

UNITED STATES DEPARTMENT OF COMMERCE  
BUREAU OF INDUSTRY AND SECURITY  
WASHINGTON, D.C. 20230

In the Matter of:

Merit Aerospace, Inc.  
3425 Huntington Drive  
Pasadena, CA 91107

Yanhong Zhou  
a/k/a Joe Zhou  
3425 Huntington Drive  
Pasadena, CA 91107

Respondents

**ORDER RELATING TO  
MERIT AEROSPACE, INC., AND YANHONG ZHOU A/K/A JOE ZHOU**

The Bureau of Industry and Security, U.S. Department of Commerce (“BIS”), has notified Merit Aerospace, Inc., of Pasadena, California (“Merit Aerospace”), and Yanhong Zhou a/k/a Joe Zhou, of Pasadena, California (“Zhou”) of its intention to initiate an administrative proceeding against Merit Aerospace and Zhou pursuant to Section 766.3 of the Export Administration Regulations (the “Regulations”),<sup>1</sup> and Section 13(c) of the Export Administration Act of 1979, as amended (the “Act”),<sup>2</sup> through the issuance of a Proposed Charging Letter to Merit Aerospace and Zhou that alleges that

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<sup>1</sup> The Regulations are currently codified in the Code of Federal Regulations at 15 C.F.R. Parts 730-774 (2018) (available online at <https://www.govinfo.gov/app/collection/CFR>). The charged violation occurred in 2012. The Regulations governing the violation at issue are found in the 2012 version of the Code of Federal Regulations (15 C.F.R. Parts 730-774). The 2018 Regulations set forth the procedures that apply to this matter.

<sup>2</sup> 50 U.S.C. §§ 4601-4623 (Supp. III 2015). Since August 21, 2001, the Act has been in lapse and the President, through Executive Order 13,222 of August 17, 2001 (3 C.F.R., 2001 Comp. 783 (2002)), which has been extended by successive Presidential Notices, the most recent being that of August 15, 2017 (82 Fed. Reg. 39,005 (Aug. 16, 2017)), has continued the Regulations in effect under the International Emergency Economic Powers Act (50 U.S.C. § 1701, et seq.) (2012).

Merit Aerospace and Zhou committed one violation of the Regulations. Specifically, the charge is:

**Charge 1      15 C.F.R. § 764.2(g) – Misrepresentation and concealment of facts**

On or about November 7-8, 2012, Merit Aerospace and Zhou, who was at all pertinent times hereto and remains the owner and Chief Executive Officer of Merit Aerospace, misrepresented and concealed material facts from BIS in the course of an investigation and made a false statement to BIS or an official of another United States agency in connection with the submission or preparation of an export control document and/or for the purpose of effecting an export subject to the Regulations. Specifically, on or about November 7, 2012, Merit Aerospace misrepresented and concealed that it was exporting from the United States aircraft parts to one customer (“Customer A”), after it had prepared false shipping documents that indicated the export was for a different customer (“Customer B”) and declared the value of the aircraft parts, which are items subject to the EAR and designated EAR99, to be significantly below the true value of the shipment.<sup>3</sup> Merit Aerospace did so after it had been notified by BIS’s Office of Export Enforcement (“OEE”) that a prior shipment of aircraft parts from Merit Aerospace to Customer A had been detained for further investigation and while Merit Aerospace was in ongoing discussions with OEE about its export business with Customer A. On November 7, 2012, in order to replace some of the aircraft parts for Customer A that had been detained by OEE, Merit Aerospace arranged to ship the replacement parts to Customer A by exporting them initially to Customer B, and then arranging for delivery to Customer A in China. In connection with this November 7, 2012 export, Zhou submitted to the U.S. Government, through a freight forwarding company, electronic export information (“EEI”) that falsely identified the ultimate consignee of the exported goods. Merit Aerospace deliberately did not inform OEE of this export during a meeting OEE had with Merit Aerospace on or about November 8, 2012, which concealment was material to the investigation and the activities subject to the EAR.

Pursuant to Section 764.2(g) of the EAR, “[n]o person may make any false or misleading representation, statement, or certification, or falsify or conceal any material fact, either directly to BIS . . . or an official of any other United States agency, or indirectly through any other person: (i) In the course of an investigation or other action subject to the EAR; or (ii) In connection with the preparation, submission, issuance, use, or maintenance of any export control document as defined in §772.1 . . . of the EAR; or (iii) For the purpose of or in connection with effecting an export, reexport or other activity subject to the EAR.” 15 C.F.R. § 764.2(g) (2012, 2018). Under Section 772.1, export control documents include Automated Export System (“AES”) records presented in connection with an export to any country. 15 C.F.R. § 772.1 (2012, 2018). EEI is submitted to the

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<sup>3</sup> Items designated as “EAR99” are subject to the EAR but not specifically identified on the Commerce Control List.

