Record-Keeping Requirements Regarding Internet Job Applications

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Introduction

The process of recruiting and hiring employees has become increasingly sophisticated and complex, especially with the burgeoning use of the Internet and similar technology. The improved communications capability has led to greater ease in soliciting job applicants for employers and for responding to job openings for prospective employees. However, there have been some difficulties that have arisen out of these advances which call for more precision in the way employers handle their recruiting efforts. In particular, one of the most pressing problems has been dealing with the substantial increase in inquiries about jobs as well as actual applications submitted for consideration for openings.

Most employers are covered by numerous federal employment laws—a fact that necessitates the keeping of appropriate records generated as a result of all employment relationships for a specific period of time. While some of these statutes do not mandate the retention of certain types of records, most of them at least require the retention of specific information. In addition, having employment records on hand for a period of time that encompasses statutory limi-

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Dear Subscribers:

Company record-keeping requirements cover a wide range of subjects and situations. These requirements are necessitated for a number of reasons including federal and state statutes, governmental agency regulations, company asset protection, and litigation concerns, just to name a few. The situation is complicated by the rapid expansion of information technology and the vast amount of information that is readily accessible these days.

In this issue of **THE LAWYER'S BRIEF,** we provide articles covering two potentially troublesome areas where record keeping is important. First, we discuss record keeping and Internet job applications in light of the final rule adopted by the Department of Labor's Office of Federal Contract Compliance Programs defining "internet job applicant" for data retention and record-keeping obligations of federal government contractors. In our second article, we discuss suggested records retention for intellectual property protection, including patents, copyrights, trademarks, and trade secrets.

Very truly yours,

Jeanne D. Wertz
Senior Attorney Editor

tations periods is immensely important for an employer's defense if it is sued by an employee or job applicant. These records extend to the preemployment stage when a person is merely being considered for a position. Thus, the increase in the number of inquiries and applications generated by electronic recruiting has created an onerous record-keeping responsibility on employers.

In addition to merely ensuring that good documentation will be available in the event of litigation, there are some records that employers are required by law to keep. For example, many large employers must track and document job applicants and employees annually to report their minority or gender group identification to the EEOC and the Department of Labor's Office of Federal Contract Compliance Programs (OFCCP). Federal contractors are also subject to the affirmative action requirements specified in Executive Order 11246 and various other federal antidiscrimination statutes, and copies of the affirmative action plans created pursuant to those mandates must be retained. Both of these statutory requirements make it necessary for employers that have government contracts to track information about job applicants. These government contractors must establish ways of distinguishing job applicants from mere casual inquirers so they can report the race and sex of applicants to the OFCCP and determine whether their hiring practices or policies have a disparate impact on those protected groups.

Determining Who Is a Job Applicant

An employer's record-keeping obligations begin ***before*** it actually hires an employee. One of the more difficult issues that employers have faced in terms of complying with those record-keeping requirements centers around the question of ***who*** is a job applicant. Answering that question has never been easy but it has become even more complicated with the use of the Internet and other new technologies for recruitment purposes. On October 7, 2005, the OFCCP issued a final rule concerning the definition of "internet job applicant" for the data retention and record-keeping obligations of federal government contractors. 70 Fed. Reg. 58,946 (Oct. 7, 2005).

In the past, an individual was considered to be an "applicant" if he or she filed a formal application or indicated in an informal way a specific intention to be considered for employment. Someone who casually appeared at an office or a work site to make an informal inquiry was typically not considered to be an applicant. An "applicant" under the Uniform Guidelines on Employee Selection Procedures (UGESP or Uniform Guidelines), as issued in 1978, has typically been a person "who has indicated an interest in being considered for hiring, promotion, or other employment opportunities." While such a determination has not been without problems, generally employers had some concrete ways of ascertaining whether a person was actually applying for a job or merely making an inquiry—and they had fewer so-called inquiries and applications to record and maintain.

The Uniform Guidelines were issued in 1978 by the EEOC and several other federal agencies under Title VII of the Civil Rights Act of 1964 (Title VII) and Executive Order 11246, which prohibit employment discrimination based on race, color, sex, national origin, or religion. They basically serve two major purposes. First, they address certain record-keeping issues. Specifically, they describe the evidence that employers should have available to determine whether their employment selection procedures have a disparate impact on protected groups. Second, UGESP details methods for validating tests and selection procedures that are found to have a disparate impact—*i.e.*, when an employer uses a practice or standard, like a hiring or promotion requirement or an employment test, that has a statistically significant disproportionate negative effect on a protected group, even though the standard or test is not intentionally discriminatory. Such a practice or standard is unlawful under Title VII if it is not job-related and consistent with business necessity.

UGESP states that employers should maintain "records or other information which will disclose the impact which its tests and other selection procedures have upon employment opportunities of persons by identifiable race, sex, or ethnic group." It provides for employer self-analysis for disparate impact based on those records or other information. The federal agencies that enforce Title VII and/or Executive Order 11246 may use those records or other information to investigate disparate impact charges or litigate cases.

More specifically, UGESP provides for the maintenance of records or other information on "applicants." A 1979 guidance in question and answer format laid out the general definition of "applicant" noted above. However, it became clear to everyone that interpreting the definition of "applicant" in the context of the Internet and related electronic data processing technology required a more precise definition. These technologies have complicated the process of determining who is a job applicant by introducing new methods that make it much easier for job seekers to inquire and/or apply for jobs. As noted earlier, this has led to a significant increase in the volume of job inquiries and applications. For purposes of meeting the record-keeping and reporting requirements of the federal antidiscrimination statutes, the UGESP definition of a job applicant has been inadequate for addressing the many unsolicited job applications most employers now receive through electronic means. Under the final rule, the OFCCP did not elaborate on exactly what the term "Internet or related electronic data technologies" means because of "rapid changes in technology in this area." 70 Fed. Reg. at 58,951. However, it did state in the "Summary and Explanation of the Final Rule" that the following are intended to be included under the definition:

- e-mail;
- internal and third-party resume databases;
- job banks;
- electronic scanning technology;
- applicant tracking systems/applicant service providers; and
- applicant screeners.

70 Fed. Reg. at 58,951.

An individual using such sources will be an applicant if the following four criteria have all been met:

- An expression of interest in employment is made by the individual through the Internet or related electronic data technologies (as described above).
- The contractor/employer considers the individual for employment for a particular position.
- The expression of interest indicates that the individual possesses the basic qualifications for the position.
- At no point in the selection process prior to receiving an offer of employment does the individual remove himself/herself from further consideration or otherwise indicate no further interest in the position.

70 Fed. Reg. at 58,961. It should be noted that the final rule states that, if a contractor/employer considers any expressions of interest made through the Internet or related electronic data technologies, then all expressions of interest, regardless of means and manner meet the definition of Internet job applicant. Thus, if a contractor/employer accepts both Internet applications and traditional hard copy applications, all of the applicants, both Internet and traditional, will be considered Internet job applicants for the purposes of this rule. 70 Fed. Reg. at 58,961-62.

The terminology used in the above definition of Internet job application is further explained in the rule. The phrase "considers the individual for employment in a particular position" means that the contractor/employer "assesses the substantive information provided in the expression of interest with respect to any qualifications involved with a particular position." 70 Fed. Reg. at 58,962. The contractor/employer does not have to consider for employment all those who have expressed interest. A contractor/employer may implement procedures and policies to limit the number of expressions of interest actually considered as long as the procedures and policies are applied uniformly and in a manner that is facially neutral and does not produce a disparate impact based on race, gender, or ethnicity. Specifically, the rule states that contractors/employers may establish procedures whereby they do not have to consider expressions of interest if they were not submitted according to the contractor/employer's established procedures; or if they were not submitted for a particular position. Also, a contractor/employer may use data management techniques to limit the number of expressions of interest that are considered, such as random sampling or absolute numerical limits. 70 Fed. Reg. at 58,962.

For purposes of this definition, "basic qualifications" means those qualifications that the contractor/employer advertises as required for an individual to be considered for the position. If the position is not advertised then the basic qualifications are those that the contractor/employer establishes and makes a record of before considering any expressions of interest for that position. Also, basic qualifications must be

- noncomparative (they must not require comparing the applicants, *i.e.* a qualification that an individual be in the top five of the applicants in number of years of experience is not allowed);
- objective and not dependent on the contractor/employer's subjective judgment (*i.e.* a qualification that the applicant have an accounting degree from a "good" school is not allowed);
- relevant to the performance of the particular job and enable the contractor/employer to accomplish business-related goals.

Also, what qualifies as removing himself/herself from further consideration or otherwise indicating no further interest in the position is further defined as

- an express statement of no further interest by the individual;

- a passive demonstration of disinterest by the individual (such as repeated nonresponsiveness to inquiries from the contractor/employer concerning interest in the position);
- a lack of interest inferred from information contained in the expression of interest made by the individual (such as salary requirements, or work type and location preferences) as long as such inferences are uniformly and consistently applied.

Records Retention Requirements

Records of expressions of interest by individuals made through the Internet or related electronic technologies must be maintained if the contractor/employer considered the individuals for the particular position. Record keeping, with respect to expressions of interest through internal resume databases, must consist of

- a record of each resume added to the database;
- a record of the date each resume was added to the database;
- the position for which each search of the database was made;
- the substantive search criteria used; and
- the date of the search.

When an external resume database is used the contractor/employer must keep records of the following:

- the position for which each search was made;
- the substantive search criteria;
- the date of the search; and
- the resumes of job seekers who met the basic qualifications for the position who were considered by the contractor/employer regardless of whether the individual qualified as an Internet applicant.

Records of the race, gender, and ethnicity of each job applicant must be kept where possible. There is no set point in the selection process where this information must be gathered, nor is there a set procedure to acquire the information. The OFCCP states that self-identification is the preferred method, but that visual observation may be used if an applicant will not self-identify.

Conclusion

The final rule modifies OFCCP job applicant recordkeeping requirements to address problems encountered by the use of Internet and electronic data technologies in the job applicant recruiting and hiring process. Although the final rule, as discussed above, imposes a number of new, additional requirements on contractors/employers, its stated intent is to address those record-keeping and data collection problems.

For more information on the final rule, see the OFCCP's Web site at www.dol.gov/esa/ofccp. A copy of the rule is available on the Internet at www.dol.gov/esa/regs/fedreg/final/2005020176.htm or in PDF format at www.dol.gov/esa/regs/fedreg/final/2005020176.pdf.

Appendix

Selected Portions of the U.S. Department of Labor, Employment Standards Administration, Internet Applicant Recordkeeping Rule, FAQs

General Issues

What is the purpose of the Internet Applicant final rule?

