

# RFID – Where There's Reward, There's Risk

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The widespread implementation of RFID (Radio Frequency Identification) has started in the retail, healthcare and pharmaceuticals industries, to name a few. While this technology has the potential to provide advantages to many businesses, the introduction of RFID may have significant business and legal risks for customers, suppliers and manufacturers. Much of the dialogue on legal issues relating to RFID has centered on privacy issues. However, there are other important legal issues that need to be addressed regarding implementation failures and avoiding intellectual property infringement liability.

There inevitably will be disparities between actual performance and customer expectation in the early stages of RFID adoption. As was the case with early adopters of bar codes, the initial rollouts of RFID will likely have some hurdles to overcome. Since an RFID implementation includes multiple components from multiple manufacturers, a purchaser needs to consider how it will protect itself if the implementation is not successful. Likewise, a supplier needs to consider how it will limit its responsibility risk for system failures. If the components are purchased from different sources and several contractors are involved in the implementation, which entity will bear the risk if the system does not function as it should? In order to avoid finger pointing, one solution is for a single supplier to be the integrator and supply the various components and implementation for the entire system. This approach may be somewhat more costly for the purchaser, but provides the purchaser and supplier the ability to agree on a system acceptance testing process, and otherwise address how the system will work as a whole.

One of the most troublesome parts of an RFID implementation may be the integration issues with existing systems, particularly back-office hardware and software. Aside from the technology difficulties, there are technology-licensing issues that need to be considered.

The purchaser and supplier need to understand whether the applicable agreements for existing and new components contain any limitations on access and use of the component (e.g., use permitted only by the licensed entity and not by third parties), limitation on the right to modify or enhance components (e.g., modifications for data exchange), and which entity will own modifications and enhancements. To address these types of risks, the underlying agreements for each system component should be reviewed to confirm whether there are any unknown licensing risks.

Of particular importance is the uncertainty of risks in the intellectual property arena. As with any new technology, there are likely to be intellectual property battles, particularly with respect to patents covering RFID implementations. This is of particular importance where, as with RFID, the standards for the technology are emerging. As standards are formalized and accepted, the stakes for ownership of intellectual property related to that standard increase dramatically.

Intellectual property disputes between vendors of RFID technology, and with respect to whether RFID standards infringe existing patents, are already under way. Moreover, there may be owners of intellectual property who have yet to assert their rights. There may be entities that own patents in related areas that may claim that their patent protection extends to RFID implementations. Additionally, there are the unknown risks that current RFID technology may infringe patents for which applications are pending, but for which patent registrations have not yet been issued. Patent protection is territorial and the risks will vary by jurisdiction, depending on the patents issued in that jurisdiction.

One way to mitigate the risks of intellectual property infringements stemming from RFID implementations is to procure appropriate contractual protection in the form of an intellectual property indemnification. While purchasers can seek these protections from its suppliers, suppliers can also seek appropriate indemnifications from the RFID component manufacturers. Note that not all intellectual property indemnification provisions are the same, and that the scope of protection may vary greatly. For example, intellectual property indemnification provisions may be limited to particular jurisdictions (e.g., the United States), to then-issued patent registrations (and not cover future patent registrations), and may have 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 such components were not supplied by the entity providing the indemnity. Of course, suppliers and manufacturers need to be aware of the intellectual property risks associated with implementing a new technology such as RFID, and draft appropriate protections in their agreements which clearly describe the supplier's/manufacturer's obligations and liability in the event of an intellectual property infringement.

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