

**ETHICAL BREAKDOWNS ON THE ROAD TO EXPORTING
INTELLECTUAL PROPERTY**

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I. INTRODUCTION

Mary is a successful intellectual property (“IP”) attorney in San Francisco, California. She has practiced IP law, specifically patent prosecution, for over two decades. Most of Mary’s career has been spent in solo/small firm practice. Over the years, she has managed a heavy case load while simultaneously making time for administrative and business development responsibilities. Mary has maintained this busy schedule for many years.

Recently, Mary has found it increasingly difficult to meet her clients’ demands. Last year, she nearly missed a crucial deadline, because she did not properly calendar an important date. Mindful to protect her clients’ interests and the reputation she has acquired in the legal community, Mary decided to hire a junior associate.

Mary’s new junior associate, Nigel, was born in South Africa and raised in the United Kingdom. He practiced law for two years in England and spent one year earning his LLM in the United States under an F (“Student”) visa. Nigel is not admitted to practice in any United States jurisdiction.

When Mary initially began searching for a junior associate, she assumed she would find a young attorney who was admitted to practice in the United States and before the United States Patent and Trademark Office (“USPTO”). Still, she was so impressed by Nigel’s resume and engineering background that Mary had to at least meet him for an interview. Nigel was even more impressive in person, and Mary hired him on the spot.

On the night before Nigel’s first day in the office, Mary had trouble sleeping. She was so excited! How could she be so lucky to get this superstar young attorney with such stellar credentials, and who is hardworking, yet amiable? Unfortunately, the more Mary thought about working with Nigel, the more anxious she became, as her initial excitement gave way to the ethical considerations of hiring a foreign attorney. Nigel informed Mary that he had been granted “limited recognition” in patent matters by the USPTO. What, precisely, does that mean, and what additional obligations might Mary have when supervising an attorney who enjoys only limited recognition? Had Mary made a mistake in hiring Nigel?

II. USPTO REGULATIONS AND MODEL RULES OF PROFESSIONAL CONDUCT (MRPC)

A. “Limited Recognition” Under USPTO Regulations

Ordinarily, only United States citizens and permanent residents may be admitted to prosecute patents before the USPTO.¹ But, pursuant to 37 CFR § 11.9, the USPTO may grant limited recognition to prepare and prosecute patent applications to nonimmigrant aliens under certain circumstances.²

In order to gain limited recognition, a nonimmigrant alien must meet the standard requirements for United States citizens and permanent residents, including completing an application, paying a fee, and passing a written examination.³ Nonimmigrant aliens must also show that it is “necessary or justifiable” for them to gain limited recognition.⁴ In addition, candidates must demonstrate that they are of good moral character and reputation.⁵

Mary decides to have faith in Nigel’s apparent qualifications. She refuses to question whether he has met the requirements and obtained limited recognition. Assuming Nigel’s statements are truthful, Mary is still unsure about her responsibilities managing a junior associate who enjoys only limited recognition. She expects her caseload to increase substantially in connection with a potential client’s very active patent acquisition program. Can Mary use Nigel’s assistance for future patent applications?

Limited recognition is granted for prosecution of “a specified patent application or specified patent applications.”⁶ It “shall not extend further than the application or applications specified.”⁷ This sounds more restrictive than Mary had anticipated. Mary wonders what level of specificity candidates are

¹ 37 C.F.R. §§ 11.6(a) and (b) (2016); *Limited Recognition*, USPTO, <http://www.uspto.gov/learning-and-resources/ip-policy/becoming-practitioner/limited-recognition> [https://perma.cc/6ZMT-M2CT] (last modified Aug. 22, 2013, 4:36 PM).

² 37 C.F.R. § 11.9(b) (2016).

³ *Id.* § 11.9(b) (citing 37 C.F.R. § 11.7(a) and (b)).

⁴ *Id.* § 11.9(a).

⁵ *Id.*

⁶ *Id.*

⁷ 37 C.F.R. § 11.9(a).

required to identify with respect to the patent applications they intend to prosecute. Mary has not managed a junior attorney in many years, so she racks her brain trying to remember her obligations as a managing attorney.

