

Hazardous Material: What You Don't Know Can Hurt You

By Jeff Lawson

For buyers of commercial property, it is standard practice to conduct an initial due diligence environmental investigation, referred to as "Phase I"; after all, lending banks require it. If a hazardous condition is identified, a more thorough analysis is done. Depending on the condition, testing of the building or soil and ground water is typically performed to determine the extent of the problem.

However, more often than not, the buyers and their attorneys do not know what to look for in the investigation reports. They assume their lender knows what to look for but in many cases that is not the case. It is only after the transaction closes that a contamination problem is discovered. Sometimes the pre-closing analysis uncovers low levels of chemical solvents in the surface soil and ground water, but misses the more significant contamination problems that are buried underground. Many of these types of problems can be avoided if an environmental expert is enlisted to evaluate the potential risks identified by the environmental reports.

In one case, after ground water and soil tests detected only trace levels of chlorinated solvents, a developer purchased property from a manufacturing company for condominiums in Hayward. Later, while digging the foundation, high levels of toxins were discovered with vapors that could potentially permeate the new building. The developer tried unsuccessfully to sue the seller for the cost of cleanup; but he was unable to prove that the seller caused the contamination. The developer could not sue the environmental consultants for malpractice based on their failure to realize the ramifications of the trace solvents they found, because the contract hiring the consultants limited their liability and the Phase I had multiple disclaimers in it — none of which the developer fully understood at the time.

In another recent case, a bank neglected to conduct an environmental investigation before foreclosing on what had originally been an auto wrecking facility. It relied instead on a poorly conducted Phase I done at the time of the loan that no expert had ever reviewed. Instead of recovering the amount of the foreclosed loan, the bank sold the property at a deeply discounted price to a buyer who undertook the contamination risk and had the in-house expertise clean up the hazardous material.

It is important to search for contamination inside as well as underneath the building. Some manufacturing operations generate toxic lead dust, which clings to walls, drop ceilings, and heating and cooling vents. Most Phase I investigation companies are made up of geologists who understand soil and groundwater contamination issues but often do not appreciate the types of building interior problems caused by past manufacturing operations or by poorly maintained industrial equipment such as transformers.

Recently, a new property owner was responsible for cleaning up after a tenant whose wave solder machine operation coated the inside of the building with lead dust. The property could not be re-leased before the

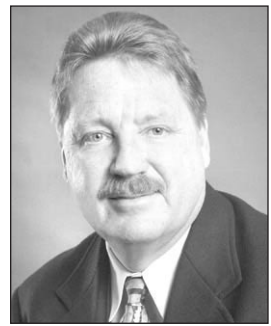


facility was deemed safe.

Hazardous material contamination continues to plague Silicon Valley properties that previously were semiconductor facilities, printed circuit board manufacturers, gas stations or dry cleaners. Real estate that houses seemingly innocuous shopping centers today may have been a gas station 50 years ago, and when these spaces are remodeled, petroleum waste can be found under the building.

Dry cleaners are another source of continuing problems. In the 1970s, it was standard practice for dry cleaners to dispose of perchloroethylene (PCE) by flushing it down the toilet; the chlorinated solvent seeped through cracks in the sewer pipe to contaminate soil and ground water. The contamination is still there decades later even if the current dry cleaner follows proper disposal procedures. Many owners of local strip plazas have lost millions of dollars cleaning up the PCE waste left by long-gone dry cleaner tenants.

Hazardous material use has been found throughout the history of Silicon Valley, with new risks from the nanotechnology and biotechnology industries. Buyers, owners and lenders can protect themselves by ensuring that an environmental expert who can identify the broad range of potential risks and suggest appropriate additional testing to uncover the scope and extent of the problem reviews environmental investigation reports. Armed with this knowledge and the estimated costs of cleanup, buyers and sellers can negotiate a fair deal.



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Supreme Court Rejects Commerce Clause Case

By Robert Iafolla
Daily Journal Staff Writer

WASHINGTON — The U.S. Supreme Court declined Monday to draw the boundaries of Congress' authority to regulate interstate commerce in the case of a man convicted of possessing a bulletproof vest that was manufactured in California and sold in Washington state.

The defendant in the case, Cedrick Alderman, served his 18-month sentence and was released in September 2008. The 9th U.S. Circuit Court of Appeals upheld the conviction in a May 2009 decision. *Alderman v. U.S.*, 09-1555.

Nevertheless, the case has taken on added political weight in light of the fact that Congress' power under the Constitution's commerce clause is at the heart of President Barack Obama's massive overhaul of the health care system. Not only does the new health care law face some two dozen legal challenges, it has become a rallying point for activists in the Tea Party movement who say the federal government impinges on individual freedoms.

The law's authority to require adults to obtain health insurance is premised on Washington's authority to regulate interstate commerce. The law cites a 1944 Supreme Court opinion holding that insurance qualifies as interstate commerce subject to federal regulation. *U.S. v. South-Eastern Underwriters Association*, 322 U.S. 533.

Justice Clarence Thomas dissented from the court's decision not to review the 9th U.S. Circuit Court of Appeals ruling that upheld the law regulating body armor possession. Justice Antonin Scalia joined in dissent.

