

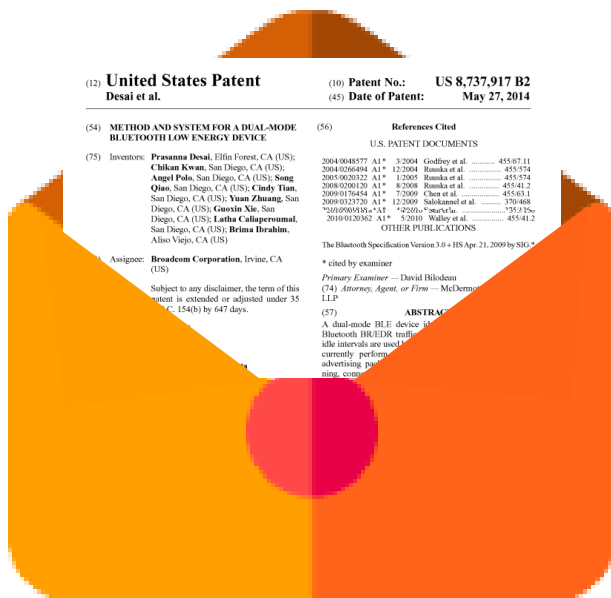
Responding to Patent Infringement Notice Letters

U.S. Legal Issues

Bureau of Foreign Trade (BOFT)

July 22, 2019

Presenter: Kevin G. McBride



Akin Gump – Global Reach

21

OFFICES AROUND THE WORLD

85+

COUNTRIES WHERE WE
HANDLE MATTERS

100

COUNTRIES ARE HOME
TO OUR CLIENTS





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Education

J.D., Northwestern University School of Law,
cum laude, 1985

M.S., University of California, Davis, 1978

B.S., University of Notre Dame, 1976

Key Experience

- Over 30 years of patent litigation and licensing
- Successful as lead counsel in more than 60 patent cases in the past 15 years
- Negotiated several hundred million dollars in IP licenses

Bar Admissions

- California
- U.S. Patent and Trademark Office

Practice

Kevin McBride routinely appears in patent matters in federal district courts and before the International Trade Commission (ITC)

Kevin has represented a wide range of clients, including:

- Consumer electronics companies
- Software developers
- Semiconductor manufacturers
- Digital television broadcasters
- Media and entertainment companies
- Cellular phone manufacturers
- Medical device companies
- Automobile manufacturers.

Background – The U.S. Patent Landscape is Vast

- **U.S. Patent No. 10,000,000 issued in 2018**
- **Around 6,000,000 non-expired U.S. patents exist**
- **U.S. patent licensing is expected to generate \$47b in 2019**



The Typical Notice Letter

John Smith
General Counsel
Toy Tech Co.
123 Toy Street
Jiangbei New District



Blue Group

Dear Mr. Smith,

I am the Director of Patent Licensing at Blue Group. As you may be aware, we own the rights to a portfolio of over 50 U.S. patents that read on the Bluetooth® wireless communication standard. It has come to our attention that the RoboGuy 2.0 product sold by your company, Toy Tech Co., practices the Bluetooth® wireless communication standard.

Enclosed with this letter are 10 claim charts demonstrating how the RoboGuy 2.0 product infringes Blue Group's patents.

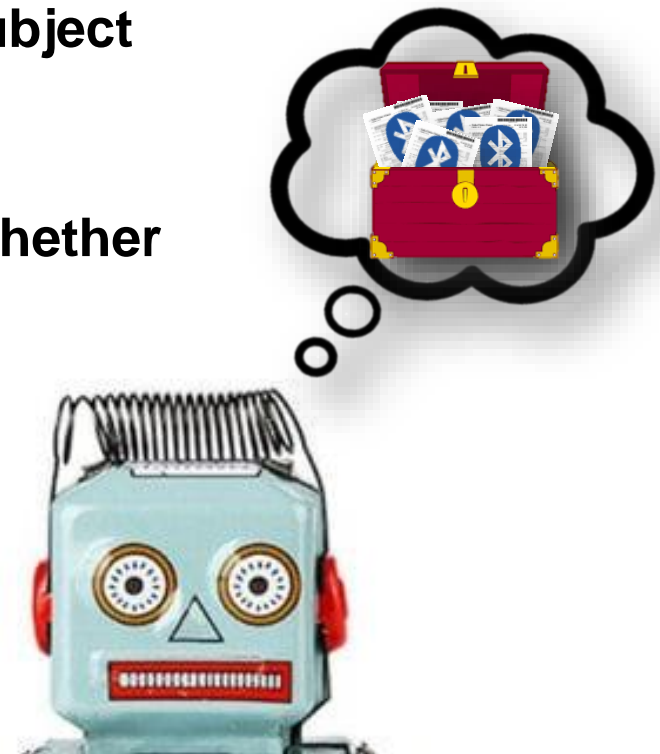
As such, we would like to arrange a meeting to introduce Toy Tech Co. to our licensing program. We are available to travel to your offices and make a presentation during August. Please provide your availability during that timeframe.

Regards,

Tony J. Blueman
Direct of Patent Licensing
Blue Group

What Does a Notice Letter Mean Under U.S. Law?

- Once on notice of Blue Group's patents, any subsequent infringement may be willful infringement
- Under U.S. law, willful infringers can be subject to treble damage
- Response to notice letter may influence whether any infringement is willful
- How should Toy Tech Co. respond?