B. *Duty to Supervise*

Mary recalls that she has a duty to supervise her subordinates under the Model Rules of Professional Conduct (“Model Rules”), applicable state bar rules, and the USPTO regulations. Specifically, Model Rule 5.1(b) states, “[a] lawyer having direct supervisory authority over another lawyer shall make reasonable efforts to ensure that the other lawyer conforms to the Rules of Professional Conduct.”⁸ Under Model Rule 5.1(c), a managing attorney can be held liable for the misconduct of subordinates if she ordered the violation, knowingly ratified the conduct, or knowingly failed to avoid or mitigate the consequences of the violation despite being able to do so.⁹ The USPTO imposes the same duties on patent practitioners under 37 CFR § 11.501.¹⁰

While Mary is not thrilled about taking on the additional responsibility of supervising, she feels confident in her ability to tackle the responsibility with the right associate, proper safeguards, and training. Mary doubts whether Nigel qualifies as a lawyer under the Rules, because he is not admitted to the bar in any United States jurisdiction, except for the limited recognition before the USPTO. She decides not to dive down this rabbit hole, however, because her supervisory duties related to non-lawyers are exactly the same under Model Rule 5.3¹¹ and under 37 CFR § 11.503.¹²

C. *Duty to Not Aid in Unauthorized Practice*

Model Rule 5.5 and 37 CFR § 11.505 impose a duty on attorneys to practice law only with others having authority to do likewise, and not to assist anyone in unauthorized practice.¹³ Mary worries that she could violate this rule if she should inadvertently assist Nigel in exceeding the scope of his limited

⁸ MODEL RULES OF PROF'L CONDUCT r. 5.1(b) (AM. BAR ASS'N 1983).

⁹ *Id.* r. 5.1(c).

¹⁰ 37 C.F.R. § 11.501.

¹¹ MODEL RULES OF PROF'L CONDUCT r. 5.3.

¹² 37 C.F.R. § 11.503.

¹³ MODEL RULES OF PROF'L CONDUCT r. 5.5; 37 C.F.R. § 11.505.

recognition. Mary concludes that she will have to be vigilant in shielding Nigel from matters beyond the scope of the limited recognition.

D. *Duty to Maintain the Integrity of the Profession*

Mary has a duty to maintain the integrity of the legal profession under Model Rules 8.1–8.4 (and 37 CFR §§ 11.801–11.804).¹⁴ Among the specific kinds of conduct deemed to besmirch the integrity of the profession are violating the rules or attempting to do so, knowingly assisting or inducing someone to violate the rules, or violating the rules through the acts of another, as well as to “[e]ngage in conduct involving dishonesty, fraud, deceit or misrepresentation,” or “[e]ngage in conduct that is prejudicial to the administration of justice.”¹⁵ Mary also has a duty to report any practitioner whose violation of the rules of conduct “raises a substantial question as to that practitioner’s honesty, trustworthiness or fitness as a practitioner in other respects.”¹⁶

III. IMMIGRATION AND EXPORT CONTROL LAW REQUIREMENTS

Mary tries to reassure herself that hiring Nigel was the right decision. After all, her professional responsibilities would be similar with any junior attorney who had been admitted to practice in her jurisdiction. Mary sees so much promise in Nigel, and she is genuinely excited about mentoring him. As Mary tries to focus on the positives, she gets a sneaking sensation that she has overlooked something important. Oh, yes—Nigel’s visa status.

A. *Immigration Form I-129*

Mary is sponsoring Nigel’s visa application and work permit. She is unfamiliar with immigration law, and Mary worries that she might have missed something in completing the application, or even agreeing to sponsor Nigel’s application in the first place. Nigel had presented her with a United States Citizenship and Immigration Services Form I-129 as part of the visa application.¹⁷ Part 6 of Form I-129 required Mary to check a box indicating whether an export

¹⁴ MODEL RULES OF PROF’L CONDUCT r. 8.1–8.4; 37 C.F.R. §§ 11.801–.804.

¹⁵ MODEL RULES OF PROF’L CONDUCT r. 8.4(a); 37 C.F.R. § 11.804.

¹⁶ 37 C.F.R. § 11.803.

¹⁷ 8 U.S.C. § 1184(c)(1) (2012).

license is required for Nigel to perform his duties.¹⁸ Did she make the right selection?

Mary scrambles out of bed and into her home office to retrieve her copy of the visa application documents. She peruses part 6 of the form, entitled *Certification Regarding the Release of Controlled Technology or Technical Data to Foreign Persons in the United States*, which provides:

With respect to the technology or technical data the petitioner will release or otherwise provide access to the beneficiary, the petitioner certifies that it has reviewed the Export Administration Regulations (EAR) and the International Traffic in Arms Regulations (ITAR) and has determined that:

- i. A license is not required from either the U.S. Department of Commerce or the U.S. Department of State to release such technology or technical data to the foreign person; or
- ii. A license is required from the U.S. Department of Commerce and/or the U.S. Department of State to release such technology or technical data to the beneficiary and the petitioner will prevent access to the controlled technology or technical data by the beneficiary until and unless the petitioner has received the required license or other authorization to release it to the beneficiary.¹⁹

