGWORk" AS THEY COULD IN ADVANCE OF THE AUGUST SESSION
- WHY?
 - TO MAXIMIZE THE EFFICIENCY OF THAT SESSION AND INCREASE THE LIKELIHOOD OF ATTAINING SETTLEMENT.

Pete's actual mediation process – "100 foot view" (cont.):

BACK ON TRACK-

6/18, 6/22 – Had teleconf caucuses with P and its Counsel to find some "middle ground" that could serve as a basis for resolution.

6/25 – P sent, through me, to D its proposed framework for settlement: it changed terms of royalties, included lump-sum amount and continuing royalty greater than 4% for a period of time, 4% thereafter, no requirement by D to acknowledge willful infringement, set forth some procedures for D to gain further clarity from P on which of D's future parts P would regard as infringing any of P's patents and whether that inf would be viewed as willful, proposed one-day ADR process to handle resolution, raised possibility of cross-license and expressly left open other "business-oriented" resolutions D could propose. I proposed dates and times when I could hold a teleconf caucus with D.

7/10 – I provided D with my rather extensive comments and views of P's proposed framework. I strongly advocated for a "global" settlement, provided my views of costs and risks to D of arbitration, and general probability of success of mediation, and need to focus on business interests rather than legal positions as the latter would lead nowhere.

7/17 – D responded to me regarding P's framework and requested me to forward it on to P. D expressed puzzlement – P's proposal assumed "full validity" of P's patent, alleged willful infringement, imposed cost beyond previously agreed 2 & 4%. D's GC stated: D would not enter into any agr on royalties that implies willful infringement, though one-time payment to P would be OK as it would "represent economic value of achieving greater certainty and avoiding future claims on current and future parts of D". D stated it was preparing specific proposal to be sent during week of Aug 10.

7/18-8/3 – I'm out of my office on travel (actually on vacation in Alaska)

Pete's actual mediation process – "100 foot view" (cont.):

8/17 – D circulated its proposal to P and me. It addressed P's 7 patents and asserted technical arguments (with drawings of various parts) why D didn't infringe each of those patents or why that patent was invalid (not surprisingly written by D's US patent counsel) or changes D could make to its parts to counter inf. Basically, a non-infringement analysis (my view: it argued legal positions which were not particularly useful for a "business" solution). P indicated it would review D's proposal carefully and respond ASAP. P was getting very frustrated!

8/19 – P responded by e-mail letter. While acknowledging that D's proposal might provide a framework, P stated that it reflected some "cultural and language differences" from P's proposal. P indicated: D appeared to be offering a "catalog" of product design features which D could use in future to avoid infringement, D offered ≥ 1 payment(s) to P to avoid expensive arbitration and for future rights to use P's 7 patents, D is willing to accept and not challenge validity of P's patents, P asked D to put aside its arguments on legal positions, provide specific \$ amounts to offer, and P would not press D to pay "willfulness" royalty rate of 6% or to admit willful infringement as part of any settlement, but if arbitration becomes necessary, P would seek 6%.

Pete's actual mediation process – "100 foot view" (cont.):

8/20 – D responded via e-mail. A DECENT BREAKTHROUGH. D's GC confirmed P's view that D wanted a list of non-inf product features, D willing to accept and not challenge validity of P's patents, and offered one-time \$ 400K cash payment. I conducted teleconf caucus with P and its counsel to discuss D's response. P viewed D's response as a "significant move forward", though parties were still very far apart on \$.

8/21 – I reviewed my mediation notes in prep for mediation session and revised my 6/16 list of prelim matters to discuss at the session.

8/22 evening – I flew off to Geneva.

8/23 – **DISTRACTION AND EPIPHANY AT THE INTERCONTINENTAL** (license established wrong incentives – by virtue of royalties only increasing to 4% rather than 6%, parties were incentivized to repeatedly challenge alleged infringement and institute WIPO ADR proceedings; parties need to change license terms). I developed plan on how best to present my recognition at med session tomorrow to significantly increase its acceptance by parties.

Pete's actual mediation process – "100 foot view" (cont.):

8/24-25 Mediation – First Day

9 AM – Started in joint session: each side provided its perspective on dispute and negotiations, P first, then D. D concerned that it has to have an "area" to operate and compete with P that will not subject it to infringement allegations from P.

-- I conducted interest analysis, using flip chart(s), to build collaborative, open, problem-solving psychological environment. Then, I presented my view of present settlement agr incentivizing parties to fight, and hence their need to totally scrap existing 2/4/6% royalty arrangement.

-- Parties then discussed D's proposal from 8/20 and various options based on that and my view.

-- Separate caucus sessions followed, with my conveying information back and forth. Yielded further proposal from D based on a blanket license for 7 patents now being asserted by P, with flat overall fee for products or running royalty on consolidated worldwide sales. D does not want to disclose its sales in any given country. P found D's blanket license idea "very interesting", but many questions exist as to which of P's patents are encompassed.

-- Reconvened back into joint session to further discuss blanket license concept.

