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Confidential Ideas and Independent Contractors: Trade Secret Ownership in the Age of the Hired Gun

Rob P. Saka*

Does an independent contractor or a party hiring the contractor own the new, confidential ideas that fall outside of what the contractor is hired to provide, but that arise during the course of that work? The issue of trade secret ownership is important due to the growing use of contractors, particularly in the tech development industry. This note explores the emerging issue of trade secret ownership in the post-Great Recession era of increased reliance on contractor-inventors. In concluding that—absent a contrary written agreement—contractor-inventors are the rightful owners of their incidentally created trade secrets while assigned to a project, this note reviews the law, offers policy perspectives, and then sets forth contract terms that both sides could use in negotiations.

I. INTRODUCTION

This note analyzes an important question of intellectual property ownership that few courts have addressed: whether an independent contractor or a party hiring the contractor owns new, confidential ideas that fall outside of what the contractor is hired to provide, but that arise during the course of that work. We can frame this question as follows:

Suppose that software company A hires software engineer B, an independent contractor, to assist with a discrete, specialized project that involves creating a defined Deliverable. Assume that the Deliverable would give A an undeniable advantage over its industry competitors. Assume further that although it may qualify for overlapping copyright and patent protection, safeguarding the Deliverable as a trade secret—never to enter the public domain—would be most advantageous to its owners. In the course of the

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project, B develops Collateral Work Product, another inventive creation that is collateral to the actual Deliverable and bears only a general connection to the assigned task. This secondary work product was not contemplated by the parties but could similarly benefit its owners by providing a competitive edge over rivals who do not know or use it. In turn, the contract between A and B is silent on the issue of ownership to any collateral inventions stemming from work on the Deliverable.

Does the hiring company, A, or the independent contractor, B, own the trade secret for Collateral Work Product (i.e., B’s secondary work product that exceeds the scope of what B is hired to build yet stems from the course of that work)?

Whether viewed as a statutory or common law creature, both the Deliverable and B’s Collateral Work Product may constitute protectable trade secret information for whoever owns it, assuming that reasonable security measures are taken. Trade secret protection is a high priority for knowledge-based industries, which rely on innovation of intangibles, including software and other products with rapid releases. Patenting in such instances may accomplish very little, so relying on the law of trade secrets is often the best bet. While ownership rights in contractor-created copyrights and patents

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1. “Collateral Work Product” and “secondary work product” are used interchangeably throughout this note as synonyms for novel, proprietary information or confidential ideas that extend beyond what the contractor is hired to provide but that arise during the course of that project as described above.

2. Under the Uniform Trade Secrets Act (“UTSA”), a trade secret is information (a formula, pattern, compilation, program device, method, technique, or process, etc.) that (1) derives independent economic value from not being generally known or readily ascertainable by proper means by those who can obtain economic value from its disclosure or use and (2) is the subject of reasonable efforts to maintain its secrecy. See UNIF. TRADE SECRETS ACT, § 1(4) (2005) (defining “trade secrets”). Forty-six states have reportedly enacted the UTSA in some form. See David S. Almeling et al., A Statistical Analysis of Trade Secret Litigation in Federal Courts, 45 GONZ. L. REV. 291, 307 (2010) [hereinafter Fed Study].

3. In determining whether information constitutes a protectable trade secret, courts look to six factors for guidance: (1) the extent to which it is known outside the business; (2) the extent to which it is known by employees and others involved in the business; (3) the extent of measures taken to ensure secrecy; (4) the value of the information to the business and its competitors; (5) the amount of effort or money expended for its protection; and (6) the ease or difficulty in developing that same information. See RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939); see also RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 (1995) (“A trade secret is any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.”).

have been widely litigated, the law governing rights to trade secrets developed by contractors in the course of their hired work is less clear. Even in the common employer-employee relationship, there is no statutory express rule and only scant case law that directly addresses trade secret ownership. But the issue of trade secret ownership rights is important due to the growing use of contractors, particularly in the tech development industry. The problem is even more significant given the increase in trade secret litigation in recent years.

Companies used contractors widely before the recent economic downturn, and there has been growth in the use of contractors since the Great Recession. In fact, companies have fundamentally changed the way they do business in this post-recession world, including hiring more temporary workers and independent contractors. During the recession, the need to achieve greater flexibility and efficiency impelled employers to make sweeping organizational changes. In recognizing the changing business climate, employers increasingly relied upon contractors to meet their specialized project needs. Since the beginning of 2013, temporary and contract employment has grown 2.8%, with staffing employment in February 2013 alone up 3.3% compared to February 2012. Hiring permanent full-time

5. See, e.g., Cmty. for Creative Non-Violence v. Reid, 490 U.S. 730, 737–38 (1989) (holding that if the statutory requirements for a specially commissioned work by an external author are not met, then initial ownership of a copyright is solely determined by whether the author-creator is an employee acting within the scope of his employment); Bd. of Trs. of Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc., 131 S. Ct. 2188, 2197 (2011) (ruling that under the Bayh-Dole Act, federal contractors do not automatically obtain title to their federally funded patentable inventions nor are they authorized to unilaterally take title to such inventions).

6. 2-9D ROGER M. MILGRIM ON TRADE SECRETS app. 9D § 3.0 (2012).


8. Compare David S. Almeling et al., A Statistical Analysis of Trade Secret Litigation in State Courts, 46 GONZ. L. REV. 57, 67 (2011) (noting that “state trade secret appellate decisions are increasing in a linear pattern at a modest pace”) with Fed Study, supra note 2, at 901 (noting that “in the past 50 years, the number of [federal] trade secret cases has grown exponentially”); See also Michael Risch, Why Do We Have Trade Secrets?, 11 MARQ. INTELL. PROP. L. REV. 1, 3 (2007) (“[T]rade secrets] are arguably the most important and most heavily litigated form of intellectual property right.”).


11. See id.

12. See id.

employees remains expensive and risky for many companies amid a fragile recovery.\textsuperscript{14} Rather than bring on permanent employees, employers are sticking with nontraditional workers—including independent contractors—in order to supplement their work force.\textsuperscript{15} Use of contractors, like in the scenario described above, carries practical significance in the tech arena. In fact, many tech companies prefer to hire contractors instead of permanent employees for specific engineering projects.\textsuperscript{16} Given these structural changes, many believe that independent contractor hiring trends are here to stay.\textsuperscript{17}

It is less controversial that, without an express agreement, the hiring party may claim ownership of the deliverable trade secret where it specifically hires or directs the contractor to exercise inventive faculties.\textsuperscript{18} This makes sense, as one would expect that a company owns what it specifically contracts for. But as the scenario above illustrates, ownership of the contractor's Collateral Work Product presents a gray area. Should the contractor's work product created incidental to, but extending beyond, the deliverable also belong to the hiring party? Or instead, does the nature of the contractor-employer relationship demand a more equitable rule in favor of the contractor? Notwithstanding the dearth of authority, the Author believes that such independent contractor-developed trade secrets should belong to the contractor in the absence of a contrary written agreement.