Mary's concern increases, as she quickly realizes that she is out of her depth. A quick search reveals that the Department of State's Directorate of Defense Trade Controls administers the International Traffic in Arms Regulations ("ITAR"), and the Department of Commerce's Bureau of Industry and Security ("BIS") administers the Export Administration Regulations

¹⁸ DEP'T OF HOMELAND SEC., U.S. CITIZENSHIP & IMMIGRATION SERVS., *Form I-129, Petition for a Nonimmigrant Worker* (Aug. 13, 2015), <https://www.uscis.gov/sites/default/files/files/form/i-129.pdf> [<https://perma.cc/FEA9-7C9H>].

¹⁹ *Id.* pt. 6.

("EAR"), referenced in Part 6 of Form I-129.²⁰ Under what conditions, Mary wonders, might she need an export license from one of these agencies? Then, Mary finds a notice from the USPTO that makes her hair stand on end.²¹

Mary knew that if she wanted to file an application covering an invention made within the United States with a foreign or international patent agency less than six months after her initial filing with the USPTO, then she would need to first obtain a special "license" from the USPTO.²² The license "would also authorize the export of technical data abroad for purposes relating to the preparation, filing or possible filing and prosecution of a foreign patent application without separately complying with the regulations contained in" ITAR, EAR, and 10 CFR part 810 (Foreign Atomic Energy Programs of the Department of Energy).²³ Mary, however, was unaware of her obligation to comply with the ITAR and EAR, outside of the USPTO's jurisdiction.

On July 23, 2008, the USPTO published a Federal Register notice clarifying the scope of United States export controls on patent-related technology, which can include the technology itself and also a summary description of the technology.²⁴ Specifically, the USPTO explained that a foreign filing license, which allows United States entities to file a patent application in a foreign country, only authorizes a patent applicant to export controlled technology for the limited purpose of filing a patent application in a foreign country.²⁵ In other words, a separate export license under the ITAR or the EAR may be required prior to exporting technology to a foreign law firm or legal service provider for purposes other than obtaining a foreign filing license (e.g., preparing patent applications to be filed in the United States or conducting patentability or freedom to operate searches).²⁶ An export license may also be required for the exchange of technology with a non-U.S.-based inventor or non-U.S. citizen, even within the United States.

²⁰ 22 C.F.R. § 120.1(a) (2016); 15 C.F.R. § 730.1 (2016).

²¹ Scope of Foreign Filing Licenses, 73 Fed. Reg. 42,781, 42,781 (July 23, 2008).

²² 35 U.S.C. § 184 (2012).

²³ 37 C.F.R. § 5.11 (2016).

²⁴ Scope of Foreign Filing Licenses, 73 Fed. Reg. at 42,781.

²⁵ *Id.*

²⁶ *Id.*

Unfortunately for Mary, the net effect is that she must ensure that she does not release technology subject to an export license requirement to Nigel, a foreign national, without first obtaining any such export license or other approval required under the EAR or the ITAR.

B. *International Traffic in Arms Regulations*

The ITAR defines “export” as “[r]eleasing or transferring technical data to a foreign person²⁷ in the United States (a “deemed export”).”²⁸ The term “release” is defined to encompass:

- (1) Visual or other inspection by foreign persons of a defense article that reveals technical data to a foreign person; or
- (2) Oral or written exchanges with foreign persons of technical data in the United States or abroad.²⁹

Mary became concerned that simply allowing Nigel to view some of her files could constitute an “export.” As she searched further, Mary found further guidance that both confirmed her concerns and provided a mechanism for addressing them.

²⁷ A “foreign person means any natural person who is not a lawful permanent resident as defined by 8 U.S.C. 1101(a)(20) or who is not a protected individual as defined by 8 U.S.C. 1324b(a)(3). It also means any foreign corporation, business association, partnership, trust, society or any other entity or group that is not incorporated or organized to do business in the United States, as well as international organizations, foreign governments and any agency or subdivision of foreign governments (e.g., diplomatic missions).” 22 C.F.R. § 120.16 (2016). A “U.S. person means a person . . . who is a lawful permanent resident as defined by 8 U.S.C. 1101(a)(20) or who is a protected individual as defined by 8 U.S.C.1324b(a)(3). It also means any corporation, business association, partnership, society, trust, or any other entity, organization or group that is incorporated to do business in the United States. It also includes any governmental (federal, state or local) entity.” *Id.* § 120.15. For purposes of ITAR, and under our facts, Nigel is a foreign person and Mary is a U.S. person.

