Frequently Asked Questions- Trade Secrets 101 and the need for Crown Jewel® Protector

There is a significant misconception among risk professionals that organizations that have a lot of patents do not have many (or any) trade secrets. This could not be further from the truth. In fact, the value of trade secrets may be significantly greater than that of a company's patent portfolio and the delta between these two types of IP is getting wider with the rapid changes in technology and the challenges that filing for patent protection presents.

The below FAQ is designed to help an organization understand how to identify trade secrets and understand their importance to the overall value of a company. We have expressed our opinion in layman's terms and this document should not be considered in any way to be legal advice. We highly recommend that companies consult with a strategic advisor and/or legal counsel around your overall IP Strategy to determine how to protect each IP asset.

Note: **the mere existence of insurance for the value of Trade Secret Assets may change your strategy in favor of keeping more of your company's critical know-how secret.**

1. What is a Trade Secret?

There is not one single definition, as each state has its own version, and the Defend Trade Secrets Act (the only Federal statute governing trade secret protection) has its own. Generally speaking, however, a trade secret can be: All forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes which the owner has taken reasonable measures to keep secret & this information derives actual or potential value by not being known outside the organization. Most projects towards the end of their R&D lifecycle are trade secrets because they have inherent value to the company and have not yet been made public by the patent prosecution (filing an application for approval) process.

2. How is a trade secret different than a patent?

A trade secret is the only form of IP that is unregistered with any authority; therefore, trade secrets are never "designated" as trade secrets until such time that enforcement rights are litigated. Trade secrets are know-how kept secret to protect the inherent value of it from discovery & use by others. A patent is publicly registered with the USPTO (United States Patent Trademark Office) and must provide great detail on exactly what the item or process being patented consists of, as well as schematics and design details. All that information resides in a searchable online USPTO database & leaves every patent open to potentially being copied with some changes, in a manner which may not violate the patent protections. Trade secrets also have no expiration date. They maintain their value as trade secrets as long as they continue to provide competitive advantage to the owner and remain secret. WD40 and Coca-Cola are two famous trade secrets which are decades old.

3. Why NOT patent a trade secret to protect it?

The detailed nature of information required to submit a patent means that an owner/inventor must reveal every aspect & nuance of the intellectual property they are trying to patent. Because the UPSTO database is easily searchable, this allows others to see that information & make attempts to reverse engineer and develop a similar creation of their own. A patent application may also be rejected outright – they frequently are – leaving the owner/applicant with zero protection from either a patent or the protection of having kept the information closely-held as a trade secret. Generally speaking, companies should file for patent protection of something that, once released/sold to the customer, would be relatively easy to reverse-engineer.

4. Does your organization have any trade secrets?

Almost every company has a few trade secrets, some have many. Those companies with a significant patent portfolio almost always have a robust trade secret portfolio as well, but it is very likely that those assets have neither been identified as trade secrets and valued. The reasons for this are beyond the scope of this FAQ.

The most valuable trade secrets are those that have the most potential to drive earnings or save money due to the efficiencies they bring, and that took a lot of time and resources to develop. The more valuable the trade secret, the better the security needs to be around that asset. Because trade secrets are only a "litigation right" as an unregistered form of IP, there is no set-in stone pre-determination as to what is a trade secret. However, for over a century, much of the case law in the US has relied heavily on the 6-factor litmus test.

5. 6 -factor litmus test - It is a Trade Secret if:

– The extent to which information is known outside the company is none (or limited to those who need to know and who are contractually and legally restricted from discussion of such know-how)

– The extent to which it is known by employees and others involved in the company is very limited (need to know). Those who do have knowledge of the trade secret must know that it is a trade secret and have been instructed specifically that it is to be treated as such.

– The security measures taken to keep the secret are ongoing, proactive & robust

– The value of the information to the company AND its competitors (if they were to acquire that knowledge) is significant

– The amount of money, time and effort spent developing it is attributable & significant

– The ability of others to acquire or duplicate it would be very difficult and resource intensive without inside information

6. How do you establish the value of a trade secret?

There are several established accounting methods for determining the value of trade secrets, all of which are used for tax reporting and strategy, M&A, and other purposes on a daily basis. In layman's terms, generally these methods contemplate the amount of time and money a company spends developing the unique know-how that is the trade secret (including the "negative know-how" that is

created by the wrong turns made along the way to the ultimate product, service that does what you desired, plus the expected future sales or savings over the expected useful life of that asset in the future, discounted based on competitive and market forces and then brought to net present value.

7. Can the value of a trade secret be insured?

Yes, now it can. Crown Jewel® Protector is the first insurance policy ever devised to insure the value of a trade secret. The Trade Secret Asset Risk Management (TSARM) process prepares the Insured to enforce and litigate following a covered loss. Crown Jewel® Insurance will help you Identify the Trade Secret, Quantify the value – historic and ongoing, recommend an Insurance Solution, provide ongoing dark web security Monitoring, will attempt recovery of the asset/Injunctive relief/Damages/Criminal Prosecution – first as a part of "respond and recover", and then via subrogation as necessary.

8. What is the utility of insuring a trade secret?

It provides the same protection for a trade secret intangible assets which a tangible asset would receive. (What organization does NOT insure their real estate holdings or other tangible assets? None) It establishes a real-world value which may be used for securitization of bank loans. It assures the value of intangible assets during M&A activity. According to some estimates, 90% of the S&P 500 value is intangible assets, the vast majority of which have no insurance protection at all. This leaves organization vulnerable to theft, industrial espionage, loss of value with no recourse other than extensive & expensive litigation, which ultimately may not be successful. Additionally, having these assets valued and insured will allow for the use of IP assets and the insurance proceeds as a back-up for capital providers who, today, do not have any insurance or other mechanism securing investments in IP driven companies.

9. Aren't there already laws to protect trade secrets?

Yes, there are both State and Federal laws designed to protect trade secrets, but today many enforcement claims are dismissed early due to lack of clear evidence that certain assets are, in fact, trade secrets (the 6-factor test), and leave owners with no choice other than prolonged litigation. Left to litigation alone, an organization will have to prove that the information IS a trade secret, that they own it & have proper protections in place to keep it secret, that they independently developed it, and must be able to provide enough of this evidence to get an injunction against the misappropriating party. Without prior identification of a specific trade secret asset and the documentation required to evidence proper notices and knowledge that it was a trade secret, and proper security/protection, it may be impossible to establish the existence of a trade secret during litigation, leaving the intangible asset owner without their asset, the value it brings, and any recourse – legally or financially. This has potentially catastrophic consequences for the trade secret owner, their investors, lenders, and other stakeholders.

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