This note explores the emerging issue of trade secret ownership in the post-Great Recession era of increased reliance on contractor-inventors. In concluding that—absent a contrary written agreement—contractor-inventors are the rightful owners of their incidentally created trade secrets while assigned to a project, this note will review the law, offer policy perspectives, and then set forth contract terms that both sides could use in negotiations.

Part II discusses the default rules governing trade secret ownership and the difficulty applying them in the context of independent contractors. Part III examines public policy considerations affecting ownership rights in these uniquely created

\textsuperscript{14} See Casselman, supra note 7.
\textsuperscript{15} See id.
\textsuperscript{18} See discussion infra Part II.A.
trade secrets. Part IV provides recommendations in drafting agreements for independent contractors working on temporary projects. Finally, Part V concludes that given the scant case law, which contains a less than complete analysis supporting employer ownership, combined with the strong policy rationale against such a rule, a contractor should be presumptively free to use her trade secrets developed in the course of a project, absent a contrary agreement.

II. RULES GOVERNING TRADE SECRET OWNERSHIP

To discuss these intellectual property ownership questions, it is necessary to define what constitutes an “independent contractor.” The precise definition depends on context and whether a person is dubbed an employee or an independent contractor can have varying consequences. For example, analyzing issues under federal employment statutes, such as the Employee Retirement Income Security Act of 1974 (“ERISA”),19 the Internal Revenue Code,20 the Occupational Safety and Health Act (“OSHA”),21 the Fair Labor Standards Act (“FLSA”),22 the Family Medical Leave Act of 1993 (“FMLA”),23 and federal antidiscrimination statutes24 all hinge on worker employee status. However, defined broadly, an independent contractor is one who “contracts with another to do something for him but who is not controlled by the other, nor subject to the other’s right to control with respect to his physical conduct in the performance of the undertaking.”25 In Community for Creative Non-Violence v. Reid, the Supreme Court instructed that “[i]n determining whether a hired party is an employee under the general common law of agency, we consider the hiring party’s right to control the manner and means by which the product is accomplished.”26 The Reid Court further articulated a list of factors relevant to this

23. Id. at § 2611.
inquiry. Other terms for independent contractor may include, freelance employee, consultant, contingent worker, or external Research and Development ("R&D") provider. 28

A. DEFAULT RULES FOR EMPLOYEE-CREATED TRADE SECRETS

1. Generally

The default rule of invention ownership is that the inventor holds property rights in her invention because it is the product of her original thought. 29 However, the situation is different in the context of an employer-employee relationship. 30 Case law is well established that even absent a written agreement to the contrary, employers own the trade secrets created by their employees hired to invent or design a specific product during the course of their employment. 31 In such

27. These factors include: “the skill required; the source of the instrumentalities and tools; the location of the work; the duration of the relationship between the parties; whether the hiring party has the right to assign additional projects to the hired party; the extent of the hired party’s discretion over when and how long to work; the method of payment; the hired party’s role in hiring and paying assistants; whether the work is part of the regular business of the hiring party; whether the hiring party is in business; the provision of employee benefits; and the tax treatment of the hired party.” Id. at 751–52 (citing RESTATEMENT (SECOND) OF AGENCY § 220(2) (1958)).

28. In the context of trade secret ownership, determining who is a contractor rather than an employee is outside the scope of this note. However, it is worth noting that the ownership issue may be more uncertain when a party is a small technological start-up where the employee/contractor distinction is often blurred. See, e.g., JustMed, Inc. v. Byce, 600 F.3d 1118, 1128 (9th Cir. 2010) (“As a small start-up company, [plaintiff] conducted its business more informally than an established enterprise might. This fact can make it more difficult to decide whether a hired party is an employee or an independent contractor, but it should not make the company more susceptible to losing control over software integral to its product.”); see also Jon M. Garon & Elaine D. Ziff, The Work Made for Hire Doctrine Revisited: Startup and Technology Employees and the Use of Contracts in a Hiring Relationship, 12 MINN. J.L. SCI. & TECH. 489, 497–504 (2011) (noting the more flexible approaches courts are taking in applying the Reid factors to accommodate less traditional arrangements).

29. See e.g., Bd. of Trs. of Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc., 131 S. Ct. 2188, 2195 (2011) (“Our precedents confirm the general rule that rights in an invention belong to the inventor.”).


31. See Structural Dynamics Research Corp. v. Eng’g Mechs. Research Corp., 401 F. Supp. 1102, 1112 (E.D. Mich. 1975) (explaining the common law rule of trade secret ownership that “[w]here the employer assigns the employee to a specific development task and commits considerable resources and supervision to the project, a confidential relationship arises that prevents the employee from using or disclosing the fruits of his research. When, on the other hand, the developments are the product of the application of the employee’s own skill, ‘without any appreciable assistance by way of information or great expense or supervision [from the employer], outside of the normal expenses of his job,’ he has ‘an unqualified privilege’ to use and disclose the trade secrets so developed”) (quoting Wexler v. Greenberg, 160 A.2d 430
cases, courts will find an implied obligation for the employee to assign any resulting trade secrets to the employer.\footnote{32} That is the crux of the so-called "hired-to-invent" doctrine.\footnote{33} Put differently, trade secret ownership depends on whether the employee created the invention within the "scope of employment."\footnote{34} By contrast, ownership is less certain in the case of employees hired to invent when no specific invention or result is contemplated. When this occurs, courts look to a number of factors, including how closely the employee's invention relates to the employer's business, whether the employee previously assigned inventions to the employer, the nature and scope of the employment relationship, and the amount of money or other resources the employer dedicated to the inventive activity.\footnote{35}

\begin{footnotesize}
\footnote{32. See Standard Parts Co. v. Peck, 264 U.S. 52, 55 (1923) (observing that it is "inevitable and resistless" that the one who engaged the contracted employee for his services and paid for them owned the invention arising from such an engagement); Solomons v. United States, 137 U.S. 342, 346 (1890) (ruling that "after successfully accomplishing the work for which he was employed," an employee may not "plead title thereto as against his employer"); see also Scott Sys., Inc. v. Scott, 996 P.2d 775, 778 (Colo. Ct. App. 2000) ("If an employee's job duties include the responsibility for inventing or for solving a particular problem that requires invention, any invention created by that employee during the performance of those responsibilities belongs to the employer. . . . [A]nd the courts will find an implied contract obligation to assign any rights to the employer.") (citations omitted).}