²⁸ Arms and Munitions, Classified Information, Exports, 81 Fed. Reg. 35,611, 35,616 (June 3, 2016) (to be codified at 22 C.F.R. pt. 120).

²⁹ *Id.*

The leading administrative action in this area is the Charging Letter, Consent Agreement and Order reflecting settlement of charges that General Motors/General Dynamics engaged in unauthorized “deemed export” to foreign national employees who merely had the “ability to access” databases on the internal corporate network containing technical data controlled under the ITAR.³⁰

Specifically, the State Department’s Directorate for Defense Trade Controls asserted in its Charging Letter under Part II—Exports to Foreign Nationals to include Foreign Nationals of Proscribed Countries, as follows:

(14) GM Defense employed nationals from non-proscribed destinations in all aspects of its U.S. content LAV programs (footnote 4). Non-proscribed foreign national employees were able to access ITAR-controlled defense articles, technical data and defense services on site at GMDL in most cases without any U.S. Government authorization. In cases where GM Defense was party to a technical assistance agreement or manufacturing license agreement, these authorizations only permitted exports to Canadian nationals, and did not cover dual nationals or nationals of countries other than Canada. GM also disclosed, and a review of email exchanges confirmed, that similar access existed for the non-proscribed employees at GMDA and MOWAG. GMDL employed in excess of 750 non-proscribed employees who were, with few exceptions, able to access all technical data and receive defense services on-site at this facility.³¹

³⁰ U.S. DEP’T OF STATE, BUREAU OF POLITICAL MILITARY AFFAIRS, *Gen. Motors Corp. Consent Agreement* (Oct. 22, 2004), http://www.pmddtc.state.gov/compliance/consent_agreements/pdf/GeneralMotorsCorp_ConsentAgreement.pdf [https://perma.cc/ZKK8-LGUA].

³¹ Draft Charging Letter from David C. Trimble, Dir., Def. Trade Controls Compliance, U.S. Dep’t of State, to Artis M. Noel, Counsel, Gen. Motors Corp. & David A. Savner, Senior Vice President & Gen. Counsel, Gen. Dynamics Corp. 4, http://www.pmddtc.state.gov/compliance/consent_agreements/pdf/generalmotorscorp_draftchargingletter.pdf [https://perma.cc/34AC-NLQP] [hereinafter Draft Charging Letter].

(footnote 4: These individuals included: individuals who held only Canadian and US citizenship; individuals qualifying as dual nationals, including Canadian citizens; and individuals holding dual citizenships, not including Canadian or US citizenship and individuals who were permanent residents of Canada.)³²

Charging Letter under Part III—Unauthorized Access to ITAR Controlled Technical Data Contained in GM’s Electronic Databases, further provides: “(25) DTCC has estimated that 750 GM Defense employees of proscribed and non-proscribed countries at GMDL had the ability to access the aforementioned databases containing ITAR controlled technical data. These employees did not have authorization from the Department for access to this ITAR controlled data.”³³

After settlement of the administrative action involving GM/GD, the State Department issued new regulations implementing new exemptions governing intra-company, intra-organization, and intra-governmental transfers to employees who are dual nationals or third-country nationals. Specifically, the Department of State published a final rule which confirms that “[t]he release of technical data to a foreign person in the United States is an export under § 120.17(a)(2).”³⁴ A release will have occurred if a foreign person does actually access technical data, and the person who provided the access is an exporter for the purposes of that release.³⁵ Thus, mere theoretical or potential access to technical data is not a release. It all seemed pretty complicated, though. Mary wondered, are any of my clients even sending me technical data controlled under the ITAR?

In order to determine the scope of technologies controlled under the ITAR, Mary consults the United States Munitions List (“USML”)³⁶ in the ITAR. Several of her clients were filing patent applications in the burgeoning fields of

³² *Id.*

³³ *Id.* at 9.

³⁴ International Traffic in Arms: Revisions to Definition of Export and Related Definitions, 81 Fed. Reg. 62,004, 62,005 (Sept. 8, 2016) (codified at 22 C.F.R. pts. 120, 125–6, 130).

³⁵ 15 C.F.R. § 734.2(b)(1) (2016).

³⁶ 22 C.F.R. § 121 (2016).

autonomous vehicles and drone aircraft. Could these possibly be using technical data controlled under the ITAR?