U.S. Government through AES, which is designed to strengthen the U.S. Government's ability to prevent the export of certain items to unauthorized destinations and/or end users by aiding in targeting, identifying, and when necessary detaining or seizing suspicious or illegal shipments prior to exportation.

In so doing, Merit Aerospace and Zhou each violated Section 764.2(g) of the Regulations, for which they are jointly and severally liable.

WHEREAS, BIS, Merit Aerospace, and Zhou have entered into a Settlement Agreement pursuant to Section 766.18(a) of the Regulations, whereby they agreed to settle this matter in accordance with the terms and conditions set forth therein; and

WHEREAS, I have taken into consideration the plea agreements entered into by Merit Aerospace and Zhou with the U.S. Attorney's Office for the Central District of California, and the sentences imposed against them following or upon the entry of their guilty pleas and their convictions ("the plea agreements and sentences")

WHEREAS, I have approved of the terms of the Settlement Agreement;

IT IS THEREFORE ORDERED:

FIRST, Merit Aerospace and Zhou shall be assessed a civil penalty in the amount of \$221,000, for which they are jointly and severally liable. Merit Aerospace and Zhou shall pay the U.S. Department of Commerce in two installments of: \$20,000 within 30 days of the date of this Order; and \$20,000 within 90 days of the date of this Order. Payment of the remaining \$181,000 shall be suspended for a period of four years from the date of this Order, and thereafter shall be waived, provided that during this four-year probationary period, Merit Aerospace and Zhou have made full and timely payment of \$40,000 as set forth above, have timely completed the audits and submitted the audit results as set forth below, have otherwise complied with the terms of the Settlement Agreement and this Order and have complied with the plea agreements and sentences,

and have committed no violation of the Act or the Regulations or any order, license, or authorization issued thereunder. If Merit Aerospace or Zhou violates any of these probationary conditions during the four-year probationary period, the suspension of the civil penalty may be modified or revoked by BIS and the \$181,000 may be made due and owing immediately.

SECOND, pursuant to the Debt Collection Act of 1982, as amended (31 U.S.C. §§ 3701-3720E (2000)), the civil penalty owed under this Order accrues interest as more fully described in the attached Notice, and if payment is not made by the due date specified herein, Merit Aerospace and Zhou will be assessed, in addition to the full amount of the civil penalty and interest, a penalty charge and an administrative charge, as more fully described in the attached Notice.

THIRD, Merit Aerospace and Zhou shall complete two external audits of Merit Aerospace's export controls compliance program. Merit Aerospace and Zhou shall hire an unaffiliated third-party consultant with expertise in U.S. export control laws to conduct the external audits of Merit Aerospace's compliance with U.S. export control laws (including recordkeeping requirements), with respect to all exports and reexports and transfers (in-country) that are subject to the Regulations. The results of the audits, including any relevant supporting materials, shall be submitted to the Department of Commerce, Bureau of Industry and Security, Office of Export Enforcement, 2601 Main Street, Suite 310, Irvine, CA 92614 ("BIS Los Angeles Field Office"). The first audit shall cover calendar year 2019, and the related report shall be due to the BIS Los Angeles Field Office no later than March 31, 2020. The second audit shall cover calendar year 2021, and the related report shall be due to the BIS Los Angeles Field Office no later than

March 31, 2022. Said audits shall be in substantial compliance with the Export Compliance Program (ECP) sample audit module found in BIS's Export Compliance Guidelines, and shall include an assessment of Merit Aerospace's compliance with the Regulations. The Export Compliance Guidelines and ECP sample audit module are available on the BIS web site and can be accessed directly at <https://www.bis.doc.gov/index.php/forms-documents/pdfs/1641-ecp/file>. In addition, where said audits identify actual or potential violations of the Regulations, Merit Aerospace and Zhou shall promptly provide copies of the pertinent waybills, invoices and other export control documents and supporting documentation to the BIS Los Angeles Field Office.

