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.

Where can I learn more?

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For blogs, podcasts, and articles

How to identify potential Trade Secrets: A few examples

Example 1: Unique business processes

Logistics & Supply chain function, which makes your product delivery better & faster than competition. Logistics & Supply Chain function can be broken down further into 3 major categories

1. Sorting & Packaging – the sorting facility will most likely have a lot of patented hardware & other machinery & equipment which represents yours or a third-party service provider's registered IP asset. However, through trial & error over months, or even years, your company has designed and/or arranged the sorting facility in such a way it is the way it's efficiency is better & faster than the competition's. This design & setup of the floor would be the trade secret in this example.
2. Loading - the facility may have achieved a workflow for loading which ensures that the trucks are loaded in the most efficient manner & leave the facility at maximum capacity to ensure the greatest efficiencies. The workflow is the trade secret.
3. Delivery – Your company has enough data from its own fleet to develop a routing/mapping application, using AI & machine learning, which allows your delivery system to beat the other available mapping programs, such as WAZE & Google maps. Achieving a competitive advantage averaging delivery time which are minutes faster than the competition. This app/software code would be the trade secret.

Example 2: Financial Algorithm

You are a hedge fund/commodities dealer and you've developed software in-house which pulls data from multiple sources in real-time while also monitoring global markets. This software tells you when to buy/sell/put/call/hold, etc. Over the years this algorithm, which changes frequently, has provided better than average market performance for 5 years running and is a market differentiator. The algorithms are your trade secrets.

Example 3: Manufacturing

Your organization manufactures cars. You've developed multiple techniques to drive higher quality & efficiency during the manufacturing process, such as the use of robotics. Although this same equipment may be available to your competition, your organization has designed its manufacturing processes in such a way that you have near zero downtime.

Example 4: Chemicals

Your company manufactures resins & lacquers for flooring and other building products which are environmentally friendly and of the highest quality. Although on its face, these chemical formulas are something which could be patented, the ease with which your competitors could copy the formulation of the compounds, lead you to decide to NOT patent the formulas. In addition, the temperature & curing time used in applying the chemical compound which make these products last for 20+ years are home-grown processes that your competitors don't have knowledge of.

Example 5: **AgTech**

You are a cannabis grower selling into the medical marijuana market. You have patented many unique strains & plant varieties but have processes for the maximal extraction of active ingredients and unique ability to predict & measure efficacy of the drug which remain secret, which is a key driver in your competitive advantage. These processes could be trade secrets

NOT Trade Secrets

Customer lists

Example: the names, email addresses, phone numbers, company name & address of all of your customers are available to everyone in your company. All of your employees signed non-disclosure agreements upon at the start of their work for you company. Two high-performing sales executives leave and start their own company and you have on good authority that they have taken their contact lists with them. Whether or not they are successful in moving any business does not change the fact that your customer list is not a trade secret. The list was available to too many people and does not, in and of itself, provide income to your company. However, your customer list IS confidential information, and there may be other employment related remedies, such as non-compete agreements which could provide some protection & remedy.

Consumer Goods

Example: Your company manufactures wearable personal technology. During the design & manufacturing process the methods used to design/create this hardware could be trade secrets. Once released into the world, where it can be easily copied & reverse-engineered, it can no longer be protected as a trade secret. These types of consumer goods are better off being patented or protected by some other means.

Trade Secret Litigation by the Numbers

In the past two years, 400 trade secret misappropriation cases have been filed at the federal level. Costs of litigation, settlements and judgments, and frequency of claims are all up year over year. And with the FTC and (at least some of) the Senate both pushing to ban non-competes coupled with the fallout from emergency work-from-home policies still not completely realized, we fully expect this trend to continue.

Most organizations that experience a misappropriation event feel sure that they have an actionable case & that they will prevail when pursuing the matter. The reality is that even when an organization is 100%-in-the-right in claiming their IP was stolen, the likely only recourse is through litigation with can be very expensive and may not result in a successful outcome.

The largest trade secret verdict of 2022:

$2 Billion[1]

Average time to resolve federal trade secret lawsuits:

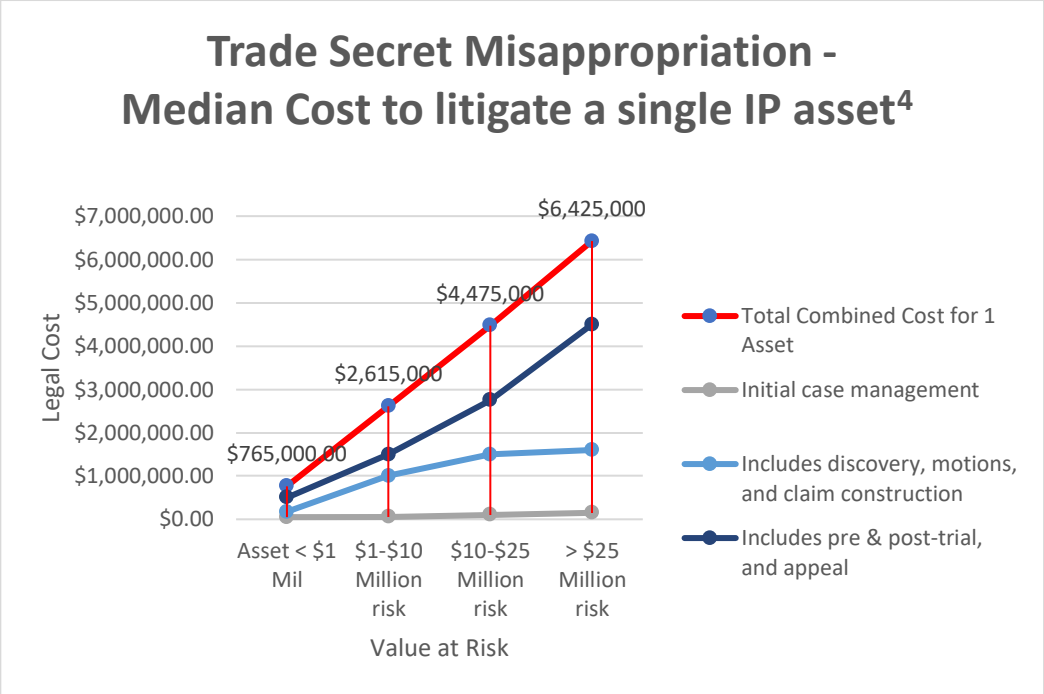
2.7 Years[2]

(From the initial filing to the outcome at trial)

Estimated median cost to litigate Trade Secret cases:

$4.1 Million[3]

In cases involving financial risk between $10-$25 million.



Sources:

1. **Case**: PPG Indus. v. Jiangsu Tie Mao Glass Co**. Source**: Greenberg Traurig Trade Secret Year in Review
2. Trends in Trade Secret Litigation 2020, Stout
3. 2019 report from the American Intellectual Property Law Association
4. Source: American Intellectual Property Legal Association (AIPLA) 2022 "Report of the Economic Survey"

NOTABLE TRADE SECRET MISAPPROPRIATION CASES –

Utilizing the Crown Jewel® Protector insurance [policy to protect trade secrets is the most cost-effective means of assuring these unique IP assets are protected against misappropriation & provide multiple remedies to stop bad actors from using those assets and/or pay the Insured for the pre-agreed value of those assets if there are Damages caused by the theft.

Case	Summary
Motorola vs. Hytera	Case filed, September 2017, decided February 2020. Hytera to pay $600 million to Motorola for stealing their trade secrets. It was alleged that several former Motorola employees had illegally downloaded proprietary Motorola documents and brought them to their new jobs at Hytera.
LG Chem Ltd. vs. SK Innovation	Cased filed April 2019, decided January 2021. LG Chem Ltd accused SK Innovation of misappropriating trade secrets related to EV (electric vehicle) battery manufacturing. SK Innovation was ordered to pay $1.8 billion in cash & future royalties to LG for stealing their trade secrets. ***This case stands as an example of just how valuable trade secrets can be and how much IP value exists in an organization for which there is no default protection - like insurance - & where the only current avenue is very expensive protracted litigation, which may not always be successful.***
Cognizant vs. Syntel	Case filed 2015, decided October 2020. Syntel to pay Cognizant $855 million for stealing their trade secrets. The core claim was that Syntel had misappropriated TriZetto's (Cognizant's subsidiary) intellectual property related to some software products.
Versata vs. Ford Motor Company	Case filed 2015, decided 2022. Ford to pay Versata $105 million, after a 15-day jury trial. Versata, who was previously a software vendor for Ford, brought the suit in 2015 against Ford, who claimed to have internally developed their own version of software to replace Versata's
Turret Labs USA, Inc. v. CargoSprint,	CargoSprint moved to dismiss the complaint, arguing that the absence of an NDA or confidentiality agreement meant that as a matter of law Turret could not establish it had any protectable trade secrets. The U.S. District Court for the Eastern District of New York dismissed the case for Turret's failure to identify a confidentiality agreement. Turret Labs did have information they believed was a trade secret but failed to properly guard the secrecy of the information. Because Turret Labs USA failed at the simple task of getting an NDA signed by a third-party vendor, they lost the value of their trade secret and all future value they could derive from it, & also paid a lot of money to litigate a losing case. ***Had Crown Jewel® Protector insurance been in place, Turret Labs USA would've undergone Crown Jewel's TSARM process, which would've identified the lack of secrecy protocols.***