

Copyright © 2013 Connecticut Innovations

All Rights Reserved

CI encourages you to share this content, however, in doing so, you may not alter its contents.

ctinnovations.com

IS A FREEDOM TO OPERATE OPINION IMPORTANT?

In certain circumstances, it may be advisable or necessary for a company to obtain a freedom to operate (FTO) opinion as to whether a technology of interest will infringe any patent owned by another party. The knowledge gained from such an exercise can help mitigate risk, provide assurance to potential investors, and facilitate the development process by informing design changes necessary to avoid identified patent barriers.

But what is an FTO opinion? Essentially, in layman's terms, it is an assessment made by intellectual property attorneys that provides an analysis of any patents owned by third parties protecting inventions that are similar to a particular product or process of interest that will be or is currently being sold and/or manufactured by a company. The FTO opinion is generally provided in the form of a written document that contains a legal opinion as to whether the product or process of interest infringes upon any of the identified patents.

Not all companies obtain FTO opinions on their products or processes – for a number of reasons. Perhaps the biggest reason is cost. An FTO opinion can be expensive, typically in the neighborhood of \$25,000 to \$50,000, or more, depending on the level of complexity of the product or process and the depth and breadth of the FTO analysis. Because an FTO opinion evaluates the intellectual property (IP) landscape vis-à-vis a

product or process at a particular snapshot in time, its shelf life may be short, particularly if a company plans to make ongoing modifications to the product or process, or if the patent landscape changes significantly; such shifts could quickly render the FTO opinion obsolete. So, companies must be judicious and evaluate whether investing in an FTO opinion is worthwhile and what the optimal timing might be.

However, your cost/benefit analysis may swing in favor of investing in an FTO opinion if you (1) are operating in an industry that is particularly litigious, (2) have developed a product or process that will not be modified anytime soon, (3) have the time and flexibility to modify product development to design around potential patent barriers that are uncovered, (4) could suffer significant financial harm if infringement litigation were to result in an injunction or costly design-around, or (5) plan to raise a large financing round in which investors will be putting significant sums at risk by investing in your company. In the last instance, one or more investors may actually require you to obtain an FTO opinion as a condition of their investment.

The FTO opinion can be useful and mitigate risk in a couple of ways. First, it can help protect you against being charged with “willful infringement” of another’s patent – the penalty for which can be treble damages. Having an FTO opinion shows that you have done your legal homework and have an expert opinion that your product or process does not infringe on the identified patents. Second, an FTO opinion can

help lessen investors' concerns about infringement risks. Such risks will likely always be present, but the FTO will help mitigate those risks.

While FTO opinions may not be necessary for all companies, it's good for growing, innovative ventures to be aware of this option and to be thinking about issues surrounding intellectual property.

By Douglas Roth



Douglas Roth is a senior investment associate at Connecticut Innovations. You can contact him at douglas.roth@ctinnovations.com.