FOURTH, for a period of four (4) years from the date of this Order, Merit Aerospace, Inc. and Yanhong Zhou a/k/a Joe Zhou, each with a last known address of 3425 Huntington Drive Pasadena, CA 91107, and when acting for or on their behalf, their successors, assigns, director, officers, employees, representatives, or agents (hereinafter, each a "Denied Person" and collectively the "Denied Persons"), may not, directly or indirectly, participate in any way in any transaction involving any commodity, software or technology (hereinafter collectively referred to as "item") exported to or to be exported from the United States that is subject to the Regulations, or in any other activity subject to the Regulations, including, but not limited to:

- A. Applying for, obtaining, or using any license, license exception, or export control document;
- B. Carrying on negotiations concerning, or ordering, buying, receiving, using, selling, delivering, storing, disposing of, forwarding, transporting,

financing, or otherwise servicing in any way, any transaction involving any item exported or to be exported from the United States that is subject to the Regulations, or engaging in any other activity subject to the Regulations; or

- C. Benefitting in any way from any transaction involving any item exported or to be exported from the United States that is subject to the Regulations, or from any other activity subject to the Regulations.

FIFTH, no person may, directly or indirectly, do any of the following:

- A. Export or reexport to or on behalf of a Denied Person any item subject to the Regulations;
- B. Take any action that facilitates the acquisition or attempted acquisition by a Denied Person of the ownership, possession, or control of any item subject to the Regulations that has been or will be exported from the United States, including financing or other support activities related to a transaction whereby a Denied Person acquires or attempts to acquire such ownership, possession or control;
- C. Take any action to acquire from or to facilitate the acquisition or attempted acquisition from a Denied Person of any item subject to the Regulations that has been exported from the United States;
- D. Obtain from a Denied Person in the United States any item subject to the Regulations with knowledge or reason to know that the item will be, or is intended to be, exported from the United States, or

- E. Engage in any transaction to service any item subject to the Regulations that has been or will be exported from the United States and which is owned, possessed or controlled by a Denied Person, or service any item, of whatever origin, that is owned, possessed or controlled by a Denied Person if such service involves the use of any item subject to the Regulations that has been or will be exported from the United States. For purposes of this paragraph, servicing means installation, maintenance, repair, modification or testing.

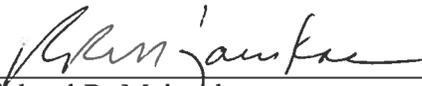
SIXTH, after notice and opportunity for comment as provided in Section 766.23 of the Regulations, any person, firm, corporation, or business organization related to the Denied Person by affiliation, ownership, control, or position of responsibility in the conduct of trade or related services may also be made subject to the provisions of the Order.

SEVENTH, as authorized by Section 766.18(c) of the Regulations, the four-year denial period set forth above shall be suspended during a probationary period of four years under the Order, and shall thereafter be waived, provided that Merit Aerospace and Zhou have made full and timely payment as set forth above, have timely completed the audits and submitted the audit results as set forth above, have otherwise complied with the terms of the Settlement Agreement and this Order and have complied with the terms of the plea agreements and sentences, and have committed no other violation of the Act or Regulations or any order, license, or authorization issued thereunder. If Merit Aerospace or Zhou violates any of these probationary conditions during the four-year probationary period under the Order, the suspension may be modified or revoked by BIS

and a denial order including a four-year denial period activated against Merit Aerospace and Zhou from the date of determination that such a violation has occurred. If a denial is activated, any license issued pursuant to the Act or Regulations in which any of the Denied Persons has an interest at that time will be revoked.

EIGHTH, Merit Aerospace or Zhou shall not take any action or make or permit to be made any public statement, directly or indirectly, denying the allegations in the Proposed Charging Letter or the Order.

NINTH, the Proposed Charging Letter, the Settlement Agreement, and this Order shall be made available to the public. This Order, which constitutes the final agency action in this matter, is effective immediately.

  
Richard R. Majauskas,  
Acting Assistant Secretary of Commerce  
for Export Enforcement

Issued this 25<sup>th</sup> day of May, 2018.

UNITED STATES DEPARTMENT OF COMMERCE  
BUREAU OF INDUSTRY AND SECURITY  
WASHINGTON, D.C. 20230

In the Matter of:

Merit Aerospace, Inc.  
3425 Huntington Drive  
Pasadena, CA 91107

Yanhong Zhou  
a/k/a Joe Zhou  
3425 Huntington Drive  
Pasadena, CA 91107

Respondents

**SETTLEMENT AGREEMENT**

This Settlement Agreement (“Agreement”) is made by and among Merit Aerospace, Inc., of Pasadena, California (“Merit Aerospace”), Yanhong Zhou a/k/a Joe Zhou, of Pasadena, California (“Zhou”), and the Bureau of Industry and Security, U.S. Department of Commerce (“BIS”) (collectively, the “Parties”), pursuant to Section 766.18(a) of the Export Administration Regulations (the “Regulations”),<sup>1</sup> issued pursuant to the Export Administration Act of 1979, as amended (the “Act”).<sup>2</sup>

