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Technology Licensing

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Insuring Innovation in an Evolving Tech Landscape

In today's ever-evolving technological landscape, Intellectual property (IP) is the cornerstone of competitiveness and innovation. But many companies are ill-prepared for an employee to leave and deliver the company's valuable IP to a competitor. Sure, there may have been a nondisclosure agreement (NDA) in place with the employee, but many companies do not have the capital to enforce those NDAs. Moreover, as innovation drives progress, with it comes the risk of patent infringement allegations. Legal battles can be costly and time-consuming. Fortunately, insurance exists to mitigate all of these risks and provide a safety net.

General Liability Insurance Is Not Enough

Many wrongly believe that their company already has insurance that will cover such things as claims of patent infringement or trade secret misappropriation. Most companies' general liability insurance expressly excludes losses due to claims of patent infringement and trade secret misappropriation and provides only limited coverage for claims of trademark and copyright infringement. Thus IP-specific insurance is most often required to insure IP and innovation.

Intangible Asset Protection Insurance

For many small to mid-sized manufacturing companies, the biggest IP risk they face is an employee walking away with valuable trade secrets and know-how to a competitor. Even when there was a robust NDA in place with the former employee, the former employee is often judgment-proof (i.e. has no money to compensate the former employer for the damage caused by the theft). And the costs to prosecute such litigation can be substantial – litigation through a jury trial can cost millions of dollars. Many small to mid-sized manufacturing companies simply do not have that capital available.

Intangible Asset Protection Insurance provides funds necessary to enforce a company's IP and reimburses the company for financial loss caused by IP theft. Thus, instead of a company paying for enforcement costs out of pocket, insurance allows for a small and predictable premium on an annual basis in exchange for the promise that the insurance company will cover the costs of enforcement if IP misappropriation occurs.

IP Risk Insurance

Technology companies routinely find themselves the target of patent litigation. Manufacturing companies are routinely required to indemnify their customers against claims of patent infringement as well. When claims do arise under the American system, that forces the company to pay for defense costs, which, absent

exceptional circumstances, are more often than not unrecoverable from the party asserting infringement. While many companies choose to self-insure, considering such IP infringement defense costs as a cost of doing business, a more predictable alternative is the purchase of an IP Risk insurance policy.

IP Risk Insurance provides funds to defend against claims of infringement made by others. Insurance provides more predictability and certainty by paying for an annual premium instead of paying the actual defense cost, which can vary widely, and strike unexpectedly. This type of insurance is also particularly attractive for: (1) companies whose customers require that they be indemnified in purchase agreements because insurance can provide protection against potentially high costs of indemnification on otherwise low-value supply agreements; and (2) companies who are backed by venture capital, especially following recent announcements of significant funding, which can make them an attractive target for a lawsuit.

How IP Insurance Works

Both Intangible Asset Protection Insurance and IP Risk Insurance work just like the other types of insurance we are already familiar with in our daily lives. A policy limit is chosen to match a company's exposure to IP risk. The cost of insurance – the annual premium – typically runs between 1–5% of the insurance policy's limit. The specific percentage depends on several factors, including the insured's revenue, the extent of its indemnity obligations, the type of industry or sector, the sales geography, and any prior history of litigation or loss. The percentage in effect

reflects the reality that some types of companies are targeted more often than others in IP enforcement actions.

Once a policy is in place, if any claim or circumstance that would give rise to coverage occurs, the insured simply notifies the insurer of the claim or circumstance that may give rise to the need for enforcement. If litigation ensues, the insured most often can pick their own counsel and the insurer plays no role in litigation or settlement strategy. Coverage typically extends to the insured's legal fees, any damages awarded or monetary settlements negotiated prior

to a trial, and even the costs to file petitions with the U.S. Patent and Trademark Office to challenge patents asserted against the insured. Just be sure to approve the litigation expenses and any final settlement beforehand to be sure the policy will reimburse those costs.

Consequences of Not Insuring Innovation

There are more than 77 million patents and trademarks in force worldwide. The U.S. median patent infringement damages award exceeds \$10 million. Legal fees to take a typical IP infringement

case to trial can routinely exceed \$3 million. While you can opt to pay those costs out of pocket if they occur, mitigating that risk by insuring your company's innovation is often a sound financial business decision.

Jason Balich is a trial and appellate lawyer at the law firm Wolf Greenfield, based in Boston, MA, where he protects clients' technology and defends their freedom to use it. He has a BSE in chemical engineering from Princeton Univ., an MBA from Bentley Univ., and a JD from Quinnipiac Univ. School of Law.

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