-- Further caucus sessions occurred. Sides were far apart on % rate, particularly given P's existing licenses to third-parties and P's investment in R&D of the technology underlying the parts, and other related details.

1:45 – Another joint session to discuss financial terms, P proposed graduated running royalty scheme based on D's sales. Caucus session with D then occurred.

Pete's actual mediation process – "100 foot view" (cont.):

8/24-25 Mediation – First Day

- 3 – Joint session, counter-offer from D ensued, but % offered were much lower than P's, incremental sales figures were much higher. More caucus sessions then occurred. Significant differences remained between parties. Negotiations slowed considerably -- almost to a crawl.
- Prior to break at 4PM: I told everyone (and they agreed) that there are only three basic avenues: disagree on infringement – cannot be resolved at mediation, resolve dispute by 11/07 agr, but arbitration makes no sense; and continue to negotiate and work through differences as they are doing now.
- 4:50 – Joint session, D modified its proposal to include lump sum payments (not tied to sales) extending over 5 years and coupled with graduated royalty based on its sales levels and blanket license of all of P's patents covering "application type" parts. P welcomed that approach. Still significant disagreements existed. More caucus sessions followed.
- 6:10 – Joint session. P modified D's latest proposal by increasing yearly payment and royalties, and decreasing sales breakpoints. Caucus session with D followed.
- 7:16 – Joint session. D made counter-proposal modifying the yearly payment, royalties and sales breakpoints. Caucus session with P followed.
- 7:35 – Final joint session of the day. P stated D's framework and concept were "absolutely right", but problem is with figures: far too little being offered by D particularly in later years of agreement. P expressed that D's latest offer was less than D's immediately prior one ("yes, the devil is in the details")
- 7:45 PM – First mediation day ended. Everyone broke for the night. Parties were very somber and not particularly hopeful.

Pete's actual mediation process – "100 foot view" (cont.):

Second day

- 9 AM – Reconvened in joint session. D confirmed reasonableness of its latest proposal. P stated that D's framework is correct, but D's present offer is insufficient. P countered with a different yearly payment schedule (which it developed during the prior evening) extending to years 6 and 7 and a lower royalty rate (2%) extending until the last one of P's patents expire.
- Caucus session with D. From D's General Counsel: "They've crossed the line! They've crossed the line! ...". D's GC stated D would entertain slight variations in its last approach, but P's latest scheme is absolutely absurd. D's GC offered no counter-offer and instructed me to go back and tell P it's basically crazy. Impasse is lurking!
 - Caucus session with P. P needs minimum 2% royalty and certainty of minimum floor for access to all of its "application type" patents. Impasse occurred as no further movement seemed possible.
 - Having recognized D's GC as an obstacle, I changed rules, the negotiating personnel and the ensuing dynamic. I asked business reps of both parties (P's Int. Controller and Business Sub. Head for D) if they had any objection to meeting and conferring together directly. Both knew each other reasonably well and had directly dealt with each other several times before (both were based in the Detroit area). I suggested that they do so without Counsel, if both they and their Counsel had no objection. The bus reps agreed. Counsel agreed. A series of direct meetings occurred. Followed by separate caucus sessions with me. For the last direct meeting, the bus reps requested that I not be present and thus they met together themselves one-on-one.

Pete's actual mediation process – "100 foot view" (cont.):

Second day

About 3 or so: The door of the meeting room opened. P's bus rep emerged with a big smile and said:

"WE HAVE A NEW POPE."

Both business reps had reached agreement. They hammered out all the terms of their settlement. Both sides were very relieved and very satisfied with the result.

4:15 -- Terms of agreement were prepared by Counsel for both sides and signed by all party representatives.

4:30 PM -- Second mediation day ended.

Everyone left WIPO – THRILLED!

(Of course, D's GC had a train to catch back to Zurich at about 5:30 or so.)

Pete's actual mediation process – "100 foot view" (cont.):

Settlement terms (8/25/09):

- Worldwide, non-exclusive license to D under all of P's "application type" patents and pending applications for make, use and sale of all of D's "application type" parts
- Royalty payable by D to P:
 - a) down payment of US \$ 100K on signing actual settlement agr;
 - b) 5 annual payments of US \$ 200K at beginning of each year starting 3/10; and
 - c) 1% on D's annual net sales of "application type" parts worldwide up to US \$ 25 MM, 2% on any annual net sales > \$ 25MM; regardless of whether such parts are covered by any of P's "application type" patent(s) or not.
- No royalty due for any parts grandfathered under 11/07 settlement agreement
- Term: 10 years minimum
- Additional covenant: Each party independently develops its own parts without copying part(s) of the other.
- All other provisions, not inconsistent with these, in 11/07 agr including dispute resolution process remains in force.
- Final settlement agreement targeted to be signed by parties at end of 9/09.

***Take-away Thought about
Patent Mediation:***

"You can't always get what you want ...
But if you try sometimes well you just
might find
You get what you need."

"You Can't Always Get What You Want"

Rolling Stones

http://www.youtube.com/watch?v=mKFsXJbFB_o

Thank you!