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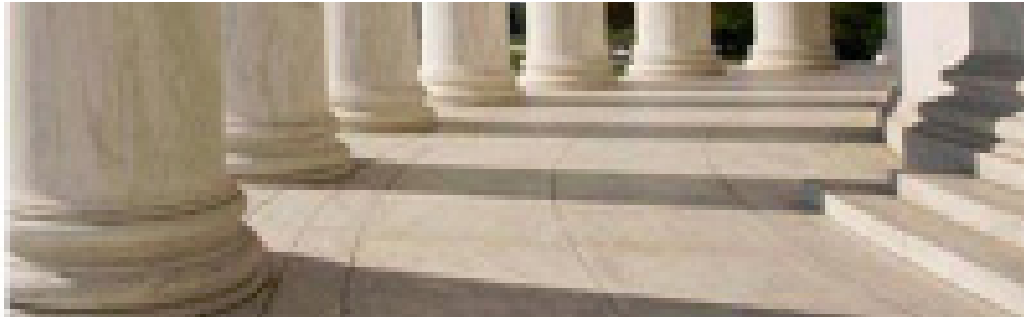

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Welcome to Insights,

a quarterly newsletter from Patton Martin & Sullivan designed to keep you up-to-date on legal issues that may impact your business.

Contact us: 925-600-1800

In this issue:

Best defense may be playing offense

By Kevin Martin

The perils of doing business in today's litigious society are plenty. With the rise in patent infringement suits by so-called trolls, many businesses have taken to extreme measures in order to protect themselves.

Most recently, we heard about some of the hi-tech giants battling it out (to the tune of $4.5B) for a collection of 6,000 patents from bankrupt Canadian telecommunications equipment maker Nortel in an effort to bolster their respective patent portfolios.

For small to mid-size businesses, however, those kinds of payouts are not feasible. So what action can a business threatened with an infringement lawsuit take to protect itself?

One strategy is filing a declaratory relief action.

A declaratory relief action is essentially a request that the court find the prospective defendant not liable for the alleged infringement. While traditionally there needed to be a "reasonable apprehension of suit" to bring a declaratory relief action, the standard has lessened following the United State Supreme Court's decision in MedImmune Inc. v. Genentech, Inc. 127 S.Ct. 764 (2007), and now the court considers generally "all the circumstances." See SanDisk v. STMicroelectronics, 480 F.3d 1372 (Fed. Cir. 2007). (Cont. page 2)

Employee or Independent Contractor? And Why it Matters.

By John Patton

Many small businesses owners who hire others to work for them don't spend much time thinking about the liability risk that can come with the decision. That isn't really abnormal or careless; it's human nature for people not to assume the worst is going to happen, and that extraordinary things will seldom occur. But lawyers deal with the "extraordinary" and the "worst" all the time, albeit usually in hindsight, when the events have already unfolded and a lawsuit or safety violation citation is on the horizon. Lawyers know from experience that a bit of thought and planning at the outset of a project can make a significant difference if the "worst" does happen.

When you hire someone to work for you, the decision of whether the worker is going to (Cont. page 2)

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Under this standard, various actions may be sufficient to create the actual controversy needed for a declaratory relief action, including licensing efforts, or submitting patents to the FDA's Orange Book which can delay another company's time to market, thereby establishing adverse interests. Other actions, like marking a patent or enforcing different patents on different products, have been found not sufficient to create a controversy.

The benefits of filing a declaratory relief action include the opportunity to have the case heard in the jurisdiction of your choosing (this can be particularly effective when the threats of infringement are from an out-of-state party who may not have the gumption to litigate in your home state) and the prospect of early resolution.

It's a strategy worth thinking about.

Doing business in an unsettled legal environment is difficult at best. Every decision carries risk.If your company is facing complex employment law issues, or any other business law concerns, the experts at Patton Martin & Sullivan LLP are ready to help. Contact us today at 925-600-1800.

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(Patton, cont. from page 1)
be treated as an employee, as opposed to an independent contractor can make a real difference in terms of safety obligations, exposure to liability, and possibly the availability of insurance coverage. This seemingly minor distinction becomes especially important when the act or omission of that worker results in an injury or damage to property – "the worst case scenario."