\footnote{33. See supra notes 31-32; see also STANLEY H. LIEBERSTEIN, WHO OWNS WHAT IS IN YOUR HEAD?: A GUIDE FOR ENTREPRENEURS, INVENTORS AND CREATIVE EMPLOYEES 9 (2nd ed. 1996).}

\footnote{34. See JAMES POOLEY, TRADE SECRETS § 5.01[2][b] (2013) ("If an invention results from work done by the employee within the scope of her assigned duties, then the employer owns it.").}

\footnote{35. See, e.g., Cahill v. Regan, 157 N.E.2d 505, 507-09 (N.Y. 1959) (finding that defendant employee owned the reusable can he created during employment by reasoning that employment to design, construct, or devise methods of manufacture is not the same as specific employment to invent products; noting further that defendant had not initially been directed to conceive of the idea despite the fact that he was told to develop the idea for the reusable can, after he had already conceived the idea); White's Elecs., Inc. v. Teknetics, Inc., 677 P.2d 68, 70-72 (Or. Ct. App. 1984) (concluding that defendant engineer employee who was hired "to invent and develop improvements" for plaintiff manufacturer of metal detectors, and made the invention while employed, was obliged to assign it to the plaintiff, especially since he had assigned plaintiff inventions in the past).}
\end{footnotesize}
2. **Shop Rights**

When an employee is deemed the trade secret owner, an employer may still obtain an irrevocable non-exclusive license called a "shop right" to use the trade secret, without an obligation to pay royalties. As an equitable defense, the shop right doctrine gives limited rights in the product when an employee creates the invention using employer time and resources. This bedrock principle has now been extended to independent contractor-employer situations. However, as a precondition for the application of the "shop right" rule, the employee must not be hired for the purpose of developing the product in question.

3. **Invention Assignment Agreements**

In most cases, an inventor must expressly grant their rights to the employer if the employer is to obtain those rights. Likewise, in order to remedy the uncertainty that exists in determining trade secret ownership, employers are diligent in mandating that employees sign written invention assignment agreements. Such agreements typically assign all of the inventor's intellectual property rights, including trade secrets, to the employer. These assignment agreements concerning the ownership of inventions and discoveries during employment are generally enforceable according to their

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36. Actna-Standard Eng'g Co. v. Rowland, 493 A.2d 1375, 1379 (Pa. Super. Ct. 1985) ("A shop right will arise, however, where the employee devises the invention on the employer's time and at the latter's expense, using his materials and facilities, and allows him to use the invention without special compensation.") (citing Dubilier Condenser Corp., 289 U.S. 178).

37. See 1-5 Roger M. Milgrim & Eric E. Bensen, Roger M. Milgrim on Trade Secrets § 5.02[4][c] (2012).

38. See Crowe v. M&M/Mars, 557 A.2d 1278, 1279-81 (N.J. Super. Ct. App. Div. 1990) (holding that a mechanical engineer who designed an improved pump for spraying chocolate to create M&M candies must grant a shop right to M&M, despite the fact that he was employed by a third party when he designed the pump and worked in the M&M plant merely as an independent contractor).

39. See Nat'l Dev. Co. v. Gray, 55 N.E.2d 783, 787-88 (Mass. 1944) (finding that defendant employee had an implied obligation to assign patent rights stemming from his work on plaintiff employer's edge setting machine where he was hired for the specific purpose of developing and perfecting the machine). Moreover, "[a]s in the law on assignment of inventions, the employment relationship, standing alone, does not give the employer a shop right; the employer might have to show an express agreement for the right." Actna-Standard Eng'g Co., 493 A.2d at 1379 (citations omitted).

40. See Dubilier Condenser Corp., 289 U.S. at 189-89.


42. See id.
In today’s business dealings, employment contract language requiring workers to assign any of their inventions conceived during employment to their employers has become the norm. Significantly, the “hired to invent” doctrine applies only absent a written agreement. Thus, trade secret ownership is mostly a question of contract.

However, contract terms do not always address ownership when an independent contractor creates something beyond the deliverable. Take, for example, the incident described in the scenario above where the agreement between the parties only contemplated ownership of the Deliverable but not any other proprietary information that may be developed in the course of the work. Ownership of the Deliverable seems clear, even without a written agreement: The Deliverable would likely belong to the hiring party because the hiring party contracted for the Deliverable’s specific creation. But ownership of the contractor’s secondary work product is less clear. Given the personal and intellectual nature of the inventive process, courts must otherwise hesitate to imply agreements to assign employee inventions to the employer.

4. State Statutes Limiting Employer Ownership

Although pre-invention assignment agreements may purport to give title to an employer over all of an employee’s inventions, a few states have enacted statutes that significantly limit such agreements. For instance, California’s invention assignment statute, which is typical, protects employee ownership of some inventions made on an employee’s own time and without use of employer resources. An

43. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION, § 42 cmt. c (1995).
46. The ownership issue will be further problematic for less sophisticated parties who may lack any written agreements whatsoever.
49. CAL. LAB. CODE § 2870 (2012).
employee will own such inventions outright so long as the inventions do not relate to the employer’s business, result from the employee’s work, or otherwise trigger the rules for vesting the employer with ownership.\textsuperscript{50} However, these statutes do not mention contractors.

B. APPLICATION TO INDEPENDENT CONTRACTORS: IDENTIFYING THE SPLIT

Contractors are not employees, so we cannot automatically assume that the same tests should apply. There is a split in the sparse authority regarding presumptive ownership of contractor-designed trade secrets, in which even commentators disagree.\textsuperscript{51} The inquiry boils down to whether the “hired to invent” doctrine applies to contractor-generated trade secrets as well as conventional employees. Careful analysis of the case law supporting employer ownership of trade secrets will reveal the difficulty in applying the default ownership rules to contractors.

