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In-House Counsel CLE Webinar Series: Spring Forward

Session 1

Wednesday, May 25, 2022

Corporate Transparency Act (the “CTA”) (enacted Jan. 1, 2021)

May 25, 2022

Michael Bamberger & Ashley Cox

COMPANIES CAN BE USED TO HIDE THEIR OWNERS, FACILITATING:

Human
Trafficking

Drug Smuggling

Arms Trafficking



Terrorism

Money
laundering

Federal Database for Law Enforcement and Financial Institutions



Legitimate Reasons to Conceal Identity



History

- January 1, 2021, CTA enacted
- April 5, 2021, the Financial Crimes Enforcement Act (“FinCen”) required comments to its implementation of the CTA
- December 8, 2021, FinCen issued its first set of proposed regulations
- February 7, 2022, comment period for such proposed regulations expired
- This discussion is based on the proposed regulations which are not in effect and will be modified.

Roadmap

- Who needs to file, who is exempt
- What needs to be reported
- When reports are due
- How to advise clients



What entities are covered

- Domestic reporting companies:
 - All U.S. Corporations
 - All U.S. Limited Liability Companies
 - Other similar U.S. entities created by the filing of a document with a secretary of state or similar official

What entities are covered

- Foreign reporting companies:
 - Any corporation, LLC or other entity;
 - Formed under the law of a foreign country; and
 - Registered to do business by filing a document with a secretary of state or similar office in a U.S. state or Indian Tribe jurisdiction

23 Exemptions, including:

- SEC registered entities
- inactive entities
- tax exempt entities (501(c)(3))
- large operating companies
 - \$5M of consolidated revenue per U.S. tax return,
 - more than 20 employees, and
 - an operating presence at a physical office in the U.S.

Who is a Beneficial Owner

Any individual who, directly or indirectly, either exercises **substantial control** over the entity, or owns or controls at least 25% of the ownership interests of the entity.

Substantial Control

- Senior officers
- Someone with authority over appointment or removal of any senior officer or a majority or dominant minority of the board of directors (or similar body)

Substantial Control

A person who can direct, determine, decide, or substantially influence, important matters affecting the reporting company, including but not limited to:

- A. The nature, scope, and attributes of the business of the reporting company, including the sale, lease, mortgage, or other transfer of any principal assets of the reporting company;
- B. The reorganization, dissolution, or merger of the reporting company;
- C. Major expenditures or investments, issuances of any equity, incurrence of any significant debt, or approval of the operating budget of the reporting company;
- D. The selection or termination of business lines or ventures, or geographic focus, of the reporting company;
- E. Compensation schemes and incentive programs for senior officers;
- F. The entry into or termination, or the fulfillment or non-fulfillment of significant contracts; and
- G. Amendments of any substantial governance documents of the reporting company, including the articles of incorporation or similar formation documents, bylaws, and significant policies or procedures.

Substantial Control

- Catchall: any other form of substantial control over the reporting company.

Substantial Control may be exercised directly or indirectly over a reporting company in a variety of ways:

- **board representation;**
- **ownership or control of a majority or dominant minority of the voting shares of the reporting company;**
- **rights associated with any financing arrangement or interest in a company (preferred equity; pledge);**
- **control over one or more intermediary entities that separately or collectively exercise substantial control over a reporting company;**
- **arrangements or financial or business relationships, whether formal or informal, with other individuals or entities acting as nominees, or through any other individuals or entities acting as nominees, or through any other contract, arrangement, understanding, relationship, or otherwise.**

As to trusts, substantial control can be found:

- **by a trustee or other person with the power to dispose of trust assets; or**
- **by a beneficiary who is the sole permissible recipient of income and principal, or has the right to demand a distribution of or withdraw substantially all the assets; or**
- **by a grantor or settlor who has the right to revoke the trust or withdraw the assets.**

Who is a Beneficial Owner

Any individual who, directly or indirectly, either exercises substantial control over the entity, or owns or controls at least 25% of the ownership interests of the entity.