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<sup>1</sup> The Regulations are currently codified in the Code of Federal Regulations at 15 C.F.R. Parts 730-774 (2018) (available online at <https://www.govinfo.gov/app/collection/CFR>). The charged violation occurred in 2012. The Regulations governing the violation at issue are found in the 2012 version of the Code of Federal Regulations (15 C.F.R. Parts 730-774). The 2018 Regulations set forth the procedures that apply to this matter.

<sup>2</sup> 50 U.S.C. §§ 4601-4623 (Supp. III 2015). Since August 21, 2001, the Act has been in lapse and the President, through Executive Order 13,222 of August 17, 2001 (3 C.F.R., 2001 Comp. 783 (2002)), which has been extended by successive Presidential Notices, the most recent being that of August 15, 2017 (82 Fed. Reg. 39,005 (Aug. 16, 2017)), has continued the Regulations in effect under the International Emergency Economic Powers Act (50 U.S.C. § 1701, et seq.) (2012).

WHEREAS, BIS has notified Merit Aerospace and Zhou of its intentions to initiate an administrative proceeding against Merit Aerospace and Zhou, pursuant to the Act and Regulations;

WHEREAS BIS has issued a Proposed Charging Letter to Merit Aerospace and Zhou that alleges that Merit Aerospace and Zhou committed one violation of the Regulations, specifically:

**Charge 1 15 C.F.R. § 764.2(g) – Misrepresentation and concealment of facts**

On or about November 7-8, 2012, Merit Aerospace and Zhou, who was at all pertinent times hereto and remains the owner and Chief Executive Officer of Merit Aerospace, misrepresented and concealed material facts from BIS in the course of an investigation and made a false statement to BIS or an official of another United States agency in connection with the submission or preparation of an export control document and/or for the purpose of effecting an export subject to the Regulations. Specifically, on or about November 7, 2012, Merit Aerospace misrepresented and concealed that it was exporting from the United States aircraft parts to one customer (“Customer A”), after it had prepared false shipping documents that indicated the export was for a different customer (“Customer B”) and declared the value of the aircraft parts, which are items subject to the EAR and designated EAR99, to be significantly below the true value of the shipment.<sup>3</sup> Merit Aerospace did so after it had been notified by BIS’s Office of Export Enforcement (“OEE”) that a prior shipment of aircraft parts from Merit Aerospace to Customer A had been detained for further investigation and while Merit Aerospace was in ongoing discussions with OEE about its export business with Customer A. On November 7, 2012, in order to replace some of the aircraft parts for Customer A that had been detained by OEE, Merit Aerospace arranged to ship the replacement parts to Customer A by exporting them initially to Customer B, and then arranging for delivery to Customer A in China. In connection with this November 7, 2012 export, Zhou submitted to the U.S. Government, through a freight forwarding company, electronic export information (“EEI”) that falsely identified the ultimate consignee of the exported goods. Merit Aerospace deliberately did not inform OEE of this export during a meeting OEE had with Merit Aerospace on or about November 8, 2012, which concealment was material to the investigation and the activities subject to the EAR.

Pursuant to Section 764.2(g) of the EAR, “[n]o person may make any false or misleading representation, statement, or certification, or falsify or conceal any material fact, either

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<sup>3</sup> Items designated as “EAR99” are subject to the EAR but not specifically identified on the Commerce Control List.

directly to BIS . . . or an official of any other United States agency, or indirectly through any other person: (i) In the course of an investigation or other action subject to the EAR; or (ii) In connection with the preparation, submission, issuance, use, or maintenance of any export control document as defined in §772.1 . . . of the EAR; or (iii) For the purpose of or in connection with effecting an export, reexport or other activity subject to the EAR.” 15 C.F.R. § 764.2(g) (2012, 2018). Under Section 772.1, export control documents include Automated Export System (“AES”) records presented in connection with an export to any country. 15 C.F.R. § 772.1 (2012, 2018). EEI is submitted to the U.S. Government through AES, which is designed to strengthen the U.S. Government’s ability to prevent the export of certain items to unauthorized destinations and/or end users by aiding in targeting, identifying, and when necessary detaining or seizing suspicious or illegal shipments prior to exportation.