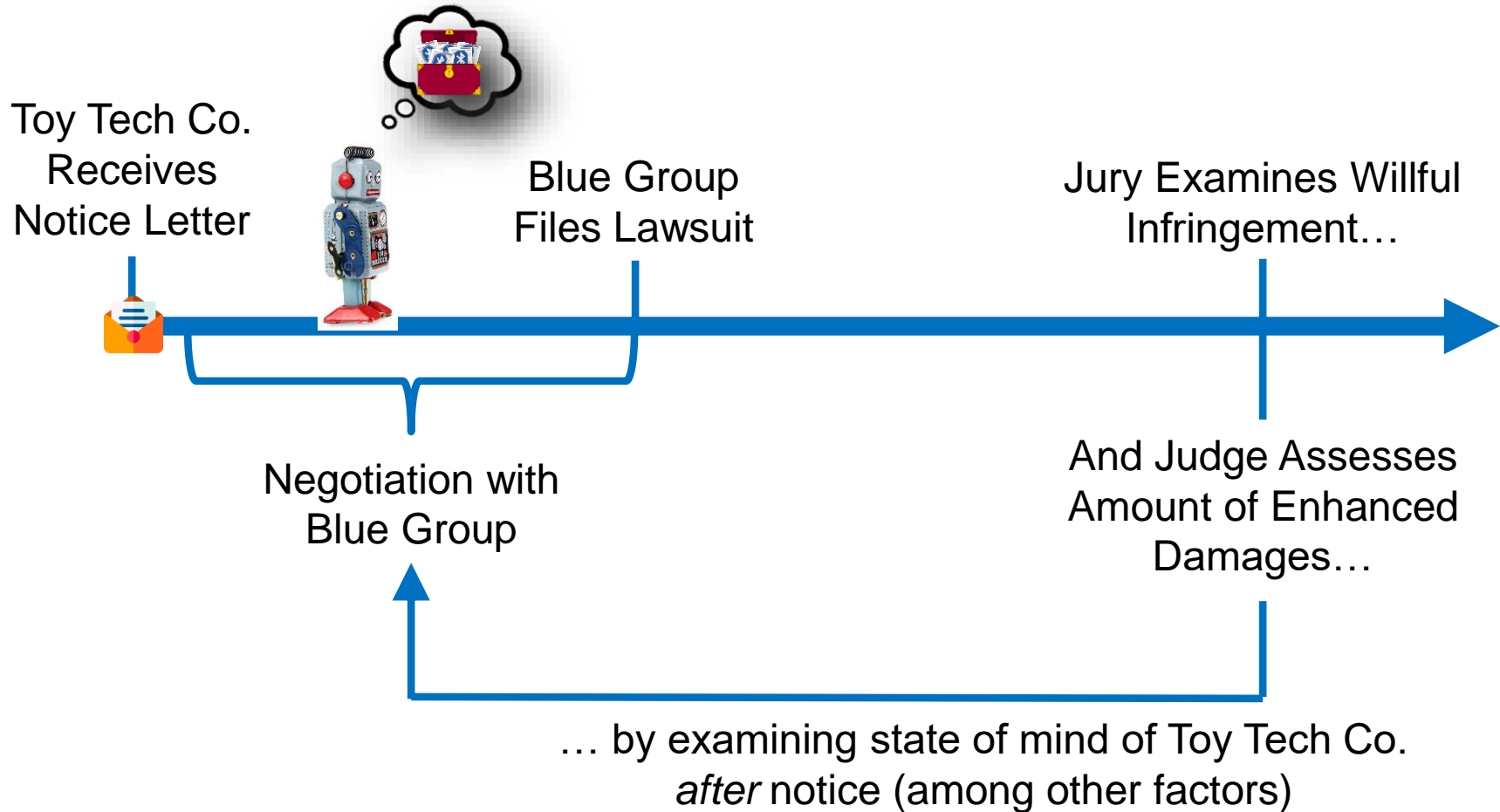


How Should Toy Tech Co. Respond?

- A.** Ignore the letter?
- B.** Delay – only respond if Blue Group threatens to sue?
- C.** Frustrate – invite Blue Group to meet, but change date and time several times and then be prepared only to listen with no substantive response?
- D.** None of the above?



State-of-Mind *After* Notice is an Important Factor



The Test for Willful Infringement Under U.S. Law

- Per 35 U.S. Code § 284, the court may increase damages **up to three times** the amount found or assessed
- According to Supreme Court, a finding of willful infringement is appropriate where behavior is: “willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or—indeed—characteristic of a pirate”
 - *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923 (2016)
- To apply *Halo*, the Federal Circuit uses a nine-factor test – the most important factor for pre-suit behavior examines:
 - “Whether the infringer, when it knew of the other’s patent protection, investigated the scope of the patent and formed a good-faith belief that the patent was invalid or not infringed”
 - *Read Corp. v. Portec, Inc.*, 970 F.2d 816 (Fed. Cir. 1992)
- State-of-mind after receiving notice of infringement is important

How to Respond to Notice Letter

- **Don't be:** “willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or—indeed—characteristic of a pirate”
- **Be:** businesslike, diligent, professional, and reasonable
 - **Investigate** the scope of the patents and **form a good-faith belief** whether the patents are invalid or not infringed
 - A good faith valuation dispute may mitigate enhanced damages but caselaw is undeveloped

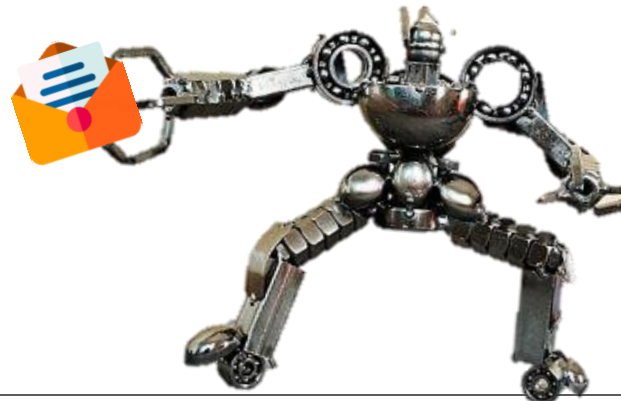


What Does This Mean?

- **Provide a timely and professional response**
- **Retain U.S. counsel to analyze patents for invalidity and noninfringement defenses**
- **Present defenses to the patent owner to show good-faith belief that patents are not infringed and/or invalid**
- **Engage in licensing negotiations with valuation analysis and good-faith counteroffers**
- **Create record that shows you took the notice seriously and acted responsibly in good faith**

Remember to Consider Discovery Issues in Proving a Good-Faith State of Mind

- Who at Toy Tech Co. should communicate with Blue Group?
- Designate someone who can testify about the state of mind to avoid or minimize waiver of attorney-client privilege
- Develop a communication/litigation discovery plan with U.S. outside counsel to deal with this issue



Summary: Responding to Notice Letters

- **Manage your response in light of its potential effect on a finding of willful infringement and an enhancement of damages**
- **Retain U.S. counsel and develop good-faith defenses**
- **Engage the patent owner in good-faith discussions, including potential counteroffers**
- **Have plan to deal with the discovery issues attendant to state-of-mind issues**

Thank You!
Questions?



