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# Business

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## Complying with US Export Controls

As a general rule, any export from the United States is potentially subject to certain restrictions or controls by any number of U.S. government departments and agencies. These include the Department of the Treasury's Office of Foreign Assets Control ("OFAC"), which administers controls against certain countries that are the object of sanctions, and the Drug Enforcement Administration's Office of Diversion Control, which regulates drugs and chemicals. However, the primary agency responsible for administering the export laws is the Department of Commerce's Bureau of Industry and Security ("BIS"). Unless another federal agency has exclusive jurisdiction over a particular item, the BIS will have jurisdiction.

This article will focus on "dual use" exports (i.e. items that solely have non-military uses, or that can be used in both

commercial and military applications) which are controlled by the Export Administration Act of 1979, as amended, 50 U.S.C. app. 2401-2420 ("EAA"), and the Export Administration Regulations ("EAR") promulgated thereunder. The EAR is accessible at [http://www.access.gpo.gov/bis/ear/ear\\_data.html](http://www.access.gpo.gov/bis/ear/ear_data.html).

### 1. The Export Administration Regulations

The core of the EAR concerns exports of dual use items from the United States. Items can be both tangible and intangible, including commodities, software or technical data. Under the EAR, "export" is fairly broad, applying to transactions both within and outside the United States, as well as activities that might not otherwise constitute "exports" in the usual sense.

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## ASSET PROTECTION

Business owners who incorporate their business should carefully observe corporate formalities. Those who fail to do so may expose their personal assets to the corporation's debts. While the corporation limits shareholders' personal liability to their investments in the corporation, claimants may "pierce the corporate veil" and hold shareholders personally liable for the corporation's debts if the corporation fails to observe corporate formalities. Accordingly, it is important that shareholders, among other things, adequately capitalize the corporation, issue stock, maintain corporate records, maintain financial records, and maintain separate bank accounts for the corporation.

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Under the EAR, “export” includes (1) any shipment out of the United States, (2) any electronic transmission out of the United States, and (3) any release of technology to a foreign national within the United States (termed “deemed exports”).

With regard to the latter, businesses should be cautious about inadvertently violating the EAR by releasing U.S. technology or software through such innocuous activities as giving tours of laboratories or by granting access to controlled items to employees who are foreign nationals, even if the employee is located within the United States.

Also incorporated within the purview of “exports” are “reexports,” which include (1) any shipment of a U.S. origin item from one foreign country to another, (2) any shipment of a foreign produced item containing U.S. origin parts, from one foreign country to another, and (3) any shipment from one foreign country to another of an item manufactured abroad based on U.S. origin technology.

## **2. Applying the EAR**

The first step in determining your obligations under the EAR is to identify five key facts:

- (a) What is my item? What an item is, for export control purposes, depends on its classification, which is its place on the Commerce Control List.
- (b) Where is it going? The country of ultimate destination for an export or reexport also determines licensing requirements.
- (c) Who will receive it? The ultimate end-user of your item cannot be a prohibited end-user.
- (d) What will be the end-use? The ultimate end-use of your item cannot be a prohibited end-use.
- (e) What else do they do? End-user conduct such as contracting, financing, and freight forwarding in support of a nuclear proliferation project may prevent you from dealing with someone.

As a general rule, all items in the U.S., except publicly available technology and software (except encryption), is subject to the EAR.

### **A. The Commerce Control List**

The Commerce Control List (“CCL”) can be found at Part 744 of the EAR. It contains lists of items subject to the licensing authority of BIS. Each item is assigned an Export Control Classification Number (“ECCN”). Once the ECCN of the item is determined, the CCL will provide (1) the license requirements applicable to that item, and (2) what license exceptions are available. Key to determining the licensing requirements is knowing where the item is going and what its intended end-use will be.

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# Federal Contracting Opportunities

The federal government is one of the largest purchasers of goods and services in the world. Each year, the federal government spends billions of dollars procuring everything from construction work and scientific research to office supplies and cleaning services. Unbeknownst to many, the federal government reserves a significant percentage of its contracts to small disadvantaged businesses and small businesses located in high unemployment, low-income areas.

