

RFID Technology and Intellectual Property May Be an Ever-Shifting Legal Landscape

By **Kenneth A. Adler, Esq.**



While widespread RFID implementation is just beginning, legal disputes over RFID intellectual property rights and wrangling over the possible patent license fees for use of certain RFID applications and functionalities are in full

swing. Recently, EPCglobal, the consortium whose function it is to create the industry standard for RFID, implemented the Gen 2 RFID standard. This new standard will enable companies to provide and track detailed product information on RFID tags including manufacturer, serial number, manufacturing date, expiration date, product location, and historical pricing.

However, intellectual property issues may loom over a company's development and implementation of an RFID system that effectively leverages many of functionalities made possible under the Gen 2 standard. Any consumer packaging company seeking to implement an RFID solution should consider taking precautions to mitigate potential legal pitfalls.

Intermec vs. Gen 2

Recently, Intermec Technologies Corporation, which claims to own more than 140 RFID patents and patent applications, had a dispute with EPCglobal over which of Intermec's patents would be considered "essential" to create an RFID solution utilizing the Gen 2 standard. Initially, Intermec claimed that 18 of its patents were essential. Under this premise, Intermec was prepared to donate 5 of its patents which were considered essential to the Gen 2 standard on a royalty-free basis and offer licenses to an additional 9 patents, covering certain features and functionality made possible through Gen 2, on a RAND (reasonable and non-discriminatory) basis.

However, it has been reported that EPCglobal made a determination that none of Intermec's patents were necessary for the implementation of a Gen 2 RFID solution. In reaction to this determination, Intermec revoked its plan to offer licenses to its RFID patents on a RAND basis. As the situation stands now, Intermec has announced that any company wishing to implement an RFID solution based on the Gen 2 standard will have to negotiate licenses with Intermec individually. Cost of such licenses may impact a company's return

on investment on its RFID implementation, since Intermec has announced that it is seeking 5-7% royalty payments for such licenses.

Intermec recently implemented its Rapid Start RFID licensing program under which it offers blanket licenses to its four portfolios of RFID patents. In an effort to provide its customers with a meaningful indemnity that its products will not be infringing, one manufacturer of RFID readers has signed up for the Rapid Start licensing program. An interesting element of that particular agreement is that the manufacturer is cross-licensing some of its reader patents to Intermec, thereby offsetting some of the licensing and royalty fees. The Rapid Start program is scheduled to expire on August 31, 2005, after which time Intermec will only offer licensing of individual patents.

RFID without patent licenses?

The natural response when faced with the possibility of payment of patent licensing fees is to attempt to create an RFID system that does not infringe the related patents. However, the feasibility of implementing a functional Gen 2 RFID solution without infringing Intermec's RFID patents is unclear. Intermec claims that its patent portfolio is sufficient so that no RFID supplier can provide a functional Gen 2 RFID system without either licensing or infringing Intermec's RFID patents. Couple this with the fact that Intermec has been active in protecting its RFID intellectual property portfolio and is involved in legal disputes with other RFID patent holders (including litigation with Symbol Technologies), and the potential exposure to intellectual property infringement becomes evident.

Despite the uncertainty, several consumer packaging and retail companies have forged forward with their RFID strategies. Although intellectual property battles continue, the potential cost-cutting and supply chain management benefits available through the implementation of an RFID solution, such as deduction reduction, increased delivery accuracy and better inventory management, are simply too great for many CPG companies to wait until the dust settles.

What's a company to do?

When a company makes the decision to implement an RFID solution, there are certain steps that it should consider to mitigate the risk of intellectual property infringement. Consider developing an RFID checklist that contains the

basics of any RFID solution, such as each piece of equipment and each of the RFID applications that will be utilized for interoperability and functionality. For major components in the RFID solution, a purchaser can request that the supplier identify the owner of any intellectual property for each component and include language in the purchase agreement in which the supplier confirms that all royalty payments have been made and that the supplier has the authority to permit the use of the equipment and software that it provides. One way to reduce the efforts required to address these issues is for a purchaser to deal with a single supplier, rather than having to discuss these issues with multiple suppliers.

Another effective way to mitigate the risks of intellectual property infringements stemming from implementation of RFID solutions is to procure appropriate contractual protection in the form of an intellectual property indemnification from the RFID suppliers. Not all intellectual property indemnification provisions are the same, and the scope of protection may vary significantly. For example, intellectual property indemnification provisions may be limited to particular jurisdictions, such as the U.S., to then-issued patent registrations (and not cover future patent registrations), and may provide for limited remedies in the event of an infringement. Additionally, an indemnification obligation may be drafted so that it does not apply to infringements caused by the combination of components in an implementation if the components were not supplied by the entity providing the indemnity.

The legal landscape regarding RFID implementation, as with any new technology, is likely to change and become more established over time. The best way to reduce the legal risks regarding intellectual property issues in RFID implementations until then is to remain informed of new developments and to proactively address these risks. ●

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