International Trade Commission Proceedings

Bureau of Foreign Trade (BOFT)

July 22, 2019

Presenter: Cono A. Carrano

Recent ITC Developments: Agenda

- ALJs Split on Effect of Public Interest on Remedial Orders
- 100-day proceedings: Updates
- Economic Domestic Industry Developments
- Comparing IPR and ITC Proceedings
- Commission Stays of Investigations/Orders Based on IPR Proceedings
- IPR Estoppel Applicability at ITC

ALJs Split on Effect of Public Interest on Remedial Orders

ALJs Split on Effect of Public Interest on Remedial Orders

ALJ Pender finds that public interest would be harmed by a limited exclusion order (“LEO”)

- *Certain Mobile Electronic Devices and Radio Frequency and Processing Components Thereof*, 337-TA-1065, Initial Determination (Sept. 29, 2018)
 - Qualcomm asserted patents against Apple iPhones
 - ALJ found infringement but recommended no LEO based on public interest factors
 - An exclusion order would “guarantee a Qualcomm monopoly, harm to the public, and harm to the National Security of the United States”
 - Commission reversed the decision concluding that the Qualcomm had not shown a violation of Section 337 which rendered moot any issues of remedy or public interest (see Comm’n. Op., April 5, 2019)

ALJ McNamara reaches alternate conclusion based on similar facts

- *Certain Mobile Electronic Devices and Radio Frequency and Processing Components Thereof*, 337-TA-1093, Initial Determination (Mar. 29, 2019)
 - Qualcomm asserted patents against Apple iPhones
 - ALJ found infringement and recommended LEO

1065 vs. 1093

1065 (ALJ Pender)	Apple's Public Interest Positions	1093 (ALJ McNamara)
YES	Apple will stop using Intel as chipset supplier for iPhones	Not Addressed
YES	Intel will leave the chipset market	Not Addressed
YES	Qualcomm will have a monopoly	YES
YES	Intel will stop investing in 5G technology	Not Addressed
YES	National security will be threatened	YES

NO LEO

LEO

100-Day Proceedings: Updates

100-Day Proceedings: Domestic Industry

100-Day Proceedings Regarding Domestic Industry (“DI”)

- *Certain Solid State Storage Drives, Stacked Electronics Components, and Products Containing the Same, 337-TA-1097*
 - Instituted January 26, 2018
 - 100-day proceeding regarding economic DI
 - Initial Determination found economic prong satisfied (May 11, 2018)
 - Commission affirmed with modified reasoning (June 29, 2018)
- *Certain Clidinium Bromide and Products Containing the Same, 337-TA-1109*
 - Instituted April 23, 2018
 - 100-day proceeding regarding injury or threat of injury to a U.S. industry
 - Investigation terminated prior to 100-day hearing due to withdrawal of complaint
- *Taurine (2-Aminoethanesulfonic Acid), Methods of Production and Processes for Making the Same, and Products Containing the Same, 337-TA-1146*
 - Instituted March 6, 2019
 - 100-day proceeding regarding economic DI
 - Investigation terminated prior to 100-day hearing due to withdrawal of complaint

100-Day Proceedings: Other

- *Certain Motorized Vehicles and Components Thereof, 337-TA-1132*
 - Instituted September 13, 2018
 - 100-day proceeding regarding whether action was barred by contract
 - Initial Determination found action was not barred by contract (December 21, 2018)
 - Commission did not review (February 28, 2019)

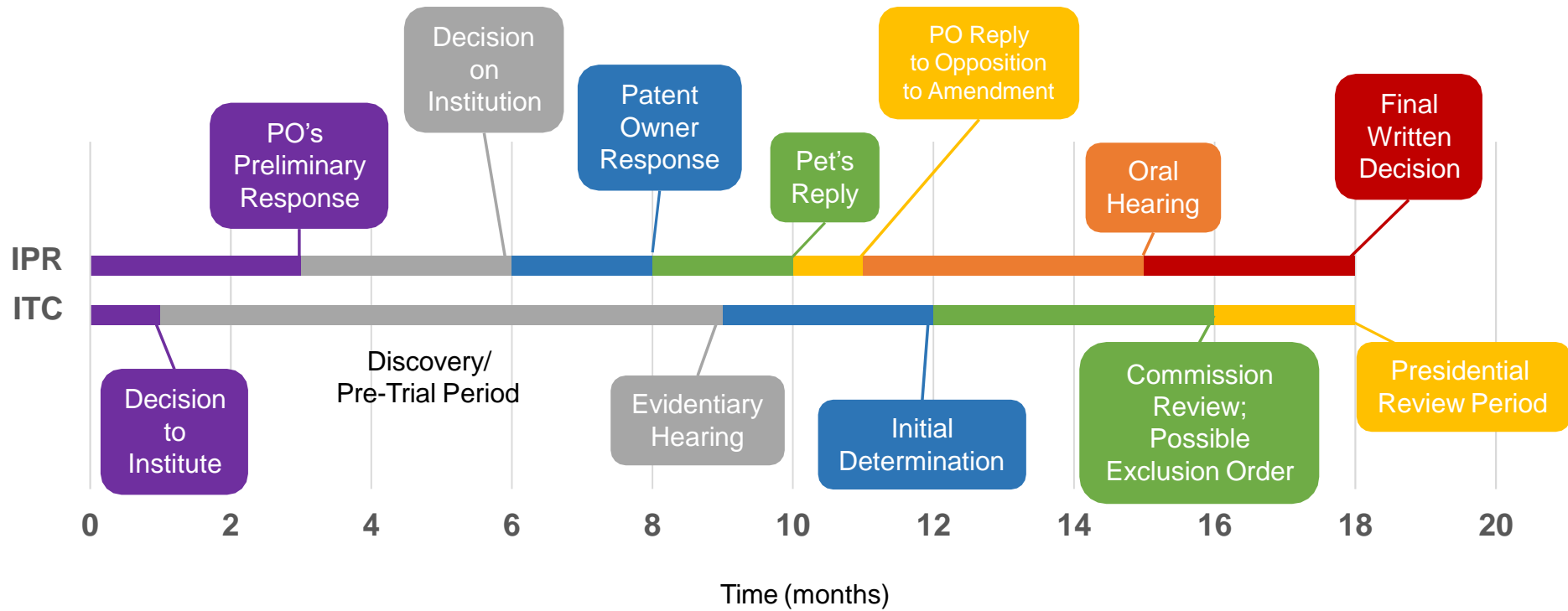
Economic Domestic Industry Developments

Domestic Industry “in the process of being established”