The Internet Applicant final rule, issued by the Office of Federal Contract Compliance Programs (OFCCP), addresses recordkeeping by federal contractors and subcontractors about the Internet hiring process and the solicitation of race, gender, and ethnicity of "Internet Applicants." The rule is the product of a lengthy deliberative process, including public input, to develop a definition of "Internet Applicant" applicable in the Internet age (added to 41 CFR 60-1.3). The recordkeeping requirements of the rule (amending 41 CFR 60-1.12) will provide meaningful data that OFCCP will use to enhance its enforcement of the nondiscrimination laws.

When does this Internet Applicant rule become effective and when will Federal contractors have to begin complying with the rule's provisions?

The final rule becomes effective February 6, 2006, one-hundred twenty days after the date of publication in the *Federal Register.* A contractor's recordkeeping practices must comply with the new rule on that date. For example, by February 6, 2006 a contractor must solicit demographic information about Internet Applicants and retain the records required by the rule for hiring decisions made on or after that date. The rule does not apply retroactively to hiring decisions made before February 6, 2006.

What if a contractor is having difficulty updating its systems to comply with the requirements of the Internet Applicant Rule? Will the effective date of the rule be extended?

No, the effective date of the Internet Applicant Rule will not be extended. The Rule is effective on February 6, 2006 (see FAQ above). However, under OFCCP's enforcement discretion, for a period of 90 days following February 6, 2006, OFCCP will not cite a contractor for a purely technical recordkeeping violation for failure to comply with the Internet Applicant final rule, provided that the contractor (1) demonstrates that it is taking reasonable steps to update its systems to comply with the rule, including a projected date of compliance, and (2) collects and maintains records according to the established procedures consistent with OFCCP's recordkeeping requirements that preexisted the Internet Applicant final rule, *i.e.*, 41 CFR 60-1.12.

Will contractors need to amend their current affirmative action programs in response to the new Internet Applicant rule?

No. As part of their affirmative action programs (AAPs), contractors are required to analyze personnel activity data to determine whether there are selection disparities. The amendments to the recordkeeping requirements in section 60-1.12 will apply to data on hiring decisions made on or after February 6, 2006. AAPs created before February 6, 2006 will not need to be amended.

How does this Internet Applicant rule change existing rules?

The final rule:

Defines "Internet Applicants," job seekers applying for work through the Internet or related electronic data technologies from whom contractors must solicit demographic information;

Prescribes the records contractors must maintain about hiring done through use of the Internet or related electronic data technologies; and,

Explains the records OFCCP will require contractors to produce when evaluating whether a contractor has maintained information on impact and conducted an adverse impact analysis under 41 CFR Part 60-3, the Uniform Guidelines on Employee Selection Procedures.

What is the definition of an "Internet Applicant" in the final rule?

An Internet Applicant is defined as an individual who satisfies the following four criteria:

The individual submits an expression of interest in employment through the Internet or related electronic data technologies;

The contractor considers the individual for employment in a particular position;

The individual's expression of interest indicates the individual possesses the basic qualifications for the position; and,

The individual at no point in the contractor's selection process prior to receiving an offer of employment from the contractor, removes himself or herself from further consideration or otherwise indicates that he or she is no longer interested in the position.

What standard applies to the solicitation of demographic information if a contractor considers both electronic and traditional paper expressions of interest for the same position?

When a contractor considers expressions of interest for a position via both the Internet or related electronic data technologies and paper applications, the Internet Applicant standard applies to the solicitation of demographic information from all applicants for that position.

What standard applies to the solicitation of demographic information from job applicants if a contractor does not consider electronic expressions of interest for a position?

For those positions for which the contractor does not consider any electronic submissions, i.e., does not use the Internet or related electronic data technologies, the traditional OFCCP recordkeeping standards apply. That is, contractors must solicit demographic information from job seekers who are "applicants" under the definition of applicant contained in Question and Answer 15 of the Adoption of Questions and Answers to Clarify and Provide Common Interpretation of the Uniform Guidelines on Employee Selection Procedures:

> 15. Q. What is meant by the terms "applicant" and "candidate" as they are used in the Uniform Guidelines?
>
> A. The precise definition of the term "applicant" depends upon the user's recruitment and selection procedures. The concept of an applicant is that of a person who has indicated an interest in being considered for hiring, promotion, or other employment opportunities. This interest might be expressed by completing an application form, or might be expressed orally, depending upon the employer's practice.
>
> The term "candidate" has been included to cover those situations where the initial step by the user involves consideration of current employees for promotion, or training, or other employment opportunities, without inviting applications. The procedure by which persons are identified as candidates is itself a selection procedure under the Guidelines.

A person who voluntarily withdraws formally or informally at any stage of the selection process is no longer an applicant or candidate for purposes of computing adverse impact. Employment standards imposed by the user which discourage disproportionately applicants of a race, sex or ethnic group may, however, require justification. Records should be kept for persons who were applicants or candidates at any stage of the process.

If a contractor uses the Internet to advertise a position but requires all individuals to complete a paper application form, will the individuals that apply be considered Internet Applicants?

No. It is not the method of advertising a job that determines the applicability of the Internet Applicant rule. Rather, the determining factor is whether the expression of interest in employment was made through the Internet or related electronic data technologies.

Do the regulations apply to the job title or to the contractor? Specifically, if the contractor uses the Internet Applicant

rule for some positions (e.g., professional and technical), but not for others (e.g., entry level blue collar and clerical), are all of the expressions of interest received by the contractor covered by the Internet Applicant rule, or only those relevant to a particular position where the Internet or other electronic technology was used?

The regulations' definition of "Internet Applicant" applies on a position-by-position basis. The new rule applies only to those positions for which the contractor uses the Internet or related electronic technologies.

Does the contractor need to explain which applicant definition they are using?

A contractor would have to explain whether it employed the Internet Applicant definition as part of a compliance evaluation or complaint investigation.

How will OFCCP decide which desk audit submissions to accept at face value and which to examine in depth in order to ensure that the proper race/gender/ethnicity information is included?

The Internet Applicant rule emphasizes that OFCCP will compare the proportion of women and minorities in the contractor's Internet Applicant pool with labor force statistics or other data on the percentage of women and minorities in the relevant labor force in order to evaluate the impact of basic qualifications. If there is a significant difference between these figures, OFCCP will investigate further as to whether the contractor's recruitment and hiring practices conform with E.O. 11246 standards.

How will OFCCP coordinate review of the Internet Applicant issue across regions, especially when the same contractor is being evaluated and record keeping practices are a product of the contractor's national policy?

Training for the application of the Internet Applicant rule will be provided to field staff to ensure consistency. Additionally, current OFCCP procedures call for Compliance Officers to utilize the Case Management System to identify issues that may extend beyond a particular evaluation and to bring potential nationwide/corporate-wide systemic issues to the Regional Office.

What does the term "Internet or related electronic data technologies" refer to?

While OFCCP will not provide a precise definition of the term "Internet or related electronic data technologies" in recognition of rapid changes in technology in this area, OFCCP does intend this term to include the types of technologies referenced in the preamble to the proposed UGESP Additional Questions and Answers. Those six types of Internet-related technologies and applications that are widely used in recruitment and selection today include:

Electronic mail/email

Resume databases

Job banks

Electronic scanning technology

Applicant tracking systems/Applicant service providers

Applicant screeners

Would the submission of resumes via a fax be considered as expressing an interest under the Internet Applicant rule?

Since fax machines transmit documents by digitized signals — and today can send to an email account and print out faxes sent by an email account — transmission of a resume by fax constitutes transmission by "related electronic data technologies."

Would an individual using Voice over Internet Protocol (VOIP) or a company that uses VOIP rather than traditional telephones to make or receive job inquiries or "expression of interests" be considered as using the "Internet or related electronic data technologies" for inclusion under the Internet Applicant rule?

Wikipedia, an online Internet encyclopedia, describes Voice over Internet Protocol (also called VOIP, IP Telephony, Internet telephony, and Broadband Phone) as the routing of voice conversations over the Internet or any other IP-based network. The voice data flows over a general-purpose packet-switched network, instead of traditional dedicated, circuit-switched telephony transmission lines.

While OFCCP does not provide a precise definition of the term "Internet or related electronic data technologies" in recognition of rapid changes in technology in this area, OFCCP does intend this term to include the types of technologies referenced in the preamble to the Internet Applicant final rule. Those six types of Internet-related technologies and applications that were discussed in the preamble are:

Electronic mail/email

Resume databases

Job banks

Electronic scanning technology

Applicant tracking systems/Applicant service providers

Applicant screeners

All of these technologies permit the electronic submission or management of a high volume of expression of interest written data.

We have also posted a related question, immediately above, regarding the use of faxed documents which concludes that transmission of a resume by fax constitutes transmission by "related electronic data technologies." Fax technology permits the electronic submission of a high volume of written expressions of interest.

While VOIP may use the Internet, VOIP functions to transmit individual voice communications akin to a telephone rather than a high volume of written expressions of interest data like the six examples contained in the preamble. Accordingly, OFCCP would not consider VOIP an Internet or related data technology under the Internet Applicant rule.

Basic Qualifications

What is the definition of basic qualifications?

The "basic qualifications" which an applicant must possess means qualifications that the contractor advertised to potential applicants or criteria which the contractor established in advance. In addition, the qualifications must be:

Noncomparative features of a job seeker (e.g. three years' experience in a particular position, rather than a comparative requirements such as being one of the top five among the candidates in years of experience);

Objective (e.g., a Bachelor's degree in accounting, but not a technical degree from a good school); and

Relevant to performance of the particular position.

How would this work in practice?

Here is an example of how this would work: A contractor initially searches an external job database with 50,000 job seekers for 3 basic qualifications for a bi-lingual emergency room nursing supervisor job (a 4-year nursing degree, state certification as an RN, and fluency in English and Spanish). The initial screen for the first three basic qualifications narrows the pool to 10,000. The contractor then adds a fourth, pre-established, basic qualification, 3 years of emergency room nursing experience, and narrows the pool to 1,000. Finally, the contractor adds a fifth, pre-established, basic qualification, 2 years of supervisory experience, which results in a pool of 75 job seekers. Under the Internet Applicant rule, only the 75 job seekers meeting all five basic qualifications would be Internet Applicants, assuming the other three prongs of the "Internet Applicant" definition were met.

Are employment tests considered basic qualifications?

No. Employment tests used as employee selection procedures, including on-line tests, are not considered basic qualifications under the Internet Applicant rule. Contractors are required to retain records about the gender, race, and ethnicity of individuals who take a test used to screen them for employment, regardless of whether the test takers are "Internet Applicants."

How will OFCCP ensure that contractors do not use basic qualifications to discriminate?

Contractors will not be able to use basic qualifications in order to discriminate because:

The rule requires a contractor to retain, for possible review, the expressions of interest it considered, even those of individuals who are not Internet Applicants, for possible OFCCP review.

A contractor must similarly retain records of all the basic qualifications used to develop a pool of Internet Applicants.

OFCCP will rely on Census and other labor market data to assess contractors' hiring practices for potential discrimination and will carefully review the basic qualifications.

