

## PATENT-FTO CAVEATS

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There is a surprising failure to appreciate the value and importance of US 'freedom-to-operate' (FTO) opinions, which determine whether commercialising a product will infringe others' valid intellectual property rights. While there is a general recognition of the need to obtain patent protection before the full development and marketing of new products, not enough attention is normally focused upon the need to avoid and mitigate the risks associated with patent infringement litigation.

FTOs typically begin with an analysis of the invention to be marketed. Thereafter, a 'clearance search' is performed, which seeks to locate and identify relevant US patents which are either unexpired or are about to expire. Published US patent applications which claim aspects of the invention are also sought. An experienced patent attorney considers the degree of relevance of these uncovered patent publications, as well as their meaning and scope. These efforts result in an opinion in which any risks of infringement are clearly spelled out.

The magnitude of risks will vary, and the client is provided with options should it wish to proceed with a product launch. The patent attorney serves as a guide who leads his client through a patent infringement 'minefield'. Just imagine the ramifications for a start-up if, after completing its research and product development, and accepting monies from investors, it launches a product, only to be faced with the threat of damages and a possible injunction. There is no guarantee that a patent holder will agree to grant a licence to such a start-up, or whether the terms of such a licence may be commercially reasonable.

The cost of a time-consuming FTO opinion can be considerable, depending upon the nature of the invention and the scope of the search and analysis. Furthermore, since a clearance search will not uncover every possible relevant patent and publication, there can be no guarantee that the FTO opinion will be all-inclusive. A poorly conducted search will yield poor results, which may create the impression that there are no risks. Software-related inventions are quite difficult to search since, until recently, many software developments have not historically been the subject of patent protection or publication.

As of this date, the US Supreme Court has before it significant software litigation it must decide in *CLS Bank Int'l v Alice*. Unpublished, and therefore hidden from view, pending patent applications may contain relevant claims which, if and when issued, may pose infringement risks. These limitations themselves may increase risks. And given the cost of an FTO opinion, it is not unusual for start-ups to forgo the FTO route altogether.

**"IT IS IMPORTANT TO APPRECIATE THE POTENTIAL RISKS OF ENTERING THE MARKETPLACE WITH A PRODUCT WHICH HAS NOT BEEN CLEARED OF THE POTENTIAL THREAT OF INFRINGEMENT CLAIMS."**

To be fair, start-ups are usually strapped for cash, and available monies are normally invested in the development of core products and proofs of technical concepts. Most new ventures fail as a result of insufficient capital, so that precious resources are often funnelled into those areas which are perceived as most necessary and desirable. That said, it is important to appreciate the potential risks of entering the marketplace with a product which has not been cleared of the potential threat of infringement claims.

These risks extend not only to the start-up company, but also to investors in the start-up. Most investors conduct at least some level of due diligence into the target of their investment. If a start-up has not authorised and received an FTO opinion, an investor may conduct its own investigation before making a commitment. Either way, there is normally a spirited negotiation over the warranties and representations within any investment agreement.

### A disaster scenario

Just imagine a situation in which a group of dedicated and well-meaning individuals comes up with a new concept around which to establish a company. A business plan is created. They invest the time and money required to conduct research, and develop and design the product. Further investment is made to prove its technical functionality and worth. Investors' monies are accepted as loans or in return for equity. Monies are invested in patent protection and marketing. The product is launched.

A cease and desist letter is received from the holder of one or more patents, accusing the company of infringement. A request for a reasonable licence is refused. The entire venture will be threatened if the company does not have the resources to challenge the patent(s).

There is no substitute for retaining highly skilled and experienced patent counsel to advise on the avoidance and mitigation of such risks. ■

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