- *Certain Digital Cameras, Software, and Components Thereof*, 337-TA-1059, Initial Determination (August 2018)
- ALJ highlighted two points in time relevant in the technical DI analysis for DI “in the process of being established”:
 - (1) filing of complaint
 - (2) fact discovery cutoff
- Complainant does not have to have “an ‘article that practice[s] the Asserted Patents’ or a ‘production-ready’ product as of” the filing of the complaint
 - Technical prong satisfied by demonstrating evidence upon which Complainant relied (in this case, design and planning documents reflecting how the DI product was intended to operate) was connected to the actual operation of a product by discovery cutoff
- Commission determined not to review whether DI can be satisfied as of Close of Fact Discovery (raised in Respondents petition for review)

Comparing IPR and ITC Proceedings

Comparing IPR and ITC Proceedings



Comparing IPR and ITC Proceedings

■ Burden of Proof re Invalidity

- IPR: Preponderance of the evidence standard
- ITC: Clear and convincing evidence standard

■ Basis for Invalidity

- IPR: § 102 (anticipation) or § 103 (obviousness) only
- ITC: Any statutory basis including § 112 (indefiniteness) or § 101 (patentability)

■ Prior Art

- IPR: Patents and printed publications only
- ITC: No such limitation

Commission Stays of Investigations/Orders Based on IPR Proceedings

Stays Based on Pending IPRs

- The ITC has not yet granted a stay of a Section 337 investigation based on a **pending** IPR (*i.e.*, prior to Final Written Decision)
 - 19 U.S.C. § 1337(b)(1) states that the ITC must conclude investigations “at the earliest practicable time”
 - The ITC considers the following factors in assessing whether to grant a stay (see *Semiconductor Chips*, 337-TA-605):
 - The state of discovery and the hearing date;
 - Whether a stay will simplify the issues and hearing;
 - Undue prejudice to any party;
 - The stage of the PTO proceedings; and
 - Efficient use of Commission resources.

ALJ Bullock Stays 1024 Investigation

- *Certain Integrated Circuits with Voltage Regulators and Products Containing the Same*, 337-TA-1024, Order 55 (Aug. 31, 2018)
 - Only time that the ITC has stayed an investigation during the violation phase based on a PTAB Final Written Decision
 - Investigation was instituted in October 2016, but evidentiary hearing was delayed until April 2019 due to extenuating circumstances
 - Including Commission review and remand of Chief ALJ Bullock's finding of summary determination of non-infringement
 - While the ITC investigation was pending, the PTAB issued a Final Written Decision invalidating the only asserted patent
 - Respondent requested a stay pending Federal Circuit review of PTAB final written decisions invalidating all claims asserted in the 1024 Investigation
 - ALJ concluded that all five factors favored granting a stay:
 - Hearing date over seven months away
 - Any outcome of appeal would simply issues
 - Parties agreed that judicial economy favored a stay
 - PTAB had already issued final written decision
 - Significant risk that additional resources would be wasted absent a stay

Commission Suspension of ITC Remedial Orders

- *Certain Three Dimensional Cinema Systems and Components Thereof* (“Cinema Systems”), 337-TA-939
 - First time that the ITC suspended enforcement of its remedial orders pending appeals arising from an IPR

- Procedural History:
 - ALJ Shaw issued an Initial Determination finding three asserted patents valid and infringed and recommended an exclusion order
 - While the Commission was reviewing the ID, the PTAB issued a Final Written Decision invalidating one of the three asserted patents (“the ’934 Patent”)
 - The Commission ordered that the remedial orders as to the ’934 Patent would be stayed pending any appeals of the Final Written Decision
 - Did **not** stay the enforcement of the remedial orders as to the other two asserted patents
 - Commission has “broad discretion in selecting the form, scope and extent of the remedy.”

Commission Suspension of ITC Remedial Orders

- *Certain Magnetic Tape Cartridges and Components Thereof*, 337-TA-1058, Comm'n Op. (Apr. 9, 2019)
 - Similar fact pattern to *Cinema Systems* – ITC partially suspended enforcement of remedial orders based on pending appeal of Final Written Decision.
- Procedural History:
 - ALJ Cheney's ID found a violation of two asserted patents (the '774 and '596 Patents).
 - Shortly after the Commission determined to review the ID, the PTAB issued a FWD invalidating asserted claim 17 of the '774 Patent.
 - Respondent requested that the Commission “stay” any remedial orders as to claim 17 of the '774 Patent.
 - The Commission determined to suspend enforcement of all remedies with respect to claim 17, pending Complainant's appeal of the Final Written Decision.
 - The Commission otherwise affirmed the ID's finding of a violation with respect to the '774 and '596 Patents.

Commission Suspension of ITC Remedial Orders

- Commission **suspends** remedial order based on Commission’s “broad discretion in selecting the form, scope and extent of the remedy”
 - Distinguished from Federal Circuit’s four-part test that applies to **staying** enforcement of a remedial order
 - Commission factored in final written decision when “selecting the form, scope and extent of the remedy” because the final written decision issued before the LEO
 - Like *Cinema Systems*, Commission based the suspension of remedial order, at least in part, on its finding that the suspension would have “no practical effect” on the scope of excluded products.
- Commissioner Schmidlein disagreed with the “no practical effect” rationale, arguing that issuance of a Final Written Decision should **always** trigger suspension of remedial order. Comm’n Op. at 63-64, n.23.

Commission Stay of ITC Remedial Orders

- *Certain Network Devices, Related Software and Components Thereof (II)* (“Certain Network Devices”), 337-TA-945
 - Commission declined to stay remedial orders after Commission Opinion was issued

- Procedural History:
 - Commission issued remedial orders with respect to two asserted patents.
 - During the Presidential Review period of the exclusion order, PTAB issued Final Written Decisions invalidating both patents.
 - Respondent moved to suspend, modify, or rescind the exclusion orders based on the Final Written Decisions.
 - ITC denied Respondent’s motion, stating that a certificate of cancellation, not a final written decision, amounts to “changed circumstances” warranting suspension or rescission under 37 CFR § 210.76(a). Network Devices at 11 (citing 35 U.S.C. § 318(b)).