In fact, the federal government has set a statutory goal of awarding twenty-three percent (23%) of contract dollars to small businesses and, within that goal, five percent (5%) to small disadvantaged businesses. It has established a goal of awarding three percent (3%) of contract dollars to small businesses located in high unemployment, low-income areas. Far too few businesses are aware of these opportunities.

## **1. SBA 8(a) Business Development Program**

Under the 8(a) Business Development Program, the Small Business Administration (SBA) provides assistance to small disadvantaged businesses. The assistance includes insightful counseling and access to set-aside contracts and sole-source contracts.

To qualify for the program, a small disadvantaged business must satisfy four (4) main requirements. First, at least 51% of the small business must be owned and controlled by one or more “socially disadvantaged” individuals. A socially disadvantaged individual is a person who has been subjected to racial or ethnic prejudice or cultural bias because of his or her membership in a disadvantaged group. Individuals of certain groups are presumed to be socially disadvantaged. Those groups include African Americans, Hispanic Americans, Native Americans, Asian Pacific Americans, and South Asian Americans.

Other individuals can be admitted if they can establish by a “preponderance of the evidence” that they have been disadvantaged in the business world because of their race, ethnicity, gender, physical handicap, or residence in an environment isolated from mainstream American society. In determining whether the individual has been disadvantaged, the SBA will evaluate the individual’s education, employment history, and business history.

Second, at least 51% of the small business must be owned and controlled by one or more “economically disadvantaged” individuals. An economically disadvantaged individual is a person whose ability to compete has been impaired due to diminished capital and credit opportunities. In examining an individual’s diminished capital and credit opportunities, the SBA looks at a variety of factors relating to the individual’s personal financial condition. Those factors include:

- (a) The individual’s personal net worth;
- (b) The individual’s personal income for the past two years; and
- (c) The fair market value of all the individual’s assets.

With respect to the first factor, the personal net worth of the individual must be less than \$250,000, excluding the value of the individual’s business and personal residence. With respect to the second factor, the individual’s average adjusted gross income for the past two years generally should not exceed \$200,000.

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## B. Additional Lists to Check

Once it is determined that the item is subject to the EAR, and that a license either is or is not needed to export the item based on its ECCN, the exporter should then check the following lists (all accessible via the BIS website at <http://www.bis.doc.gov>), to see if any additional prohibitions apply:

- (a) the Denied Persons List;
- (b) the Entity List;
- (c) the Unverified List;
- (d) the Specially Designated Nationals List;
- (e) the Debarred List;
- (f) the Nonproliferation Sanctions List; and
- (g) the General Orders.

## C. Restrictions on Certain End-Uses

In addition to the license requirements for items specified on the CCL, you may not knowingly export or reexport to an end-use or end user prohibited by Part 744 of the EAR without a license or license exception. Part 744 deals primarily with nuclear proliferation, missile technology and chemical/biological weapons. Accordingly, it is always recommended that exporters investigate who they are exporting to, and what their recipient intends to do with the item.

## D. Restrictions on Exports to Embargoed Countries

In addition to the license requirements for items specified on the CCL, you may not knowingly export or reexport items to the embargoed countries described in Part 746, currently Cuba, Iran and Sudan, without a license or license exception.

## E. Restrictions on Weapons Proliferation Activities

In addition to the license requirements for items specified on the CCL, you may not support weapons proliferation activities, which includes financing, transportation, freight forwarding, performance of contract, service or employment, and providing technical assistance in developing encryption items outside the U.S. Accordingly, it is always recommended that exporters investigate what activities their intended recipient is involved in.

## F. Restrictions on Transit

In addition to the license requirements for items specified on the CCL, you may not export or reexport items through (*i.e.* transit through) certain listed countries without a license or license exception. These countries currently are Albania, Armenia, Azerbaijan, Belarus, Cambodia, Cuba, Georgia, Kazakhstan, Kyrgyzstan, Laos, Mongolia, North Korea, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan, and Vietnam.