Generally, an "employee" is someone who works for another, usually on a regular basis, and does so under the direction of an "employer." There certainly is nothing wrong or unusual about that process, since most of the people in this country work for someone else as an employee. But in the eyes of the law, if a person who is an employee is exposed to a safety risk, or does something that causes injury to another or to property, and the act or omission happens in the ordinary course of the employment, then the employer is typically held responsible for the consequences of the employee's conduct.

All sorts of people can be treated as employees, and in many situations the law favors viewing them as such, because that allows someone else (i.e., the "employer") to be held responsible for the safety violation, and they or their insurance can be looked upon to make whole someone who is injured by the employee's conduct. For example, as far-fetched as it may sound, housecleaners and gardeners have been held to be employees in certain situations, and those that hired them were legally responsible for the consequences of actions within the scope of their employment.

In making the employee/contractor determination, the law looks at an array of factors -- things like whether the person worked for a salary, or received benefits, or worked regular or periodic hours. The most important, but still not controlling factor, is the degree of supervision Cont. page 3

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exercised by the person doing the hiring. The more supervision and control, the more likely the worker will be found an "employee."

On the other hand, one who hires an independent contractor to perform a job is usually not responsible for the acts or omissions of the contractor, although there are significant exceptions and variations on this rule. The idea is that where the worker acts "independently," the actions in the normal course of the hiring are almost completely controlled by the person doing the work, and responsibility for those acts and omissions should rest with the worker, not the innocent person who hired them to perform a job. Of course, if the person doing the hiring has reason to know that the worker has a propensity toward dangerous conduct, or that some peculiar danger may exist that ordinarily would not be appreciated by the worker, then liability may still attach to the hirer, as well as the worker. But if the worker is really operating on a job, especially one within his expertise, and calling his own shots on how that work is performed, the law usually treats him as an independent contractor, and only he will be held responsible for his negligent acts and omissions. In other words, the person that hired him (and probably his insurance carrier) is off the hook.

This consideration should matter to business persons who engage people to do projects or jobs. Some tasks argue for an employee's touch under close supervision; others tasks can be handled well – and often less expensively – by contractors. Either way, there are ways and reasons to structure the relationship so it will more likely be treated in the desired way.

A good understanding of the process, and perhaps consultation with legal counsel at the outset, can be critical to handling the hiring in a manner that best fits the needs of the hirer under the particular circumstances of the situation. Understanding and appreciating the issue is a terrific start.

Patton Martin & Sullivan is a firm of experienced professionals and trial attorneys, dedicated to producing results and protecting our clients' rights in complex situations.

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When is final really final? First National Mortgage Company v. Federal Realty Investment Trust

By Randy Sullivan

When real estate negotiations turn hot, offers and counter-offers move quickly, often with more focus on the terms of the transactions than the legal niceties. That can be an expensive mistake, as one developer found recently when a 'Final Proposal' morphed into a binding deal.

This case focused on the question of whether the parties have a binding real estate purchase agreement. This issue arises regardless of whether the real estate market is up or down. Here the case arose because of the recent downturn in the real estate market. Specifically, the issue was whether a document titled "Final Proposal" bound the parties, or whether it was merely an agreement to agree.

The breach of contract action concerned commercial property known as Santana Row in San Jose. The alleged contract was reached between a developer (the buyer) and a mortgage company (the seller). The alleged agreement was a single page, nine-paragraph document. The document labeled Final Proposal identified the monthly rent the buyer would occupy the land under a ground lease. It also identified the amount of the annual yearly increases in rent. Since there was a current tenant, the buyer was to compensate the seller for having to buy out that tenant. The Final Proposal also permitted the seller to exercise a call option that would require the buyer to purchase the property at any time within the next 10 years.

The parties' execution of the Final Proposal was preceded by offers, and counter-offers. Similarly, after the execution of the Final Proposal, the parties continued to negotiate in order to arrive at a more formal agreement. The negotiations also involved an outright sale of the property. After the seller terminated the lease with the pre-existing tenant, they demanded reimbursement from the buyer. The buyer refused and stated that a number of significant issues were outstanding and that they did not yet have a binding agreement in place. The seller prevailed at the trial and was awarded $15.9 million in damages.