OFCCP's compliance evaluations will not be limited to an evaluation of those records produced by the contractor. During compliance evaluations OFCCP will continue to look broadly at all aspects of a contractor's compliance with its obligations to refrain from discrimination in recruitment, hiring, and other employment practices, including the possible adverse impact of screens for basic qualifications.

Can the basic qualifications be modified during the selection process, or do they need to be set prior to the beginning of the process?

All basic qualifications must be established prior to the selection process. Basic qualifications are the qualifications advertised to potential applicants as being required in order to be considered for the position. If the contractor does not advertise for the position but, for example, searches an external resume database, the contractor must make and maintain a record of basic qualifications to be used in the search prior to considering any expression of interest for that particular position.

What if after establishing the basic qualifications for a position, more applications were received than expected. How can the pool of applications to be considered be narrowed to a manageable size?

If a large number of individuals meeting the basic qualifications apply, the contractor has three options. First, the contractor may use data management techniques to limit the number who must be contacted to determine their interest in the position, assuming the sample is appropriate in terms of the pool of those meeting the basic qualifications. Second, the contractor could screen expressions of interest to determine whether some job seekers have removed themselves from consideration based on information the individual has provided in his or her expression of interest, such as salary requirements or preferences as to type or location of work, provided that the contractor has a uniformly and consistently applied policy or procedure of not considering similarly situated job seekers. Finally, the contractor may screen the pool of job seekers possessing basic qualifications for additional preferred qualifications to narrow the pool of those to be further considered. However, demographic information must be solicited from all job seekers meeting

the basic qualifications originally established prior to qualification screening, assuming they meet other elements of the Internet Applicant definition.

What if after establishing the basic qualifications for a position, fewer applications were received than expected. How can the pool of expressions of interest be broadened? Can the contractor go back and make exceptions to basic qualifications?

Contractors may search for basic qualifications serially or in combination. They may search a database for some, but not all, of the basic qualifications and not screen further for the remainder of the basic qualifications. If so, the contractor must solicit demographic data for individuals meeting the subset of "basic qualifications" actually used for screening job seekers, provided the other Internet Applicant criteria are met. A contractor cannot make exceptions to basic qualifications on a case-by-case basis without soliciting demographic information from all job seekers meeting the basic qualifications actually required for anyone to be considered further for the position.

How will OFCCP determine whether a complex, technical qualification standard is objective?

A basic qualification is objective if a third-party, with the contractor's technical knowledge, would be able to evaluate whether the job seeker possesses the qualification without more information about the contractor's judgment.

Can the contractor exclude from further consideration any individual who does not fulfill the basic qualifications summary of skills required in the contractor's advertised job description?

Yes, if the basic qualifications meet the requirements under the Internet Applicant rule and the basic qualifications have been uniformly and consistently applied to all other similarly situated individuals.

Can the contractor screen for basic qualifications through questions in the on-line application?

Yes, provided that the contractor has a uniformly and consistently applied policy or procedure of not considering similarly situated job seekers based on their responses to the questions and the questions are consistent with screening for "basic qualifications." Note that if a question had an adverse impact on minorities or women, the contractor would have the obligation to show that the question is job related and consistent with business necessity.

Can contractors utilize an employment test (such as a personality, knowledge or physical capability test) as part of the online application process?

Nothing in the Internet Applicant rule would prohibit the practice. However, employment tests used as employee selection procedures, including on-line tests, are not considered basic qualifications under the Internet Applicant rule and contractors are required to retain records about the gender, race and ethnicity of the individuals who take a test used to screen them for employment, and other records made or kept about the test, regardless of whether the test takers are Internet Applicants under section 60-1.3.

Can contractors use different basic qualifications for the same job title?

As used in the Internet Applicant rule, the basic qualifications are those qualifications associated with the position filled. Nothing in the final rule would prohibit a contractor from utilizing different basic qualifications for different positions with the same job title, keeping in mind that the basic qualifications must be advertised or established in advance, and must be noncomparative, objective, and relevant to the particular position.

What happens if contractors use search criteria beyond the basic qualifications?

The final rule does not prohibit the use of additional search criteria in making a selection decision. However, an individual is an Internet Applicant if he or she meets all of the pre-established basic qualifications plus the other three prongs of the definition. The contractor could be found in violation of Executive Order 11246 if it failed to maintain required records, such as the resume from an external resume database of each individual that met the basic qualifications or to collect the required demographic data on all individuals who met the four "Internet Applicant" criteria (i.e., those who met the "basic qualifications," even if additional screening was done based on additional qualifications).

What do contractors do with searches for basic qualifications of an external resume database that produce false positives? For example if a search was made of an external database for a computer programmer with JAVA experience, the search results may include people with coffee shop java experience. Is the contractor obligated to retain all resumes produced by the JAVA search?

No. Only those individuals with computer programmer JAVA experience would meet the basic qualification. Those with only coffee house java experience would not possess the basic qualifications. Accordingly, the company would not be required to retain the resumes of those with only coffee shop experience.

Consideration of Job Seekers

What is the definition of "considers the individual for employment in a particular position," for purposes of the definition of "Internet Applicant"?

The definition of "considers the individual for employment in a particular position" for purposes of paragraph 60-1.3 (1)(ii) of this definition means that the contractor ***assesses the substantive information provided*** in the expression of

interest with respect to any qualifications involved with a particular position.

A contractor may establish a protocol under which it refrains from considering expressions of interest that are not submitted in accordance with standard procedures the contractor establishes.

Likewise, a contractor may establish a protocol under which it refrains from considering expressions of interest, such as unsolicited resumes, that are not submitted with respect to a particular position. If there are a large number of expressions of interest, the contractor does not "consider the individual for employment in a particular position" by using ***data management*** techniques that do not depend on assessment of qualifications, such as random sampling or absolute numerical limits, to reduce the number of expressions of interest to be considered, provided that the sample is appropriate in terms of the pool of those submitting expressions of interest.

Is a contractor required to consider for employment every job seeker who expresses an interest in employment through the Internet and possesses the basic qualifications for a particular position?

No. OFCCP does not provide a blanket requirement that contractors must consider any and all expressions of interest they receive, regardless of the manner or nature of the expression of interest-even if the job seeker possesses the basic qualifications. If the contractor has established standard procedures that job seekers must follow in order to express an interest in employment, the contractor does not have to consider those individuals who do not follow those procedures. Similarly, the contractor does not have to consider for employment individuals who do not specify a particular position, so long as that is the contractor's consistent practice. Additionally, if there are a large number of expressions of interest, the contractor may limit the number of individuals it considers by using random sampling, absolute numerical ceilings, or other data management techniques, provided the sampling procedure is appropriate.

Does a contractor "consider" an individual merely by running a (basic qualifications) search that brings up the individual's resume, if the contractor never opens the resume?

If the contractor does not open the resume as a result of appropriate data management techniques that limit the number of resume "hits" that are reviewed, then the contractor has not "considered" that individual.

Can a company use a BOT to search an external database to fill a position? [A BOT (short for "robot") is a program that operates as an agent for a user or another program or simulates a human activity. On the Internet, the most ubiquitous bots are the programs, also called spiders or crawlers, that access Web sites and gather their content for search engine indexes].

Yes. BOT searches of external resume databases are treated the same as other methods for searching external resume databases. The BOT may be used to search for basic qualifications for the position without retaining a copy of all resumes reviewed. If the BOT searches beyond the basic qualifications, the company could be found in violation of the Executive Order if it failed to maintain the resumes of each individual that met the basic qualifications. Other records required to be maintained regarding searches of external resume databases also must be maintained for BOT searches of such databases.

Data Management

Is there an obligation to keep a record of the data management technique used? Specifically, must records be maintained about the criteria of random sampling used or the manner by which a numeric limit was determined?

While there is no express requirement for the contractor to document the techniques employed, contractors must retain records they create memorializing or implementing data management techniques under OFCCP's general record retention requirement to retain any employment or personnel record made by the contractor, including records pertaining to hiring. 41 CFR 60-1.12(a). Failure to do so may weaken the company's ability to defend its practices.

Is there a minimum number of expressions of interest that must be considered when a data management technique is used to limit the number of expressions of interest?

No. OFCCP will allow the contractor to determine the number of expressions of interest that are considered for each specific position as long as the pool is appropriate in terms of those submitting expressions of interest for that position, that is, the data management techniques are facially neutral and do not produce disparate impact based on race, gender, or ethnicity in the expressions of interest considered. OFCCP will consider labor force statistics in evaluating whether the pool of expressions of interest to be considered produces disparate impact.

How will OFCCP determine whether data management techniques used to reduce the pool of expressions of interest to be considered have a disparate impact, if the race/gender/ethnicity composition of the pool that is reduced using these techniques is not known?

OFCCP will consider labor force statistics in evaluating whether the pool of expressions of interest to be considered produces disparate impact, comparing the representation of gender, race and ethnic groups in the pool selected for consideration with the representation of those groups in the relevant labor market. If the difference in representation rates is sufficiently great, OFCCP may investigate further to determine the cause of the disparities. Part of the reason

that OFCCP requires contractors to maintain records of individuals that express an interest in employment, even if they do not qualify as Internet Applicants, is to allow OFCCP to verify that basic qualifications were uniformly and consistently applied to job seekers. OFCCP also may use the expressions of interest to verify that data management techniques were applied in a neutral fashion.

Can random sampling ever be viewed as a "criterion" for employment, facially neutral or otherwise?

Random sampling is not a basic qualification.

Can contractors use data management techniques as part of the database search to limit the number of resumes to be considered?

Yes, data management techniques can be applied to limit the number of people being considered for a position. However, the techniques must be applied before giving individuals consideration, must not depend on assessment of qualifications, must be representative of the total pool, and must not have an adverse impact.

Withdrawal from Consideration

How can a contractor determine that an individual has indicated that he or she is no longer interested in the position?

The Internet Applicant rule explains that a contractor may conclude that an individual has removed himself or herself from the selection process or has otherwise indicated lack of interest in the position based on the individual's express statement or on the individual's passive demonstration of disinterest. For example, passive disinterest may be shown by:

- Declining a contractor's invitation for a job interview;
- Declining a job offer; or
- Repeatedly failing to respond to a contractor's telephone inquiries or emails asking about his or her interest in a job.

A contractor may also presume a lack of continuing interest based on a review of the job seeker's expression of interest. For example, statements pertaining to (1) the individual's interest in the specific position or type of position at issue, (2) the location of work, or (3) his or her salary requirements, may provide the basis for determining the individual is no longer interested in the position, provided that the contractor has a uniformly and consistently applied policy or procedure of not considering similarly situated job seekers.

What records must be retained about Internet Applicants who withdraw from consideration?

