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Freedom to Operate Opinions: Worth the Cost?

Intellectual Property





CHEAT SHEET

- ***What is a freedom to operate analysis?*** It is an assessment of the likelihood of being sued for intellectual property infringement and if sued, the likelihood of prevailing in court.
- ***Assess third party rights.*** Determine whether third parties possess valid copyrights on earlier work similar to your product, trademarks or patents.
- ***Determine potential infringement.*** After you identify a potentially relevant intellectual property right of a third party, you need to assess whether your organization's proposed

activity would infringe this right.

- **Consider outside counsel.** Retaining outside counsel to conduct a freedom to operate analysis can be valuable because it provides an independent and objective review of the issues, as well as substantiation of the company's good faith in obtaining such an opinion.

“Can we do it?” “Should we do it?” “How can we justify budgeting for it?” and “Can we rely on it?” are questions that your product development or marketing team may ask you prior to launching a product or service.

Apart from other considerations such as regulatory labeling, territorial registration/certifications, customs and/or any other statutory compliancy, they are looking for assurances that no one will sue the company for infringement of intellectual property rights in connection with the proposed design, technology or name of a product, otherwise known as the “freedom to operate opinion.” The question may come in the form of a request for general clearance for a proposed product. Or it may focus on a specific intellectual property right, for example, a specific patent or trademark of a competitor. Another version may focus on a particular feature of a product. Further, the request may pertain to a product or service that is about to launch or that is in the early research and development phase.

Ultimately, it is up to you, as in-house counsel, to discern whether: (a) there exists a risk of exposure to your company; (b) your company's projected sales are probable and substantial enough to warrant further assurances that such exposure will not jeopardize it; and (c) if so, your margin in connection with such prospective business will support the potentially costly endeavor of obtaining a formal freedom to operate opinion from outside counsel, or the time-consuming endeavor of producing such an opinion in-house.

Often, for an inquiry to be valuable, one must conduct a comprehensive analysis that may include (in addition to the factors noted above) other factors, such as considering customer indemnity requirements, and navigating contractual and budgetary constraints. Furthermore, any answer that you give will need to be couched in terms of risk assessments and will surely be given with caveats. Therefore, before devoting resources to answer the questions of “Can we do this?” you will need to consider the efficacy of obtaining a freedom to operate analysis and whether the results of the analysis will be valuable.

What exactly is a freedom to operate analysis and how do you handle the initial requests?

A freedom to operate analysis is an assessment of the likelihood of being sued for intellectual property infringement and if sued, the likelihood of prevailing in court. In and of itself, a freedom to operate analysis is not a defense to an allegation of infringement; instead, assuming that the conclusion is that there is a freedom to operate, i.e., a likelihood that there will be no liability, the analysis provides the legal reasoning why there would not be a finding of infringement. The foregoing is the initial value of a freedom to operate opinion, and can serve to drive the in-house counsel's advice to his or her company's business team on whether to go forward with the product or service.

The secondary or defensive value of the analysis comes into play if litigation is brought by a third

party. At that point, the same arguments set forth in the freedom to operate opinion can be used to persuade the third party to withdraw its allegations or they can be used as leverage in any settlement or license agreement that is reached (i.e., to reduce prospective royalty).

Furthermore, even an analysis with a negative outcome can be a valuable tool for business planning that allows a company to mitigate the risk of exposure. A finding of no freedom to operate drives in-house counsel to advise his or her business team to go in another direction with the product or service in question, in order to avoid time, costs and compromised market value resulting from likely intellectual property infringement causes of action and potential liability.

In-house counsel's consideration of a request for a freedom to operate analysis must take into account the business team requesting such analysis, as well as what type of advice is being sought, namely the marketing, brand positioning, promotion and distribution of the product in question. In some organizations, freedom to operate requests are regular occurrences from the same persons who are or will quickly become educated in the methods of conducting the freedom to operate analyses and how to interpret results. In other organizations, the requests are rare and occur only when the product is likely to generate a threshold amount of revenue. Often these requests come from persons who are less familiar with the process and will need education. In order to ensure that the results are interpreted correctly, you must know your audience.