25% Interest

What if a reporting entity has different classes of membership interests?

Beneficial Ownership Interest

(A) Any equity stock, or similar instrument, certificate of interest or participation in any profit sharing agreement, preorganization certificate or subscription, transferable share, voting trust certificate or certificate of deposit for an equity security, interest in a joint venture, or certificate of interest in a business trust, without regard to whether any such instrument is transferable, is classified as stock or anything similar, or represents voting or non-voting shares;

(B) Any capital or profit interest in a limited liability company or partnership, including limited and general partnership interests;

(C) Any proprietorship interest;

(D) Any instrument convertible, with or without consideration, into any instrument described in paragraph (A), (B), or (C), regardless of whether or characterized as debt; or

(E) Any put, call, straddle, or other option or privilege of buying or selling any of the items described in paragraph (B),(C), or (D) of this section without being bound to do so.

Beneficial Owner Exemptions

- Minor children
- Nominee, intermediary, custodian or agent on behalf of another individual (the other individual would not be exempt)
- Employees, acting solely as an employee
- Inheritors (only until they have received the qualifying inheritance)
- **Creditors** (subject to the substantial control provisions)

Applicant

The person who files the document which creates a domestic entity, or which qualifies a foreign entity, as well as any individual who directs or controls such filing

Applicant

- The CEO of Company A decides that it should have a new single-member LLC subsidiary. She directs general counsel to form it, who asks outside counsel. The responsible partner delegates the task to an associate, who supervises a paralegal to prepare and sign the filing. It is transmitted to a filing service company in Delaware, whose employee actually files.
- What if it happened 30 years ago?

When are filings required:

- For entities existing or qualified prior to the effective date of the regs, within one year of the effective date of the regs.
- For entities created or qualified on or after the effective date of the regs, within 14 days of creation.
- If an exemptive state ends, within 30 days of the date the entity is no longer exempt.

What must be filed:

- As to the reporting entity:
 - Full name and any trade name or DBA
 - Business street address
 - Jurisdiction where formed or, for foreign entities, where first registered
 - IRS TIN (or various alternatives)

What must be filed:

- As to beneficial owners and applicants:
 - Full legal name
 - Date of birth
 - For beneficial owners, residential street address used for tax residency purposes
 - For applicants, business street address
 - A unique identifying number from a nonexpired passport, government ID, drivers license, etc., together with an image of the document

Who has access to the filed information?

The CTA provides that the filed information is confidential and provides for disclosure to federal, state and local governmental officials, financial institutions and appropriate regulatory agencies.

BUT, the proposed regulations on access have not yet been issued.

Issues raised by commentators:

- Extension of filings, particularly corrective.
- Exemption for qualified family-owned businesses.
- Definitional ambiguities.
- Inconsistencies with customer due diligence.

US ITC 337 Actions

ITC 337

Mark Hogge
Nicholas Jackson
Washington DC Office

May 25, 2022



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Part I In A Nutshell



UNITED STATES
INTERNATIONAL TRADE
COMMISSION

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The **International Trade Commission (ITC)** is a governmental, administrative agency based in Washington, DC which enforces acts of unfair competition Section 337(a) of the Tariff Act of 1930 (19 U.S.C. §1337(a)).



UNITED STATES
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COMMISSION

Unfair import (a.k.a., Section 337) investigations conducted by the USITC most often involve claims regarding **IP rights**, including allegations of **patent** infringement and **trademark** infringement by imported goods. Other forms of **unfair competition** involving imported products, such as infringement of registered copyrights, mask works or boat hull designs, misappropriation of **trade secrets** or trade dress, passing off, and **false advertising**, may also be asserted. Additionally, **antitrust claims** relating to imported goods may be asserted.*

USITC

*Source: USITC (https://www.usitc.gov/intellectual_property/about_section_337.htm)



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COMMISSION

The ITC has *in rem* jurisdiction over **unfair acts** involving the **importation of articles.**

ClearCorrect Operating, LLC v. ITC, 810 F.3d 1283, 1289-90 (Fed. Cir. 2015)

Who should be concerned?