Expressions of interest considered must be retained from those who qualify as Internet Applicants, even if the Internet Applicant later withdraws from consideration. Other required records must be kept as well, including any statement of withdrawal, demographic data previously solicited from the individual and test results. However, the contractor is not obligated to solicit demographic data from the individual if it has not already done so.

What type of documentation will be necessary to verify the applicant withdrew from consideration?

The specific documentation necessary will be case specific. The Internet Applicant rule does not change what OFCCP would consider acceptable documentation under established applicant hiring analyses.

Is a telephone screen a reasonable step to determine if the individual is interested in the location, salary, or hours of the specific position before defining the individual as an Internet Applicant?

The Internet Applicant rule does not specify how or when in the selection process a contractor may screen for a job seeker's interest in the specific position, keeping in mind that the interest screens should be facially neutral and consistently and uniformly applied to similarly situated job seekers. Note that the Internet Applicant rule requires maintenance of records identifying job seekers contacted regarding their interest in a particular position.

Can the employer exclude an individual from further consideration if the individual declines to complete the employer's on-line employment application completely as instructed?

Yes, provided that the contractor has a uniformly and consistently applied policy or procedure of not considering similarly situated job seekers.

If a job fair recruiter suggests that a job seeker apply for a position through a specific requisition, and the job seeker fails to do so, is the job seeker an applicant or an Internet Applicant?

No, provided that the contractor has a uniformly and consistently applied policy or procedure of not considering similarly situated job seekers. Note that discrimination in recruitment also is prohibited by the Executive Order. It would be discrimination for a recruiter to treat job fair job seekers differently based on race, gender or ethnicity in terms of providing specific requisition information.

Recordkeeping

Must a contractor maintain expressions of interest in employment made through the Internet that do not meet the other three criteria contained in the definition of "Internet Applicant"?

No. Under section 60-1.12(a), contractors avoid this burden even if there are large numbers of expressions of interest, because contractors are not required to retain records regarding individuals who were ***never considered for a***

particular position. The rule generally requires a contractor to ***retain all the expressions of interest it considered***, even those of individuals who are not Internet Applicants. However, when a contractor searches an external database, it is required to maintain only copies of resumes of those job seekers who met the basic qualifications for the position and who are considered by the contractor. Further, a contractor must retain records of all the basic qualifications used to develop a pool of Internet Applicants.

What records must be maintained from internal and external resume databases?

The Internet Applicant rule requires contractors to maintain any and all expressions of interest through the Internet or related electronic data technologies as to which the contractor considered the individual for a particular position, except for searches of external resume data bases discussed below. Contractors also are to maintain records identifying job seekers contacted regarding their interest in a particular position. In addition, for ***internal resume databases***, the contractor must maintain a record of each resume added to the database, a record of the date each resume was added to the database, the position for which each search of the database was made, and corresponding to each search, the substantive search criteria used and the date of the search. Also, for ***external resume databases,*** the contractor must maintain a record of the position for which each search of the database was made, and corresponding to each search, the substantive search criteria used, the date of the search, and the resumes of any job seekers who met the basic qualifications for the particular position who are considered by the contractor. These records must be maintained regardless of whether the individual qualifies as an "Internet Applicant" under 60-1.3. Note that the final rule does not specify the form of the record. The format can be as detailed as a system that automatically stores each search or as basic as a simple screen shot printed out and maintained in a file cabinet.

Are contractors required to keep the resumes of the individuals identified from a database search if they did not consider them?

For searches of external databases, the answer is no. The only records a contractor would be required to maintain would be associated with the search itself. For internal databases, contractors are required to keep records of all individuals added to the databases. A resume downloaded from an external resume database into an internal resume database becomes an internal database resume.

Is there a new requirement under the Internet Applicant rule that the contractor must be able to identify, where possible, the gender, race, and ethnicity of each Internet Applicant?

The obligation to solicit demographic information from job applicants is not new. The Internet Applicant rule adds that a contractor is required to solicit and collect such data from each applicant or Internet Applicant, whichever is applicable to the particular position. Voluntary self-reporting or self-identification is still generally the preferred method for collecting data on race, ethnicity, and gender, but in situations where self-reporting is not practicable or feasible, observer information may be used to identify race, ethnicity, and gender.

When should contractors collect race, ethnicity, and gender data?

Under the Internet Applicant rule, contractors are required to solicit race, ethnicity, and gender data from all individuals who meet the definition of "Internet Applicant" or the traditional definition of "applicant" depending upon which standard is applicable to the particular position. OFCCP does not mandate a specific time or point in the selection process that contractors must solicit this information, so long as the information is solicited from all Internet Applicants or traditional applicants, as appropriate.

Since the rule does not establish a time or point in the process for soliciting race/ethnicity/gender data from Internet Applicants, can contractors wait until after the hiring decision, or after interviews, to collect this data from all Internet Applicants for the position?

Contractors have the obligation to solicit demographic information about applicants or Internet Applicants where possible. Solicitation of demographic information does not need to be made immediately upon determining that an individual is an Internet Applicant, but should not be delayed so long that it is no longer feasible to effectively solicit the information. If delayed too long, the contractor may miss its opportunity to collect demographic information when it was possible to do so and fail to collect the data required by the rule. OFCCP can require that the timing of the solicitation be changed to comply with the regulations. Whether the contractor has waited too long to solicit demographic data will depend on the facts, such as whether the delay caused the contractor to be unable to identify a substantial portion of its Internet Applicant pool, the length of time between identifying an individual as an Internet Applicant and making the final hiring decision, and whether the contractor had reason to know that the delay would decrease its ability to receive responses to its solicitation of demographic information. There may be circumstances when it would be permissible to delay solicitation of demographic data until the interview or hiring stages, and other circumstances when it would not be permissible to do so.

How long are contractors required to keep the information from the searches? From what date?

How long a record must be maintained depends on the size of a company and the contract it holds. As expressed

in the implementing regulations at 41 CFR 60-1.12 (online at http://www.dol.gov/dol/allcfr/ESA/Title_41/Part_60-1/41CFR60-1.12.htm), for companies with fewer than 150 employees or a contract of at least $150,000, the record retention period is one year. Contractors with at least 150 employees and a contract of $150,000 are required to maintain the records for a period of two years. That time period is measured from the time the record was created or from the time of the personnel action associated with that record, whichever is later. As an example, for a selected applicant the retention period would be calculated from the date of selection rather than from the date of application. If a contractor repeatedly considered an individual's resume, the retention period would start as of the last consideration given to that resume.

Note: where the contractor has received notice that a complaint of discrimination has been filed, that a compliance evaluation has been initiated, or that an enforcement action has been commenced, the contractor shall preserve all personnel records relevant to the complaint, compliance evaluation or enforcement action until final disposition of the complaint, compliance evaluation or enforcement action.

Can contractors make the self-identification of race, gender and ethnicity part of the registration process individuals complete to post their resume on a database?

Yes, provided that completing such self-identification is voluntary and failure to do so would not prevent the individual from posting his or her resume. The demographic information reported must be electronically maintained separately from the resume information that will be reviewed during the selection process and job seekers should understand this. For example, some contractors have developed "electronic tear-off sheets" for use with electronic applications that separate reported demographic information to be maintained for record keeping from electronic applications to be reviewed by contractors. OFCCP does not mandate a specific time or point in the employment selection process at which contractors must solicit this information, so long as the information is solicited from all Internet Applicants.

UGESP

What do the Uniform Guidelines on Employee Selection Procedures (UGESP) have to do with the Internet Applicant final rule?

Nondiscrimination laws require employers to solicit race, gender, and ethnicity data from "applicants" under the Uniform Guidelines on Employee Selection Procedures (UGESP). UGESP Q&As assist employers in implementing UGESP. On March 4, 2004, the four UGESP agencies (the Equal Employment Opportunities Commission, the Department of Labor, the Department of Justice, and the Office of Personnel Management) published a proposed supplemental Q&A document in the Federal Register seeking comments under the Paperwork Reduction Act (69 FR 10152). That document has not been finalized and is still under consideration. In the coming months, the UGESP signatory agencies will continue to coordinate interagency discussions concerning the Q&As. In the Preamble to the March 4, 2004 document, the UGESP agencies expressly contemplated that "each agency may provide further information, as appropriate, through the issuance of additional guidance or regulations that will allow each agency to carry out its specific enforcement responsibilities." (69 Fed. Reg. 10153).

Does the Internet Applicant final rule change the text of the UGESP or Executive Order 11246, as amended?

No. The Internet Applicant final rule does not change either the UGESP or the Executive Order 11246, as amended. Contractors have an obligation to refrain from unlawful employment practices regardless of how the term "Internet Applicant" is defined. The final rule only clarifies OFCCP's regulations and procedures implementing recordkeeping under Executive Order 11246, as amended.

What are OFCCP's procedures for evaluating Internet Applicant recordkeeping under the final rule (section 60-1.12) and UGESP?

To make clear OFCCP's procedures regarding "Internet Applicant" recordkeeping under both rules, OFCCP has added a new regulatory provision, section 60-1.12(d). This provision explains that when evaluating whether a contractor has maintained information on impact and conducted an adverse impact analysis under UGESP (41 CFR Part 60-3) with respect to Internet hiring procedures, OFCCP will require only those records relating to the analyses of the impact of employee selection procedures on "Internet Applicants" as defined in the Internet Applicant final rule (and the impact of employment tests).

Additional Information

Where can I read or download a copy of the Internet Applicant final rule?

A Copy of this Final Rule is available on the Internet at http://www.dol.gov/esa/regs/fedreg/final/2005020176.htm or in PDF format at http://www.dol.gov/esa/regs/fedreg/final/2005020176.pdf. Copies in alternative formats may be obtained by calling OFCCP at (202) 693-0102 (voice) or (202) 693-1337 (TDD/TTY). The alternate formats available are large print.

Records Retention Requirements for Intellectual Property

Publisher's Editorial Staff

Introduction

Intellectual property encompasses many different areas including copyrights, patents, trademarks, and trade secrets. Intellectual property rights are important company assets that can be lost if not protected, *i.e.*, failing to file a patent application within appropriate time periods or allowing a trademark to migrate into the public domain. In implementing a record-keeping program, a company must be concerned not only with protecting its intellectual property from infringement by others but also maintaining appropriate documentation to defend against a claim of infringement. In terms of litigation, proper records will often be the deciding factor, *i.e.*, does the company have documentation that it adequately protected its trade secrets or does it have documents proving that it was the first to develop a product and, therefore, should be awarded a patent?

The first step in any records retention program in this area is to identify the company's intellectual property records. Only then, can the company take steps necessary to protect important patent, trademark, or trade secret rights. Companies elect to organize intellectual property records in many different ways. Therefore, we are not suggesting that one way is more beneficial than another. However, there are advantages to a centralized docketing or filing system that is under the control of the legal department. That way, important records are kept together and documents will not be misdirected.

This article will discuss generally record-keeping issues in the area of intellectual property.