1. Favorable Yet Cautionary Law for Employers

The leading case addressing independent contractor trade secret ownership rights is Computer Associates Int’l v. American Fundware.\textsuperscript{52} The American Fundware decision, along with its less-detailed analysis supporting employer ownership is examined below.

a. American Fundware

In American Fundware, the court was confronted with the question of whether the defendant’s unfair competition counterclaim claim was barred for purposes of “Noerr-Pennington” analysis.\textsuperscript{53} The court clarified that “the Noerr-Pennington doctrine protects a litigant from antitrust liability unless his opponent can establish that the litigant’s case is a sham.”\textsuperscript{54} In addressing the “sham” exception, the

\textsuperscript{50} CAL. LAB. CODE §§ (a)(1)–(2) (2012).
\textsuperscript{51} Compare Marc A. Lieberstein, Employers Beware: Will You Own Your Employee’s Inventions?, 1 HASTINGS BUS. L.J. 183, 190 (2005) (“Where a contract between a consultant and an employer makes no specific reference to a problem or a project assignment, any process or product invention that constitutes ‘trade secret’ by the consultant belongs to the employer . . . ”) with Merges, supra note 45, at 37 (“The law ought to recognize and encourage this trend by maintaining the de facto default rule in favor of consultant ownership of inventions.”).
\textsuperscript{53} Id. at 1520–21. The court explained that “[u]nder this doctrine, ‘those who petition government for redress are generally immune from antitrust liability.” Id. at 1521.
court rejected the defendant’s argument that the plaintiff’s claims were “objectively baseless” on the ground that the plaintiff did not own the software trade secrets at issue as they belonged to independent contractors who produced and developed them. Quoting Melvin F. Jager’s treatise on trade secret ownership, the court announced:

If an employer pays you to design, the employer owns the fruit of your labor. This common law ownership rule clearly applies to employee ideas and developments which meet the definition of a trade secret, even in the absence of a written contract . . . . The rule is now even extended to nonemployment situations, such as when an independent contractor is hired to design or develop a process or machine. Such a contractor is equivalent to an employee hired to develop an idea, so that the results of this work are owned by the hiring company.

Under this authority, the *American Fundware* court dismissed the defendant’s argument as a “red herring” without any further discussion. In granting the plaintiff’s motion for summary judgment for the defendant’s unfair competition claim, the court went on to hold that the defendant’s claim was barred by the Noerr-Pennington doctrine.

b. American Fundware’s Less Detailed Discussion

Although the court adopted Jager’s treatise for the proposition that trade secrets developed by independent contractors belong to the employer, this treatment concerning trade secret ownership warrants caution for two main reasons. First, the *American Fundware* decision did not hold that, as a matter of law, the “hired to invent” doctrine controls in determining ownership of contractor-developed trade secrets without regard to contracts or other related facts. Instead, the court decided that the plaintiff’s claims were not objectively baseless for purposes of its Noerr-Pennington analysis. Thus, employers should be wary when relying on this case in ownership disputes. Second, Jager’s claim that the common law ownership rule extends to nonemployment situations such as independent contractors is questionable because it does not contain a full analysis of the issues discussed in this note, in particular the question of creative work that falls outside the deliverable the contractor was hired to create. On

56. Id. (quoting 2 MELVIN F. JAGER, TRADE SECRETS LAW §8.01[1] at 8–2 to–3 (1993)).
57. Id.
58. Id. at 1525.
one hand, the treatise correctly notes the rule announced in *Standard Parts v. Peck* that employers retain ownership of their employee's inventions.59 On the other hand, Jager cites only two cases directly supporting the claim that the rule is now even extended to independent contractor. As a result, careful examination of these cases is necessary.

*Mitchell Metal Products, Inc. v. Berkeley Equipment* is the first case that Jager cited.60 In *Mitchell Metal*, the plaintiff company conceived of an idea for an automatic welding machine and hired the defendant mechanical engineer to construct its design.61 The issue was whether there was a pledge of secrecy as to the design of the machine at the time the plaintiff hired the defendant.62 The court determined that the defendant's conduct was evidence of his promise to maintain secrecy of the machine's design.63 Relying on *Peck*, the court reasoned that the pledge of secrecy was inherent in the defendant's employment.64 The court concluded that the defendant should thus not be allowed to construct a similar machine for the plaintiff's competitors.65 Because the defendant engineer had no part in designing the automatic welding machine but was simply hired to manufacture an invention created by the plaintiff, the "hired to invent" principle had no application whatsoever.

The second decision that Jager cited is *Jones v. Ulrich*.66 There, the plaintiff invented a phosphate spreader attachment and hired the defendant, owner and operator of a welding shop, to manufacture and sell the plaintiff's invention.67 The plaintiff alleged, among other things, that the defendant violated an oral agreement by continuing to manufacture and sell a similar spreader.68 The *Ulrich* court was called on to decide whether the plaintiff's complaint stated a cause of action against the defendant. In ruling that the plaintiff stated a valid cause of action,69 the court found an implied confidential relationship

59. See 2 MELVIN F. JAGER, TRADE SECRETS LAW §8.01[1] at 8-2 to 8-3 (1993) (reciting the common law rule that "[b]y the contract [defendant employee] engaged to ‘devote his time to the development of a process and machinery,’ and was to receive therefor a stated compensation. Whose property was the ‘process and machinery’ to be when developed? The answer would seem to be inevitable and resistless of him who engaged the services and paid for them." (quoting Standard Parts v. Peck, 264 U.S. 52, 59 (1924)).
61. Id.
62. Id. at 1012.
63. Id.
64. Id.
65. Id.
67. Id. at 114-15.
68. Id. at 115.
69. Id. at 121.
in the agreement between the parties that the defendant would manufacture and sell the plaintiff’s design in return for royalties.\textsuperscript{70}

As in \textit{Mitchell Metal, Ulrich} is actually the reverse of the proposition Jager claims, which is that the plaintiff-inventor sought and was granted relief. In both cases, the defendant-builder was simply hired to manufacture a device created by plaintiff-inventor.\textsuperscript{71} These precedents confirm that such cases applying the \textit{Peck} rule outside of the traditional employer-employee setting attribute ownership to the inventor. Accordingly, the “hired to invent” doctrine has no application at all. Taken together, the two cases are perhaps more aptly characterized as the “hired to manufacture” doctrine.\textsuperscript{72} For these reasons, counsel involved in ownership disputes should be mindful of the limitations in the \textit{American Fundware} holding concerning contractor-created trade secrets.

2. \textit{Favorable Law for Independent Contractors}

At the same time, there is some authority for the proposition that the “hired to invent” doctrine does not apply to independent contractors.\textsuperscript{73} To date, the two most encouraging cases for contractors appear to be: \textit{ICE Corp. v. Hamilton Sundstrand Corp}, and \textit{Hicklin Engineering, L.C. v. Bartell}. A discussion of these rulings follows.

\textsuperscript{70} Jones, 95 N.E.2d at 117.