In so doing, Merit Aerospace and Zhou each violated Section 764.2(g) of the Regulations, for which they are jointly and severally liable.

WHEREAS, Merit Aerospace and Zhou have reviewed the Proposed Charging Letter and are aware of the allegations made against them and the administrative sanctions that could be imposed against them if the allegations are found to be true;

WHEREAS, Merit Aerospace and Zhou fully understand the terms of this Agreement and the Order (“Order”) that the Assistant Secretary of Commerce for Export Enforcement will issue if he approves this Agreement as the final resolution of this matter;

WHEREAS, Merit Aerospace and Zhou enter into this Agreement voluntarily and with full knowledge of their rights, after having consulted with counsel;

WHEREAS, the Parties enter into this Agreement having taken into consideration the plea agreements entered into by Merit Aerospace and Zhou with the U.S. Attorney’s Office for the Central District of California, and the sentences imposed against them following or upon the entry of their guilty pleas and their convictions (“the plea agreements and sentences”)

WHEREAS, Merit Aerospace and Zhou state that no promises or representations have been made to them other than the agreements and considerations herein expressed; and

WHEREAS, Merit Aerospace and Zhou agree to be bound by the Order, if issued;

NOW THEREFORE, the Parties hereby agree, for purposes of this Settlement Agreement, as follows:

1. BIS has jurisdiction over Merit Aerospace and Zhou, under the Regulations, in connection with the matters alleged in the Proposed Charging Letter.
2. Merit Aerospace and Zhou admit to the allegations contained and violations alleged in the Charging Letter.
3. The following sanctions shall be imposed against Merit Aerospace and Zhou:
  - a. Merit Aerospace and Zhou shall be assessed a civil penalty in the amount of \$221,000, for which they are jointly and severally liable. Merit Aerospace and Zhou shall pay the U.S. Department of Commerce in two installments of: \$20,000 within 30 days of the date of the Order; and \$20,000 within 90 days of the date of the Order. Payment shall be made in the manner specified in the attached instructions. Payment of the remaining \$181,000 shall be suspended for a period of four years from the date of the Order, and thereafter shall be waived, provided that during this four-year probationary period, Merit Aerospace and Zhou have made full and timely payment of \$40,000 as set forth above, have timely completed the audits and submitted the audit results in accordance with Paragraph 3.b below, have otherwise complied with the terms of

this Agreement and the Order and have complied with the plea agreements and sentences, and have committed no violation of the Act or the Regulations or any order, license, or authorization issued thereunder. If Merit Aerospace or Zhou violates any of these probationary conditions during the four-year probationary period, the suspension of the civil penalty may be modified or revoked by BIS and the \$181,000 may be made due and owing immediately.

b. Merit Aerospace and Zhou shall complete two external audits of Merit Aerospace's export controls compliance program. Merit Aerospace and Zhou shall hire an unaffiliated third-party consultant with expertise in U.S. export control laws to conduct the external audits of Merit Aerospace's compliance with U.S. export control laws (including recordkeeping requirements), with respect to all exports and reexports and transfers (in-country) that are subject to the Regulations. The results of the audits, including any relevant supporting materials, shall be submitted to the Department of Commerce, Bureau of Industry and Security, Office of Export Enforcement, 2601 Main Street, Suite 310, Irvine, CA 92614 (the "BIS Los Angeles Field Office"). The first audit shall cover calendar year 2019, and the related report shall be due to the BIS Los Angeles Field Office no later than March 31, 2020. The second audit shall cover calendar year 2021, and the related report shall be due to the BIS Los Angeles Field Office no later than March 31, 2022. Said audits shall be in substantial compliance with the Export Compliance Program (ECP) sample audit module found in BIS's Export Compliance Guidelines, and shall include an assessment of Merit Aerospace's compliance with the Regulations. The Export Compliance

Guidelines and ECP sample audit module are available on the BIS website and can be accessed directly at <https://www.bis.doc.gov/index.php/forms-documents/pdfs/1641-ecp/file>. In addition, where said audits identify actual or potential violations of the Regulations, Merit Aerospace and Zhou shall promptly provide copies of the pertinent waybills, invoices, and other export control documents and supporting documentation to the BIS Los Angeles Field Office.