Copyright Records

Introduction

While some intellectual property records, such as trademarks, must be properly registered to receive protection, a copyright is considered to exist if it is an original work of authorship "fixed in a tangible medium of expression." A copyright is automatically secured once the particular work is "created"; no publication or formal registration in the U.S. Copyright Office is required. The previous Copyright Act provided that a work had to be published, with notice of copyright, in order to be protected under federal copyright law. That is why notice may still be relevant for protection of older works. (Notice consists of the "c" symbol, the year of publication of the work, and the name of the owner of the copyright.)

Despite the fact that no formal registration of a copyright is required, the advantages of properly registering a copyright are many. These include:

— It provides a public record of the copyright claim.

— For works of U.S. origin, a copyright must be registered ***before an infringement suit can be filed***. *See* 17 U.S.C.A. § 411.

— If a work is registered within five years of publication, registration establishes *prima facie* evidence of the validity of the copyright and of the facts stated in the registration certificate.

— If registration is made within three months after publication of the work, or prior to infringement, the copyright owner may obtain statutory damages and attorneys' fees. Otherwise, only actual damages and profits are available.

— If a work is registered with the U.S. Copyright Office, it may be recorded with the U.S. Customs Service for protection against the importation of infringing copies.

Copyright Basics, U.S. Copyright Office (June 1999) (Revised July 2006).

A copyright can be registered at any time within the life of the copyright.

What works should be registered? Many corporate works can and should be properly registered, including computer software, product manuals, company advertisements, employee speeches, "works made for hire," pictorial or graphic works, and many others.

How to Register

A work may be registered with the Library of Congress, Copyright Office, Register of Copyrights, 101 Independence Avenue SE, Washington, DC 20559-6000. The registration must include

(1) a properly completed application form;

(2) a nonrefundable filing fee for each application; and

(3) a nonreturnable deposit of the work being registered.

The deposit requirements vary in different situations. Generally, the deposit requirements are as follows.

- If the work was first published in the United States on or after January 1, 1978, two complete copies or phonorecords of the best edition are required.
- If the work was first published in the United States before January 1, 1978, two complete copies or phonorecords of the work as first published are required.

- If the work was first published outside of the United States, one complete copy or phonorecord of the work as it was first published is required.
- If sending multiple works, all applications, deposits, and fees should be sent in the same package. If possible applications should be attached to the appropriate deposit. If there are multiple packages, number each package (*i.e.* 1 of 3, or 2 of 4, etc.) to facilitate processing.

A registration is effective on the date the U.S. Copyright Office receives all of the required elements in "acceptable form," regardless of how long it then takes to process the application and mail the certificate of registration. An applicant will ***not*** receive an acknowledgment that the application has been received. Therefore, sending an application by certified mail, return receipt requested, is recommended if the applicant wants to have a record of the date the Copyright Office received the material. An applicant can expect to receive a call if further information is needed, a certificate of registration indicating that the work has been registered, or a letter explaining why it was rejected.

A supplementary registration may be filed in order to correct and make amplifications to an existing registration. There has been litigation regarding inaccurate copyright registrations. Therefore, it is essential that the corporation have a program in place to verify registrations.

If a copyright is transferred to another company, the fact of that ***transfer*** may also be registered with the Copyright Office.

Forms necessary to properly register a copyright, transfer of copyright, etc., are available from the Library of Congress, Copyright Office, Publications Section, LM-455, 101 Independence Avenue SE, Washington, DC 20559-6000, and the U.S. Copyright Office Web site www.loc.gov/copyright. That Web site also has available numerous guidance documents that can assist company personnel in the registration process.

The U.S. Copyright Office's records are open for public inspection and searching. In addition, the office will conduct a search for a fee.

Based upon these requirements, and in order to not risk losing valuable rights, a company must implement procedures to properly document its copyright records, including the registration of its copyrights, copyright renewals, and copyright assignments. An appropriately documented program will also help defend against a copyright infringement suit. A company should have records documenting all of its copyright searches.

Software

Software programs can also be registered with the Copyright Office.

Companies have paid considerable fines for violation of copyright law for illegally copying a software program for use on many of the company's computers when the particular license only applied to one computer. A company may be entitled to use a software program (or spreadsheet program, database program, or other software) on one computer only. If it needs to use several copies of the program, it will need to purchase those copies or negotiate a site license, for the use of the spreadsheet programs, database programs, or other software on multiple computers.

The problems in this area occur because there are so many different versions of a program that a company, initially in compliance when it installed the program, fell out of compliance as the company expanded, experienced employee turnover, added new computers and replaced old ones, or any of a dozen other reasons.

Therefore, companies should have special software compliance programs documenting which programs are licensed for use on which computers.

External Software Audits

A typical software copyright infringement problem occurs when someone makes a complaint to an organization devoted to protecting software copyrights, such as the Business Software Alliance (BSA). In response to such a complaint, BSA would then go to the alleged infringing company, inform it that it has been accused of using illegal copies of software, and then ask it to audit the software programs installed on all of the company's personal computers. Most companies allow BSA to undertake such investigations, and even if a company refused, BSA could presumably get a court order requiring such an audit.

The BSA's "audit program" prints out a list of the programs that are currently installed on the company's personal computers. BSA then asks to see the licenses for those programs contained on the printout. If, upon inspection, the company does not have the proper licenses, then BSA will request some form of fine or penalty. (For more information about the BSA audit program, visit BSA's Web site www.bsa.org.)

Fines and Penalties

Because of the huge potential for copyright liability, companies will almost always be willing to settle with BSA for the retail price of all the programs for which they do not have a license, plus some type of penalty. The amount of the penalty that BSA will request is likely to be affected by the degree of the problem.

If a company has a good compliance program and appropriate policies but simply had some employees that made mistakes, or perhaps even a few rogue employees that deliberately made illegal copies, the fines and penalties will be much smaller than if it appears that the company was

simply trying to save money by buying a fewer number of programs than were necessary and making illegal copies.

Software Records Retention Program

It is important to maintain a centralized records system of all of the company's software licenses at all of its facilities. The records to be maintained should include:

- the title and publisher of the software,
- the serial number of the software product,
- the date the software was acquired,
- where/who the software was acquired from,
- the location of each installation of the software and the serial number of the hardware on which each copy of the software was installed, and
- the existence and location of back up copies of the software.

A case involving a Florida engineering firm illustrates how important this requirement is. BSA issued a press release on February 2, 1998, announcing that it had concluded an investigation into unauthorized copying of software by the engineering firm. To resolve the claims of software copyright infringement, the firm agreed to pay BSA $140,000, delete any unlicenced software programs, and purchase sufficient copies to meet its future needs. The firm also agreed to strengthen its existing software management program. The president and CEO of the firm made the following statement:

> [The firm] is a twenty-nine year old planning, civil engineering, and surveying firm, with a long and successful history working with municipalities, federal agencies, and resort developers in the southeast United States. ***Due to rapid expansion of the firm and its electronic information handling requirement, senior management lost administrative control of its software licensing record keeping.*** When BSA brought this situation to the attention of management, there was an immediate restructuring of accountability for system operations and a principal of the firm was assigned day-to-day oversight of the electronic information system network. [The firm] now uses strict auditing procedures to monitor the installation and usage of all software products at its two offices.

This example clearly illustrates that even a reputable, well-respected company can suffer considerable financial loss mainly due to its lack of adequate record-keeping management.

Policies and Procedures

Companies should have a software policy stating that the company's policy is to purchase the programs it needs and that it will not make illegal copies. The company must also have procedures in place to support the policy so that it is believable and effective. Some procedures, for example, contemplate that every personal computer is listed on an inventory accompanied by a list of the programs that each particular computer has been properly licensed to use.

The Software & Information Industry Association (SIIA), which was formed as a result of a merger between the Software Publishers Association and the Information Industry Association in 1999, is a principal trade association for the software and digital content industry. On its Web site, www.siia.net, the SIAA provides a great deal of useful information. Under "Corporate Anti-Piracy Information" it has available online corporate user-suggested policies and procedures including

(1) "Software Policy and Employee Usage Guidelines" (revised April 2003),

(2) "Employee Internet Usage Policy;" and

(3) "Ten Commandments of Software Compliance."

These may be useful for incorporating into employee manuals and in daily business operations.

These policies may also be built into the company's compliance program. When a company uses such policies, it should require the employees to sign the policies and the signed receipts/acknowledgments should be appropriately retained with the company's other software records.

In addition, under the "Audit Software" section of the Web site, there is a reference guide listing companies that provide software audit tools that have met the SIIA's standards for accuracy, reliability, completeness, and ease of use.

Internal Software Audits

Many compliance programs fall short when it comes to conducting internal audits. A company should not create a paper documentation system and then just hope for the best or simply wait for BSA to show up and perform an audit. Instead, it should conduct the audits itself.

Conducting an audit is a fairly easy task. BSA offers several excellent audit programs. BSA is in the business of encouraging compliance with the copyright laws, not the business of trying to make a profit from fines, except so far as the fines have a deterrent effect on other companies.

Thus, the compliance program should consist of written policies and procedures regarding how the company handles software. Also, the company should have accurate, up-to-date records for each of the company's computers, along with records of the licenses for each computer.

Example of an Audit

Assume there are fifty personal computers at a given location. On a certain day, the BSA internal audit program is run (or any other suitable program) on all of the computers, and the results are obtained.

Next, the company conducting the audit compares the audit results with the written records/procedures to determine whether there is a difference. Most likely, one of two things will occur.

1. The written record will be wrong—someone actually did purchase new software for a certain computer but never told the person who maintains the records about the purchase. In this case, a simple notation in the records will fix the discrepancy.
2. An improper copy was actually made. In this situation, the illegal copy should be destroyed, and the software in question should be legally obtained and properly installed on the computer.

In an ideal world, an audit of this sort should be conducted periodically—perhaps annually or every other year. The timing of the audits might also be influenced by events that could give rise to problems, such as employee turnover or a recent acquisition of hardware. By conducting regular audits, a company should be able to produce a series of records indicating software compliance. Additionally, if a breach was detected, it could be shown that such a violation was limited to a minor, inadvertent incident or one that was the responsibility of an employee who simply did not follow the company's established policies and procedures.

Copyright Infringement

To prove copyright infringement, a plaintiff must establish valid ownership in a copyright and copying by the defendant. Copyright registration records, as well as any work-made-for-hire or joint work agreements, would be necessary to prove ownership. Proof of copying may be established either by direct or circumstantial evidence. Rarely will a plaintiff have proof of actual copying. Therefore, most copyright cases hinge on proof of copying by evidence of access to the copyrighted work and a substantial similarity between the two works.

Records indicating access by third parties to a company's copyrighted material will be helpful in proving infringement. Alternately, detailed accounts of ongoing efforts to produce copyrighted materials could establish a defense of independent creation in the event a company is sued for infringing the copyright of another. For example, in *Ellis v. Diffie,* 177 F.3d 503 (6th Cir. 1999), two similar country and western songs were determined to be independently created as evidence of access was insufficient to support an infringement claim.