\textsuperscript{71} Another case, Kamin v. Kuhnau, 374 P.2d 912 (Or. 1962), is sometimes relied upon in ownership disputes for the proposition that the contracting party is the owner of trade secrets, rather than the independent contractor. However, the \textit{Kamin} court also held that improvements developed by independent contractor hired to manufacture plaintiff’s design were trade secrets owned by the company. \textit{Id.} at 919–22. Again, \textit{Kamin} involved an apparent “hired to manufacture” situation. \textit{Id.}

\textsuperscript{72} Email from Thomas R. Buchanan, Shareholder, McDowell, Rice, Smith & Buchanan, Counsel for Plaintiff in \textit{ICE Corp.} litigation [discussed infra Part II.B.2], to author (Feb. 18, 2013) (on file with author).

\textsuperscript{73} See Tucker v. Or. Aero, 474 F. Supp.2d 1192, 1209–10 (D. Or. 2007) (rejecting defendant’s arguments that “trade secrets are sufficiently analogous to patents” thereby declining to extend the holding of \textit{Am. Fundware} to patents designed by independent contractors); see also Am. Wheel & Eng’g Co. v. Dana Molded Prods., Inc., 476 N.E.2d 1291, 1293–94 (Ill. App. Ct. 1985) (ruling that a secret plastic formula remained the property of the outside custom molder when neither the plaintiff company nor its employees knew what the recipe was); \\textit{but cf. GE Capital Mortg. v. Pinnacle,} 897 F. Supp. 854, 871 n.15 (E.D. Penn. 1995) (noting that “although status as an employee or an independent contractor is relevant to the ownership of a copyright, it is irrelevant to the ownership of a trade secret”) (quoting Comp. Assocvs. v. Am. Fundware, 831 F. Supp. 1516, 1524 (D. Colo. 1993)); Mettler-Toledo, Inc. v. Acker, 908 F. Supp. 240, 247 (M.D. Penn. 1995) (observing that “[w]hen disclosures of a confidential nature are made to an employee or an independent contractor, all trade secrets creating out of that relationship are the exclusive property of the employer or the contracting party”) (citing \textit{Am. Fundware}, 831 F. Supp. at 1524).
a. ICE Corp.

In *ICE Corp. v. Hamilton Sundstrand Corp.*, the lower court held that the “hired to invent” doctrine “does not apply to independent contractors hired to specifically design a product, such as [plaintiff contractor].” 74 Despite the lower court’s ruling on the “hired to invent” doctrine, the Court of Appeals for the Tenth Circuit stressed that the factual issue of trade secret ownership based on the parties’ conduct and written agreements was properly submitted to the jury. 75 Thus, the Tenth Circuit declined to weigh in on the district court’s analysis regarding the “hired to invent” doctrine. 76

b. Hicklin Engineering

By comparison, the Seventh Circuit concluded in *Hicklin Engineering, L.C. v. Bartell* that an independent contractor presumptively owns her work product—including trade secrets—absent an express contract to the contrary or norms of the trade that may reverse this presumption. 77 The court illustrated this point with a fact pattern similar to our scenario in noting that a “software programmer, working as an independent contractor for Client Z, who develops a novel way to organize a database may re-use the source code for another client’s project, unless he promises otherwise.” 78

Applying this standard, it seems evident that B should presumptively own collateral source code while working as an independent contractor for hiring software company A. Although this presumption conflicts with *American Fundware*, the Seventh Circuit’s ruling in *Hicklin Engineering* should control trade secret ownership disputes involving contractors.

3. Reconciling the Differences

In all, there is the *American Fundware* opinion, which would grant ownership of Collateral Work Product to the software hiring company A, and the lower court decision in *ICE Corp.*, in which the

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74. ICE Corp. v. Hamilton Sundstrand Corp., 432 Fed. Appx. 732, 736 (10th Cir. 2011). The precise reasoning underlying the lower court’s ruling remains unclear because the relevant sections of the court’s order denying defendant’s summary judgment motion are under seal.
75. *Id.* at 738.
76. *Id.*
77. Hicklin Eng’g, L.C. v. Bartell, 439 F.3d 346, 349–50 (7th Cir. 2006) (vacating summary judgment in favor of defendant independent contractor where it was awarded in part based on the district court’s erroneous holding that an independent contractor is free to use information provided by a client as he pleases in the absence of an agreement to the contrary).
78. *Id.* at 349.
independent contractor B would likely retain ownership. But given the less-detailed analysis in American Fundware, the default rules that would grant title to the employer as opposed to the contractor are less certain. On balance, then, the issue of ownership remains unclear. Although it could be argued that American Fundware is still good law, the fact remains that we must also square the problem of trade secret ownership with the Seventh Circuit’s Hicklin Engineering presumption that contractor B owns Collateral Work Product absent a contrary agreement and conflicting norms of the trade. Weighing these interests, B should be the presumptive owner of the trade secrets she created that are beyond the scope of the project while working as an independent contractor, including Collateral Work Product.

III. POLICY

Public policy considerations are particularly useful in evaluating the effects of different trade secret ownership rules.79 Some have argued that trade secret law is concerned now, more than ever, with protecting businesses and investors rather than benefiting society or acknowledging employee rights.80 However, framing trade secret law necessarily involves a balancing of competing interests.

In broad terms, trade secret law serves two basic purposes: (1) to encourage innovation and (2) to maintain commercial ethics.81 First, trade secret law provides businesses with an incentive to create and use innovative business know-how, which in turn benefits the public. As the Supreme Court explained, “[t]rade secret law promotes the sharing of knowledge, and the efficient operation of industry.”82 As such, protecting trade secrets is necessary to encourage innovation

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80. See Graves, supra note 79, at 41-42 (“A relational theory of trade secret law [as opposed to a property rights approach] emphasizes not the boundaries of the information at issue but the asserted disloyalty of the employee, who is alleged to have owed a one-way duty of fidelity to the employer.”).

81. See Kewance Oil Co. v. Bicron Corp., 416 U.S. 470, 481 (1974) (“The maintenance of standards of commercial ethics and the encouragement of invention are the broadly stated policies behind trade secret law.”); see also Ed Nowogroski Ins., Inc. v. Rucker, 971 P.2d 936, 942 (Wash. 1999) (“A purpose of trade secrets law is to maintain and promote standards of commercial ethics and fair dealing in protecting those secrets.”).