Additionally, if your requester is not experienced in the process, before commencing the analysis, you will want to explain to her that products and services can have a number of different features, and each of them alone could be the subject of one or more of one or more other parties' intellectual property rights. Furthermore, you will want to tell her that each product or service could be the subject of a plurality of different types of intellectual property rights. For example, many products, such as jewelry, can be the subject of design patents and copyrights.

In the simplest query, your requester may provide you with a straightforward request and ask for the right to use a word as a trademark with respect to a single type of goods. However, in the more complex case, the requester might want to know if the company can market a new complex electronic device with multiple features. Here, each feature alone, and every combination of features, is a potential source of patent rights as are the intended uses that the company will market the device for as well as are the methods for making and using it. Not surprisingly, with greater complexity come increases in time, cost and internal resources. Depending on your budget, you may need to advise a schema for prioritization of the products or services to be cleared by the freedom to operate analysis.

What are the benefits of obtaining a freedom to operate opinion?

It is in-house counsel's responsibility to apprise its business team of the potential benefits of obtaining or conducting the analysis, as well as the limits of those benefits. There are four primary benefits.

First, as noted above, a freedom to operate analysis provides a risk assessment of potential liability of intellectual property infringement. Thus, it is an objective analysis that can help determine the likelihood of exposure and provide information that can be used to mitigate risk. If favorable, it can alleviate fears of exposure associated with moving forward with the business team's plan for development, marketing, brand positioning, promotion and distribution of the product or service. If not favorable, having the opinion could lead to time and resources savings that would otherwise have been spent on a product or service that the company would not be able to bring to market. Further, it can identify potential licensing partners before litigation, thereby reducing the need for litigation

counsel.

Second, an analysis can identify white spaces, which are the areas of the market where no one has introduced a product or service that solves a problem or responds to a need. This second benefit is quite valuable, and even an unfavorable freedom to operate opinion may unearth white spaces undiscovered by the business team. These white spaces may help drive your research and development department or your marketing department to explore new directions. Building on this, an in-house lawyer, as a team member, is best-suited to merge the business team's needs, wants and goals by incorporating such findings in his or her recommendations as alternatives to facing the realities of any risks involved in going forward with the original concept.

Third, a freedom to operate analysis may identify when indemnification obligations are likely to be invoked, if they are present at all. If you are the potential indemnitee, e.g., a customer, you will want to determine the scope of the indemnification obligations that are owed to you and when and whether to disclose the third-party intellectual property to your indemnitor so that it may proactively obtain a license. If you are the indemnitor, you will want to assess exposure and either recommend pricing it into the product or designing around any potentially problematic intellectual property.

Fourth, although not a defense to liability, a freedom to operate analysis can evidence your company's good faith, which, in turn, may serve to mitigate damages in the face of an infringement suit initiated after conducting such analysis. If incorrect, the analysis can be useful to persuade a judge not to apply cost-shifting and attorneys' fees (under applicable statutes). Additionally, it may be used as evidence of a lack of willful infringement. Even if the analysis proves to be incorrect, i.e., you predicted that there would be no finding of infringement, but a court concluded otherwise, the opinion can still be useful to avoid treble damages, which may be awarded with a finding of willful infringement (which may be possible in patent cases). However, because the opinion comes from an attorney, you want to ensure that you limit and control its dissemination so that you may protect it under the attorney-client privilege unless and until there is an advantage for the company to have its contents made public.

The process to identify and to evaluate third party rights

After the aspect of the product or service that you are asked to clear is identified and your organization appreciates how it might use the results, you need to decide how to conduct the analysis. Unless your requester has identified a specific right, for example, a specific patent that limits the analysis, the in-house counsel's first step is to determine what, if any, potentially relevant third party intellectual property rights exist. The process typically relies primarily on using both guided and unguided key word and free form searching of indexed databases. It is important to note there are publicly available databases, such as the United States Patent and Trademark Office's databases, as well as pay-for-access databases that are often more user-friendly for this type of analysis. The in-house attorney can either conduct the search or outsource it. The more complex and numerous the issues, the more likely the outsourcing search will be a more all-encompassing and cost-effective choice.