In this case, Everett Ellis claimed to have written a song in 1985 titled "Aunt Belle." The lyrics of the song told the story of Ellis's aunt who wished to be laid out by the jukebox in the tavern that she owned when she died. In 1991, Ellis met with Slate, the president of Affiliated Publishers, Inc., to discuss recording some of Ellis's songs. Ellis recorded "Aunt Belle" at that time. After Slate made some suggestions regarding improvements that could be made to the song, Ellis claimed he reworked the lyrics and renamed it "Lay Me Out by the Jukebox When I Die" ("Lay Me Out"). Slate denied ever hearing the song.

In 1993, Ellis heard a song by Joe Diffie called "Prop Me up beside the Jukebox If I Die" ("Prop Me Up"), which was recorded by Slate's company. Ellis then sued for copyright infringement. At trial, the defendants testified that "Prop Me Up" was developed by staff writers as a reworking of a song called "Double Two-Steppin' Honkeytonk"—which includes a line about being propped up against a jukebox once dead. The staff writers all testified that Slate had little or no contact with the writers during the creation of the song.

Because Ellis's evidence of the defendants' access to his song was insufficient to support a finding of copyright infringement, the Sixth Circuit affirmed the district court's ruling that "Prop Me Up" was a product of independent creation by the defendants and did not constitute infringement.

An inference of copying can be established by showing (1) a substantial similarity between the two works at issue, and (2) access to the allegedly infringed work by the defendants.

Using the "ordinary observer" test—where the similarities of the two works are gauged solely on the basis of net impression without relying on expert analysis or dissection—the court found that the choruses of the two songs were substantially similar. Both songs contained a similar idea, and shared some phraseology, rhythms, chord progressions, and melodic contours. However, other aspects of the songs, including the structures, lyrics, and melodies, were distinct from one another.

Although a substantial similarity between the works did exist, the court found that Ellis did not meet his burden of proving that the defendant songwriters had access to a recording of Ellis's song "Lay Me Out." Although access can be proven by establishing that both parties were dealing with a mutual third party, in this case, the evidence was insufficient to prove that Slate ever had a copy of "Lay Me Out." Concluding that Slate could have had access to the song would have required conjecture and speculation, and access may not be inferred in that manner. Because Ellis failed to prove that "Lay Me Out" was actually recorded for Slate and left in his possession, the evidence was insufficient to support a finding of copyright infringement.

Patent Records

The U.S. Patent and Trademark Office (PTO), an agency of the U.S. Department of Commerce, registers trademarks and provides patent protections for inventions. Any person who "invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvements thereof, may obtain a patent" subject to certain conditions. Printed copies of

a patent, identified by patent number, may be purchased from the PTO.

In recent years, patent infringement suits have brought millions of dollars to plaintiffs. Therefore, the necessity of building and maintaining proper patent records has become all the more important.

It should be noted that the first party to file for a patent on a particular invention will not necessarily be awarded the patent. Many suits have revolved around the issue of just who developed the particular invention especially where two companies may both be in the process of developing a particular invention at the same time. Accurate documentation of the company's research and development records will be essential. Therefore, the company should implement procedures for the appropriate documentation of the invention development process.

Patent Applications

Filing a patent application within the appropriate time period is essential. A nonprovisional patent application includes

(1) a written document which comprises a specification (description and claims), and an oath or declaration;

(2) a drawing in those cases in which a drawing is necessary; and

(3) the filing, search, and examination fees.

It is important to note that an invention ***cannot*** be patented if

(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent; or

(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country ***more than one year prior*** to the application for patent in the United States.

Section (b) contains important implications for any corporate records retention program. Essentially, this provision means that a company cannot apply for a patent on a particular invention ***more than one year*** after the invention was ***described in a publication or in public use.*** Because of this requirement, companies should maintain detailed records of inventions that are currently being developed, and patent counsel should be advised frequently regarding the status of an invention so as not to lose the right to obtain patent protection.

Further, the company will want to have a system in place for tracking whether a particular invention has been mentioned in an article or demonstrated to people outside the company which could be considered to be "in public use" within § (b).

In addition, the company will want to maintain records of other pertinent patent records, such as those involving patent maintenance fees or proper records of patent assignments (patents are personal property that can be assigned, mortgaged, sold, bequeathed by will, and may pass to the heirs of a deceased patentee).

All transfers or sales of patents must be in writing. All assignments should be notarized and recorded with the PTO. It should be noted that, if an assignment is not recorded ***within three months,*** it is void against subsequent purchasers for valuable consideration without notice unless it is recorded prior to the subsequent purchase.

Since 1995, the PTO has been accepting ***provisional*** patent applications designed to provide a lower cost first patent filing in the United States and to give U.S. applicants parity with foreign applicants. *General Information Concerning Patents,* U.S. Department of Commerce, PTO (revised June 1999). Claims and oaths or declarations are not required for such provisional applications. Provisional applications allows the term "patent pending" to be utilized. Provisional applications, unlike the nonprovisional application, are not examined on their merits.

The details of applying for a patent are, in most companies, handled by a patent attorney who specializes in such matters. Therefore, the patent attorney will have to be heavily involved in developing the appropriate record-keeping procedures regarding patents.

Technical Records

To prepare applicable patent applications, the company's patent attorney, whether that individual be in-house or outside counsel, will need to consult with the company's technical personnel—the engineering staff or research and development personnel. The records that these individuals generate may include a host of different documents supporting a particular invention. These types of documents will be important especially in a case where a competitor may be developing a similar product at the same time. In this type of situation, just which party will be awarded a patent will come down to record keeping.

The company should have a system in place for maintenance of these technical records. These records will especially be important in case a claim of "reverse engineering" is alleged against the company. Reverse engineering is discussed below.

Reverse Engineering

Another reason to maintain accurate technical records is to defend against a claim of reverse engineering—the process of disassembling a competitor's product in order to copy it. Many of the claims involving reverse engineering have arisen in the context of software. The case of *Atari*

Games Corp. v. Nintendo of America, Inc., 975 F.2d 832 (Fed. Cir. 1992), illustrates the dangers inherent in reverse engineering.

Atari Games Corporation (Atari) sued Nintendo of America, Inc. (Nintendo) for, among other things, copyright and patent infringement, and unfair competition regarding Nintendo's video game system. Nintendo's home video game system—the NES—contained a program—the 10NES—which was designed to prevent the system from accepting unauthorized game cartridges. Atari wanted to replicate the NES security system but could not break the system's program code. Atari became a Nintendo licensee, paying Nintendo to gain access to the NES for its video games. However, the terms of the license agreement explicitly controlled Atari's access to Nintendo's technology, including the NES.

Atari's attorney applied to the U.S. Copyright Office for a reproduction of the 10NES program. In its application, Atari stated that it was a defendant in an infringement suit and needed a copy of the program for litigation. Copyright regulations provide that such copies are available if the office "receives a written request from an attorney on behalf of either the plaintiff or defendant in connection with litigation, actual or prospective, involving the copyright work." § 201.2(d)(2). After obtaining the 10NES source code, Atari was able to reverse engineer the 10NES.

The district court enjoined Atari's alleged infringement. Atari asserted copyright misuse as a defense to infringement.

The court determined that Nintendo's program qualified for copyright protection, and that Atari illegally reverse engineered the program. Section 107 of the Copyright Act provides that "fair use of a copyrighted work, including such use by reproduction in copies ... for purposes such as criticism, comment, news reporting, teaching ... scholarship or research," is not infringement. While reverse engineering object code in order "to discern the unprotectable ideas in a computer program is a fair use," the "extensive efforts to profit from replicating protected expression" is not.

> The fair use reproductions of a computer program must not exceed what is necessary to understand the unprotected elements of the work. This limited exception is not an invitation to misappropriate protectable expressions. Any reproduction of protectable expression must be strictly necessary to ascertain the bounds of protected information within the work.

However, copyright law provides that an individual, in order to be eligible for the fair use exception, must possess an ***authorized*** copy of the literary work, which Atari did not. However, any reverse engineering Atari accomplished without the purloined copy could qualify as a fair use.

The district court erred in assuming that reverse engineering, or intermediate copying, is copyright infringement, the Court of Appeals for the Federal Circuit held

> Atari did not violate Nintendo's copyright by deprocessing computer chips in Atari's rightful possession. Atari could lawfully deprocess Nintendo's 10NES chips to learn their unprotected ideas and processes. This fair use did not give Atari more than the right to understand the 10NES program and to distinguish the protected from the unprotected elements of the 10NES program. Any copying beyond that necessary to understand the 10NES program was infringement. Atari could not use reverse engineering as an excuse to exploit commercially or otherwise misappropriate protected expression.

Based upon the *Atari* case, any company that is considering reverse engineering will want to have records that can support the fair use defense. First of all, a company, unlike Atari, should obtain an authorized copy of the particular work. Further, as illustrated by the *Atari* case, the company should have records supporting the fact that it has only reverse engineered "what is necessary to understand the unprotected elements of the work," and not protected expression.

As suggested by Brian C. Behrens and Reuven R. Levary in their article "Legal Aspects—Software Reverse Engineering and Copyright: Past, Present, and Future," 31 *J. Marshall L. Rev.* 1 (Fall 1997), companies should divide their reverse engineering personnel into two groups—one that performs the reverse engineering and the other that develops the new software—in order to demonstrate "clean hands." As the authors note, "[i]f a software developer is later charged with software copyright infringement, the company can produce records to show that the newly developed program was completed without directly copying the original software code." These authors suggest that the individuals performing the reverse engineering "explain, in ***a written journal or log,*** the functions of the original program as well as the ideas the program uses without describing the expressive content (how the program will look to the user)." Then the engineers that develop the new product can do so independently. However, the authors point out the important fact that it is necessary to conduct preliminary research into any product that is to be reverse engineered, as some, albeit rare, software functions or processes, may be patented.

The Company's Rights to Inventions of Employees, Independent Contractors, and Other Parties

One very important aspect of patent record keeping concerns just who is developing the invention. While many companies develop inventions internally, outside consultants may very likely be involved in the development process. Therefore, it is essential that a program and

appropriate procedures be developed for retaining documents that spell out who owns the invention. Generally, if an employee is hired to invent and the invention is made within the scope of employment, the invention will belong to the corporation. The agreement that the company had the employee sign, presumably upon initial employment, should state that all inventions become the property of the employer. This form may be retained at the company's human resources headquarters in the personnel file, or with other patent-related records.

In addition to employees, records should be retained of independent contractors, joint venturers, and other parties that have been retained by the corporation. It should be noted that some states have statutes that limit the ability of an employer to draft agreements providing that the employer "owns" a particular invention unless the employee developed the idea on the employer's time, using the employer's equipment, unless the particular invention is one that is directly related to the employer's particular business. In drafting employment agreements, such statutes must be a concern.