IMPORTERS: When you **export products to the U.S.**, you are subject to U.S. jurisdiction and can be reached in the ITC, even if you have no physical presence in the U.S.

Who should be concerned?

DOMESTIC MANUFACTURERS: When you **manufacture products to the U.S.** or have other U.S. Domestic Industry, the ITC is a tool to stop competing importers.



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USITC

*Source: USITC (https://www.usitc.gov/intellectual_property/about_section_337.htm)



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Primary remedy for complainants is an **exclusion order** that directs Customs to **stop infringing articles** from entering the United States. In addition, the Commission may issue **cease and desist orders** against inventory in the U.S. of importers and other persons engaged in unfair acts.

*Source: USITC (https://www.usitc.gov/intellectual_property/about_section_337.htm)

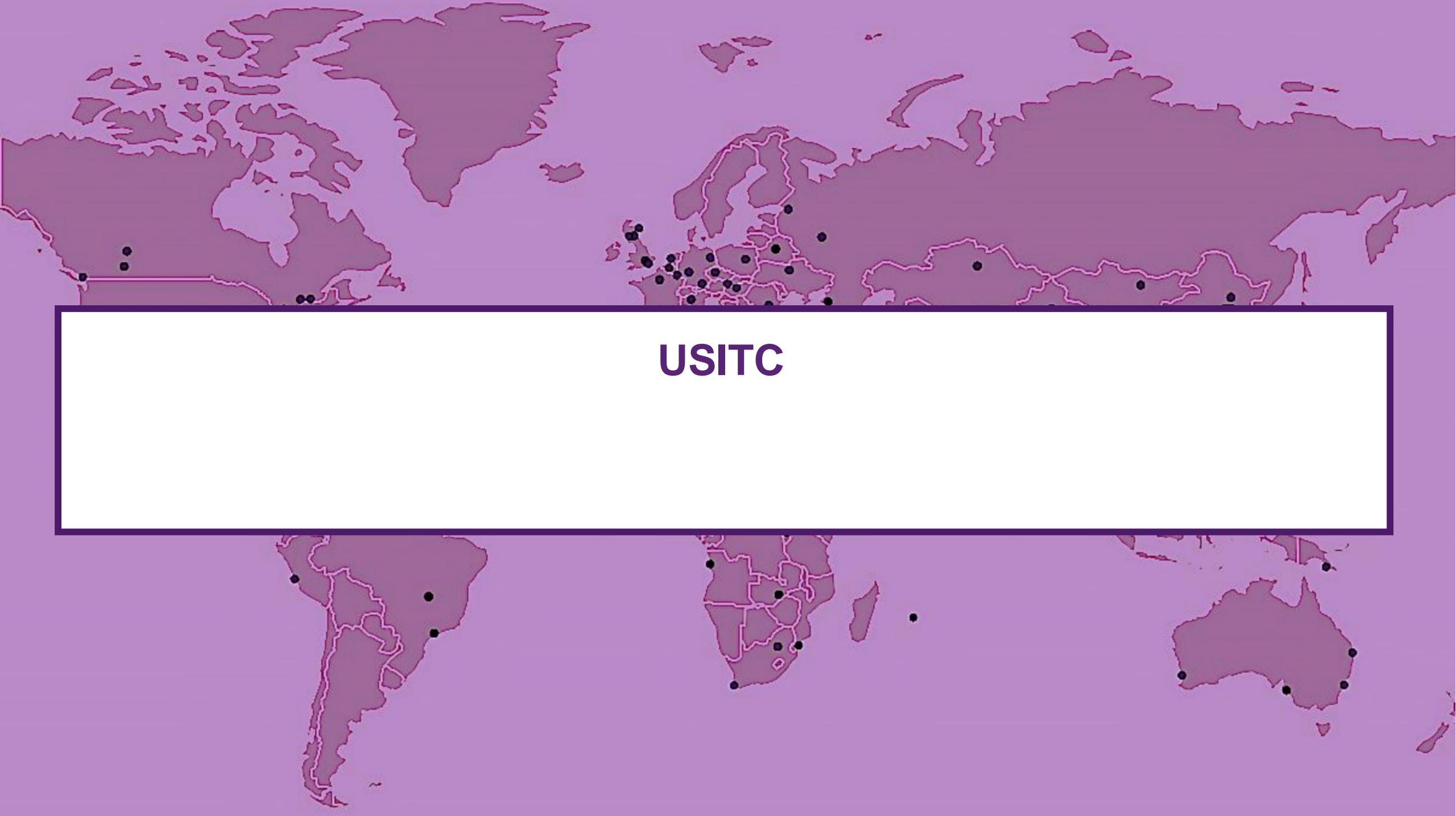


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In fact, any company can be a Section 337 **complainants** so long as the companies can establish the “domestic industry” requirement.

*For example, Samsung vs. Apple (Investigation No.337-TA-794) and LG Chem vs. SKI (Investigation No. 337-TA-1159).



USITC



UNITED STATES
INTERNATIONAL TRADE
COMMISSION

The U.S. International Trade Commission is an **independent, nonpartisan, quasi-judicial** federal agency that fulfills a range of trade-related mandates. It provides high-quality, leading-edge analysis of international trade issues to **the President** and **the Congress**. The Commission is a highly regarded forum for the adjudication of **intellectual property** and **trade disputes**.*

*Source: USITC (https://www.usitc.gov/press_room/about_usitc.htm)

USITC Administrative Law Judge