Alderman pleaded guilty in 2006 to possessing body armor after being convicted of a violent felony. A Washington state court convicted him of robbery in 1999. Alderman reserved his right to challenge the constitutionality of the federal body-armor law.

Writing the 9th Circuit opinion upholding the law, Judge M. Margaret McKeown cited a 1977 Supreme Court decision that endorsed a federal law preventing felons from possessing guns that traveled across state lines. *Scarborough v. United*

States, 431 U.S. 563.

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In 1995, for the first time in 50 years the court ruled that Congress had exceeded its authority to regulate interstate commerce in a decision striking down a gun-control law, Thomas noted. It overturned another law on the same grounds five years later. *U.S. v. Lopez*, 514 U.S. 549, 566 (1995); *U.S. v. Morrison*, 529 U.S. 598 (2000).

The logic in the 9th Circuit ruling in *Alderman* "threatens the proper limits on Congress' commerce power and may allow Congress to exercise police powers that our Constitution reserves to the states," he argued.

Thomas argued that the 9th Circuit's interpretation of *Scarborough* "seems to permit Congress to regulate or ban possession of any item that has ever been offered for sale or crossed state lines." Thomas noted that, during oral arguments, government lawyers said Congress could ban possession of French fries if they'd been offered for sale in interstate commerce.

The court also denied a petition from Orange County lawyer and dentist Orly Taitz. Taitz, who has received attention from cable news for her "birther" claims that Obama shouldn't be president because he's not a natural born citizen, had challenged a \$20,000 fine levied against her by a federal court for filing frivolous lawsuits. *Taitz v. MacDonald*, 10-541.

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Intellectual Ventures Lawsuits May Change the Face of Patent Law

By Stuart P. Meyer

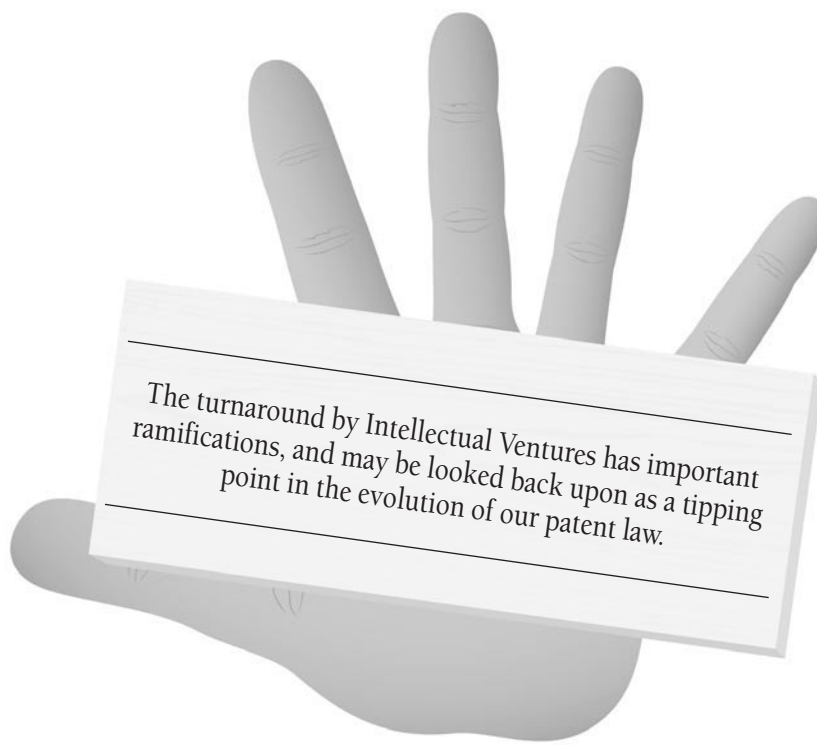
On Dec. 8, 2010, a patent aggregator filed three infringement lawsuits against nine companies. Typically, this would not be news. In the modern age, a cottage industry has emerged where patent licensing and enforcement companies (or PLECs, also known as non-practicing entities or patent trolls) collect patents and bring legal actions against groups of operating companies as a means to secure financially attractive settlements and license agreements. But the suits last month were different. They were brought by Intellectual Ventures, a company that has amassed tens of thousands of patents and which licenses many of the world's largest technology companies. The company argued that its purchases took patents off the market that might otherwise be used in lawsuits. The turnaround by Intellectual Ventures has important ramifications, and may be looked back upon as a tipping point in the evolution of our patent law.

A fundamental principle of the constitutionally mandated patent system is that it provides a balance of interests between innovators and the public. In exchange for an inventor teaching the world how to make an invention, the inventor gets a limited period of time in which to exclude others from the invention. If the proper give-and-take is achieved, both the inventor and the public prosper.

In striking the correct balance of rights, Congress historically has considered a wide range of issues, ranging from the duration of patent rights to the remedies for infringement. Other factors have also been part of the calculus to determine the appropriate *quid pro quo* under the patent system, such as the amount of disclosure needed so the public can learn about the invention's details. Determining an appropriate location for the fulcrum of rights is not unique to patent law; the same has been true with copyright statutes and, many would argue, with most legislation.