Record Keeping to Avoid Infringement

One of the primary goals of the company's records retention program is to avoid patent infringement liability. Infringement consists of the unauthorized making, using, offering for sale, or selling any patented invention within the United States or U.S. Territories, or importing into the United States of any patented invention during the term of the patent.

To avoid possible infringement, prior to applying for a patent the company will want to conduct the appropriate patent search. This generally will be conducted through in-house or outside patent counsel. Known as a "right to use" evaluation, the search will review all known relevant patents through a search of the PTO or patent and trademark depository libraries, and a review of the PTO's *Official Gazette*. The results of these searches should be properly documented and retained.

Companies may also find patent information available on the Internet. Relevant Web site pages should be printed out, *i.e.*, Web pages of competitors, and those pages maintained, and a process in place to visit pertinent sites frequently. Companies should particularly look for new products that may be in the process of being developed by competitors that are similar and a potential source of an infringement problem.

Trademarks

A trademark is either a word, phrase, symbol, or design, or combination of words, phrases, symbols, or designs, which identifies and distinguishes the source of the goods or services of one party from those of another.

Trademark rights arise from either (1) the actual use of the mark, or (2) filing an application to register a mark in the PTO stating that the applicant has a bona fide intention to use the mark in commerce regulated by the U.S. Congress.

Registration

Federal registration is not required to establish rights in a mark, nor is it required to begin use of a mark. However, federal registration can secure benefits beyond the rights acquired by merely using a mark. For example, the filing of an application constitutes constructive use, which prevents a junior user from acquiring any right to use the mark after the filing date. Once issued, the registration constitutes constructive notice, which prevents a junior user from acquiring rights to the mark and confines the rights of a senior, unregistered user to the territory that user occupied at the time of the registration. Other advantages of federal registration include presumptions of validity, ownership, and the exclusive right to use the mark, increased ability to block infringing imports, and possible eligibility for the mark to attain incontestable status. Registration on the Principal Register is governed by the Trademark Act of 1946, *as amended,* 15 U.S.C.A. §§ 1051 *et seq.;* the Trademark Rules, 37 C.F.R. part 2; and the Trademark Manual of Examining Procedure.

Unlike copyrights or patents, trademark rights can last indefinitely if the owner continues to use the mark. A trademark may be registered for ten years, with ten-year renewal terms. However, it is important to note that a renewal application may not be filed until at least six months prior to the expiration of the registration. Companies will, of course, want to maintain records identifying exactly when a trademark renewal date is approaching so as not to lose valuable rights.

A trademark registration must be maintained or it will be canceled. Under § 8 of the Lanham Act (15 U.S.C.A. § 1058), between the fifth and sixth year after an applicant's initial registration, the registrant must file a continued-use affidavit in order to keep the trademark active. Also, a registrant is required to file a continued-use affidavit in the year before the end of every ten-year period after the registration date. The affidavit must set forth "those goods or services recited in the registration on or in connection with which the mark is in use in commerce" (15 U.S.C.A. § 1058(b)(1)) and must be accompanied by specimens or facsimiles showing current use of the mark. If the mark is not in use, then the affidavit must show that such nonuse is due to "special circumstances which excuse such nonuse and is not due to any intention to abandon the mark" (15 U.S.C.A. § 1058(b)(2)). There is a six-month grace period after the end of the applicable period within which a trademark owner can still file its § 8 affidavit, along with a surcharge.

Section 9 of the Lanham Act (15 U.S.C.A. § 1059) requires a registrant to file a renewal application every ten years.

The renewal application must be filed sometime within the year prior to expiration of the ten years. There is also a six-month grace period in which a renewal application will still be accepted by the PTO; however, there will be a fee and a surcharge.

Under the Lanham Act § 15 (15 U.S.C.A. § 1065) a mark can attain incontestable status, if the registrant files an affidavit with the PTO within the sixth year of use, stating that the mark has been continuously used on the goods or services listed in the registration for five consecutive years and is still in use. A registration that is incontestable is "conclusive evidence" of validity, ownership, and the exclusive right to use the mark in commerce.

Finally, a registrant should give notice that the mark is registered with the PTO by displaying the mark with the words "Registered in the U.S. Patent and Trademark Office" or "Reg. U.S. Pat. & Tm. Off." Or with the letter R in an enclosed circle. If the registrant does not give notice, the registrant cannot receive profits or damages in an infringement suit. *See* Lanham Act § 29; 15 U.S.C.A. § 1111.

Trademark Infringement

In a trademark enforcement action, a company will have to show that it diligently protected its trademark from migrating into the public domain. Conducting trademark searches, and documenting those searches, is essential to a defense.

If the company becomes aware of possible infringement, it must take steps to protect the trademark. Initially, this may take the form of a cease-and-desist letter, and may, eventually, proceed to litigation. All records pertaining to the steps the company has taken to protect its trademark will be important to any litigation.

Trade Secrets

Another area of intellectual property where detailed record keeping is essential involves trade secrets. First, a company will want to identify its trade secrets. A host of different things can be considered trade secrets including customer lists, advertising plans, software, designs, competitive strategies, pricing, supply sources, salary structures, recruiting practices, particular ways of doing business, or manufacturing methods. Once the company has identified its trade secrets, the key is to then protect them so they do not lose their trade secret status.

Unlike patents and copyrights, there is no provision under federal law for the registration of trade secrets. Trade secrets are protected, however, under many state laws and under the Economic Espionage Act of 1996, 18 U.S.C.A. §§ 1831 *et seq*., a federal statute that criminalizes and establishes considerable fines for the theft of trade secrets.

Most trade secret litigation will boil down to one thing—whether the company can produce records showing that it has adequately protected the particular trade secret. A company must have procedures in place to protect not only its trade secrets but other companies' trade secrets. For example, during discussions with inventors, in negotiations with a potential candidate for acquisition, or even in correspondence with a potential supplier or customer, a trade secret may be divulged. There is usually an implied or express obligation on the part of the company not to use or appropriate confidential information or trade secrets except for the purpose for which the information was disclosed—to evaluate a potential acquisition target, select a supplier, or another legitimate business-related reason. In addition, a company may receive outside idea submissions from various third parties. If the company accepts such an idea and then develops the same idea, it could get itself involved in potential trade secret litigation.

An illustrative case is *Injection Research Specialists, Inc. v. Polaris Industries L.P.,* 129 F.3d 132 (D. Colo. 1997), in which Polaris Industries, a snowmobile manufacturer, could not show, through its records, that it had been independently working on an electronic fuel-injection engine that was similar to one that Injection Research Specialists, Inc. had developed and had disclosed information about to Polaris during licensing negotiations.

After the negotiations broke down between Polaris and Injection Research, Polaris began to manufacture its own fuel-injected engines for snowmobiles. Because Polaris could not produce any evidence indicating that Polaris had independently developed the fuel-injected engine, the jury decided that it had misappropriated Injection Research's trade secrets which it acquired during the licensing negotiations. The jury ordered Polaris to pay $45.6 million in damages to Injection Research for trade secret misappropriation.

The outcome of cases such as these highlights the importance of records such as

(1) the identification of the research personnel who are working on a particular project, and the dates, time frames, and at least some discussion of the details of the subject matter of the technology being developed;

(2) how the company plans to use the technology; and

(3) research and development that the company is subcontracting out.

Creating a Trade Secrets Records Retention Program

Some of the initial considerations in creating a records retention program to keep track of trade secrets include the following:

1. Who should maintain this kind of information?
2. Where is research and development taking place? (It could occur in a research and development labora-

tory, the shop floor, the MIS department, or even in the advertising and marketing departments.)

3. Which employees have access to the trade secrets?
4. How often should the information be updated?
5. In what form should the records be kept?

Employment-Related Records

Suppose that one company hired an engineer from a competing company and that engineer is working on essentially the same kind of technology with the new company as he or she did with the prior one. In the absence of an enforceable noncompetition agreement, the law essentially provides as follows:

1. The engineer could not take trade secret information, including knowledge the person had in his or her head, in addition to actual documents or samples, from the previous company to the new one.
2. On the other hand, general information and general knowledge that the engineer developed throughout his career, including the previous job with the competitor, is certainly something that the engineer can use in future work for anyone.

The dilemma arises in the situation where the engineer develops something really useful that is competitive with products being marketed or developed by his or her previous employer. The question is, "Did the engineer improperly use trade secrets or confidential information garnered at his previous job for his new employer?" This is often a heavily factual issue.

Another complicating factor is the issue of whether the company actually intended that the engineer use the secrets of the previous company in the development of the new company's products. In other words, it is one thing when an engineer is simply careless with confidential information and quite another when a company formulates an intent or a policy to hire engineers from a competitor with the idea that it will acquire its competitor's trade secrets that way.

The general consensus among records retention experts is that a company should obtain a statement that the person hired has not taken any documents relating to any trade secret or confidential information from his or her previous employer. (Note that we use the word "documents" here just for the sake of convenient discussion. It certainly includes computer disks, programs, and digital information e-mailed from one computer to another. The wording of the clause should be broad enough to cover "documents" of all types.)

Additionally, it may be helpful to secure some statement as to exactly what the engineer was working on at the previous company and, if appropriate, create documentation showing that the engineer is not using that knowledge or data in his or her current job.

Every situation will involve different factual scenarios. However, confidential information comes in many forms, ranging from chemical equations to pricing and supplier information. From the legal perspective, however, it can all easily qualify as "trade secrets," and its theft by one company from another is serious business. Since a good deal of the opportunity for theft of trade secrets occurs when employees change jobs, it is highly desirable to consider the establishment and maintenance of records showing that a newly hired employee is not coming into your company with the intention of using a prior employer's trade secrets.

If a company maintains detailed records of the products or services that it is developing, accompanied by an accounting of the progress that is being made on those items, it will make it easier to prove that these products or services, if they compete with those of an employee's previous employer, were developed independently. This documentation should be adequate to rebuff any allegations that the development and production of the products or services in question were the result of a trade secret misappropriation.

Therefore, companies hiring new employees who have had access to trade secrets should sign applicable confidentiality agreements. In addition, employees that leave the company should also sign appropriate confidentiality agreements. Companies also must keep records of the noncompetition agreements that employees have signed. Records of entrance and exit interviews explaining what a trade secret is and reinforcing that the trade secret must still be kept confidential after the employee leaves, should be conducted, and statements to that effect appropriately documented. If possible, an employer should ascertain an employee's new employer and notify that employer what trade secrets the employee may be privy to. Documentation of those letters should also be appropriately retained.

Contracts with outside sales personnel and vendors should also include provisions for trade secret protection if applicable.

