

ISSUE

Any company is vulnerable to charges of IP infringement by simply making, using, selling, importing or offering for sale a product and/or service; or, if it holds sought-after technology on products, processes or methods of doing business. Also, companies experiencing or planning a merger and/or acquisition, and vendor and supplier contracts requiring indemnification for IP litigation all have exposure to IP litigation.

SOLUTION

Defense Insurance is the solution to the coverage gap left by the commercial general liability policy for IP risks. This Policy provides the funds to help defend against charges of IP infringement, whether frivolous or not, and is vital to transfer the burden of managing this costly and potentially devastating risk.

COVERAGE

- Threats and/or charges of Infringement brought against the Named Insured.
- Post Review Grant/Re-Issue Proceedings and Patent Invalidation Counterclaims.
- Damages back to the date the infringing activity began (if chosen).
- Scheduled coverage for products, processes and/or services.

PARTIAL LIST OF CONDITIONS

- Underwriting due diligence requires the Applicant to remit an underwriting insurability search fee; or, in lieu of the search fee, submit a comprehensive, recent (6 old months or less) freedom to operate opinion and/or non-infringement opinion from outside counsel. If the Applicant has an opinion from counsel, the Applicant must submit it in conjunction with the application.
- Threats of Infringement must occur during the Policy Period to be covered. The infringing activity can begin, if unknown, before the Policy Period and still be considered Covered Litigation under the Policy. Calculation for Damages reverts to the date the infringing activity began, not when the threat of Infringement was made or when the Policy was purchased.
- The Policy excludes threats of, or actual Civil Proceedings alleging, Infringement brought during the initial 90 days of the Policy. The 90 days of coverage are not lost; they are added to the end of the last Policy held by the Named Insured. Newly Added Insured Manufactured Product(s) and/or Manufactured Work(s) are subject to the 90 day, exclusionary period.

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- Limits available up to \$5 million (USD)
 - Policy terms available up to 3 years
 - Worldwide territory coverage available

CLAIMS

- Claim Authorization is based upon a Favorable Infringement Opinion from an independent, outside counsel, chosen from a list of panel counsel provided by the Company, regarding IP Infringement.
- Upon compliance with the Policy terms, the Company will then give its decision in writing regarding authorization of the suit and, if favorable, the Policy will begin to reimburse the Named Insured for the Litigation Expenses.
- In the event that Covered Litigation results in the Named Insured receiving Recovered Costs, recovery is shared pro rata between the Company and the Named Insured in proportion to their respective contributions to Litigation Expenses.

PARTIAL LIST OF EXCLUSIONS

- Pre-existing threats of Infringement are excluded from coverage under the Policy. Threats include, but are not limited to, warning letters and/or emails and verbal threats of Infringement.
- Lawsuits which the Named Insured was aware of, or knew were imminent, at the time of Policy purchase.
- Any litigation not specifically included in the Policy.
- Expenses incurred prior to the initiation of a Civil Proceeding underlying the Covered Litigation.
- Any loss, costs or expenses arising from any declaratory actions of any nature.
- Willful acts of the Named Insured giving rise to Infringement.
- Criminal acts.

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- MPIP coverage of \$50K or 10% of policy limits, whichever is less, included with the Policy
 - SIR- 2% of Policy limits/ Co-pay- 20%

The Defense Insurance Policy is the solution to the coverage gap left by the commercial general liability policy for intellectual property (IP) risks. This Policy accommodates any entity that makes, uses, sells, offers for sale or imports products and/or services in commerce.

KEY COVERAGE

- Companies making, using, selling, importing or offering for sale products and/or services.
- Companies possessing sought-after technology on products and/or processes.
- Litigation expenses to help defend against charges if infringing another's IP rights, and can include damages.
- Cost of invalidity defense to charges of Infringement and patent post grant review proceedings are covered.

REASONS TO INSURE

- Litigation is expensive. Based upon the most recent American Intellectual Property Law Association Survey, U.S. median litigation costs for an infringement suit through trial, when the amount in controversy is between \$1M and \$25M, can range from \$350K for copyrights to \$2.8M for patents. These numbers exclude Damages or settlements.
- IP is an extremely valuable asset, having a significant impact on the U.S. and global economy and job creation.
- The ability to defend against charges of IP Infringement is often the key to a company's survival.