Reconciling *Cinema Systems* and *Network Devices*

- The Commission distinguished the *Network Devices* from the *Cinema Systems* on two grounds:
 - First, the remedial order in *Cinema Systems* had not gone into effect when the PTAB issued the Final Written Decision
 - In *Network Devices*, the orders were already in effect and the case was pending Presidential Review
 - Second, suspension of one remedial order in *Cinema Systems* did not completely deny Complainant of relief
 - Remedial orders as to the remaining asserted patents were not affected
 - Suspension of remedial orders in *Network Devices* would have completely deprived Complainant of relief

Relevant Tests for Stays/Suspensions

Relief Sought	Legal Test/Standard	Applicable Case(s)
Stay of ITC investigation	<i>Semiconductor Chips</i> 5-factor test	<i>Integrated Circuits</i> (1024 Inv.)
Suspension of remedial order pending FWD appeal	“Broad discretion in selecting form ... of the remedy.”	<i>Cinema Devices</i> (939 Inv.) <i>Magnetic Tape Cartridges</i> (1058 Inv.)
Rescission or modification of remedial order	“Changed circumstances” under 37 § CFR 210.76(a)	<i>Network Devices</i> (945 Inv.)
Stay of remedial order pending FD appeal	Federal Circuit four-factor test	<i>E.g., Dynatec Int'l. v. ITC</i> , 99-1504 (Fed. Cir. 1999); <i>VIZIO Inc. v. ITC</i> , 09-1386, (Fed. Cir. 2009).

IPR Estoppel Applicability at ITC

IPR Estoppel: Overview

35 U.S.C. § 315(e)(2) states:

The petitioner [or real party in interest] in an inter partes review **of a claim ... that results in a final written decision** ... may not assert ... in a proceeding before the International Trade Commission ... that the claim is invalid on **any ground that the petitioner raised or reasonably could have raised** during that *inter partes* review.

- Estoppel attaches at the ITC once a Final Written Decision has issued.
 - Does not apply to IPRs still in progress or not instituted.
- Parties to the IPR are estopped from raising any prior art grounds that they “raised, or reasonably could have raised” during IPR.
 - Can still raise invalidity based on prior use, on-sale bar, and §§101 and 112
- Estoppel is on a claim-by-claim basis.

IPR Estoppel: Applies to Successful IPR Petitioners

- *Certain Hybrid Electric Vehicles and Components Thereof*, 337-TA-1042
 - Issue: When does IPR estoppel apply and can it be used against a *successful* IPR petitioner.

- Facts:
 - Ford filed 25 IPR petitions against Paice during district court litigation.
 - The PTAB issued several Final Written Decisions, invalidating a number of claims.
 - After Final Written Decisions issued, Paice filed its ITC complaint asserting the same patents/claims.
 - Paice moved for summary determination under that Ford was estopped from arguing prior invalidity defenses – even though Ford *won* at the PTAB.

IPR Estoppel: Applies to Successful IPR Petitioners (cont.)

- ALJ Shaw granted Complainant's motion for summary determination, stating that the estoppel provision in § 315(e)(2) does not require the IPR petitioner to be unsuccessful in its defenses at the PTAB:
 - ALJ nevertheless allowed Ford to present evidence regarding invalidity pending review by the full Commission.
 - Federal Circuit remand or vacatur of the IPR decisions would eliminate estoppel.

- The Commission determined to review the Initial Determination, but the parties settled prior to a Commission Opinion.

IPR Estoppel: Not Applicable to Staff

- *Certain Magnetic Tape Cartridges and Components Thereof*, 337-TA-1058, Initial Determination (Aug. 17, 2018)

- Facts:
 - Sony sued Fujifilm in district court, alleging infringement of several patents, including U.S. Patent No. 6,979,501 (“the ’501 Patent”)
 - Fujifilm filed an IPR against the ’501 Patent and the PTAB ultimately issued a FWD finding the patent valid
 - While the IPR was pending, Sony filed its ITC complaint asserting, inter alia, the ’501 Patent
 - Fujifilm raised the both IPR prior art and new references in the ITC

IPR Estoppel: Not Applicable to Staff (cont.)

- Initial Determination: IPR Estoppel does not apply to Staff
 - Sony argued that § 315(e)(2) barred Fujifilm from raising any prior art invalidity defenses.
 - ALJ still considered invalidating references to find the '501 Patent invalid, noting that Staff was neither a petitioner nor party to the IPR
 - “Regardless of whether 35 U.S.C. § 315(e)(2) estops [respondent], the statute does not prevent Staff from raising the references in this investigation”
 - “Staff’s contentions that these references invalidate the asserted claims of the '501 patent must therefore be addressed”
 - ID issued pre-SAS
 - Did not reach the question of whether Fujifilm was estopped
 - The Commission did not review, and therefore adopted, this aspect of the Initial Determination under 19 C.F.R. § 210.42(h).

Questions?

Akin Gump Offices

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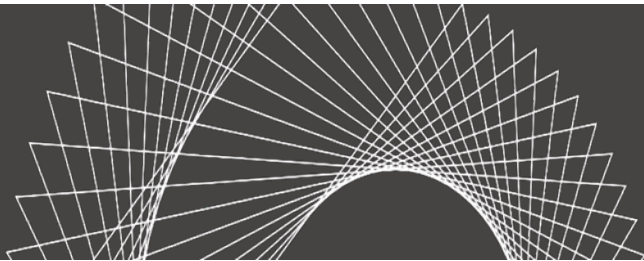
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U.S. Export Controls

Overview and Recent Developments



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July 2019

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Agenda

- Export Controls 101
- Best Practices
- Recent Developments
- Q&A

Export Control 101: Why Export Controls?