The primary role of ALJs is to conduct the trial phase of Commission investigations under section 337 of the Tariff Act of 1930. The Chief ALJ assigns the investigation to one of the ALJs, who rules on motions during the trial stage. After the trial, the ALJ makes an ID as to whether a violation of section 337 exists, and makes findings of fact and law and recommendations as appropriate.



CLARK S. CHENEY
CHIEF



DAVID P. SHAW



**MARYJOAN
MCNAMARA**



MONICA BHATTACHARYYA



CAMERON ELLIOT

USITC Commissioners

- The USITC is headed by six Commissioners who are nominated by the President and confirmed by the U.S. Senate.
- No more than three Commissioners may be of any one political party.
- Currently three Democrats and two Republicans serve as Commissioners.
- One empty position



Jason E. Kearns
• Chairman, Democrat (Colorado)



Rhonda K. (Schnare) Schmidlein
• Commissioner, Democrat (Missouri)



David S. Johanson
• Commissioner, Republican (Texas)



Amy A. Karpel
• Commissioner, Democrat (Washington State)



Randolph J. Stayin
• Vice Chair, Republican (Virginia)



Why it Matters to Companies

Increasing Number of Investigations

Number of New, Completed, and Active Investigations by Fiscal Year (Updated Quarterly)

Fiscal year	New Complaints and Ancillary Proceedings	Investigations and Ancillary Proceedings Completed	Active Investigations
2017	64	61	117
2018	74	61	130
2019	58	60	127
2020	52	67	120
2021	82	64	135
2022 Q2	34	38	105

Rate of Violations Found

Number of Cases in which a Determination is Made on the Merits by Fiscal Year (Updated Quarterly)

Fiscal Year	Number of Violations	Number of No Violations	Total No of Investigations	Percentage of Violations (%)
2017	14	2	16	88
2018	13	8	21	62
2019	15	7	22	68
2020	22	13	35	63
2021	9	9	18	50
2022 Q2	13	6	19	68

Duration of Investigations

Average Length of Investigations by Fiscal Year, Completion Time (in Months) (Updated Quarterly)