Reviewing the Commodity Jurisdiction Determinations issued by the State Department, Mary encountered a history of contentious decisions involving transportation equipment, including: “KCIO4 is an oxidizer typically used in manufacture of pyrotechnics and airbag propellants.”³⁷ At one time subject exclusively to the jurisdiction of the ITAR, KCIO4 became subject to the jurisdiction of the Commerce Department when used in airbags for commercial automobiles.³⁸

Night vision has been a particularly contentious technology. The State Department considers night vision to be a strategic technology because of the advantage conferred to war-fighters on the battlefield at night.³⁹ Nevertheless, night vision also provides the key technology for safety features in commercial automotive applications.⁴⁰

The QRS-11 gyrochip presented one of the most confounding technologies resulting in simultaneous jurisdiction under both the ITAR and the EAR.⁴¹ Used first in the Maverick missile program, the QRS-11 subsequently had

³⁷ See, e.g., *Commodity Jurisdiction Final Determinations*, U.S. DEP’T OF STATE, DIRECTORATE OF DEF. TRADE CONTROLS, http://test.pmdtdc.state.gov/commodity_jurisdiction/determination2011.html [https://perma.cc/6SY9-SH8P] (Click “Determination Date” to change the order of the dates, scroll down to 01/27/2011, and see the row entitled “Potassium Perchlorate (KCIO4) Per Specification MIL–P-217A Grade B, Class 1” and the quote in the third column).

³⁸ Expanded Licensing Jurisdiction for QRS11 Micromachined Angular Rate Sensors, 72 Fed. Reg. 62,768, 62,768-769 (U.S. Dep’t of Commerce, Nov. 7, 2007).

³⁹ 22 C.F.R. § 21.1 (Category XII(c)).

⁴⁰ Bill Howard, *What is Night Vision, How Does it Work, and Do I Really Need it in My Next Car?*, EXTREMETECH (Apr. 19, 2016, 11:19 AM), <http://www.extremetech.com/extreme/193402-what-is-night-vision-how-does-it-work-and-do-i-really-need-it-in-my-next-car> [https://perma.cc/ZA86-E4EK].

⁴¹ Licensing Jurisdiction for QRS11 Micromachined Angular Rate Sensors, 69 Fed. Reg. 5,928, 5,928 (Feb. 9, 2004) (codified at 15 C.F.R. pts. 734, 740, 774).

applications in standby flight instrumentation for commercial aircraft.⁴² In order to resolve the controversy, the Departments of Commerce and State issued a contemporaneous rule providing that the QRS-11 was subject to the EAR when used in this particular civil application, but otherwise subject to the ITAR.⁴³

Mary concluded that it was possible, but perhaps unlikely, that her clients would submit inventions that were subject to the ITAR. Yet, clearly they would be submitting inventions subject to the EAR. Furthermore, the penalties for violation of the ITAR are severe! Both criminal and civil penalties exist and penalties may be levied against the institution, as well as the individuals involved.⁴⁴ Criminal penalties include a fine of up to \$1 million per violation or up to 20 years in prison per violation.⁴⁵ Civil penalties include a fine of up to \$1,094,010 per violation.⁴⁶ Additionally, penalties for ITAR violations may include the denial of export privileges or seizure/forfeiture of the goods involved.⁴⁷

Next, Mary reviewed the requirements of the EAR.

C. *Export Administration Regulations*

The EAR defines “export” as “an actual shipment or transmission of items subject to the EAR out of the United States, or release of technology or software *subject to the EAR* to a foreign national⁴⁸ in the United States.”⁴⁹ Mary

⁴² Associated Press, *Boeing Fined \$15 Million for a Chip*, WASH. POST (Apr. 9, 2006), <http://www.washingtonpost.com/wp-dyn/content/article/2006/04/08/AR2006040801450.html> [https://perma.cc/BUT8-5BMT].

⁴³ Licensing Jurisdiction for QRS11 Micromachined Angular Rate Sensors, 69 Fed. Reg. at 5928.

⁴⁴ See 22 C.F.R. §§ 127.10, 127.1.

⁴⁵ 22 U.S.C. § 2778(c) (2012).

⁴⁶ Civil Monetary Penalties Inflationary Adjustment, 81 Fed. Reg. 36,791, 36,791 (June 8, 2016).

⁴⁷ 22 C.F.R. § 127.

⁴⁸ “A *foreign [national]* is any natural person who is not a lawful permanent resident of the United States, citizen of the United States, or any other protected individual as defined by 8 U.S.C. § 1324b(a)(3). It also means any corporation, business association, partnership, trust, society or any other entity or group that is not incorporated in the United States or organized to do business in the United States, as well as international organizations,

does not ship physically or electronically anything out of the United States, so she is safe on that front. She is, however, curious about what “release” means in this context, so she reads further.