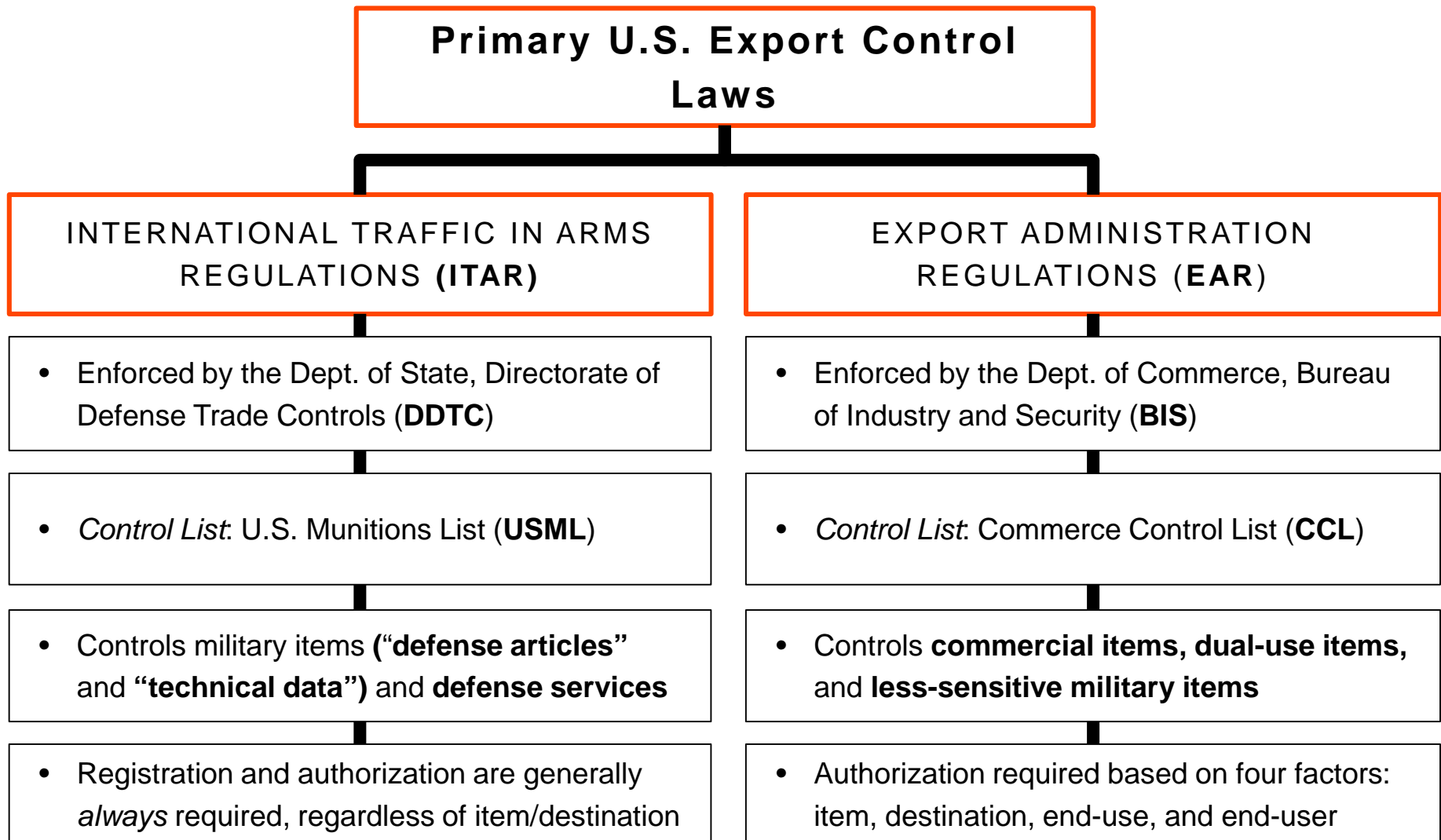
Among other key objectives, U.S. Export Controls:

- Restrict exports of goods/technology that may strengthen the **military capabilities** of U.S. adversaries
- Protect U.S. **economic interests**
- Advance U.S. **foreign policy** goals
- Fulfill **international obligations**
- Help to **prevent terrorism** and **fight proliferation** of weapons of mass destruction (nuclear, biological, chemical)

“Export controls do not simply exist as another set of regulations for industry. They exist to ensure that our technical superiority is never employed against us on the battlefield . . . They exist to ensure our security, our national security, our homeland security, our cyber security and our economic security.”

Penny Pritzker, Former Secretary of Commerce (2013 - 2017)

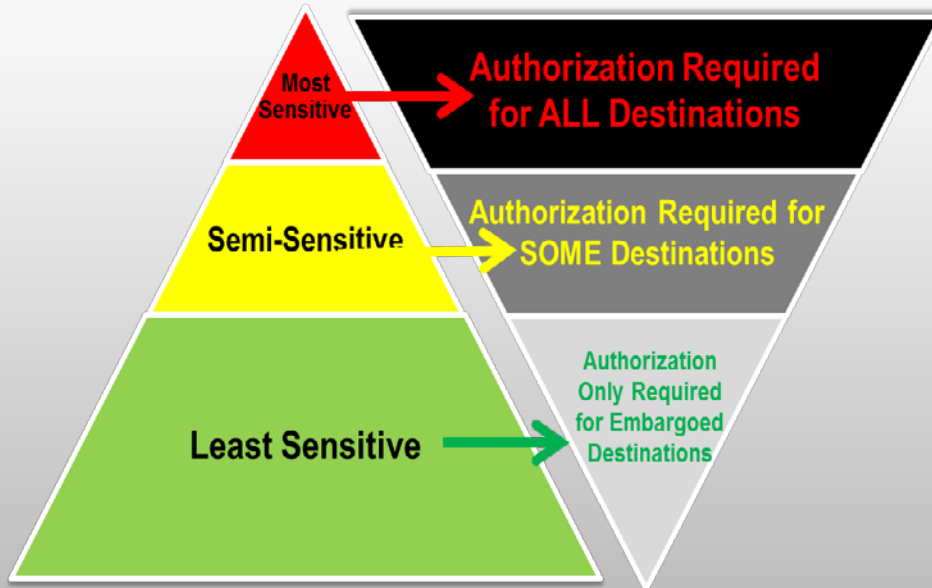
Export Control 101: Frameworks of Control



Export Control 101: What Do the Rules *Control*?

Exports, reexports, transfers involving **certain items** (hardware, software, or technical information) or **services** for **certain**:

Destinations/Nationalities



End-Uses

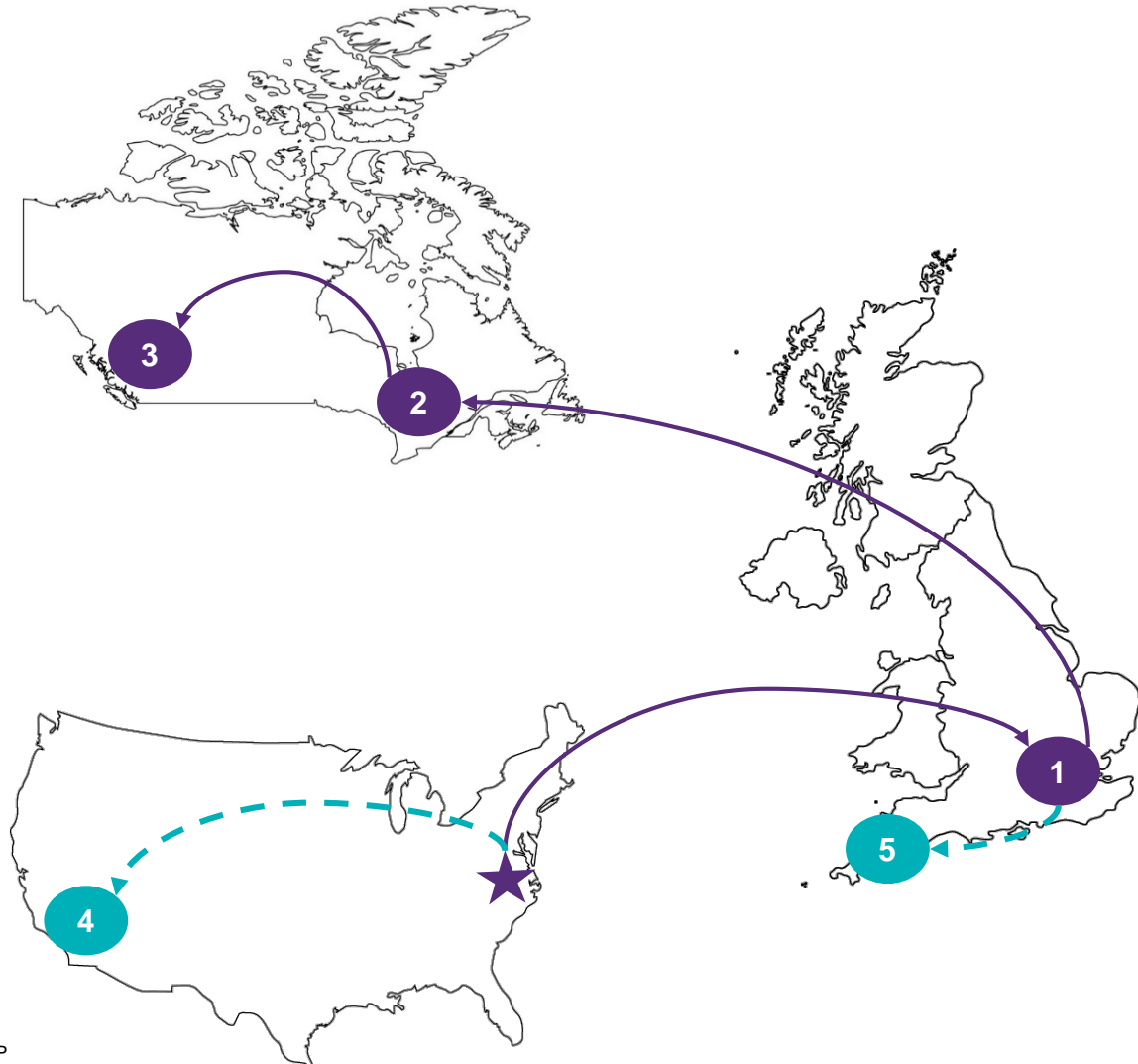
- Nuclear
- Rockets / Drones
- Chem/Bio Weapons
- Military in China, Russia, & Venezuela

End-Users

- Entity List
- Denied Persons List
- Unverified List
- SDN List Cross-Restrictions
- Military in Russia & Venezuela

Export Control 101: What Is an “Export”?

- 1. **Export** (item sent from US to UK)
- 2. **Reexport** (then from UK to Canada)
- 3. **Transfer** (then from one person in Canada to another)
- 4. **Deemed Export** (technology released to Canadian national in US)
- 5. **Deemed Reexport** (technology released to Canadian national in UK)



Export Control 101: Not Just Hardware

Export Controls also regulate the export of **information, software, and services** - format and mode of export do not matter

Technical data is information in any form necessary for the design, development, production, operation, modification or maintenance of hardware, materials, software, or processes related to those necessary actions.

Items that are NOT Technical Data

- General scientific, mathematical, or engineering principles commonly taught in schools, colleges, and universities
- Basic marketing information on function or purpose
- General platform and system descriptions
- “Public Domain” Information (e.g., basic research published broadly in the scientific community; bookstores)

Possible Sources of Technical Data

- Facility tours / access
- Detailed drawings, plans, schematics
- Test results
- Repair / failure analysis
- Demonstrations
- Development plans
- PowerPoints / presentations
- Interface Control Documents
- Photographs
- Detailed descriptions of systems and attributes
- Training
- Factory Acceptance Testing

EAR Technology: Information necessary for the “development,” “production,” “use,” operation, installation, maintenance, repair, overhaul, or refurbishing ... of an item. In general principle, possible sources/exclusions similar to examples above.

Export control 101: Deemed Exports

Includes disclosing or transferring controlled technology to a non-U.S. Person, whether in the U.S. or abroad, by ANY means. For example:

- E-mails
- Meetings/Conferences
- Telephone Conversations
- Online meeting and conference apps
- Plant Tours/Visits
- Reports and Analysis
- Internet Posting



Includes disclosures to employees within the same company.

Export Control 101: Penalties for Violations

	 International Traffic in Arms Regulations (ITAR)	 Export Administration Regulations (EAR)
Individual Criminal Penalties	Up to \$1 million fine and/or 20 years in prison	Up to \$1 million fine and/or 20 years in prison
Corporate Criminal Penalties	Up to \$1 million fine	Up to \$1 million fine
Civil Penalties	Up to \$1,163,217 per violation	Up to \$300,00 per transaction or twice the value of the transaction, whichever is greater
Admin. Penalties	Denial of export privileges and/or imposition of independent monitors, etc.	Denial of export privileges, asset blocking, debarment from government contract liability, etc.
Collateral Concerns	Legal/investigation costs, reputational harm	

Best Practices: How to Think Like an Export Control Lawyer

What is the item/information/service?

- Is the item/information/service subject to U.S. export controls?
- Check the CCL and USML

Where is it going?

- Will there be any dealings with restricted or embargoed countries?
- Check Country Chart

Who will receive it?

- Are any of the end-users or intermediaries restricted persons?
- Run screening and check for restricted end-users.

What is the end-use?

- Will the item/service be used for a restricted purpose?
- Conduct diligence on the transaction for restrictions on end-use.

Is there an available export authorization?

- Does an existing agreement, license, or exemption/exception authorize the activities?
- Can we obtain an export authorization to cover the proposed activities and parties?

Best Practices: Know Your Customer and Red Flags

KYC Diligence and Red Flags: Obtain detailed information about your partners and what they will do with export controlled items and information. Verify the information as much as possible with independent sources.

- **Red Flag:** Partner or agent is reluctant to offer end-use/end-user information.
- **Red Flag:** Product's capabilities do not fit the business or are incompatible with technical level of the country.
- **Red Flag:** The customer name or address is similar to a party listed in the Denied Persons, Entity, Unverified, Debarred, or SDN lists.
- **Red Flag:** The partner will pay cash for an item that normally requires financing.
- **Red Flag:** Deliveries are planned for out of the way destinations.
- **Red Flag:** The shipping route is abnormal for the product and destination.
- **Red Flag:** Partner has little or no business background.