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Third, the small disadvantaged business must demonstrate “potential for success.” To do so, the business must have operated for at least two years. This requirement, however, may be waived if the business satisfies these five conditions:

- (a) The socially and economically disadvantaged individual or individuals upon whom program eligibility is based possess substantial business management experience;
- (b) The business has demonstrated sufficient technical experience to carry out its business plan;
- (c) The business has adequate capital to sustain its operations and carry out its business plan;
- (d) The business has, or can demonstrate its ability to timely obtain, the personnel, facilities, equipment, and any other requirements need to perform contracts; and
- (e) The business has a record of successful performance on contracts.

Finally, the business and its principals must display “good character.” In determining good character, the SBA will examine any history of criminal conduct, debarment, and suspension by the business and its principals. The SBA will also look at other factors, including whether false information has been submitted during the application process.

## 2. SBA HUBZone Empowerment Contracting Program

Under the HUBZone Empowerment Contracting Program, the SBA provides contracting assistance to small businesses located in economically distressed communities, referred to as “historically underutilized business zones” (HUBZones). The assistance includes set-aside contracts, sole-source awards, and price preferences.

To qualify for the program, a small business must satisfy three (3) main requirements. First, at least 51% of the small business must be owned and controlled by an American citizen, a Community Development Corporation, an agricultural cooperative, or a Native American tribe. Second, the small business’s principal office must be located within a “historically underutilized business zone” (HUBZone). Areas that qualify as HUBZones include qualified census tracts in metropolitan areas, qualified nonmetropolitan counties, Indian reservations, and military bases closed by the Base Realignment and Closure Act. Qualified census tracts are identified in part by a metropolitan area’s income. In Los Angeles, qualified census tracts include certain areas of downtown Los Angeles, East Los Angeles, Long Beach, and parts of the San Gabriel Valley.

Finally, at least 35% of the small business’s employees must reside in a HUBZone. To fulfill this requirement, the business’s employees must live in a primary residence within the HUBZone for at least 180 days or be a currently registered voter in that area.

These programs provide access to valuable federal government contracts to small disadvantaged businesses and small businesses located in high unemployment, low-income areas. They can help small businesses obtain financial stability and growth.

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### 3. Penalties

The penalties for exports or reexports in violation of the EAR can be severe. Criminal penalties include a jail term of up to 20 years and a \$250,000 fine (or \$1,000,000 for a corporation). Civil penalties include up to \$250,000 per violation or two times the value of the export, and a denial of export privileges.

### 4. The Exporter’s Responsibilities

Exporters must take responsibility for:

- (1) Knowing their responsibilities under the EAR. Critical to this is properly classifying their item under the correct ECCN.
- (2) Knowing and verifying the identities of all parties to a transaction. In particular, exporters should verify and investigate all intermediaries and the ultimate consignee on the export records.
- (3) Ensure that all parties know their compliance responsibilities. For example, exporters should use import certificates and provide end-use statements where appropriate, and obtain signed statements by the ultimate consignee and purchaser regarding their intended end-use prior to shipping.

Complying with U.S. export controls can be a complicated process, and an effective export management compliance program can be key in ensuring proper compliance with the export laws. Businesses should consider consulting an attorney to determine their obligations under the export laws.

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# Selecting a Trademark

A trademark is any designation of source or origin used to identify and distinguish a good, or in the case of a service mark, a service. As one court put it, “[t]rademarks help consumers select goods. By identifying the source of the goods, they convey valuable information to consumers at lower costs.” *Scandia Down Corp. v. Euroquilt, Inc.*, 772 F.2d 1423, 1429 (7<sup>th</sup> Cir. 1985). Trademarks are symbols of a company’s goodwill. The following are some factors to consider in selecting a mark.

## 1. Consider choosing a strong mark versus a weak mark

Some trademarks are stronger and easier to protect than others. In assessing the strength of a mark, courts recognize four categories of marks: generic, descriptive, suggestive, and arbitrary/fanciful marks.