Fiscal Year	Completed on Merits ^a	Shortest ^a	Longest ^a	Average ^a	Average for all Inv ^c
2017	16	3.7	27.2	15.1	10.3
2018	21	5.3	21.4	15.85	11.2
2019	22	9.4	29.3	17.7	14.1
2020	35	8.2	28.1	18.6	15.3
2021	18	8.1	29.8	18.2	11.8
2022 Q2	19	8.8	27.4	17.7	15

Source: https://www.usitc.gov/intellectual_property/337_statistics_average_length_investigations.htm

Duration of Federal District Patent Cases

Median time to trial for cases from 2019 to 2021 was approximately two years and nine months.

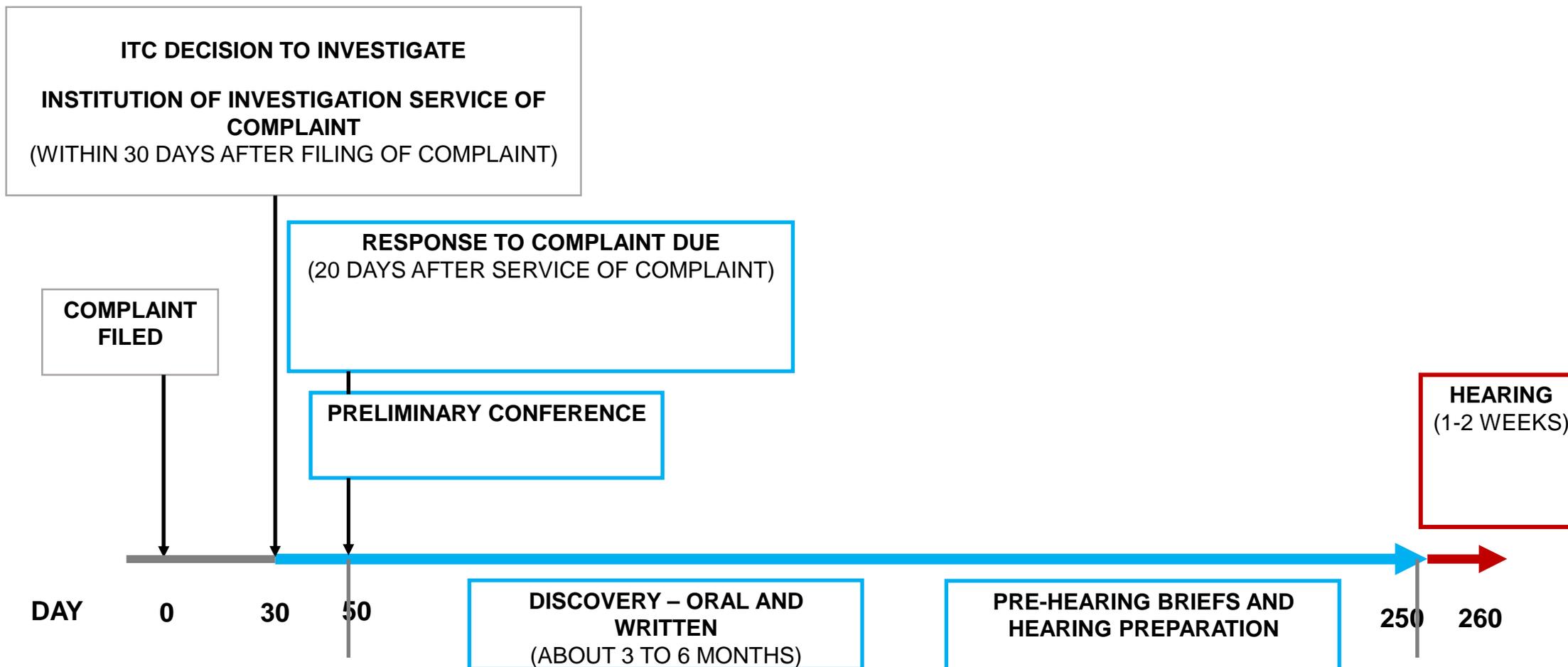
Remedy at the ITC

- **No Monetary Damages**
- **Violation Stage**
 - Limited Exclusion Order
 - General Exclusion Order
 - Cease-and-Desist Order
 - Consent Order
 - Bond
- **Enforcement Stage**
 - Civil penalty of greater of \$100,000 per day or 2x the domestic value
 - District Court injunction