After a relevant set of rights is identified, you will want to examine their validity and scope. In order to do this, the in-house counsel needs to understand exactly what copyright, trademark and patent rights provide, and how these rights can be indexed and searched.

Copyright rights

Copyright rights protect authors against unauthorized copying of original works and copyright clearance requests may apply to literature, music, artwork, jewelry or computer program products. Therefore, if your requester truly, independently created the relevant work, then there is no potential copyright liability. However, copyright clearance issues often arise in the context of someone asking to what degree one author can borrow, incorporate or be inspired by the elements of someone else's work. Unfortunately, often the line is not clear, and you will need to make a business judgment if the amount is too much.

When you consider copyright clearance requests, you will want to be mindful of the following questions: (1) Does someone own a valid copyright in the earlier work? (2) Was there actually copying? and (3) Is your organization's work substantially similar to the earlier work? When analyzing these issues, the in-house counsel will need to be wary of the following points:

- When your requester identifies a work that provided inspiration, one must determine whether the work is in the public domain, and if not, whether the individual elements, taken alone or in combination as used, are in the public domain.
- Copyright rights are based on originality. Therefore, it is critical to identify all authors of works or designs. If there are coauthors outside of your organization, absent an agreement, there is an obligation of accounting. If there is a relevant agreement, it should be reviewed carefully to ascertain your rights under it.
- Registration is not a prerequisite to a third party possessing copyright rights. Therefore, you cannot rely on the absence of a registration as evidence that a work is in the public domain.
- Lack of copyright notice does not mean lack of copyright rights. Therefore, a red flag should go up when incorporation of material from the Internet occurred. Too often people erroneously equate material that is publically accessible without copyright notice with being in the public domain.
- When designs are obtained from third parties, their representations and warranties are critical. At the end of the day, you may not be able to do more than confirm that you have a license to use the material, and are the beneficiary of an indemnification obligation.
- The US Copyright Office does not substantively examine applications for registration of copyrights. Therefore, the fact that a right is registered does not mean that the copyright is co-extensive with the work registered.
- Use in a new media or a combination with additional material does not, in and of itself, render a work outside the scope of a copyright holder's rights.
- Fair use is a complex issue in copyright law and should not be relied upon lightly. Often users of another person's copyright works mistakenly equate what they think of as fair as being "fair use" under copyright law.
- Open source software restrictions can have devastating consequences. Therefore, when software is at issue, an exploration must be made into whether any software is subject to open source restrictions that would bar your intended use.

The unique challenge of freedom to operate analyses for copyright rights

For many industries copyright rights can be the most daunting to clear. At times they may involve subtle distinctions between when being inspired by a work crosses the line into being derived from a work.

A copyright is a right to prevent others from, among other things, copying an author's original work and making derivative works of it. Derivative works are works that although not identical to an original

work, are similar enough with respect to the original elements of that work to render the use of them impermissible.

An author has a copyright in any of his or her original works that are in a tangible medium. Registration is a prerequisite to bringing suit and obtaining certain types of relief, but it is not required in order to vest a right in an author. Most works, particularly in the visual arts, draw upon elements that are well-known or in the public domain, and it is only their combination that is the subject of the copyright. However, until a copyright right is challenged in court, there is no determination of what elements of a work are subject to copyright protection. Therefore, a copyright right can be both broad and vague.

During litigation, the copyright holder must establish: (1) ownership of a valid copyright; (2) copying of the copyrightable elements; and (3) substantial similarity. The issue of ownership is contested less often than the other two issues. Whether copying occurred can be proven by evidence of actual copying, which is rarely available, or through implication due to the degree of similarity. For very simple copyrighted works, often there is great difficulty in showing copying by circumstantial evidence.