“The obligation to obtain an export license from BIS [the Bureau of Industry and Security] before releasing controlled technology to a foreign person is informally referred to as a deemed export.”⁵⁰ “Release of controlled technology to foreign persons in the U.S. are ‘deemed’ to be an export to the person’s country or countries of nationality.”⁵¹ Technology or software is “released” for export through visual inspection, oral exchanges, or “the application to situations abroad of personal knowledge or technical experience acquired in the United States.”⁵²

Hence, the scope of a possible “deemed export” is narrower under the EAR than under the ITAR. For example, merely having theoretical access to technology in a database would not constitute a “deemed export” for purposes of the EAR.⁵³ Additionally, the Commerce Department implemented guidance similar to the State Department’s regulation on deemed re-exports.⁵⁴

foreign governments and any agency or subdivision of a foreign government (e.g., diplomatic mission). Export Administration Regulations, 15 C.F.R. § 772.1 (2016). This definition is synonymous to the ITAR definition. *See supra* note 27.

⁴⁹ Export Administration Regulations, 15 C.F.R. § 734.2(b)(1) (2016).

⁵⁰ *Deemed Exports*, U.S. DEPARTMENT OF COMMERCE, BUREAU OF INDUSTRY AND SECURITY, <https://www.bis.doc.gov/index.php/policy-guidance/deemed-exports> [<https://perma.cc/6NLX-V32C>] (last visited Dec. 22, 2016).

⁵¹ *Id.*; Export Administration Regulations, 15 C.F.R. § 734.2(b)(2).

⁵² Export Administration Regulations, 15 C.F.R. § 734.2(b)(3).

⁵³ *Compare* Draft Charging Letter, *supra* note 31, at 11 (explaining that ITAR governs “unauthorized access to technical data by foreign nationals...of proscribed countries”), with 15 C.F.R. § 734.2(b)(1)-(3) (“Technology or software is ‘released’ for export through: (i) [v]isual inspection . . . (ii) [o]ral exchanges . . . or (iii) [t]he application to situations abroad of personal knowledge or technical experience . . .,” and the EAR excludes merely accessing technical data as a “deemed export.”).

⁵⁴ *See* Revisions to Definitions in the Export Administration Regulations, 81 Fed. Reg. 35,586, 35,586 (June 3, 2016) (to be codified at 15 C.F.R. § 734.18) (explaining that the EAR revisions are meant to increase harmonization with

The Commerce Department also implemented a new provision of the EAR defining the term “export” in the context of “cloud computing.”⁵⁵ Discussed in detail below, the revised section 734.18 of the EAR defines “[a]ctivities that are not exports, reexports, or transfers.”⁵⁶

Under this new definition, “[t]he following activities are not exports, reexports, or transfers”:

(5) Sending, taking, or storing “technology” or “software” that is:

(i) Unclassified;

(ii) Secured using ‘end-to-end encryption;’

(iii) Secured using cryptographic modules (hardware or “software”) compliant with Federal Information Processing Standards Publication 140-2 (FIPS 140-2) or its successors, supplemented by “software” implementation, cryptographic key management and other procedures and controls that are in accordance with guidance provided in current U.S. National Institute for Standards and Technology publications, or other equally or more effective cryptographic means; and

the ITAR); Arms and Munitions, Classified Information, Exports, 81 Fed. Reg. at 35,611 (explaining that the ITAR revisions are meant to increase harmonization with the EAR); *see also* Hannah C. Choate et al., *BIS and State Department Issue Rules on Key Export Control Definitions and Cloud Computing*, BAKERHOSTETLER (June 13, 2016), <https://www.bakerlaw.com/alerts/bis-and-state-department-issue-rules-on-key-export-control-definitions-and-cloud-computing> [<https://perma.cc/NT5M-KX9J>] (explaining what the new EAR and ITAR revisions mean for companies seeking compliance with both regulatory regimes).

⁵⁵ *See* Revisions to Definitions in the Export Administration Regulations, 81 Fed. Reg. at 35,586 (“This final rule . . . clarif[ies the] application of controls to electronically transmitted and stored technology and software, including by way of cloud computing.”). For example, “[d]ata in-transit via the Internet is not deemed to be stored” for purposes of the EAR. *Id.* at 35,605.

⁵⁶ *Id.* at 35,604.

(iv) Not intentionally stored in a country listed in Country Group D:5 (see Supplement No. 1 to part 740 of the EAR) or in the Russian Federation.

Note to paragraph NOTE(a)(4)(iv): Data in-transit via the Internet is not deemed to be stored.

(b) *Definitions.* For purposes of this section, *End-to-end encryption* means (i) the provision of cryptographic protection of data such that the data is not in unencrypted form between an originator (or the originator's in-country security boundary) and an intended recipient (or the recipient's in-country security boundary), and (ii) the means of decryption are not provided to any third party. The originator and the recipient may be the same person.