On appeal, the Ninth Circuit concluded that this Final Proposal was not merely an agreement to agree. The court concluded that the single-page Final Proposal was a binding agreement, because: (1) the Final Proposal states that the parties are accepting the agreement subject only to approval of a more formal agreement; (2) the Final Proposal did not have a non-binding clause that the buyer included in prior drafts; and (3) the term "proposal" did not render it an agreement to agree, because through the parties' course of negotiations they went from a "'Counter Proposal, to a 'Revised Proposal', to a 'Final Proposal'".

The second issue concerned the buyer's statute of frauds defense based on the fact the Final Proposal did not explicitly state the length of the ground lease. However, on appeal, the court held that because the Final Proposal allowed the buyer to buy the property within 10 years and allowed the (Cont. next page)

(Cont. from page 4) seller to compel the purchase within 10 years, the jury's finding that implicitly the lease term was 10 years was supported by substantial evidence.

The last issue concerned the amount of damages awarded the seller. This dispute arose after the downturn in the real estate market had begun. Interestingly, the seller recovered damages for 10 years of lost rent, and lost profit damages based on the call option. More importantly, the seller received lost profits based on the date of the breach of the Final Proposal. As a result, the seller recovered 10 years of lost rent, and lost profits based on a valuation date that was 10 years prior to the termination of the lease. This undoubtedly was a significant result for the seller, since the market has declined.

Having – and heeding -- legal advice throughout the negotiation process can avoid such problems.

Whatever your real estate law needs, Patton Martin & Sullivan has the expertise to keep your plans on track.

A version of this article has appeared in the State of California Real Property Law Section's E-Bulletin.

Finding the right expert and making sure all angles are covered takes experience, clarity of thought and hard work. If you find yourself facing complex real estate challenges, the experts at Patton Martin & Sullivan are ready to help.

Randy Sullivan, a partner at Patton Martin & Sullivan, specializes in business and real estate litigation. Contact him at 925-249-3405 or at randy@pattonmartinsullivan.com

Picking a law firm

We recognize that selecting a law firm can be a difficult and stressful event. Finding representation with the right set of skills and experience can be the most important decision you and your business make this year.

Here at Patton Martin & Sullivan LLP, we don't pretend to be the right fit for every case. We're a boutique firm with deep expertise in complex commercial litigation; intellectual property matters; land use, country club, real estate and construction law.

Whether your situation involves defending a lawsuit or seeking a favorable resolution to a dispute, we can help shape a strategy the gives you the best chance for success, whether that means mediation, arbitration or litigation.

There are many excellent law firms in the Bay Area. So how do you find the one that's best for your situation?

First, don't be swayed by the advertising campaign. Some law firms do elaborate television campaigns; some focus on online or directory advertising. All that tells us is the size of their advertising budget.

There are a number of independent sources for referrals, from the local and state bar associations to national evaluation services like Martindale Hubbell.

All of these can play a (Cont. next page)

(Cont. from page 5) role in the effective search, but nothing is more important than a personal referral. Ask your friends and business associates for recommendations. Do your own online research to assure yourself that the experience matches your needs and there's a record of success with similar cases and clients you know and respect.

Finally, make sure the firm is a good fit for you.

Call for an initial appointment and keep a close eye on how you are treated. Is the call answered and handled efficiently? If a call back is needed, was it arranged quickly? Was an appointment scheduled in quick order? You shouldn't have to wait more than a few days. And an initial consultation, at which the attorney is evaluating both the merits of your case and whether your situation is a good fit for the firm's time, shouldn't be expensive.

Look for the human dynamic. Is the office staff friendly, helpful and engaged? Did you have the attorney's full attention? Did the attorney provide solid and knowledgeable feedback? Does this feel like a team that will be responsive to your needs?

Don't be hesitant to ask about fees. Some fees may be quotes on a per hour basis; other cases may be best served by a contingency fee in which the attorney accepts a percentage of the settlement payable only if the matter is resolved successfully. If after the initial meeting, you decide to move forward, a retainer agreement should spell out costs, rights and responsibilities of both parties. And that agreement should be written in clear and common language, not legalese.

We want you to become another satisfied client and our promise is to do our best to achieve that outcome.