Emerging and Start-Up Technology Companies

Your emerging technology company takes risks to get ahead. Now’s the time to insure against the risks that could set you back.

Emerging companies like yours are developing transformative and disruptive breakthroughs to move forward. To succeed, your company must think ahead, innovate, grow and take chances. But there is a downside; these actions expose your company to greater levels of financial risk, including ones that could derail your company’s future.

You are a start-up with big plans. Don’t let unexpected litigation costs put your company out of business before your company establishes itself. Protect your company’s potential future growth with the right insurance. Insurance is more than a safety net – it is a signal to investors, board members, customers and other key audiences that you are ready to take your company to the next level.

How Professional And Management Liability Insurance Helps Protect Your Company.

It may seem like a company at the start of its life cycle isn’t ready to look into insurance. Or perhaps you believe the company may not have the time or money to consider exploring its insurance needs right now. The truth is, it’s never too soon to protect your company’s future with insurance.

Is your company involved in any of these activities?

Be aware that these are common triggers for potential litigation that could harm your bottom line.

• Building a board of directors
• Building a customer or user base
• Contracting with independent contractors or vendors
• Crowdfunding
• Engaging in social media
• Experiencing a down round stock purchase
• Founder disputes or exits
• Restructuring or downsizing employees
• Issuing stock options
• Acquiring a company
• Raising venture capital financing
• Recruiting a management team
• Selling company assets
• Storing customer data or having access to your client’s customers’ data
Consider The Following Important Professional And Management Liability Insurance Options To Help Protect Your Growing Company.

<table>
<thead>
<tr>
<th>Insurance Coverage</th>
<th>Typical Risks Of Emerging Technology Companies</th>
</tr>
</thead>
</table>
| **Directors & Officers and Entity Liability** *(for Private Companies)* | • Emerging technology companies, often venture capital backed, have increased risk for claims by minority shareholders in connection with a merger or sale agreement.  
• Successful disruptive technology can trigger lawsuits from early or prior stakeholders in the company disputing their payout relative to other stakeholders.  
• Hiring employees from a competitor could attract a lawsuit from that competitor.  
• Companies being acquired are at risk for lawsuits alleging misrepresentations in the purchase and sale agreement.  
• Insider rounds, down rounds, or wash-outs all create an environment ripe for legal disputes.  
• Earn-out agreements, common in tech acquisitions, can lead to legal disputes over the calculations, performance metrics, or measurement process.  
• Inherent difficulties in valuing a young tech company can raise the risk of legal disputes over valuation or liquidity of stock, particularly with employees for whom company stock represents a considerable portion of their compensation. |
| **Employment Practices Liability**                           | • Your fast-growing company may staff up rapidly but have limited human resources infrastructure, which can make it more vulnerable to employment practices lawsuits.  
• Age and gender discrimination are noted challenges for the tech industry.  
• There is growing awareness of sexual harassment issues in the technology industry. |
| **Errors and Omissions (E&O)**                               | • Customers may allege a defect exists in your service or product, or your product or service fails to perform in accordance with the terms of a contract or service agreement.  
• Dissecting failures in complex technology products and apportioning liability often requires costly expert analysis.  
• Defense expenses may compromise a significant portion of E&O lawsuit costs. |
| **Media Liability**                                          | • Producing, promoting, or publishing media, advertising or other content exposes your company to liability risks. You can be sued for mistakes such as misstating a fact, exceeding the scope of a licensing agreement, or disparaging a competitor.  
• A technology company can be set back by a lawsuit alleging defamation, emotional distress, misappropriation, or copyright or trademark infringement.  
• Even meritless lawsuits must be defended, and defense expenses, including subpoena defense costs, may comprise a significant portion of the costs. |
| **CyberSecurity**                                            | • Technology companies are prime targets for cyber criminals, hackers and disgruntled employees.  
• State agencies and the Federal Trade Commission have enforced laws and regulations requiring companies to protect consumer information, increasing the risks for your business.  
• Even if your company is not hacked, more than half of all cyber breaches result from human error or system problems. |
| **Crime**                                                    | • Hiring employees quickly while applying “loose” background checks can expose your company to fraud. Smaller companies are often disproportionately victimized by employee fraud because they lack the anti-fraud controls of larger companies. (Source: Association of Certified Fraud Examiners)  
• On average, companies lose 5% of their gross revenue to fraud. (Source: Association of Certified Fraud Examiners)  
• Your company faces a range of crime risks that could threaten its bottom line, such as theft of funds, check fraud, credit card fraud, payroll fraud, and vendor fraud. |
| **Fiduciary Liability**                                     | • Providing a competitive benefits program for employees can go a long way toward attracting and retaining top talent in the intensely competitive technology sector. With these programs come fiduciary duties and potential liabilities.  
• Even with use of outside service providers for employee benefit plans, your company, its executives and employees may potentially be liable for failure to prudently select and properly monitor the outside service provider.  
• Fiduciary exposure is broader than merely the company pension plan; it also includes errors in the administration of a plan and employee stock ownership plans, which have been the subject of litigation for privately held companies. |

Protects the financial assets of the company and the personal assets of directors and officers against lawsuits.

Practices Liability Helps protect a company from employment-related risks.

Provides coverage for allegations of errors, omissions or negligence in providing services to others.

Provides coverage against lawsuits for copyright infringement and other media-related claims for companies that produce, promote, or publish content.

Provides liability (third-party) and expense (first-party) coverage for companies that collect, store or transmit private or proprietary information.

Provides coverage for employee theft, forgery, on premise and in transit loss, computer fraud and other common crime losses.

Helps to protect the personal assets of company fiduciaries and the financial assets of the company and employee benefit plans against lawsuits.
Certain milestones in your company’s development may require specific types of insurance coverage.

- When obtaining your first round of venture capital financing, the term sheet will likely require you to purchase directors and officers (D&O) liability insurance.
- When building your board of directors, potential candidates will require your company to provide personal financial protection for them with directors and officers (D&O) liability insurance.
- When executing service contracts with business customers, especially government entities and financial institution customers, your company may be contractually required to have errors and omissions (E&O) liability, cyber or crime insurance in place.

Why wait? Be sure to have the right insurance in place before it is required.

Early stage businesses can evolve quickly, undergoing many changes and developments; each new stage brings new financial perils. The right insurance helps ensure you are prepared for these perils at every step along the way.

Connect With Us

Chubb can help your fast-growing technology company safeguard against risks. Learn more by contacting your agent or broker or visit www.chubb.com today.