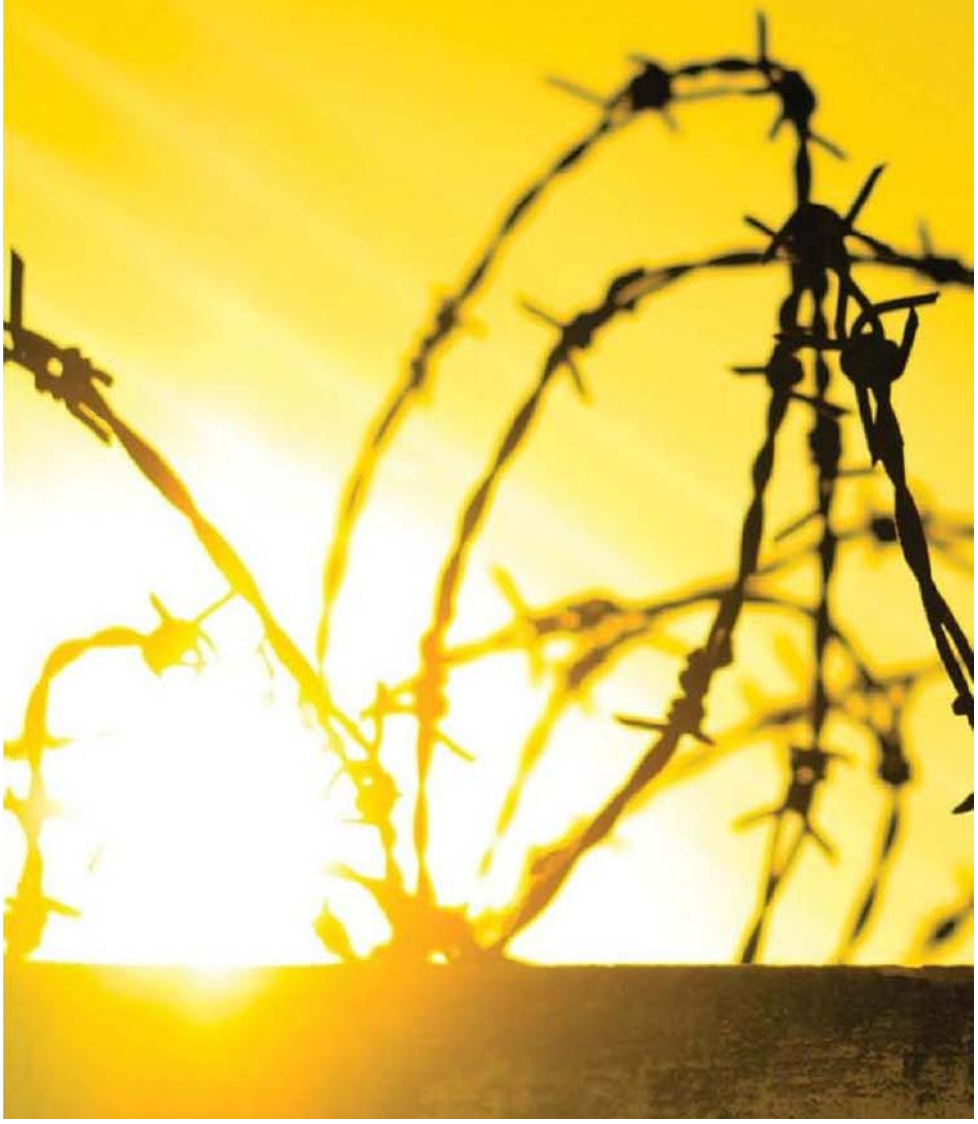
A valuable **risk management** tool

The patent freedom to operate opinion, aka 'product clearance', is used to determine whether a particular product process can be commercialised without infringing the rights of others. **Paul Sutton** of Sutton Magidoff reports.



It is surprising to encounter the many tech-oriented companies that have never authorised or obtained a reasoned freedom to operate (FTO) patent opinion directed to products that they hope to market. The considerable cost associated with obtaining an FTO opinion is an obvious reason why this is so.

However, a company must take into account the risks resulting from the proliferation of patent grants and the litigious society we live and work in. The number of patent-related lawsuits is increasing, with the median legal costs in a simple patent infringement action approaching, and in some cases exceeding, $5 million.

Complex patent lawsuits will often cause this figure to multiply exponentially. FTO analysis and opinion should be viewed as a valuable tool for both managing risk and uncovering opportunities. Those who forgo obtaining an FTO opinion before launching a new product will often face the music down the road.

The prime purpose of the patent FTO is to determine whether the commercialisation of a particular product process may be accomplished without infringing the valid and enforceable patent rights of others. Some refer to an FTO analysis as a "product clearance".

