



ALVAREZ & MARSAL TAXAND

ARE YOU MONETIZING AND PROTECTING YOUR TRADE SECRETS?

TRADE SECRET INSURANCE Q&A



Alvarez & Marsal Taxand has partnered with Crown Jewel® Insurance to provide expert, independent valuation of assets prior to quoting and binding Trade Secret Insurance.

WHAT IS TRADE SECRET INSURANCE?

New to the insurance market, trade secret insurance covers trade secret assets (TSA) the same way more traditional, tangible assets are covered. Crown Jewel® Insurance is a policy wording and insurance line-slip that offers agreed value, first party coverage for up to \$50M limits against the perils of theft, disclosure, or misappropriation. It includes both pre and post loss trade secret risk management services as part of the insurance premium.

WHY IS TRADE SECRET INSURANCE NEEDED?

Trade secrets are the fastest growing intellectual property (IP) asset category. Valuing and safeguarding the worth of an organization's TSAs should be an integral part of aligning IP and operations in a tax-efficient manner and a priority for Board members.

Although trade secrets garner specific protections under the law, to date there's been little emphasis on protecting those assets in a meaningful way. Additionally:

- A majority of companies do not know the value of their TSAs;
- Monetizing TSAs can provide transparency into your financial strength;
- The policy wording virtually eliminates the need for claims adjusting after a covered loss occurs and provides for quick turnaround payment;
- Broad "cyber" policies that cover confidential information theft specifically exclude the value of IP, while other policies don't have an "agreed amount" valuation;
- The automated TSA management program provides a greater likelihood of success in defending compromised TSAs and helps provide a significant defense against IP infringement claims.

AREN'T TRADE SECRETS ALREADY COVERED UNDER INTELLECTUAL PROPERTY POLICIES?

Intellectual Property policies generally cover defense and settlements arising out of infringement of patents and other forms of IP. Additionally, these policies are typically written on a third-party basis. The only first party coverage offered is usually "enforcement" coverage. However, it is hard to find meaningful capacity, and enforcement coverage only covers a fraction of the total loss.

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CAN TRADE SECRETS BE VALUED?

Trade secrets often go through a rigorous review process as they are regularly valued for several purposes including tax and financial reporting, and mergers & acquisitions (M&A). Monetization will help improve transparency into the insured's financial strength, allowing for better financing and M&A terms.

WHAT ARE THE BENEFITS OF VALUATION?

Not knowing the value of your trade secret means it's not fully protected and potentially vulnerable. Trade secret valuation allows you to:

- Provide transparency into financial strength of the company;
- Solidify the valuation of assets to ensure that they are properly insured;
- Use the proceeds from insured assets as collateral to secure financing from lenders or drive the valuation of a company during M&A discussions.

WHAT IS THE METHODOLOGY FOR VALUING TRADE SECRETS?

Trade secrets are valued with commonly accepted methodologies. These methodologies are applied to an individual trade secret or to a pool of trade secrets that jointly add to the protection and value of a product, technology or service. Trade secrets can include other types of IP, even patented technology, when they are combined with unique methods, uses or code creating a value that would not otherwise exist.

WHAT ARE THE KEY COVERAGE FEATURES?

- Breach response and recovery services from legal and forensic experts;
- Agreed fair market value payment for stolen, copied, or misappropriated trade secrets;
- Enforcement and mitigation expenses against third parties responsible for misappropriated TSAs; potentially resulting in multiple damages awards, restraining orders, and other mitigating penalties as appropriate.

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ABOUT ALVAREZ & MARSAL TAXAND

Alvarez & Marsal Taxand, an affiliate of Alvarez & Marsal (A&M), a leading global professional services firm, is an independent tax group made up of experienced tax professionals dedicated to providing customized tax advice to clients and investors across a broad range of industries. Its professionals extend A&M's commitment to offering clients a choice in advisors who are free from audit-based conflicts of interest, and bring an unyielding commitment to delivering responsive client service. A&M Taxand has offices in major metropolitan markets throughout the U.S., and serves the U.K. from its base in London.

Alvarez & Marsal Taxand is a founder of Taxand, the world's largest independent tax organization, which provides high quality, integrated tax advice worldwide. Taxand professionals, including almost 550 partners and more than 2,500 advisors in 50 countries, grasp both the fine points of tax and the broader strategic implications, helping you mitigate risk, manage your tax burden and drive the performance of your business.

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