ADVANTAGES

- Reduces the risk of abandoning the accused infringing product due to the inability to afford the cost of litigation.
- Reduces the pressure of entering into an undesirable license agreement or the risk of incurring burdensome royalty payments.
- Prevents abandoning market share.
- Prevents unexpected cash drain on operations.
- Deters frivolous suits by demonstrating the ability to be financially protected.
- Reduces the pressure to settle Infringement cases.
- Makes a company more attractive to investors.
- Strengthens the viability of a company.

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- *Limits available up to \$5 million (USD)*
 - *Policy terms available up to 3 years*
 - *Worldwide territory coverage available*

ADDING PRODUCTS

- The Insured must provide detailed information about the products, processes and/or services to be added to the Policy. There is a mandatory conference call with an IPISC underwriter during the underwriting process to clarify products, processes and/or services to be added to the Policy.
- Insured must submit an opinion of non-infringement or remit a fee for an insurability search for any new products or services to be added to the Policy. (Please see Coverage and Conditions in the Defense Policy for details).
- Upon underwriting approval, the additional products and/or services will be added to the existing Policy.
- Newly Added Insured products, processes and/or services are also subject to the 90 day, exclusionary period.

PREMIUM

- The actual cost is dependent upon the number of insured products, risk factor, litigation history and/or litigation potential, Policy limits and other underwriting factors. Contact IPISC for a premium indication.
- Financing is available for all terms. If financed, a down payment of 20% of the premium (plus any applicable taxes) is due 15 business days after binding coverage.

QUOTES

- Contact IPISC to obtain an application or a specimen Policy. Send completed application, reflecting all products the applicant wishes to insure to an IPISC account representative.
- As part of the Defense underwriting due diligence, Applicant must include, along with the application, the underwriting, insurability search fee; or, in lieu of the search fee, a comprehensive freedom to operate opinion from outside counsel that is 6 months old or less.
- Include descriptions of the subject matter to be insured, i.e. product brochures, operational manuals, relevant patent claims, if any, sample specimens and/or source code.

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- *MPIP coverage of \$50K or 10% of policy limits, whichever is less included with the Policy*
 - *SIR- 2% of Policy limits/ Co-pay- 20%*

Defense Insurance Frequently Asked Questions

The following are representative questions posed to IPISC about the Intellectual Property (IP) Defense Insurance Policy. IPISC has taken every effort to answer the questions clearly and concisely. As always, please consult IPISC or an insurance professional should you have additional questions not listed below.

What makes IPISC's Defense Policy unique?

The Defense Policy is the solution to the coverage gap for IP risks due to the continual limitations by insurance carriers for any type of IP coverage under the commercial general liability.

How does the Self Insured Retention work?

The Self Insured Retention (SIR) does not reduce Policy limits. Unlike a typical deductible, the SIR is paid out-of-pocket by the Named Insured before the Policy begins reimbursement. Once the SIR is satisfied, the Policy begins reimbursement.

Is there a Waiting or Exclusionary period?

Yes; threats of or actual civil proceedings alleging Infringement brought during the initial 90 days of the Policy are excluded from coverage under the Policy. However, to compensate for up-front loss of the 90 days; they are added to the end of the last Defense Policy held by the Insured.

Can products be added during the Policy term?

Yes; products can be added during the Policy term for an additional premium; however, any products added to the Policy will be subject to the 90 day exclusionary period.

Can coverage be purchased if there is known infringement?

Yes; coverage may be obtained for other exposures; however, any pre-existing accusations and/or threats of Infringement may be excluded from coverage under the Defense Policy. Threats include, but are not limited to, warning letters and/or emails accusing Infringement and verbal threats of Infringement.

What is Multi-Peril IP (MPIP) Insurance?

MPIP Insurance provides first party reimbursement due to the loss of an insured IP lawsuit. The rider is automatically included with the standard Defense Insurance Policy, with limits of \$50K or 10% of Policy limits, whichever is less. Perils covered are Business Interruption; Cost of Redesign, Remediation and Reparation; and Loss of Commercial Advantage.

Are Invalidity Counterclaims and Post Grant Reviews covered?

Yes; they are automatically covered under the Policy.

How are claims handled?

The Named Insured will notify the Company upon discovering the Infringement, and provide other relevant facts. The Named Insured must complete a Claim form and provide the Company with a Favorable Infringement Opinion from an independent, outside counsel chosen from a list of panel counsel, provided by the Company, regarding IP validity and Infringement. Upon compliance with the Policy terms, the Company will give its decision in writing regarding authorization of the suit, and the Policy will begin to reimburse the Named Insured for the Litigation Expenses, if authorized.