Thus, the most challenging issue is often whether the two works are sufficiently similar for there to be a determination of infringement. When a work contains both protectable and unprotectable elements (e.g., elements in the public domain), one must distinguish the protectable elements from the unprotectable elements. The next inquiry is whether the allegedly infringing work bears a substantial similarity to the protectable aspects of the original work. Frequently, this is a factual issue that is not ripe for summary judgement and thus can be costly for both parties.

Trademarks

Trademark rights relate to the goodwill associated with a name, logo or trade dress that can be used as a source identifier. Thus, when conducting a clearance search, one wants to know whether a particular use of a proposed mark will infringe upon the rights of a third party.

Clearance with respect to trademark rights focuses on: (1) whether trademark rights are available for the mark in connection with the desired goods or services (e.g., considering whether the proposed mark for the proposed use is fanciful, arbitrary, suggestive, descriptive or generic); (2) whether a third party has any such relevant rights; and (3) whether use of the mark with the proposed goods would cause a likelihood of confusion. Whereas copyright clearance begins with asking how your authors came up with the work and who or what inspired them, trademark clearance begins with an analysis of what similar marks are actually being used, or for which an application for registration has been made. As a practical matter, you will want to initially run simple searches within the USPTO database. This can be done quickly, and in some cases, provide an inexpensive “no” to the question of “Can I use this mark?” If that search does not show a conflicting mark, then one can consider allocating the necessary resources to further clearance searching. In making this analysis, you should be mindful of the following:

- A likelihood of confusion does not require identity of terms or symbols. Therefore, various permutations of terms, different spellings and different combinations of elements of logos need to be considered.

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- In addition to federally recognized marks, marks may be registered only within a particular state.
 - Trademark rights are jurisdictional. Therefore, you will want to consider your potential market outside of the United States and determine if searching outside the United States is needed.
 - Trademark law has many nuances, including words that have meanings in other languages and the use of geographic terms. You want to spot these issues.
 - Common law rights are also available. Therefore, some resources should be allocated to Internet searching. As a matter of practicality, if you don't have a skilled paralegal, it is typically more cost-effective to outsource searching for these rights and state registrations than to engage in the search on your own.
 - Use of marks on the Internet, including in domain names and for search engine optimization, is not equivalent to trademark use, but it can be relevant when ascertaining third party rights.

Patents

Patent rights protect new and nonobvious inventions and are the most complex to analyze. However, they benefit from being exclusively federally regulated and don't come into existence until the USPTO (or relevant foreign patent office) recognizes them. Determining where to look for these rights is easier than for other types of rights. Patent clearance requires an appreciation of the following:

- Issued patents are presumed valid. Therefore, if a patent issued and it appears to be at risk for being infringed, you will need to take into account both the likelihood and the burden of invalidating the issued patent with which your proposed use potentially infringes, which includes not only overcoming the legal presumption, but also the potentially expensive cost of doing so. This becomes particularly important when your scientists believe that a patent shouldn't have been granted.
- Patent rights are cumulative, not mutually exclusive. Therefore, having your own patent does not mean that you don't infringe someone else's patent, and your product or services can infringe more than one other patent.
- Patent interpretation is complex and can be arcane. In drafting patents, certain conventions are used, and certain rules of interpretation must be followed, including for example, considering issues of both literal infringement and infringement under the doctrine of equivalents. Therefore, caution should be used when analyzing the scope, particularly with respect to not putting too much weight on figures or the specification.
- Patent applications are not accessible for the first 18 months and patent applicants can amend their claims during prosecution. Therefore, any clearance search will, by definition, be limited to what is publically available, and you will not be able to predict how applicants of pending applications will amend their claims during prosecution after your analysis is complete.

Attorney-client privilege issues

The attorney-client privilege is designed to permit clients to communicate frankly with their counsel and to encourage them to provide full disclosures when doing so. When being asked to provide a freedom to operate analysis, it is critical for you to receive all relevant information. The protection afforded by the attorney-client privilege does in general permit you to do so without fear of being obligated to disclose the request from your client (e.g., the business unit) or any advice that you give your client.