When Congress made major revisions to the patent statutes in the past (in 1836, 1870, 1897 and most recently 1952), PLECs were not an issue. To be sure, some operating companies derived income by licensing their patents, but few if any companies were formed primarily to buy, sell and license patents without marketing corresponding products and services. The balance between private and public rights was largely based on an assumption that patent owners would also be the ones who were responsible for creating the invention and for bringing the invention to the marketplace. This may no longer be the case.

For years, Intellectual Ventures downplayed the litigation aspect of its business model. Many commentators wondered, however, how Intellectual Ventures could continue to command the premium fees it demanded from companies in technology and other industries without eventually making good on the threat inherent in its large patent portfolio. In the last few years Intellectual Ventures began to open up a bit on the notion that it might need to enforce its portfolio against companies that did not agree to its demands. Talk became more common about how Intellectual



Ventures might transfer certain patents to others who would bring infringement actions on its behalf, or how lawsuits might be brought by shell companies so that Intellectual Ventures could use both carrot and stick approaches in signing up additional licensees or investors.

Such speculation ended in December when Intellectual Ventures filed three separate suits in U.S. District Court in Delaware. The details of these suits are less important than the larger issue: Does this development suggest that a change may be emerging in the fundamental balance of rights in patent law? Under current patent law, there is nothing wrong with buying someone else's patent. There is also nothing wrong with enforcing the rights in such a patent. It would be unfair to take issue with someone playing by the rules; at the same time such developments provide an impetus to revisit the current rules.

For example, it is appropriate to ask whether companies having no involvement in an industry (other than having acquired large patent portfolios) should be able to demand all of the players in that industry to pay unilaterally determined license fees or face patent infringement damages and potential injunctions.

Undoubtedly, patent aggregators would argue that consolidation of such patent rights actually benefits the operating companies who otherwise would be targeted by dozens of smaller patent owners, each seeking a separate royalty. Having a "one-stop shop" for clearing patent issues could be a real benefit from an administrative viewpoint and, potentially, from a financial perspective as well. Individual inventors rarely have the resources to fully commercialize the value in their patents, so the availability of aggregators is helpful to them as well.

On the other hand, there is a risk that a very large patent aggregator could effectively control entire industries by exacting what some have characterized as a private tax on those industries. Patent law is a narrow carve-out to the anti-monopolistic foundations of our economic system. At some point, a large patent owner exerting its portfolio over select players in an industry could be seen as seeking a private rent on the industry, the anti-competitive effects of which might at some point overwhelm the benefits of our patent system.

The emergence of a business model such as that used by Intellectual

Ventures therefore raises some important questions. Should there be a distinction between operating companies and PLECs? Should damages measures or the availability of injunctive relief be reconsidered in view of this model? Should there be a change to the term of patent protection? Should there be limits on the transferability of patent rights? Should a compulsory licensing scheme be considered in certain instances, which appears in copyright law as well as patent law in other countries?

There is little likelihood that Congress will take up this issue anytime soon. Far less fundamental issues have stymied attempts at patent reform for over half a decade. Still, it takes a long time to frame and consider such issues. Most commentators are likely to be result-oriented, wanting either stronger or weaker protection, and constructing "balancing" arguments that simply lead to their desired outcome. These issues are not likely to be addressed in isolation, either. Other issues, such as the scope of patent-eligible subject matter (as addressed in an incomplete manner by the U.S. Supreme Court last year in the *Bielski* case) or the appropriate evidentiary standard for challenging a patent (currently pending in the Supreme Court in the *Microsoft v. i4i* case) may well be brought into the debate as well. After appropriate compromises are achieved in principle, the daunting task of considering unintended consequences needs to be addressed. It is extremely difficult to properly address these issues, which is perhaps why Congress undertakes such tasks so infrequently.

The marketplace has already begun to address some of these issues. Article One Partners, for example, is a company that uses reward-based crowdsourcing to locate prior art. The company explains that the confluence of backlogs at the U.S. Patent and Trademark Office (leaving patent examiners with an average of two hours of prior art research per application), high damage awards and the growing number of patent infringement actions by PLECs has resulted in a "perfect storm" for high tech companies. Article One Partners' solution is summed up in the title of one of its white papers, "Community Patent Reform." Ocean Tomo, best known for holding public patent auctions, is offering a "Patent Royalty Trust" program. Under this program, a company concerned about third party patents that might apply to its products or services can ask Ocean Tomo to provide a "fairness opinion" as to what royalties might be expected to be paid under such patents. Based on that, the company undertakes mitigation measures that may involve purchasing patent rights and obtaining insurance to cover any actual liability in excess of the expected amount for royalties.

One may view such private approaches in one of two ways: as obviating the need for any legislative rebalancing or as highlighting such need. Either way, they provide useful test-beds that may show which ideas work and which do not. Those who practice in the area of patent law would do well to follow all of these developments and think about what sort of changes, if any, are needed to preserve the benefits provided by our patent system.

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