Who chooses litigation counsel?

The Named Insured chooses litigation counsel unless otherwise required by endorsement, requested by the Named Insured for a premium reduction or selected counsel does not meet minimum criteria and/or does not agree to the Company's billing guidelines.

Who controls the lawsuit?

The Company reserves the right to make recommendations as to how the case should or should not move forward but, ultimately the Named Insured is in control of the lawsuit. However, the Company does have settlement approval authority.

What are some of the Policy Endorsements?

There are several endorsements* that may expand coverage (for an increase in premium). The endorsements include, but are not limited to, the following:

- Additional Insured(s)
- Settlement Provision
- Worldwide Coverage
- International Trade Commission (ITC)
- Uniform Commercial Code (UCC)

*The available endorsements are not all-inclusive. The specific endorsements offered will only be determined after an application is underwritten and coverage is formally quoted. Please refer to the Policy for explanations of how each endorsement changes Policy terms.

IPISC's mission is to promote efficient and effective Claim resolution by building a strong working relationship with the Insured, and by doing all that is possible, within the terms of the policy, to help support the Insured in enforcing and/or defending their Intellectual Property (IP) rights. The following are actual Abatement Claims experienced by IPISC policy holders. In an effort to protect the identity of our clients, names have been omitted, except for those giving express permission to disclose. For additional questions about IPISC's Litigation Management Services and Claims, please contact IPISC or an insurance professional.

Software Industry

A non-practicing entity (NPE), aka- patent troll, was enforcing patents in the market place solely to collect licensing revenue. The NPE did not produce a product, but rather was using litigation to broadly assert the rights of a patent in the industry. Their tactic was to assert patent rights against a smaller company, the Insured. The NPE was unaware at the time of bringing patent infringement charges that the defendant had an IP insurance policy to fight a court battle. The Defense policy gave the Insured the ability to level the playing field and fight the case on the merits. In addition, the Insured received strong advice and assistance from IPISC's Claims Management Department regarding the decisions pertaining to the case.

Manufacturer/Distributor Industry

A small shoe manufacturer/distributor was accused of infringement by an NPE. The patent troll's patent had been successfully enforced against smaller manufacturers unable to pay Defense costs, thereby forcing the Insured into signing license agreements and paying royalties. The Insured discussed the situation with IPISC's Litigation Management Department, who was able to offer guidance regarding how to handle the discussion and respond to the accuser and their attorney. Unlike the other small manufacturers that were forced to give up their rights to manufacture, the Insured used the power of the Defense policy, thus preparing them to fight this weak allegation. Simply holding the Defense policy can ward off frivolous lawsuits.

Residential Electronics Industry

The Insured did not want to use the counsel suggested by IPISC's Claims Manager, and quickly ran through Policy limits. The Insured has since offered to tell any future Claimants that they should have listened to the Claims Manager and begun the case with the counsel suggested by IPISC. The Insured would have had longer staying power and preserved his Policy limits.

Electronic Security Industry

An industry leader was successfully defeated by an Insured in a plaintiff-friendly venue in the Eastern District of Texas after the Claim of Patent Infringement of their electronic surveillance tags was rejected by the jury. If the Insured would have lost, they could have easily been put out of business. Fortunately, the money was available to fund a successful Defense. The Insured was quoted as saying, "You never know when you will need insurance."

Artificial Sweetener Industry

A competitor sued numerous companies in the industry for Patent Infringement. The Insured had limited their insurance to cover only what they deemed the "most valuable" products. However, the plaintiff brought in several pieces of technology that were outside the scope of the Insured's coverage. By trying to guess what may happen in the future, the Insured set itself up for coverage on a pro-rata basis instead of having the foresight of insuring all of their products. Fortunately, the suit was dropped against them because they had the insurance to fight the accuser.

Claimant Testimonial- Fitness Industry

IPISC's insured, Octane Fitness, fell victim to a much larger competitor, Icon Health & Fitness, who pulled out an older patent of questionable value and asserted it against Octane. This is a typical scenario; the bigger company preying upon the successful, smaller competitor in order to extract royalties and protect market share. Icon may have wrongly assumed that Octane would be unable to afford the litigation costs to stay in the game for the long-haul and fight the case on the merits.