Records of Security Measures

Records of the security measures the corporation had in place to protect trade secrets should also be available. This can include everything from properly documented security at the company's facility to logs that track visitors to the facility, to "records" of surveillance.

Internet and E-Mail

A company should have procedures in place to monitor whether its trade secrets are being disclosed via company e-mail, on the company Web site, or over the Internet. A case filed in the U.S. district court in Detroit involving Ford Motor Company underscores how important it is, especially in the age of the Internet, for corporations to protect their trade secrets.

Ford obtained a temporary restraining order against Robert Lane of Dearborn, Michigan, for various copyright and trademark law violations after Lane published internal Ford documents and used the Ford trademark (a blue oval) on his Web site www.blueovalnews.com. Fara Warner and Jeffrey Ball, "Ford Confronts the Perils of the Internet," *Wall St. J.,* Aug. 27, 1999. Lane is a Ford MUSTANG fan who decided to start his own Web site. Ford, interested in getting more "consumer" input in designing the next generation of MUSTANGs, actually issued Lane a media pass and let him get close to Ford employees at various company events. Fara Warner, Jeffrey Ball, and George Anders, "Can the Big Guys Rule the Web? Ask Ford or Dunkin' Donuts," *Wall St. J.,* Aug. 30, 1999. Lane then began receiving documents from anonymous sources, including apparently some disgruntled employees, that were critical of the MUSTANG. Lane published these on his Web site.

Although the documents appearing on the site were not marked "proprietary," Ford contended that some of the documents were "highly confidential"—including one about Ford's emissions strategy. Ford said it was investigating how the confidential information was leaked to Lane and was particularly concerned that an employee or employees may have leaked the information knowing that Lane would disseminate it.

In *Ford Motor Co. v. Blue Oval News,* No. 99-74205 (E.D. Mich. Sept. 7, 1999), the U.S. District Court for the Eastern District of Michigan refused to issue a permanent injunction. The court initially decided that the posted Ford information did consist of protectable trade secrets. However, in ruling that Lane's First Amendment rights outweighed Ford's interest in protecting its proprietary information, the court decided that copying Ford's information onto the Web site was a protected act of speech. Nevertheless, the court did bar Lane from destroying Ford documents that he possessed. Further the court prohibited Lane from disseminating additional documents from Ford employees on the Web and warned against soliciting new documents. Lastly, the court ordered Lane to disclose a list of all of the Ford documents in his possession.

It should be noted that companies can be retained that will monitor the Internet for possible infringement.

Employee Ideas and Outside Idea Submissions

The "shop rights" doctrine essentially says that employee ideas submitted to an employer belong to the employer. If the employee developed the idea within the scope of employment, on the employer's time, and using the employer's equipment, etc., the idea will generally belong to the employer. However, companies should have in place formal procedures specifying these employer rights in writing upon an employee's idea submission.

The company should also have written agreements for accepting ideas from individuals outside the company. These agreements should specify whether the individual will be compensated, whether the idea will be kept confidential, and other important rights.

Requests for Information

A company should keep records of any requests for potential trade secret information made pursuant to statutes such as the Freedom of Information Act or the Occupational Safety and Health Act's Hazard Communication Rule. Under these statutes, certain information is subject to disclosure to anyone who requests it; however, trade secret information is generally exempted from such disclosure requests.

Trade Secrets Records Retention Checklist

A common issue in trade secret litigation is whether the information in question is really a trade secret. For example, a customer list that is

(1) stamped "trade secret confidential information";

(2) made available to employees only on a need-to-know basis;

(3) always accompanied by a document signed by the employee which states that no copies will be made;

(4) to be returned when the need for it ceases; and

(5) not to be disclosed to anyone else, should qualify as a trade secret.

On the other hand, that same customer list, if it is simply passed around indiscriminately within the company with no safeguards, will probably not qualify as a trade secret.

This checklist and accompanying comments will help to pinpoint common problems that companies encounter in their efforts to identify, maintain, and protect trade secret and confidential information.

1. ***Does the company have a written "inventory" specifically listing the company's trade secrets?***

   Comment—Often a central issue in trade secret disputes and litigation is whether the company actually took the appropriate precautions for safeguarding trade secret information or whether the company merely made a claim that something was a trade secret after a former employee began using it with a competitor. Maintaining a current written inventory goes a long way in helping a company in this type of dispute.

   The inventory itself is not meant to be confidential. In fact, the idea is that it be disclosed to appropriate employees. For example, a customer list could be distributed among company employees with a notation that reads, "This customer list contains trade secrets and is to be treated as confidential information." Such a notation would hopefully cause employees to treat it properly, and would be helpful in addressing

a claim against a former employee who leaves and solicits your customers for a new employer. With such records at your disposal, it would be difficult for the employee to argue that the identity of the customers was never mentioned as being a trade secret or confidential information.

2. ***What records does the company have which support the fact that appropriate safeguards have been taken to protect the trade secrets listed on the inventory? In other words, can the company prove that the information was in fact treated as a trade secret?***

   Comment—One useful exercise is to assume that an employee leaves, takes some information considered to be a trade secret to a competitor, and the competitor begins to use it. You consult legal counsel about your remedies, and your legal counsel asks what evidence you have to support the fact that the information in question was actually kept as a trade secret.

   There are many things you may be able to produce to support your trade secret claim—there are no hard and fast legal rules as to exactly what you need to do and what records you need to retain. However, all too often a company realizes that it has no procedures in place to safeguard its alleged trade secrets. This will cause a loss of negotiation leverage with the former employee and the new employer/competitor. In litigation, it may result in the loss of the case altogether.

   Some things that might be helpful to maintain so that they could be produced in the situation described above include

   — records of training or indoctrination sessions about the company's trade secrets, including the general substance of the training and the people attending the sessions;

   — memos circulated to various people (hopefully including the offending employee) which indicate the trade secret nature of the information;

   — policies and procedures which state how the information should be kept (*i.e.*, locked up at night, given on a need-to-know basis only, etc.), in addition to records as to how these policies and procedures were actually enforced;

   — relevant documents stamped with a "trade secret and confidential information" legend (note that it is counterproductive to stamp ***everything*** with this type of legend); and

   — records showing the existence and enforcement of technology-related safeguards, such as passwords and controlled access.

3. ***Does the company have records that establish that each employee has signed a nondisclosure and/or confidentiality agreement wherein the employee agrees to respect the trade secrets of the company?***

   Comment—Many companies require such agreements as a standard part of the hiring process. However, with transfers, acquisitions, divestitures, and other routine corporate activity, it is possible that these records will be difficult or impossible to locate when they are needed. An audit that examines how the company keeps these records, and the ease with which they can be located and produced if necessary, may be helpful.

4. ***Does the company's records retention program take into account confidentiality agreements entered into with customers or suppliers?***

   Comment—For valid business reasons, companies often enter into agreements with customers or suppliers that involve the disclosure of the company's trade secrets. These contracts will invariably contain provisions obligating the supplier or customer to respect the company's trade secrets, and those covenants will often extend for a period of time in excess of the business relationship. For example, if a company licenses a program to a customer for the customer's use, and that relationship with the customer ends for business reasons, the promises the customer made in the license agreement to respect the confidentiality of the program will extend for, perhaps, an additional few years. The company's records retention program should reflect this. For example, if records of contracts are normally kept for four years after the expiration of the contract, the retention period for the sort of confidentiality agreement described above should be extended by another two years.

Insurance Coverage Records

A corporation should review its comprehensive general liability insurance policies to ascertain whether they provide coverage for copyright and trademark infringement, advertising injury, and any other intellectual property-related claims. Also, most policies have strict notice requirements that must be complied with in order to obtain coverage. Part of intellectual property record keeping should be the implementation of a system to maintain records of coverage and claim notification.

It is beneficial to document exactly what a particular policy is designed to cover. An illustrative case is *ShoLodge, Inc. v. Travelers Indemnity Co.,* 168 F.3d 256 (6th Cir. 1999), in which the court held that an insurer had no duty to defend and indemnify a claim for service mark infringement because that particular claim was not ***expressly*** referred to in the insured's policy.

ShoLodge, Inc. operated a chain of all-suite hotels identified by the service mark SUMMER SUITES. SF Hotel Company also operated all-suites hotels under the service mark SUMMERFIELD SUITES. SF notified ShoLodge that it considered its use of the mark SUMMER SUITES as service mark infringement. After ShoLodge refused to use a different name, SF filed suit for service mark infringement. ShoLodge notified its insurer, Travelers Indemnity Company and Bankers Standard Insurance Company (CIGNA) of the suit.

Both CIGNA and Travelers refused to defend on the basis that service mark infringement suits were not covered under the comprehensive general liability policies.

ShoLodge retained counsel at its own expense to defend the suit and a jury ruled in its favor. ShoLodge then filed suit against the insurers, seeking a declaratory judgment that the insurers had a duty to defend and indemnify because the "advertising injury" provisions of the policies provided coverage for the service mark infringement claims.

In affirming, the Sixth Circuit held that service mark infringement does not fall within the policies' definitions of either "misappropriation of advertising ideas or style of doing business" or "infringement of copyright, title, or slogan."

The policies provided that the insurers had a duty to defend and indemnify for claims of " 'advertising injury' caused by an offense committed in the course of advertising [insured's] goods, products, or services." The policy defined "advertising injury" to include, among other things, "misappropriation of advertising ideas or style of doing business" or "infringement of copyright, title, or slogan." ShoLodge argued that service mark infringement could be included under either of these two categories.

The court held that " 'misappropriation of advertising ideas or style of doing business,' does not refer to a category or grouping of actionable conduct which includes trademark or trade dress infringement." Further, the court held that trademark infringement "does not fall within the ordinary meaning of the phrase 'infringement of copyright' because trademarks are not copyrightable." Further, it does not fall within the phrase "infringement of slogan," for the simple reason that a trademark or service mark is not a "slogan." In addition, the word "title," as the court noted, "generally refers to the noncopyrightable title of a book, film or other literary or artistic work [Citation omitted.]" and does not include a service mark such as the name of a hotel.

As the court put it

> if Travelers [and CIGNA] had intended to provide coverage for such [trademark or service mark] liability, [they] would have referred to it by name in the policy. It is unreasonable to think that the insurers would have enumerated all of the other covered offenses, such as copyright, which are listed in the definition of "advertising injury," but chose not to list the commonly recognized offense of trademark infringement, instead of incorporating that offense under the language infringement of copyright, title, or slogan," which by its ordinary meaning does not include trademark infringement.

Web Site Records

It is important for companies that maintain a presence on the Internet to record and conserve documents related to online activities. The following is a brief list that includes several important records that any business with a Web site is advised to retain:

- Web site linking agreements;
- Web site legal audit reports;
- licensing agreements for the use of pictures, music, or trademarks owned by another entity used on the company's Web site;
- employee e-mail and Internet usage agreements; and
- domain name registration information and any dispute resolution activity, including cease-and-desist letters.