Evaluate information throughout the transaction.

Do not self-blind. Maintain an open flow of information to ensure you know all the partners, end-use, end-user, destination, transit points, and can obtain all information to conduct due diligence

Best Practices: Compliance Programs

The key elements of an effective export compliance program include:

- **Management Commitment:** Top down leadership and adequate resources
- **Risk Assessment:** Identify, understand, and mitigate risks
- **Compliance Manuals and Materials:** Compliance resources and documentation
- **Training:** Build compliance culture, awareness, and accountability
- **Export Authorization:** obtain and manage licenses effectively
- **Recordkeeping:** Clear roles, responsibilities, and repositories
- **Audits:** Use experienced personnel, share findings with stakeholders, and follow-up
- **Violations and Corrective Actions:** Reporting procedures, senior mgmt. support

Developments: Export Control Reform Act of 2018 (ECRA)



- ECRA became law on August 13, 2018 as the permanent statutory authority for the EAR. ECRA codifies long-standing BIS policies and does not require changes to the EAR, such as country-specific licensing requirements.
- ECRA also enhances BIS enforcement authority. BIS may use violations to justify a wiretap, conduct overseas investigations, and engage in financial transactions (such as leasing space) to conduct undercover investigations
- **Of note, ECRA requires BIS to lead an interagency process to identify and add to the EAR controls on “emerging” and “foundational” technologies** that are “essential to the national security of the United States,” and to make identifying and controlling “emerging and foundational technologies of concern” a priority.
- BIS solicited public comments from industry on “emerging” technologies (“foundational” technologies to be addressed later in 2019). To inform public comment, BIS provided a representative list of potential emerging technologies:
 - Biotechnology
 - Data Analytics Technology
 - Brain-Computer Interfaces
 - Artificial Intelligence
 - Quantum Information and Sensing Technology
 - Hypersonics
 - Position, Navigation, and Timing (PNT) Technology
 - Logistics Technology
 - Advanced Materials
 - Microprocessor Technology
 - Additive Manufacturing
 - Advanced Surveillance Technologies
 - Advanced Computing Technology
 - Robotics



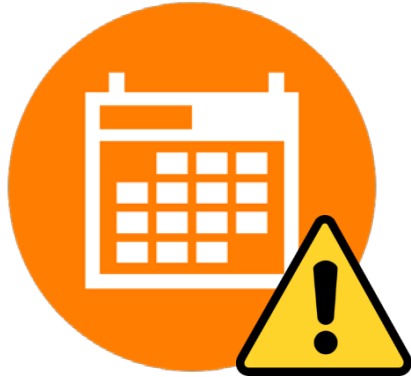
Developments: Designation of Huawei to Entity List

- On May 16, 2019, BIS added Huawei Technologies, Co. Ltd. and 68 of its non-U.S. affiliates in 26 countries to the BIS Entity List, which is essentially a U.S. export control blacklist.
- The EAR prohibits the export, reexport, or transfer of “items subject to the EAR” to persons on the Entity List without a license. Items “subject to the EAR” are any commodities, software, and technology that are:
 - in the United States,
 - U.S.-origin, wherever located,
 - foreign origin and incorporating more than *de minimis* amount of “controlled” U.S.-origin content, or
 - the foreign direct product of U.S.-origin technology controlled for national security reasons.



- Includes even low-level “EAR99” items not identified on U.S. export control lists (ex: U.S.-origin toothbrush and non-public U.S.-origin manufacturing drawings for it are EAR99 items “subject to the EAR”).
- Despite Trump’s suggestion after the G20, on June 29, that hinted he might provide Huawei relief, there has been no action to do so.

Developments: Designation of Huawei to Entity List

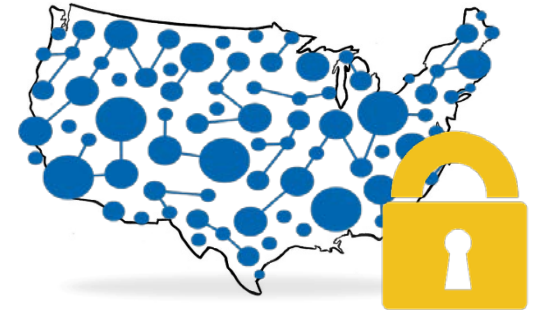


- BIS released a 90-day Temporary General License (“TGL”) following Huawei’s designation to the Entity List. The TGL only authorizes a limited subset of activities until August 19, 2019:
 - activities necessary to support existing networks and equipment;
 - activities necessary to provide service and support to existing models of Huawei handsets (handsets available to the public on or before May 16, 2019);
 - activities involving the disclosure of information regarding security vulnerabilities of Huawei items; or
 - activities necessary for the development of 5G standards as part of an international standards body.
- A TGL shipment to Huawei must include a certification on how the TGL applies, and the exporter/reexporter/transferor must keep the certification for recordkeeping purposes.
- The EAR does not restrict what items people can receive from Entity Listed persons or companies, unless they know or have reason to know that the Entity Listed person received the item in violation of law.
- Entity List does not, as a matter of law, prohibit investments into the listed entities or mean that funds being paid to or from listed entities are subject to blocking or rejection by financial institutions.



Developments: E.O. On Securing Information And Communications Technology And Services Supply Chain

- On May 15, 2019, President Trump issued an Executive Order that will restrict use of telecommunications items and services from certain countries/persons in U.S. networks.
- **The E.O. does not impose immediate restrictions but will create a new regulatory framework that the Department of Commerce (DoC) must implement by October 14, 2019.**



- Government may block *any* “acquisition, importation, **transfer, installation, dealing in, or use of** any information and communications technology or service” involving *any* “property in which any foreign country or a national thereof” has *any* interest, including through contract, and involving “information and communications technology or services designed, developed, manufactured, or supplied by a “foreign adversary” that poses “undue” risk to U.S. information and communications technology or services or to U.S. critical infrastructure or digital economy, or “unacceptable” security risk to the U.S. or U.S. persons.
- DoC will identify specific “foreign adversaries,” but context and timing of the E.O. (day before Huawei designation) hint at China/Chinese entities.
- The new regime will create significant compliance challenges for international business operations. Companies should begin assessing the potential impact of this new regime and consider engaging with the DoC, as appropriate, before publication of implementing regulations this year.



Questions?



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