(c) *Ability to access "technology" or "software" in encrypted form.* The ability to access "technology" or "software" in encrypted form that satisfies the criteria set forth in paragraph (a)(5) of this section does not constitute the release or export of such "technology" or "software."⁵⁷

Thinking that she may be able to construct a work environment that meets the EAR's requirements for "deemed export[s]," Mary considers the scope of technologies that her clients may send her in their invention disclosures.

A key in determining whether an export license is needed from the Department of Commerce is knowing whether the item you intend to export has a specific Export Control Classification Number (ECCN). The ECCN is an alpha-numeric code, e.g., 3A001, that describes the item and indicates licensing requirements. All ECCNs are listed in the Commerce Control List (CCL) (Supplement No. 1 to Part 774 of the EAR) The CCL is divided into ten broad categories, and each category is further subdivided into five product groups.⁵⁸

⁵⁷ *Id.* at 35,604–05.

⁵⁸ *Commerce Control List (CCL)*, U.S. DEPARTMENT OF COMMERCE, BUREAU OF INDUSTRY AND SECURITY, <https://www.bis.doc.gov/index.php/regulations>

The CCL has many arcane specifications for technologies, which Mary has never encountered in her patent practice, and it describes some technologies her clients typically ask her to evaluate. The CCL categories most relevant to Mary are telecommunications, computers, and electronics.⁵⁹ Within each product category are subcategories for materials, software, and technology, among others.⁶⁰

Mary reasons that law firms must logically be implicated to carry out the purpose of the export control laws because, after all, a foreign national working in her office could just as easily steal sensitive technical information from her clients and pass it along to a foreign government.

The penalties for EAR violations are severe and include both criminal and civil penalties.⁶¹ Criminal penalties apply to “knowing” or “willful” violations, whereas civil penalties apply to non-willful violations.⁶² For a criminal violation, the institution and individuals involved may be subject to a fine of \$1 million per violation or imprisoned for up to ten years per violation.⁶³ For a civil violation, the institution and individuals involved may be subject to the greater of \$284,582 per violation or twice the amount of the underlying transaction per violation.⁶⁴ If the violation involves any item that is subject to national security controls, the fine is \$120,000 per violation.⁶⁵ Additionally, penalties for EAR violations may include the denial of export privileges or seizure/forfeiture of the goods involved.⁶⁶

Perhaps Mary could simply shield Nigel from client matters involving technologies listed on the CCL? That might work, at least temporarily. But, given the high ratio of her clients with information described in the CCL, shielding

/commerce-control-list-ccl [<https://perma.cc/QT8Y-BDZA>] (last visited Dec. 22, 2016).

⁵⁹ *See id.* (listing all the CCL categories and the five product group categories).

⁶⁰ *Id.*

⁶¹ 15 C.F.R. § 764.3 (2016).

⁶² *Id.* §§ 764.3(b)(1), § 764.3(a)(1).

⁶³ *Id.* § 764.3(b)(2)(i).

⁶⁴ Civil Monetary Penalties Inflationary Adjustment, 81 Fed. Reg. 36,791, 36,791 (June 8, 2016).

⁶⁵ *Id.*

⁶⁶ 15 C.F.R. § 764.3.

Nigel does not seem like a viable long-term solution. Indeed, the primary client for which Mary had planned on Nigel's assistance manufactured and synthesized biologically derived drugs, and many of her other clients are in the computing sector. Mary erupts into a cold sweat.

IV. ANTI-DISCRIMINATION FEDERAL AND STATE LAWS

Now, Mary is questioning her decision to hire Nigel in the first place. She begins wondering whether there is an easy (legal) way to rescind her offer to Nigel and replace him with a United States citizen or permanent resident who is admitted to practice in her jurisdiction and before the USPTO. Slowly, it dawns on Mary that she has to consider the possible implications of an employment discrimination suit.

A. *Civil Rights Act (Title VII) Requirements*

Title VII of the Civil Rights Act of 1964 "prohibits employment discrimination based on race, color, religion, sex and *national origin*."⁶⁷ Oh dear! Might Mary violate Title VII if she withdraws the position or fires Nigel because he is a foreign national? Luckily, Title VII provides several provisions that may protect employers like Mary. First, in order to bring a claim under the Title VII, Nigel would need to establish that he was "qualified for employment."⁶⁸ "A foreign national is qualified for employment if 'the applicant was an alien authorized for employment in the United States at the time in question.'"⁶⁹ A foreign national is authorized for employment if he has specific documentation stating such.⁷⁰ Mary knows she will have to ask Nigel to produce his Employment Authorization Card when he appears on his first day of work. Still, Mary wonders, would Nigel's limited recognition to practice before the USPTO mean that he might not be "qualified for employment" in her patent practice? Fortunately, another provision in Title VII puts Mary at ease. Title VII only applies to employers with fifteen or more employees.⁷¹ Since Mary only has two staff members, excluding Nigel, Title VII does not apply.