The FTO analysis and opinion will be directed to the intellectual property rights of a specific country's jurisdiction, such as the US. It is the end result of a search of unexpired patents and published pending patent applications, an analysis of their patent claims, and arriving at the underlying bases of the ultimate opinion. One must always remember that a favourable FTO opinion does not in any way serve as a guarantee that no infringement will exist.

Some may be surprised by the foregoing reference to pending patent applications, since their claims cannot be infringed unless and until they are allowed and granted. A reason for one to examine and analyse such pending patent claims is to be forewarned that in fact they may ultimately be granted. Since June 8, 1995, the term of a US patent is 20 years from its effective filing date. Before this date, patents expired 17 years from their date of grant.

Let us examine what constitutes patent infringement, so that we have the proper context within which to consider the FTO. Patent infringement involves the commission of an unlawful act involving a patented invention without obtaining a licence from the patent owner.

Examples of such unlawful acts include making, using, offering for sale, and/or selling something that is covered by one or more claims of the patent in question. It is these

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patent claims which, when viewed in light of the specification, define the lawful scope of the patented invention.

Patent territory

A patent claim can be compared to a deed to real property which, by metes and bounds, describes and defines the limits of the property owner compared to those of his or her neighbour. This enables one to understand when trespassing on this property occurs.

Much like such a deed, a patent claim defines the limits of the invention as well as what does not fall within the scope of the patented invention. This enables one to understand when infringement of the claim occurs.

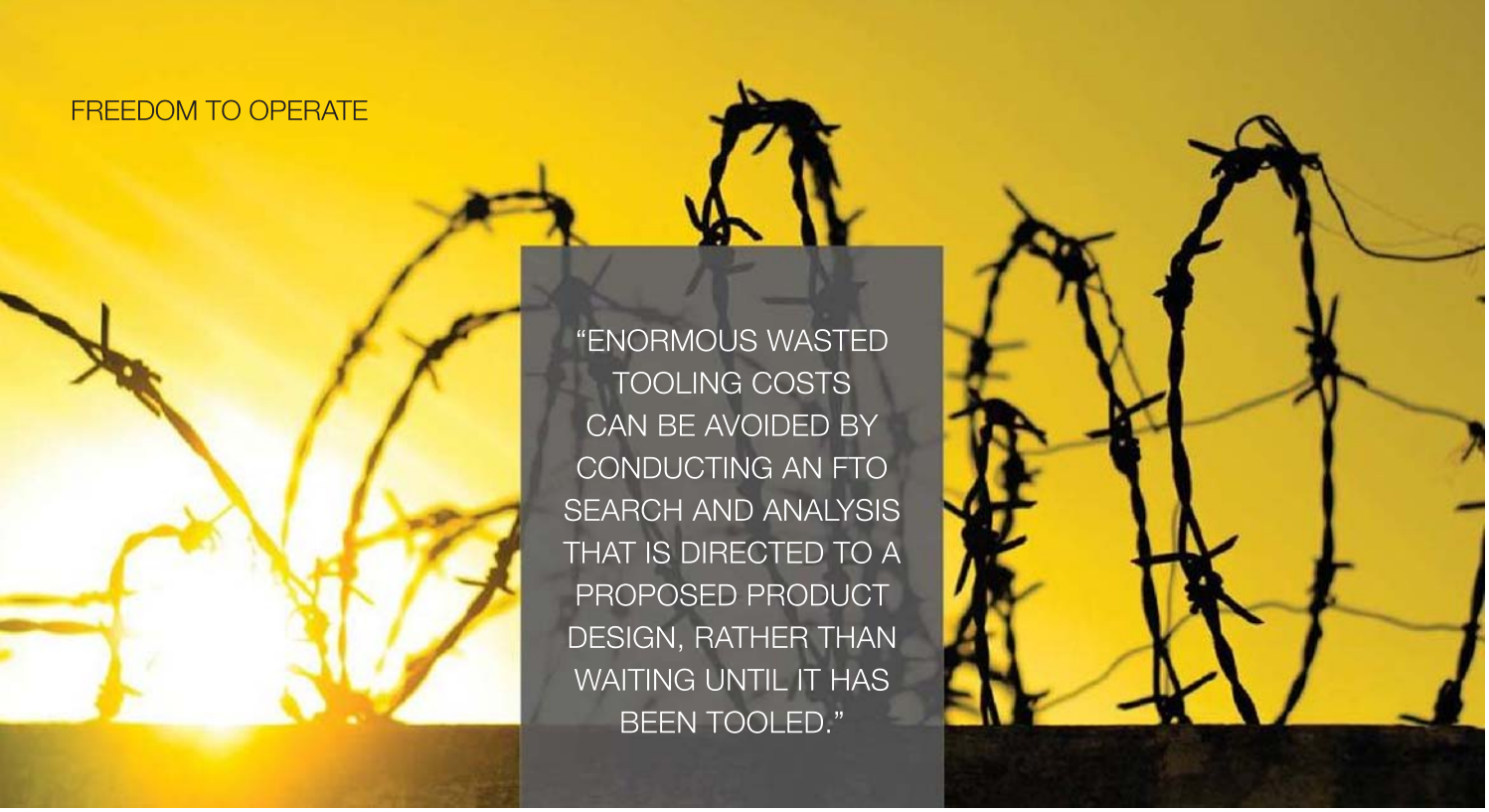
Patents are by their nature territorial, and their scope is limited to the country within which they have been granted. For example, if someone is granted a US patent, the protection afforded by this patent will be effective only within the territorial limits of the US, not in any other country. The patent laws of different countries will vary, so that an underlying patent application in one country may be granted where the patent office of another country may limit or refuse to grant a patent for the same application.