A world map with a light purple background. Black dots are scattered across the map, indicating locations of fast-moving investigations. The dots are concentrated in North America (USA and Canada), Europe, and Africa. There are also a few dots in South America, Asia, and Australia.

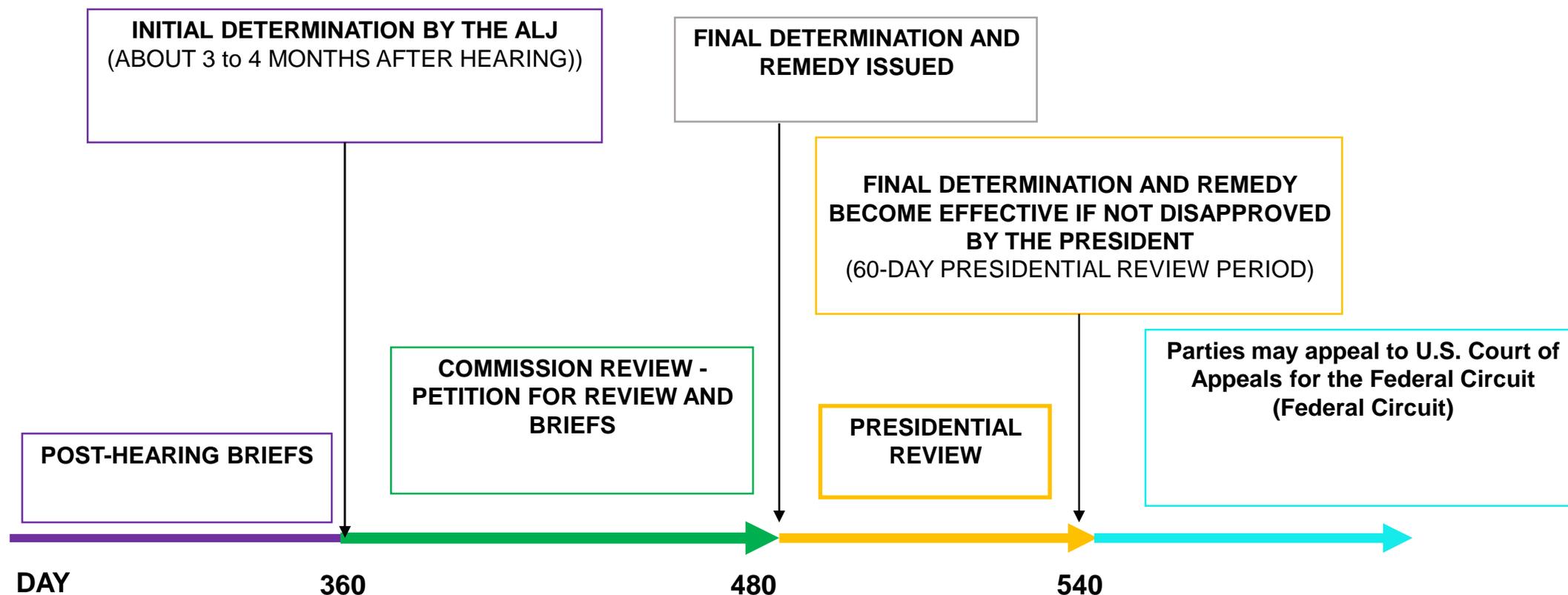
Timeline: Fast-moving Investigations

TIMELINE OF A SECTION 337 INVESTIGATION: 13-16 MONTHS (1)*



* This is an overview of the expected timeline based on our previous experience.