⁶⁷ 42 U.S.C. § 2000e-2 (2012).

⁶⁸ *Egbuna v. Time-Life Libraries, Inc.*, 153 F.3d 184, 187 (4th Cir. 1998).

⁶⁹ *Chaudhry v. Mobil Oil Corp.*, 186 F.3d 502, 504 (4th Cir. 1999) (quoting *Egbuna*, 153 F.3d at 187).

⁷⁰ *See id.*

⁷¹ 42 U.S.C. § 2000e(b).

B. *California Fair Employment and Housing Act*

Mary practices in California, and she appreciates that California often has stronger employee protections than the federal law requires.⁷² So, she cannot afford to ignore any applicable state employment laws. Not surprisingly, California has a law on point, entitled the *California Fair Employment and Housing Act (FEHA)* which “prohibits harassment and discrimination in employment because of . . . national origin.”⁷³ Nonetheless, the prohibition does not apply if the discrimination is “based upon a bona fide occupational qualification, or, except where based upon applicable security regulations established by the United States. . . .”⁷⁴ Employers have successfully asserted this exception in cases involving security clearances and professional licenses.⁷⁵

Nigel needs a United States law license to practice as an attorney. Is limited recognition sufficient to meet that licensing requirement? Could the export control restrictions under the ITAR and EAR, combined with the impracticability of designing a workplace suitable for associating with a foreign attorney qualify as a security regulation allowing Mary to avoid the application of FEHA? Mary is saved from having to answer these questions when she learns that FEHA only applies to employers with at least five employees.⁷⁶

Mary bolts straight up in her bed drenched in sweat, her pounding heartbeat audible in the next room. She feels as if she just awoke from a horrible nightmare. If she works with Nigel, she almost certainly will encounter export control compliance issues. Given both the state and federal exemptions for discrimination suits, she feels fairly confident that her actions would be legal should she not hire Nigel. Of course, Nigel could still bring a suit, even if he would not likely prevail. Besides, there might be some local ordinance of which

⁷² Frequently Asked Questions, STATE OF CALIFORNIA DEP’T OF INDUS. RELATIONS, <http://www.dir.ca.gov/dlse/dlse-faqs.htm> [<https://perma.cc/5SMT-QAHQ>] (last updated June 2016) (displaying a myriad of applicable employee protections in California).

⁷³ *Fair Employment and Housing Act (FEHA)*, CAL. DEP’T OF FAIR HOUSING AND EMPLOYMENT, <https://cms.portal.ca.gov/dfeh/SiteEdit.aspx?p=3420> [<https://perma.cc/QGQ4-BXW8>] (last visited Jan. 25, 2017) (citing CAL. GOV’T CODE §§ 12940, 12945, 12945.2 (Deering 2016)).

⁷⁴ CAL. GOV’T CODE § 12940.

⁷⁵ See *Zeinali v. Raytheon Co.*, 636 F.3d 544, 553 (9th Cir. 2011).

⁷⁶ CAL. GOV’T CODE § 12926(d).

she is unaware. In fact, San Francisco County has a corollary to Title VII and FEHA, which does not appear to provide any exemption for employers with few employees.⁷⁷

V. CONCLUSION

The export control laws and regulations present the real possibility that Mary's clients would send invention disclosures to her that are controlled under the USML of the ITAR and/or the CCL of the EAR. Mary thus would have to pay careful attention to the technologies she permitted Nigel to view, and/or take measures designed to preclude Nigel's access to controlled technologies. She could attempt to obtain export licenses from the Departments of State and/or Department of Commerce, but she has no experience doing so. She has heard that it is both expensive and time consuming to do so.

Mary faces a true ethical quandary, as well. She could offer Nigel a non-discriminatory reason for failing to hire him. After all, California is an at-will employment state, meaning that, absent a contract to the contrary, an employer is free fire an employee for any nondiscriminatory reason, or for no reason at all.⁷⁸ However, Mary likes Nigel, and needs his help.

Our case study concludes with a question: *What would you do?*

⁷⁷ S.F., CAL., POLICE CODE, art. 33, § 3303 (2016).

⁷⁸ CAL. LAB. CODE § 2922 (Deering 2016).