However, there are two significant limits on the attorney-client privilege that you should counsel your clients in the context of freedom to operate analyses.

First, facts are not protected under the attorney-client privilege, only communications and advice are. Thus, your client cannot shield unhelpful facts by the mere fact that he or she relayed them to you. By contrast the collection of facts for the purposes of obtaining legal advice would be protectable. For example, if a client develops a prototype and after the fact asks you for intellectual property clearance of the prototype, the fact that he or she developed the prototype would be discoverable, but the formulation of a request for it and your advice about it may not.

Second, there are times when you may wish to waive the privilege. This occurs most frequently when a defendant has been deemed to have infringed and the defendant wishes to establish that despite being an infringer, it acted in good faith because it reasonably believed that its acts were not infringing. If the infringer can establish that it acted in good faith, it may be able to avoid increased damages that otherwise might be imposed due to willfulness. In these circumstances, the freedom to operate analyses is both: (1) incorrect because the court determined that there is liability and (2) disclosed to the public and thus voluntarily taken outside of the cloak of attorney-client privilege. Before a litigant offers a freedom to operate analysis as a defense to willful infringement, it should be aware that the litigant will likely need to disclose all documents and information on the same subject matter. If the additional information is particularly damaging, even in the face of a charge of willfulness, on balance, it may be more advantageous to maintain the privilege.

Determining whether the proposed activity is within the scope of infringement

After you identify a potentially relevant intellectual property right of a third party, you need to assess whether your organization's proposed activity would infringe this right. In some cases, this will be an easy and inexpensive determination. For example, a patent claim may contain a plurality of features that your device omits, and for which there are no equivalents, or an existing trademark is both stylized in a way that renders it distinct from yours and is for a different and unrelated class of goods and services. However, frequently, the analysis is complex and implicates many nuances of both law and the facts.

When conducting the non-infringement analysis step of a freedom to operate analysis, lay persons are often tempted to compare their products or services to what they think that a third party's rights should be and not what they actually are. In-house counsel's job is to guard against this and to apply or to ensure that outside counsel applies the current legal standards to the current rights.

What should the freedom to operate opinion contain?

You also want to recognize the indicia of reliable freedom to operate analysis. There is no legal requirement as to how to structure an opinion, but you want to be aware of what suggests reliability. First, the opinion should define the assumption of the analyses, e.g., define the product or service, define the jurisdiction(s) where the product or services will be offered and define the rights or features to be examined. Second, there should be a brief summary of the relevant law and tests to apply. Furthermore, if relevant, it should consider changes in law that affect validity after the right was

recognized by USPTO or registered with the US Copyright Office. This is particularly relevant in today's market for patent rights that implicate abstract ideas, which recently have been the subject of many important higher court decisions. Finally, the opinion should carefully word statements to identify clearly the set of third party rights that are being considered and why they do not apply. Whether or not generated in-house, it should be a legal document that translates legalese for business and marketing units.

When should you hire outside counsel to author it?

As an attorney, you can author a freedom to operate opinion, and depending on your workload in many cases, this makes economic sense. You understand the business and you often have a relationship with the requester. In other cases, this is not always advisable. Retaining outside counsel to conduct a freedom to operate analysis can be valuable because it provides an independent and hopefully objective review of the issues, as well as stringent substantiation of the company's good faith in obtaining such an opinion. It also allows you to have a second opinion on the issues about which you have been asked to consider that can be particularly valuable if you are the only attorney within your organization or the only one with experience with intellectual property issues. However, outside counsel are not free, and over-reliance on outside counsel could negatively affect your budget. You will want to triage when to retain outside counsel, and before reaching out to outside counsel, you will want to balance these factors: (1) cost; (2) how close a question it appears to be after your review; and (3) the value of the product to the company.