82. See Kewance Oil Co., 416 U.S. at 493.
and technological advancement by permitting the inventor to have the first opportunity to reap the rewards of her investment.\textsuperscript{83} Second, trade secret law promotes the maintenance of a commercial standard of ethics.\textsuperscript{84} Under this logic, businesses should be not be rewarded for any improper conduct in obtaining proprietary information that was reasonably protected.\textsuperscript{85} Thus, trade secret law recognizes that certain kinds of competitive behavior breach social norms and should not be tolerated, even in an open and free marketplace.\textsuperscript{86}

Nevertheless, strong enforcement of trade secret laws has potentially negative impacts.\textsuperscript{87} Most relevant to our discussion is trade secret law's significant impact on employee mobility, which impedes one's ability to move from one job to another and thereby enhancing one's career in their chosen field.\textsuperscript{88} Trade secret laws implicate both economic and noneconomic employee interests. From an economic standpoint, employees may be more productive when they have greater flexibility to transfer their skills from job to job.\textsuperscript{89} From a noneconomic standpoint, employees have a freedom interest in transferring their skills from one job to another without being burdened with broad restrictions from entire fields.\textsuperscript{90} Similarly, employees have an interest in more easily escaping unpleasant or unfruitful jobs, applying their acquired skill-set, and using known information in the same industry.\textsuperscript{91} In short, individuals who are restricted from transferring knowledge from job to job are limited in their ability to change employers. As one professor explained, overly robust trade secret protection may "limit individual freedom, weaken

\begin{footnotesize}
\begin{enumerate}
\item[83.] Kewance Oil Co., 416 U.S. at 493.
\item[85.] See E.I. duPont deNemours & Co. v. Christopher, 431 F.2d 1012, 1016 (5th Cir. 1970) (refusing to accept "the law of the jungle as the standard of morality expected in our commercial relations," where defendant took aerial pictures of plaintiff's chemical plant to obtain its trade secrets). However, the commercial ethics justification has been criticized as overly vague and both context and time dependent. See Lemley, supra note 79, at 327 ("[N]ormal behavior in one industry may end up being illegal in another. Those norms may change over time in ways that make protection unpredictable.").
\item[87.] See generally Catherine L. Fisk, Knowledge Work: New Metaphors for the New Economy, 80 CHI.-KENT L. REV. 839, 862–63 (2005) (proposing a joint ownership solution to the human capital problem that would better protect employee inventors).
\item[88.] See Graves, supra note 79, at 43 ("[E]mployee mobility is an important policy objective and . . . crucial benefits flow from allowing departing employees to take and use some portion of the knowledge base they acquire and develop during each job.").
\item[89.] See id. at 43–44.
\item[90.] See id.
\item[91.] See id. at 43.
\end{enumerate}
\end{footnotesize}
employee bargaining power, and harm society through diminished competition."\textsuperscript{92} Weighing these interests, trade secrets should belong to the contractor absent a contrary agreement.

A. POLICY SUPPORTING OWNERSHIP IN FAVOR OF THE HIRING COMPANY

In the employer’s favor, it may be argued that a default ownership rule in favor of the hiring company may encourage industrial innovation. Such a rule could incentivize business investment in developing proprietary information. In so doing, it could establish incentives to innovate, as it provides a mechanism for employers to capture the benefits of these inventions.\textsuperscript{93} Also, default employer ownership may promote both business efficiency and certainty because decision-makers would be free to make R&D investment decisions without regard to the consequence of employee status. In return, the consuming public would benefit from a vibrant marketplace full of new and innovative products.\textsuperscript{94}

Proponents of default ownership in favor of the hiring company may also contend that such a rule would further commercial ethical conduct. It could be argued that employers should retain the fruits of their investments, regardless of whether their trade secrets were developed by an employee or contractor. If contractors were allowed to keep the proprietary information that they developed while working for a company on a particular project, then it would undermine the company’s competitive advantage because others could also benefit from the information. Similarly, default contractor ownership might encourage “free riders.” By discouraging unfair competition,\textsuperscript{95} trade secret law protects an economic investment against those who may otherwise seek to obtain unauthorized access

\textsuperscript{92} Alan L. Durham, \textit{Natural Laws and Inevitable Infringement}, 93 Minn. L. Rev. 933, 984 (2009).

\textsuperscript{93} See Michael Risch, \textit{Trade Secret Law and Information Development Incentives, in THE LAW AND THEORY OF TRADE SECRECY: A HANDBOOK OF CONTEMPORARY RESEARCH} 152 (Rochelle C. Dreyfuss, Katherine J. Strandburg, eds., 2010).

\textsuperscript{94} See Wexler v. Greenberg, 160 A.2d 430, 434-35 (Pa. 1960) (“Society as a whole greatly benefits from technological improvements. Without some means of post-employment protection to assure that valuable developments or improvements are exclusively those of the employer, the businessman could not afford to subsidize research or improve current methods.”).

\textsuperscript{95} See Pamela Samuelson, \textit{Principles for Resolving Conflicts Between Trade Secrets and the First Amendment}, 58 Hastings L.J. 777, 807 (2007) (“Although trade secret law is sometimes clustered for the sake of convenience under the general rubric on ‘intellectual property’ rights, this does not alter the essential nature of trade secrets as a form of unfair competition.”).
and later use the information through improper means.\textsuperscript{96} When confronted with the free rider problem, as the argument goes, new proprietary information will not be created and thus everyone loses.\textsuperscript{97} A related concern is that companies will not invest in technological enhancement because they could instead simply hire a contractor who worked for a competitor.\textsuperscript{98} In so doing, companies would circumvent one of the chief policies underlying trade secret law: preventing dishonesty and immorality in commercial conduct.\textsuperscript{99}

B. **Policy Supporting Ownership in Favor of the Contractor**

On the contractor side of the ledger, a default ownership rule in favor of the contractor would recognize the unique limitations of contractor work and provide economic incentives to innovate. Such a rule would also reduce the potentially significant impact on contractor mobility. Moreover, employers would not be harmed if contractors retained their collateral work product constituting trade secrets. Balancing these concerns, ownership of contractor-designed incidental work product and trade secrets made while working on a specific project should remain with the inventor, absent a contrary agreement.

1. **Contractors Present Heightened Mobility Concerns**

Without question, the concerns of trade secret law affecting employee mobility are of heightened significance in the employer-contractor context. The severe economic downturn, combined with the increasing trend in the use of contractor-inventors, further intensifies these fears. Whereas employees should arguably be free to move from job to job without burdensome restrictions—because,

\textsuperscript{96} See Eden Hannon & Co. v. Sumitomo Trust & Banking Co., 914 F.2d 556, 561 (4th Cir. 1990) (warning that if companies are unable to reasonably protect trade secrets, then “[f]ree riders will capture this information at little or no cost and produce a product cheaper than the firm which created the knowledge, because it will not have to carry the costs of creating that knowledge in its pricing.”).

\textsuperscript{97} Id.