	Definition	Protectability
<b>Generic</b>	These are terms that are the common names for a type of product. Examples: banks, low-calorie beer, computer screen wipes.	Can never function as a trademark.
<b>Descriptive</b>	Marks that convey an immediate idea of the ingredients, qualities or characteristics of the goods. Examples: ICE for beer, BABY BRIE for mini-size brie cheese, ARTHRITICARE for pain relieving gels for arthritis.	Protectable only if it acquires secondary meaning, <i>i.e.</i> , the consumer learns to associate the mark with a single source. Secondary meaning is usually acquired over time due to use, sales and advertising.
<b>Suggestive</b>	Marks that suggest something about the goods, but “require imagination, thought and perception” to reach a conclusion as to the nature of the goods. Examples: CITIBANK for banking services, BLISS for beauty salon services, PLAYBOY for magazines.	Protectable without secondary meaning.
<b>Arbitrary/Fanciful</b>	Arbitrary marks are common words applied in unfamiliar ways. Examples: COCA-COLA for non-alcoholic beverages, CAMELS for cigarettes, APPLE for computers/electronics. Fanciful marks are coined (made-up) terms with no dictionary meaning. Examples: EXXON, KODAK, ROLEX.	These marks are inherently distinctive, protectable without secondary meaning and are the strongest types of marks.

Not all types of marks can be registered with the U.S. Patent & Trademark Office (“PTO”). For example, “deceptive marks,” or marks that are misdescriptive of the character, quality, function, composition or use of the goods, cannot be registered.

In selecting a mark, there are also marketing considerations to consider. While descriptive or suggestive marks are harder to protect, they are attractive in that they already convey some idea of what the product is. For example, it is not uncommon for Pho noodle restaurants to use the term “PHO” in their marks. In contrast, although arbitrary/fanciful marks are legally the strongest marks, take may require more marketing resources to create brand awareness.

*Selecting a Trademark continued on last page*

## 2. Conduct a trademark search

Once a mark is selected, a trademark search should be conducted. This is a systematic review of other marks currently in use that may be the same or similar to the proposed mark, or used in a context that may result in a likelihood of consumer confusion if the proposed mark was put into use. The goal here is to avoid picking a mark that may have to be changed in the future due to a conflict with another mark. Changing a mark can be expensive, not just because of the costs associated with changing signage and marketing materials, but because of the lost investment in the mark and the goodwill that may have accrued. In addition, using a mark that is confusingly similar to another mark may expose a trademark proprietor to a potentially expensive damages claim.

A trademark search also provides an idea of the protectability of the mark. If there are numerous similar marks in use for similar goods, the proposed mark may be considered “weak” and thus accorded a narrow scope of protection by the courts.

Legally, foregoing a search can be risky business. A defendant’s failure to conduct a search has been found by at least one court to constitute “carelessness,” weighing in favor of a plaintiff’s right to injunctive relief. On the other hand, conducting a search may constitute positive evidence of good faith if the trademark proprietor is ever sued.

## 3. Registering your mark

Once a mark has been selected, consider registering it with the PTO. In the United States, trademark rights arise from use, not registration. However, while registration with the PTO is not required, there are some significant benefits to federal registration. As a practical matter, judges, juries and adversaries will likely accord marks greater weight when they feature the federal government’s stamp of approval as evidenced by the issuance of a trademark registration. Further, registration of a mark on the Principal Register constitutes prima facie evidence of the validity of a registered mark, the registrant’s ownership of the mark, the registrant’s exclusive right to use the mark in connection with the specified goods or services nationwide, and continued use of the mark since the filing date of the application. This can be very helpful during litigation. Absent such registration, the scope of one’s trademark rights may be limited to the geographic territory in which the mark was used. Another huge advantage of registration is that a mark can become “incontestable” after five years of registration, which precludes cancellation of the registration on the basis of prior use (*e.g.* likelihood of confusion with another mark) or descriptiveness.

Trademarks can be an enormous asset of a company. For example, consider the COCA-COLA mark. According to the president of the Coca Cola Company, if all of the company’s buildings, vehicles factories and equipment were destroyed, the Coca Cola Company could still emerge from the ruins and rebuild itself provided that its trademark survived. The loss of the COCA-COLA mark however, would damage the company beyond repair. Businesses should consider consulting an attorney for assistance in selecting, prosecuting, maintaining and enforcing their marks.

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