When the cost of the opinion is comparable to the likely profit or the product is likely to be sold on a limited scale for a limited time, usually there is no need to reach out to outside counsel. Similarly, when you can quickly determine that a third-party's rights have lapsed or are completely unrelated, e.g., being a trademark in an unrelated field, there is no need for outside counsel. But the closer cases will require you to think about whether to use your budget for this purpose. An additional consideration is whether you have intellectual property insurance requirements. Intellectual property insurance is a tool that companies can use to mitigate losses should they be found to infringe another party's rights. However, when obtaining insurance, one may be obligated to identify any independent analyses, thus there may be a "cart before the horse" situation (i.e., underwriting often requires a third party freedom to operate opinion as a requisite to issuance of intellectual property insurance policy).

Being asked to clear a product with respect to patent issues may also tip the scales for you in favor of using outside counsel. If you are not a patent attorney and/or feel uncomfortable searching and analyzing patents, you may be more likely to send patent clearance questions to outside counsel. As a practical matter, this will avoid second-guessing of the analysis that you conduct. Additionally, because these are the most time-consuming, it is likely that there will be times when you cannot devote the necessary hours to the analysis.

Finally, the likelihood or actuality of litigation may also tip the scale. Your company's board of directors or management may ask for an independent analysis of the strength of another party's case and be more inclined to devote the necessary resources when the possibility of an adverse finding of liability is imminent. The results of this analysis are helpful because they can form the basis of a defense; help determine how to approach settlement negotiations; identify appropriate reserves for such incidence of litigation; and identify white spaces for design around strategies. Furthermore, if your conclusion is favorable, it could demonstrate good faith in a litigation brought by a third party.

What are the risks even with the freedom to operate opinion, how do you manage them and how do you effectively convey to your product development department and/or marketing team?

As noted above, a freedom to operate study provides analyses of a risk of suit and of finding liability. Even with a favorable freedom to operate opinion, you may still be sued, or receive a cease and desist letter. Furthermore, although your business or marketing department would like to receive a favorable opinion, there is always the possibility that you will need to tell them that they do not have clearance. As a practical matter, if the opinion is negative, then it may be advantageous to convey this message orally, at least initially. You will want documentation in your file as to how this conclusion was reached, but you should be mindful of the risk of disseminating the information in writing or electronically to anyone outside the legal department. Should a negative opinion be disclosed, it might be cited by a third party as evidence of willfulness and used to justify cost-shifting and increased damages.

In addition to considering the strength of a third party's intellectual property position, you will want to consider who is the owner of any relevant third party intellectual property and the owner's past behavior regarding protecting its IP rights. Some parties are more inclined to work out reasonable business solutions, while others are more inclined to use litigation as an economic tool to drive up licensing fees or shut down completely. When a relevant third party IP right is identified, a strategic plan must involve the likely result of proactively approaching the relevant third party.

Should the results of the analysis be negative, you should discuss with your stakeholder to what extent the study identifies design around options that may, for example, be in the public domain. Also, you may discuss with him or her white spaces that one identified as well as new innovations for which an intellectual property position may be obtained.

Finally, you will want to consider attorney-client privilege issues and limit distribution of the analysis. You will also want to remember that despite privilege, you may need to disclose the results of the study during litigation and this disclosure may have a significant impact on your organization. For example, patent infringement cases, there is often a question of whether the defendant is a willful infringer. One defense is a good faith belief that the product did not infringe and/or the patent was invalid. Although there is no obligation to obtain a freedom to operate opinion, evidence of this good faith may come in the form of reliance on an opinion of counsel.

Practical considerations after all is said and done

The bottom line is that even with a freedom to operate opinion from a third party (outside counsel) law firm, you as the chief legal officer can only make an informed decision to go forward with production of products or services with due consideration of:

- What products exist in similar markets that are on the same level as the products or services prospectively being produced by your company?
- Similar companies and their litigious propensities.
- The forecasted term of your company's use of the intellectual property.

The actual and forecasted term of use of any similar intellectual property or product covered by the similar intellectual property already in the market.

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He counsels clients on strategies and tools for maximizing the return on their investment in their ingenuity, creativity and goodwill, and assists them in the procurement, enforcement and licensing of patents, trademarks, copyrights and trade secrets.