c. For a period of four (4) years from the date of the Order, Merit Aerospace, Inc. and Yanhong Zhou a/k/a Joe Zhou, each with a last known address of 3425 Huntington Drive, Pasadena, CA 91107, and when acting for or on their behalf, their successors, assigns, director, officers, employees, representatives, or agents (hereinafter, each a “Denied Person and collectively the “Denied Persons”), may not, directly or indirectly, participate in any way in any transaction involving any commodity, software or technology (hereinafter collectively referred to as “item”) exported to or to be exported from the United States that is subject to the Regulations, or in any other activity subject to the Regulations, including, but not limited to:

- i. Applying for, obtaining, or using any license, license exception, or export control document;
- ii. Carrying on negotiations concerning, or ordering, buying, receiving, using, selling, delivering, storing, disposing of, forwarding, transporting, financing, or otherwise servicing in any way, any transaction involving any item exported or to be exported

from the United States that is subject to the Regulations, or engaging in any other activity subject to the Regulations; or

iii. Benefitting in any way from any transaction involving any item exported or to be exported from the United States that is subject to the Regulations, or from any other activity subject to the Regulations.

d. BIS agrees that, as authorized by Section 766.18(c) of the Regulations, the four-year denial period set forth in Paragraph 3.c shall be suspended during a probationary period of four years under the Order, and shall thereafter be waived, provided that Merit Aerospace and Zhou have made full and timely payment in accordance with Paragraph 3.a above, have timely completed the audits and submitted the audit results in accordance with Paragraph 3.b above, have otherwise complied with the terms of this Agreement and the Order and have complied with the terms of the plea agreements and sentences, and have committed no other violation of the Act or Regulations or any order, license, or authorization issued thereunder. If Merit Aerospace and Zhou violates any of these probationary conditions during the four-year probationary period under the Order, the suspension may be modified or revoked by BIS and a denial order including a four-year denial period activated against Merit Aerospace and Zhou from the date of determination that such a violation has occurred. If a denial is activated, any license issued pursuant to the Act or Regulations in which any of the Denied Persons has an interest at that time will be revoked.

4. Subject to the approval of this Agreement pursuant to Paragraph 9 hereof, Merit Aerospace and Zhou hereby waive all rights to further procedural steps in this matter (except with respect to any alleged violations of this Agreement or the Order, if issued), including, without limitation, any right to: (a) receive an administrative hearing regarding the allegations in any charging letter; (b) request a refund of any civil penalty paid pursuant to this Agreement and the Order, if issued; and (c) seek judicial review or otherwise contest the validity of this Agreement or the Order. Merit Aerospace and Zhou also waive and will not assert any Statute of Limitations defense, and the Statute of Limitations will be tolled, in connection with any violation of the Act or the Regulations arising out of the transaction or matters identified in the Proposed Charging Letter or in connection with collection of the civil penalty or enforcement of this Agreement and the Order, if issued, from the date of the Order until the latest of the date Merit Aerospace and Zhou have paid in full the civil penalty agreed to in Paragraph 3.a above, have completed the audits and submitted the audit results agreed to in Paragraph 3.b above, or have fully complied with the plea agreements and sentences.

5. Merit Aerospace and Zhou shall not take any action or make or permit to be made any public statement, directly or indirectly, denying the allegations in the Proposed Charging Letter or the Order.

6. BIS agrees that upon full and timely payment of the civil penalty as set forth in Paragraph 3.a, timely completion and submission of the audit and audit results as set forth in Paragraph 3.b, and full and timely compliance with the other provisions of this Agreement and the Order and the plea agreements and sentences, BIS will not initiate any further administrative proceeding against Merit Aerospace or Zhou in connection

with any violation of the Act or the Regulations arising out of the transactions specifically detailed in the Proposed Charging Letter.

7. This Agreement is for settlement purposes only. Therefore, if this Agreement is not accepted and the Order is not issued by the Assistant Secretary of Commerce for Export Enforcement pursuant to Section 766.18(a) of the Regulations, no Party may use this Agreement in any administrative or judicial proceeding and the Parties shall not be bound by the terms contained in this Agreement in any subsequent administrative or judicial proceeding.

8. No agreement, understanding, representation or interpretation not contained in this Agreement may be used to vary or otherwise affect the terms of this Agreement or the Order, if issued; nor shall this Agreement serve to bind, constrain, or otherwise limit any action by any other agency or department of the U.S. Government with respect to the facts and circumstances addressed herein.

9. This Agreement shall become binding on the Parties only if the Assistant Secretary of Commerce for Export Enforcement approves it by issuing the Order, which will have the same force and effect as a decision and order issued after a full administrative hearing on the record.

10. If the Order issues, BIS will make the Proposed Charging Letter, this Agreement, and the Order available to the public.