It is essential to note the difference between a patentability opinion and a patent FTO opinion. The patentability opinion does not normally concern itself with whether the subject invention will infringe the patent rights of others. It is limited to whether there is a likelihood that the US Patent and Trademark Office (USPTO) will grant a patent covering the invention.

The FTO opinion, on the other hand, is very much wrapped up with the issue of infringement. A patentability search may uncover one or more patents whose claims may cover the subject invention, but the analysis will normally be limited to whether a patent will issue. A seasoned patent practitioner will, of course, notice the relationship between the patent claims uncovered during a patentability search and the subject invention, and will call this to the attention of the client.

One will want to avoid unnecessary liability and future litigation by obtaining a patent FTO opinion. An FTO analysis can be performed well before fully developing and commercially launching a product. In fact, enormous wasted tooling costs can be avoided by conducting an FTO search and analysis that is directed to a proposed product design, rather than waiting until it has been tooled.

Such an analysis that is done fairly early on during product development may provide an opportunity to modify or change the direction of a design, to avoid infringement. If the developer does not take advantage of this type



"ENORMOUS WASTED TOOLING COSTS CAN BE AVOIDED BY CONDUCTING AN FTO SEARCH AND ANALYSIS THAT IS DIRECTED TO A PROPOSED PRODUCT DESIGN, RATHER THAN WAITING UNTIL IT HAS BEEN TOOLED."

of opportunity, he or she may have to either acquire an expensive licence from a patent owner or discontinue the commercialisation of a new product.

Start-ups

FTOs become ripe topics of discussion when a party is considering investing in a relatively young company. Often, there is excitement about the novelty of a start-up's product design, as well as its having received a favourable patentability opinion. Clearly, an investor will be more attracted to a company whose core product line is proprietary in nature and whose IP can be protected. That said, what good will a novel product be if it can never be commercialised without the risks associated with patent infringement? None.

For this reason alone, investors will often ask early on whether a targeted company has obtained a favourable FTO opinion directed to its core product. If such an opinion has never been requested or obtained, not only will such an investor be risking his/her investment, but situations arise that may lead to litigation between the company and its founders and the investor.

The same can be said to be true where a company is seeking to acquire another company or its technology. The absence of a favourable patent FTO opinion may erect a roadblock to a successful acquisition. It is not unusual for the purchase agreement between such companies to include provisions for monies to be set aside, either to cover the costs of obtaining an FTO opinion or to indemnify the acquirer.

If an FTO analysis finds that the claims of one or more patents will be infringed by the commercialisation of a new product offering, this should not be the end of the line. An unexpired patent claim that would be infringed by the sale of a product may or may not be valid and enforceable. Patents, when granted by the USPTO, are presumptively valid from their date of grant. However, that presumption is rebuttable by evidence to the contrary.

The person conducting the FTO analysis will want to conduct a validity study directed to such patent claims covering a new product. There are many grounds for finding a patent claim invalid. These include finding prior art that was never cited or considered by the USPTO examiner who granted the potentially infringed patent. Evidence of a sale of the patented invention more than a year before the patent's filing date may invalidate its claims.

Linda Thayer, in her 'When is a FTO opinion cost-effective' article in the 2013 February/March issue of Today's General Counsel magazine, provides us with concise and helpful guidelines for considering the FTO opinion.

We are invited to consider the value of the product in question, as well as the amount of an investment in it. Whether similar products have sparked litigation is a factor. The competitive community for the product must be examined. The product's source(s) is a factor. And perhaps most important, a company's business objectives and risk tolerance must be carefully considered. A company averse to risk will go the extra mile to obtain a favourable FTO opinion before entering the market with a new product.

We therefore see that a company's developing of its own patent portfolio represents only the threshold of managing its IP assets and risks. There is no sense in accumulating a patent portfolio covering a product line that cannot be successfully commercialised. Patentability and FTO should be harmonised and viewed as compatible tools to achieve business goals.

Spending money for prototypes of products that cannot be marketed without obtaining a licence from others may amount to wasted effort. The prudent businessman or woman will not play with the danger of waiting until a product line is fully developed and released before examining infringement liability.

Such conduct runs the risk of involvement in patent litigation. Obtaining a favourable FTO opinion may help to protect against a finding of willful infringement. ■

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