TIMELINE OF A SECTION 337 INVESTIGATION: 13-16 MONTHS (2)*



* This is an overview of the expected timeline based on our previous experience.

Part II Winning Strategies

What has to be proven?

- **To establish a violation of Section 337**
 - Infringement of a valid, enforceable intellectual property right
 - Importation of the accused article
 - Injury
 - Assumed for registered IP rights
 - Must be proven for non-registered IP rights
 - Domestic Industry
 - Technical Prong: The Complainant must practice the IP (registered IP)
 - Economic Prong: significant investment in U.S. domestic operations
 - Public Interest

A world map in shades of purple and blue serves as the background. A white rectangular box with a dark purple border is centered on the map, containing the text. The map shows continents and some country borders, with several black dots marking specific locations across the globe.

**The First Question:
What Should I Do if my Company is Named as a Respondent?**

When Your Company is Named as a Respondent... (1)

Pre-Institution: Things You Can Do Within 30 Days

Business Strategies

Examine the “Business Case”

Legal Strategies

Prepare Litigation Strategies (e.g.,
Public Interest Comments)

When Your Company is Named as a Respondent...(2)

- **Minimum defense**
 - **12(b)(6)-type defense: Specificity**
 - **Public interest** comments
 - Answering the first set of interrogatories

When Your Company is Named as a Respondent...(3)

- Developing a litigation strategy
 - Whether to respond comprehensively
 - Invalidate or design around, or
 - Consider **consent order**
 - Get ready for **discovery**
- Litigation hold: Avoid spoliation

Part III

A Winning Case Study: Flex's Trade-Secrets Case

A world map in shades of purple and blue, showing continents and oceans. The map is centered on the Atlantic Ocean, with North and South America on the left and Europe and Africa on the right.

Flextronics Case

A respondent in trade secret misappropriation case is usually a loser at the ITC,
BUT WE WON

Flextronics: Background (1)

JAWBONE®

Complainant



fitbit.

FLEXTRONICS X

Respondents

- In the matter of Fitbit's certain activity tracking devices made by Flextronics
- Jawbone alleged that
 - 6 patents infringed
 - Misappropriation of **154 trade secrets**



Flextronics: Background (2)

- Fitbit and Jawbone were competitors and Fitbit was gaining market share in the wearable (bracelet) market.
- Both Fitbit and Jawbone were R&D shops in San Francisco. Both had their “wearables” manufactured by Flextronics in Zhuhai.
- A number of employees left Jawbone for Fitbit. And Flextronics made the competing product in two different assembly lines with some shared facilities and with some cross over of workers.
- Jawbone sued Fitbit and Flextronics to stop the imports.

Flextronics: Background (3)

Jawbone asserted misappropriation of **154 trade secrets**:

- At the hearing, Jawbone reduced the number of trade secrets and presented evidence with respect to **38** of the alleged trade secrets.
- **After** the hearing, Jawbone limited its post-hearing briefing to 5 of the trade secrets.
- Jawbone moved to terminate the investigation as to the alleged trade secrets not addressed in its post-hearing briefs.

Source: No. 337-TA-963, available at https://www.usitc.gov/secretary/fed_reg_notices/337/337_963_notice10202016sgl.pdf (Oct 20, 2016).

Flextronics: ALJ Finds No Misappropriation of Trade Secrets

- Over the past ten years, Section 337 investigations based upon the misappropriation of trade secrets have **almost** universally resulted in **exclusion orders** being issued by the Commission.
- While this Investigation may be an exception, the **ITC** remains a **favorable** venue to bring allegations of **trade secret** misappropriation.
- It is important to ensure that such allegations are identified with **sufficient specificity** and that they can be tied to an **injury (or threat of future injury) to the domestic industry**.
- Jawbone is in liquidation.

