



News & Types: Client Advisories

# Patent Freedom-to-Operate - What is it and When is it Needed?

3/30/2023

By: Michael S. Golenson

Practices: Intellectual Property & Technology

Making, using, and selling products in the United States and importing products into the United States always comes with a risk of infringement upon the patent rights of others.

A Freedom-to-Operate (FTO) analysis is an essential tool that should be considered by companies wishing to identify, minimize, and manage their patent infringement liability risk. An FTO analysis can also be a valuable tool in mergers and acquisitions when companies are trying to raise funding through substantial investment, when companies receive a patent infringement threat, or when companies simply seek to identify new market opportunities in pre-development planning.

An FTO analysis involves identifying and analyzing unexpired patents and published patent applications of others that cover technology similar to the product or technology that is the subject of the FTO analysis. Experienced patent counsel should conduct a patent search, evaluate the results, and provide an opinion on the patent infringement liability risk that the identified patents and applications may pose. Patents and applications that pose the little-to-no risk of infringement can be “cleared.” Suppose the analysis reveals patents or applications that pose a high risk of infringement. In this case, patent counsel can assist the company in developing an appropriate strategy to overcome the risks posed by high-risk patents.

Companies that develop new products or bring products to the U.S. market should conduct an FTO analysis to minimize the risk of launching a new product into a patent infringement dispute. An FTO analysis performed at an early stage in the product development life cycle can provide flexibility for design or other strategic changes to the product to avoid patent infringement risks before a substantial investment is made in the development and the project reaches a point of no return.

In a merger or acquisition, conducting an FTO analysis of the target’s product and service offerings during the due diligence process can identify hidden patent infringement liability risks and allow the parties an opportunity to address the risks before the transaction closes. When companies receive a patent infringement threat, obtaining an FTO opinion from patent counsel concerning the patents being asserted can provide additional defenses to the company against allegations of willful infringement and inducement of infringement.

In addition to identifying and managing risks, an FTO analysis can be helpful for companies who are seeking to raise funding by providing added confidence to investors who may be putting large sums at risk with their investments. An FTO landscape search as part of a company’s strategic planning process can provide

valuable insight into the competitive landscape and identify openings for further product development and potential areas where the company can obtain its own patent protection.

Conducting an FTO analysis and preparing an opinion can be costly and time-consuming. As such, an FTO analysis may only be necessary or practical in some situations. Some factors to be considered when deciding whether to conduct an FTO analysis include the following:

1. The amount of investment in the product;
2. The revenue stream the product is anticipated to generate;
3. The product's expected life span;
4. The competitiveness of the relevant marketplace;
5. Patent litigation activity in the industry and/or with similar products or technology;
6. The company's business strategy and overall risk tolerance.

Patent counsel can help companies determine when and under what circumstances an FTO analysis would be appropriate and develop the strategy and scope of the FTO analysis to be conducted.

It is essential to understand that an FTO analysis can never guarantee that a company will not be sued for patent infringement. However, it is an important tool for companies to help identify, manage, and mitigate risk. For more information about FTO analysis and counseling, please contact Michael Golenson.