\textsuperscript{98} This was apparently the case in Lamb-Weston, Inc. v. McCain Foods, Ltd., 941 F. 2d 970 (9th Cir. 1991). There, defendant potato processor hired the same contractor who fabricated plaintiff's blade for producing curlicue French fries. Id. at 972. Defendant allowed the contractor to make decisions about manufacturing process, specifications, and materials, knowing he was still working on plaintiff's blade. Id. Affirming the lower court's worldwide injunction, the Ninth Circuit held that it was not an abuse of discretion because, without such relief, evidence showed that defendant would gain an unfair head start in the market. Id. at 974.

\textsuperscript{99} See Kewanee Oil Co., 416 U.S. at 481 (explaining that “[t]he necessity of good faith and honest, fair dealing, is the very life and spirit of the commercial world”) (citations omitted).
among other things, it may increase their career opportunities and work productivity—contractors need to be able to transfer their entire toolkit to their next project as a matter of economic imperative. Because they lack the stability of steady employment, contractors should be afforded the best opportunity to succeed by leveraging their skills in future projects. The law should not prevent contractors from pursuing their livelihoods when their current assignment inevitably ends. To that end, contractors must retain ownership in any collateral work product constituting trade secrets that they create in the course of a project, absent a contrary agreement. A default rule granting ownership to the contractor would thereby unshackle any unreasonable restraint on alienation and trade exposed by inadequate assignment clauses.

A contrary rule might significantly impact employee mobility. For one thing, a rule granting default ownership to the employer of all contractor-designed trade secrets, regardless of whether they relate to the project deliverable, may raise "negative know-how" problems. Under this theory, the contractor would not be free to use her acquired efficiency from previously attempted, but failed techniques that did not meet their intended goals. Such a rule could also implicate the inevitable disclosure doctrine. Under this doctrine, courts may enjoin workers from seeking a new job with their employer’s competitors on the ground that they will inevitably use the employer’s trade secrets in their new jobs.

100. See Graves, supra note 79, at 44.

101. There are several reported disadvantages of being a contractor. Chief among them are the lack of job security, unemployment insurance benefits, and employer-provided workers compensation, and employer provided benefits, including health insurance and retirement account contributions. However, contractors generally enjoy greater flexibility and higher pay than regular employees. See, e.g., Bill Bischoff, The Ins and Outs of Hiring and Independent Contractor, WALL ST. J. (Sept. 17, 2009), at D12; Michael Luo, Recession Adds to Appeal of Short-Term Jobs, N.Y. TIMES, Apr. 20, 2010, at A14.

102. See Am. Can Co. v. Mansukhani, 742 F.2d 314, 329 (7th Cir. 1984) ("Particularly in the case of a former employee, whose livelihood may well depend on the scope of the former employer’s trade secret protection, it is important to permit the employee to use her skill, training and experience.") (citations omitted).

103. "[S]ince such [assignment] agreements can reduce or eliminate potential competition, they are subject to the traditional rules governing contracts in restraint of trade and are accordingly enforceable only when ancillary to a valid transaction and otherwise reasonable." RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 41, cmt. d (1995) (citing to RESTATEMENT (SECOND) OF CONTRACTS §§ 186-188). In general, "a restraint is unreasonable if it is greater than necessary to protect the legitimate interests of the promisee or if the promisee’s interest in protection is outweighed by the likely harm to the promisor or to the public." Id.


105. See PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1270 (7th Cir. 1995) (affirming grant of injunctive relief upon a showing that defendant "[c]ould not] help but rely on [plaintiff’s] trade secrets as he helps plot [a competitor’s] new course"); see also Margo E.K. Reder & Christine
Simply put, it is unreasonable to restrict contractors’ ability to use the general skills, knowledge, and experience that they regularly rely on from project to project. Contractors must be free to use any new, confidential ideas or proprietary information that arises during the course of that work but that reaches beyond what the contractor is hired to provide. Because of these potentially severe restrictions on contractor mobility, contractors should own such collateral work product, absent a contrary agreement.

2. Economic and Property Rights Justifications

The short-term nature of contracting work demands an alternative to the default trade secret rules that exist in the traditional employer-employee situation. The dichotomy between the default rule for employers and a rule in favor of contractors reflects the choice of the contractor-developer to avoid fulltime employee status.\(^{106}\) Likewise, it also recognizes the employer’s decision to forgo assigning the work to a regular employee, in which case ownership would be unmistakably clear. In acknowledging the parties’ intent, such a rule would make clear that companies of all sizes and levels of sophistication, from start-ups to multinational corporations, need to include contract language that speaks to ownership of the deliverable invention and any collateral work product. Therefore, there is no need to supplant the parties’ contractual relationship by likening contractors to employees for purposes of trade secret ownership.

Another reason to permit contractors to retain ownership of their collateral work product is that it acts as a penalty default.\(^{107}\) As Professor Merges explained, “[t]he notion here is that since employers are in a better position to know whether a consultant’s planned R&D is likely to produce inventions highly complementary to the firm’s pre-existing assets, the burden ought to be on the employer to disclose this information to the consultant ex ante.”\(^{108}\) Hence, contractors are in a better bargaining position to negotiate compensation and protect their interests when equipped with information about whether the hiring company wants to own their work product.\(^{109}\) At the same time, this may help dispel notions

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106. See Merges, *supra* note 45, at 36.
107. *Id.*
108. *Id.*
109. *Id.*
concerning the perceived unfair bargaining power between the parties.\footnote{110} A related justification for a default ownership rule in favor of the contractor is that such a rule would provide contractors with the highest incentive to perform.\footnote{111} If contractors could easily transfer the fruits of their research, including their collateral work product, from one job to the next, then contractors will be encouraged to succeed.\footnote{112} Along these lines, contractors should not be barred from future use of any of their own secondary work product and know-how not expressly assigned in a former project as part of their transferable knowledge and skill set. Accordingly, the economic rationale underlying trade secret ownership supports ownership of a contractor’s collateral work product remaining with the contractor.

3. Default Contractor Ownership Would Not Be Unjust for the Hiring Firm

To be sure, the employer could still benefit in perpetuity from its initial investment in the contractors’ secondary work product. The hiring company should undoubtedly be accorded a shop right in that proprietary information. After all, employers are granted shop rights when their employees create trade secrets outside the scope of their employment when using the employer’s time, resources, and facilities.\footnote{113} It follows that the same equitable principle should apply in the contractor context where the researcher similarly uses the employer’s resources in creating trade secret information that is collateral to her assigned task. Since the hiring party would still be able to capitalize on its investment, the employer would not be unjustly harmed in such circumstances.

\footnote{110} See Graves, supra note 79, at 45 (noting that unlike the property theory of trade secret rights, the relational conception “summons to mind a hierarchical power imbalance”).