Source: No. 337-TA-963, available at https://www.usitc.gov/secretary/fed_reg_notices/337/337_963_notice10202016sgl.pdf (Oct 20, 2016).

Procedural Strategies

Procedural Strategies: Timing for the Trade Secret Disclosure

- The ITC does not require the disclosure of trade secrets at the beginning of the case, but such a disclosure is scheduled as an initial preliminary statement and as a final statement of the trade secrets.
- If you were the **respondent**: get the trade secret disclosure served **as soon as possible**.
- If you were the **complainant**: schedule the trade secret disclosures **as late as possible**.

Witness Preparation

Winning Points: Cross-examination (1)

Cross-examination

Go deeper into technologies

Winning Points: Cross-examination (2)

Cross-exam **witness**: Select and train your star witness

Jawbone		Flex	
CEO	Hosain Sadequr Rahman		Michael Dennison
CTO	Michael Luna		Gerhard Zebe
	Richard Drysdale		Brett Pagenkopp
	Randy Knaflic		Richard Winters
	Travis Bogard		Horacio Gomez
	Hari Chakravarthula		Liaquat Ali
	Cheryl Tulkoff		Gagandeep Singh
			Lorianne Hamoline

Winning Points: Cross-examination (3)

Cross-exam **witness**: Select and train your star witness

President of Flex's global operations for mechanicals, Mr. Gerhard Zebe, testified that the alleged secrets are not secrets.

- Answered questions directly without voluntarily providing any other irrelevant information.
- Provided documents dated in 2008 showing that Flex knew the technology first.

Business Strategies

Winning Points: Proper Business Records (1)

- Importance of keeping business records of your company
- Business-records exception is hearsay exception allowing business records (such as reports or memoranda) to be admitted into evidence if they were prepared in the **ordinary course of business**. If there is good reason to doubt a record's reliability (e.g., the record was prepared in **anticipation of litigation**), the exception will not apply. Fed. R. Evid. 803(6).

Winning Points: Proper Business Records (2)

PowerPoints made by President of Flex's global operations for mechanicals, Mr. Gerhard Zebe

- It eventually was admitted, but not under business record exception.
- If he was not the sole author, (e.g., part of the PowerPoints was made by the marketing department)
 - Hearsay or double hearsay will be an issue

Takeaways

Takeaway (1)

- **Litigation hold**
 - Avoid spoliation
 - Avoid default
- **Minimum defense**
 - 12b(6) motion
 - Public interest comments

Takeaway (2)

- Litigation Strategies
 - “Business case” analysis
 - Invalidate or design around
 - Consent order
- Get ready for **discovery**
 - Selecting witnesses for **deposition**
 - Or merely do **interrogatories**

A world map with a white rectangular box in the center. The box contains the text "About the Speakers" in a bold, black, sans-serif font. The map shows the outlines of continents and some black dots indicating specific locations. The dots are located in North America, Europe, South America, Africa, and Australia.

About the Speakers

About the Speakers



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Mark Hogge is a Chambers rated IP Litigator and co-chair of Dentons' US Patent Litigation Practice and is an U.S. ITC specialist. Mark was also selected by his peers and named in the 26th Edition of The Best Lawyers in America for his work in Patent Litigation. He is internationally recognized and has been litigating in the U.S. ITC continuously for over 20 years. Mark has served as lead counsel in numerous cases at the U.S. ITC, where he has acted on behalf of complainants, respondents and third parties in every phase of investigations.



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Nick helps US and foreign high technology companies and manufacturers protect their market, their business and their intellectual property. As a mechanical engineer and registered patent attorney, Nick focuses on intellectual property litigation at the US International Trade Commission (ITC). With experience handling more than a dozen cases before the ITC on behalf of both complainants and respondents, in both patent infringement and trade secret misappropriation investigations, clients turn to Nick to successfully navigate the intricacies of the ITC to quickly and efficiently resolve their disputes.