11. Each signatory affirms that he/she has authority to enter into this Settlement Agreement and to bind his/her respective party to the terms and conditions set forth herein.

BUREAU OF INDUSTRY AND  
SECURITY  
U.S. DEPARTMENT OF COMMERCE

  
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Douglas R. Hassebrock  
Director of Export Enforcement

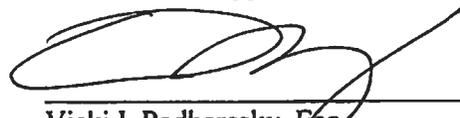
MERIT AEROSPACE, INC.  
YANHONG ZHOU

  
\_\_\_\_\_  
Yanhong Zhou  
CEO of Merit Aerospace, Inc.

Date: May 23, 2018

Date: May 17, 2018

Reviewed and approved by:

  
\_\_\_\_\_  
Vicki I. Podberesky, Esq.  
Andrues / Podberesky  
Counsel for Merit Aerospace, Inc. and  
Yanhong Zhou

Date: May 17, 2018

PROPOSED CHARGING LETTER  
CERTIFIED MAIL- RETURN RECEIPT REQUESTED

Yanhong Zhou  
a/k/a Joe Zhou  
3425 Huntington Dr.  
Pasadena, CA 91107

Merit Aerospace, Inc.  
3425 Huntington Dr.  
Pasadena, CA 91107

Attention: Mr. Yanhong Zhou  
Chief Executive Officer

Dear Mr. Zhou:

The Bureau of Industry and Security, U.S. Department of Commerce (“BIS”), has reason to believe that Merit Aerospace, Inc. (“Merit Aerospace”), of Pasadena, California, and Yanhong Zhou, a/k/a Joe Zhou (“Zhou”) (collectively, “Respondents”), have violated the Export Administration Regulations (the “EAR” or “Regulations”),<sup>1</sup> which issued under the authority of the Export Administration Act of 1979, as amended (the “Act”).<sup>2</sup> Specifically, BIS alleges the following:

**Charge 1      15 C.F.R. § 764.2(g) – Misrepresentation and concealment of facts**

On or about November 7-8, 2012, Merit Aerospace and Zhou, who was at all pertinent times hereto and remains the owner and Chief Executive Officer of Merit Aerospace, misrepresented and concealed material facts from BIS in the course of an investigation and made a false statement to BIS or an official of another United States agency in connection with the submission or preparation of an export control document and/or for the purpose of effecting an

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<sup>1</sup> The Regulations are currently codified in the Code of Federal Regulations at 15 C.F.R. Parts 730-774 (2018) (available online at <https://www.govinfo.gov/app/collection/CFR>). The violation alleged occurred in 2012. The Regulations governing the violation at issue are found in the 2012 version of the Code of Federal Regulations, 15 C.F.R. Parts 730-774 (2012). The 2018 Regulations govern the procedural aspects of this case.

<sup>2</sup> 50 U.S.C. §§ 4601-4623 (Supp. III 2015) (available online at <http://uscode.house.gov>). Since August 21, 2001, the Act has been in lapse and the President, through Executive Order 13222 of August 17, 2001 (3 C.F.R., 2001 Comp. 783 (2002)), which has been extended by successive Presidential Notices, the most recent being that of August 15, 2017 (82 Fed. Reg. 39,005 (Aug. 16, 2017)), has continued the Regulations in effect under the International Emergency Economic Powers Act (50 U.S.C. § 1701, *et seq.*) (2006 & Supp. IV 2010).

export subject to the Regulations. Specifically, on or about November 7, 2012, Merit Aerospace misrepresented and concealed that it was exporting from the United States aircraft parts to one customer (“Customer A”), after it had prepared false shipping documents that indicated the export was for a different customer (“Customer B”) and declared the value of the aircraft parts, which are items subject to the EAR and designated EAR99, to be significantly below the true value of the shipment.<sup>3</sup> Merit Aerospace did so after it had been notified by BIS’s Office of Export Enforcement (“OEE”) that a prior shipment of aircraft parts from Merit Aerospace to Customer A had been detained for further investigation and while Merit Aerospace was in ongoing discussions with OEE about its export business with Customer A. On November 7, 2012, in order to replace some of the aircraft parts for Customer A that had been detained by OEE, Merit Aerospace arranged to ship the replacement parts to Customer A by exporting them initially to Customer B, and then arranging for delivery to Customer A in China. In connection with this November 7, 2012 export, Zhou submitted to the U.S. Government, through a freight forwarding company, electronic export information (“EEI”) that falsely identified the ultimate consignee of the exported goods. Merit Aerospace deliberately did not inform OEE of this export during a meeting OEE had with Merit Aerospace on or about November 8, 2012, which concealment was material to the investigation and the activities subject to the EAR.