\footnote{111} For further discussion of incentives to innovate in the context of trade secrets, see Bone, supra note 79, at 266-70; see also Vincent Chiappetta, Myth, Chameleon or Intellectual Property Olympian? A Normative Framework Supporting Trade Secret Law, 8 GEO. MASON L. REV. 69, 86-90 (1999).

\footnote{112} See Merges, supra note 45, at 36 (“[A]llowing consultants, independent contractors, and other external R&D providers to retain their property rights (at least at the outset) makes good sense. It gives them the best incentive to perform.”); Graves, supra note 79, at 44 (“[E]mployees may create more and be more productive in the long run when they have a greater ability to take their skills from one job to another.”).

\footnote{113} See supra, notes 36-39 and accompanying text.
IV. RECOMMENDED CONTRACT TERMS

It should first be noted that the validity of an assignment clause may turn on how closely related the disputed information is to the employer’s business. The contract terms in favor of the hiring party set forth in Part IV(A) below are adapted from both treatises and practice guides. By comparison, the terms favorable to the contractor described in Part IV(B) below are the Author’s recommendations in light of the substantial policy concerns underlying a contractor’s work.

A. FOR THE HIRING PARTY

It almost goes without saying that companies concerned about ownership of intellectual property—including new, confidential ideas that fall outside of what the contractor is hired to provide but that arise from a contractor’s inventive activity—should include assignment clauses in project agreements. A tougher question arises, however, when a contractor seeks to retain control over some potential work product. A hiring party will seek the broadest possible ownership terms, including those that capture any secondary work product.

From the hiring party’s point of view, the contractor should agree that all “Inventions,” whether or not patentable, copyrightable, or protectable as trade secrets or trademarks, that are made or conceived of or first reduced to practice, individually or jointly, whether or not in the course of the contractor’s actual work on the Project or Deliverable, during the period of such work relating to the company’s current or anticipated business or research and development are the sole and exclusive property of the company. “Inventions” must be broadly defined to include, but not be limited to: improvements, designs, original works of authorship, formulas, processes, compositions of matter, computer software programs, databases, know-how, plans, ideas, developments, discoveries, experimental processes, and other valuable information. In addition

114. See, e.g., Freedom Wireless, Inc. v. Boston Comm’s Grp., Inc., 220 F. Supp. 2d 16, 18–20 (D. Mass. 2002) (holding that employee-inventor’s prepaid wireless telephone billing system was unrelated to employer’s methods of conducting its satellite and rocket-based business, and thus was not covered by assignment clause granting to employer ownership of any inventions that were so related). Again, state statutes may also determine the validity of an assignment agreement. See supra text accompanying notes 48–50.

to owning all original "Inventions," the agreement should further specify that the company solely and exclusively owns any and all copies, improvements, rights and claims, tangible embodiments thereof, and rights in all intellectual property, which include but not limited to, patents, patent applications, copyrights, mask works, trademarks, trade secrets, or other proprietary information, anywhere in the world stemming from that Invention.

The assignment clause should state clearly that the contractor assigns to the company, all of the contractor’s rights to such Inventions conceived or reduced to practice at any time of during the project and Inventions made with or without use of the company’s resources, which relate to the company’s current or anticipated business or research and development. Further, it may be useful to mention that the assignment provision does not apply to any Invention that qualifies fully under relevant state law (e.g., Section 2870 of the California Labor Code, regarding inventions that employees independently developed). It is also important to make clear that the contractor will advise and notify the company promptly in writing of any Inventions that the contractor believes meet the criteria of that section. To summarize, the agreement should mandate that all such Inventions shall be disclosed to the company and are the sole and exclusive property of the company.

B. FOR THE INDEPENDENT CONTRACTOR

From the contractor’s perspective, it may be important to carve out space for retaining ownership of Collateral Work Product or other ideas and developments that are outside the scope of the contracted-for deliverable. To this end, contractors should first bargain for invention assignment agreements that assign no more than what is absolutely necessary to effectively complete the Assigned Task, Project, or Deliverable. To illustrate, an assignment provision might exempt from assignment any Inventions, including, but not limited to, new, confidential ideas that relate to the Company’s business but exceed the scope of the Project that arise during the course of that work (e.g., B’s Collateral Work Product from above). Moreover, contractors should have the hiring party acknowledge the inherent mobility in an independent contractor’s work, the short-term nature of the project, and the contractors’ need to freely transfer their entire tool kit to the next assignment. To that end, an ideal provision for the contractor might resemble the following:

For purposes of clarity, Company recognizes that Contractor relies on general skills, knowledge, and experience from
project to project, and therefore retains ownership of any creative work or inventive activity, which may or may not be universally applicable, that is outside the Deliverable [Assigned Task or Project] as defined in this Agreement.

Because most contractor-inventors will be subject to an assignment agreement, they should not work on other business ventures during hours spent working for a project’s hiring party, and they should not use the hiring company’s resources for work that clearly is not part of the deliverable. In particular, contractors should not use the company’s computers or equipment to research, communicate, or record new ideas.

However, these precautionary measures alone may not exempt from assignment inventions that relate to the company’s work or that arise from the contractor’s work if the assignment agreement contains language highly favorable to the hiring party such as the terms described in Part IV(A) above. Thus, bargaining for terms that carve out space for Collateral Work Product can be deeply important for a contractor. In brief, contractors must bargain for assignment agreements that assign no more than what is necessary to accomplish the main objective, while including a provision whereby the company acknowledges the unique mobility inherent in the work of independent contractors. Where both sides have bargaining power, one compromise could be terms that grant ownership of Collateral Work Product to the hiring party if the idea would be of primary benefit to the hiring party’s competitors but grant ownership to the contractor for general ideas that improve the contractor’s ability to perform general service for non-competitors.

V. CONCLUSION

In the absence of an agreement to the contrary, independent contractors should retain ownership of their inventive work that may constitute trade secrets that arise during a project, but is collateral to the actual deliverable. The case law supporting employer ownership is not only sparse, but is also questionable in light of the issues discussed in this note, as demonstrated by American Fundware. In contrast, Hicklin Engineering teaches that contractor-inventors presumptively own their work product, including trade secrets, in the absence of a contrary agreement or where norms of the trade which may reverse this presumption.

Even so, the strong policy justification impels the need for a default rule in favor of contractors. A contrary rule may interfere with marketplace competition and the ability of contractors to freely move from one project to another and develop their careers in their
chosen fields and capacities. The unstable nature of contracting work along with the post-recession business trend of contracting inventive projects amplifies these concerns. Against this background, contractors should be the rightful owners of any new, trade secret information that fall outside of what the contractor is hired to provide, but that arise during the course of the project.
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