The total cost of this patent litigation was \$1.7M. Without insurance, Octane would tell you, it could not have afforded to defend this lawsuit. As Dennis Lee, President of Octane, openly admits, "Without patent insurance we would have been dead in the water. We did not have \$1.7M to pay to lawyers to defend us. We would have had to pay Icon, even though they had no real patent claim against our company." "Still further, IPISC helped us pick one of the best litigation teams in the country to help us win this. We had no idea where to even start to find a first-rate patent litigator," remarked Mr. Lee.

Contact Octane: Ed O'Connor, eoconnor@octanefitness.com.



Multi-Peril IP Insurance Defense Program Summary

ISSUE:

As part of Intellectual Property (IP) risk mitigation, companies must plan for their own future in the event of a loss of an IP lawsuit. If there is a loss, companies must be prepared to experience a Business Interruption because their product had to be taken off the market; or, they may suffer a Loss of Commercial Advantage because their Patent(s) was invalidated by the court. Some companies may even be forced to start over by having to completely redesign their products.

SOLUTION:

A Multi-Peril Intellectual Property (MPIP) Insurance policy is designed to provide first-party reimbursement for the loss of an IP lawsuit and responds after the final adjudication of a Civil Proceeding that directly caused loss. The MPIP Policy covers debilitating expenses that may otherwise be present as a result of overlooking the simple step of making sure the company has a recovery plan in place in the event of the loss of an IP lawsuit.

COVERAGE

- The MPIP Defense Insurance rider provides first party coverage directly to the Named Insured for non-compensated loss of value or Loss of Business Income because of any of the subsequent, Adverse Happenings, which are the consequence of legal actions by or against the Named Insured(s) and/or third party(ies).
- The MPIP Defense Insurance rider responds after the final adjudication of a civil proceeding that directly caused or gave rise to the loss of value.
- Named Perils: Business Interruption; Loss of Commercial Advantage; Cost of Redesign, Remediation & Reparation.
- Minimal coverage is automatically included as a rider to the standard IP Defense Insurance Policy.

BUSINESS INTERRUPTION

If the Named Insured suffers a Preliminary or permanent Injunction due to a suit filed against him for IP Infringement, then the Policy pays for the loss of Business Income resulting from the Named Insured's interrupted sales for a pre-established period of time; or, if the Named Insured loses a civil proceeding filed against him charging that his Manufactured Products infringe another's IP, the Policy pays for the loss of Business Income for a pre-established period of time.

Adverse Happening: (1) Business Interruption caused by a Preliminary or permanent Injunction with respect to the Insured Manufactured Products; or, (2) Business Interruption caused by a Loss of Civil Proceeding, which validates a third-party plaintiff's IP resulting in a Loss/Cost to the Named Insured.

- Limits available up to \$3 million (USD) for additional premium
- Policy terms available up to 3 years but terms must coincide with the underlying IP Defense Insurance Policy limits
- Co-Pay- 20%

LOSS OF COMMERCIAL ADVANTAGE

If a third party, from whom the Named Insured is receiving compensation, loses a Civil Proceeding in which the court finds Infringement by the third party, then the Policy will pay the increased costs of Non-Compensated Loss because of higher production costs (including royalties payable) in continuing the sale of those Manufactured Products for a pre-established period of time.

Adverse Happening: Loss of Commercial Advantage caused by a Loss of a Civil Proceeding by a third party from whom the Named Insured is receiving compensation, resulting in a loss or increased cost to the Named Insured.

COST OF REDESIGN, REMEDIATION & REPARATION

The Policy will reimburse the Named Insured for the Loss/Cost of redesigning, retooling or disposal of infringing, Manufactured Products, Marks and/or Works. The Policy will also reimburse the cost of shipping and restocking with non-infringing Manufactured Products, Marks and/or Works, the cost of renaming and/or redecorating the business premises, and the rebuilding of goodwill of distributors, retailers and customers which expenses are necessitated by the Loss of a Civil Proceeding.

Adverse Happening: Cost of Redesign, Remediation and Reparation caused by a loss of Civil Proceeding finding Infringement by the Named Insured's Manufactured Products resulting in a Loss/Cost to the Named Insured.

- MPIP coverage of \$50K or 10% of policy limits, whichever is less, included with the Policy
- Worldwide territory coverage available, if included in coverage of the underlying IP Defense Insurance Policy

Please consult a copy of the specimen Policy for all terms and conditions. This material in no way changes the terms or effect of the Policy language nor is it meant to replace the Policy language.

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