Pursuant to Section 764.2(g) of the EAR, “[n]o person may make any false or misleading representation, statement, or certification, or falsify or conceal any material fact, either directly to BIS . . . or an official of any other United States agency, or indirectly through any other person: (i) In the course of an investigation or other action subject to the EAR; or (ii) In connection with the preparation, submission, issuance, use, or maintenance of any export control document as defined in §772.1 . . . of the EAR; or (iii) For the purpose of or in connection with effecting an export, reexport or other activity subject to the EAR.” 15 C.F.R. § 764.2(g) (2012, 2018). Under Section 772.1, export control documents include Automated Export System (“AES”) records presented in connection with an export to any country. 15 C.F.R. § 772.1 (2012, 2018). EEI is submitted to the U.S. Government through AES, which is designed to strengthen the U.S. Government’s ability to prevent the export of certain items to unauthorized destinations and/or end users by aiding in targeting, identifying, and when necessary detaining or seizing suspicious or illegal shipments prior to exportation.

In so doing, Merit Aerospace and Zhou each violated Section 764.2(g) of the Regulations, for which they are jointly and severally liable.

\* \* \* \* \*

Accordingly, Respondents are hereby notified that an administrative proceeding is instituted against them pursuant to Section 13(c) of the Act and Part 766 of the Regulations for the purpose of obtaining an order imposing administrative sanctions, including, but not limited to any or all of the following:

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<sup>3</sup> Items designated as “EAR99” are subject to the EAR but not specifically identified on the Commerce Control List.

- The maximum civil penalty allowed by law of up to the greater of \$295,141 per violation,<sup>4</sup> or twice the value of the transaction that is the basis of the violation;<sup>5</sup>
- Denial of export privileges; and/or
- Exclusion from practice before BIS; and/or.
- Any other liability, sanction, or penalty available under law.

If Respondents fails to answer the charges contained in this letter within 30 days after being served with notice of issuance of this letter, that failure will be treated as a default. See 15 C.F.R. §§ 766.6 and 766.7. If Respondents default, the Administrative Law Judge may find the charges alleged in this letter are true without a hearing or further notice to Respondents. The Under Secretary of Commerce for Industry and Security may then impose up to the maximum penalty for the charges in this letter.

Respondents are further notified that they are entitled to an agency hearing on the record if they file a written demand for one with their answer. See 15 C.F.R. § 766.6. Respondents are also entitled to be represented by counsel or other authorized representative who has power of attorney to represent them. See 15 C.F.R. §§ 766.3(a) and 766.4. The Regulations provide for settlement without a hearing. See 15 C.F.R. § 766.18. Should Respondents have a proposal to settle this case, Respondents should transmit it to the attorney representing BIS named below.

Respondents are further notified that under the Small Business Regulatory Enforcement Flexibility Act, Respondents may be eligible for assistance from the Office of the National Ombudsman of the Small Business Administration in this matter. To determine eligibility and get more information, please see: <http://www.sba.gov/ombudsman/>.

The U.S. Coast Guard is providing administrative law judge services in connection with the matters set forth in this letter. Accordingly, Respondents' answer must be filed in accordance with the instructions in Section 766.5(a) of the Regulations with:

U.S. Coast Guard ALJ Docketing Center  
40 S. Gay Street  
Baltimore, Maryland 21202-4022

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<sup>4</sup> See 15 C.F.R. § 6.4(b)(4). This amount is subject to annual increases pursuant to the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015, Sec. 701 of Public Law 114-74, enacted on November 2, 2015.

<sup>5</sup> See International Emergency Economic Powers Enhancement Act of 2007, Pub. L. No. 110-96, 121 Stat. 1011 (2007).

Yanhong Zhou  
Merit Aerospace, Inc.  
Proposed Charging Letter  
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In addition, a copy of Respondents' answer must be served on BIS at the following address:

Chief Counsel for Industry and Security  
14th Street and Constitution Avenue, N.W.  
Room H-3839  
Washington, D.C. 20230  
Attention: Charles Wall, Esq.

Charles Wall is the attorney representing BIS in this case; any communications Respondents may wish to have concerning this matter should occur through him. Mr. Wall may be contacted by telephone at (202) 482-1232.

Sincerely,

Douglas R. Hassebrock  
Director  
Office of Export Enforcement