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Examining the Application of RICO in Trade Secret Cases

By Elizabeth Helmer

Often, when people think about the Racketeer Influenced and Corrupt Organizations Act ("RICO"), they think about organized crime, like the Mafia, street gangs or drug cartels. RICO is a sweeping piece of legislation that was enacted in 1970 and was specifically aimed to tie Mafia bosses to the crimes carried out by their underlings by establishing they were all part of a single criminal "enterprise."[1] RICO provides criminal penalties as well as a civil cause of action for private plaintiffs, which authorizes substantial remedies, including the availability of treble damages, costs and attorneys' fees.

Not surprisingly, since its enactment, plaintiffs have attempted to expand RICO beyond organized crime to a variety of commercial litigation contexts, including trade secret cases.[2] In turn, courts, including the U.S. Supreme Court, have repeatedly warned against the burgeoning abuse of RICO claims in traditional commercial litigation.

This article explores the application of RICO in trade secret cases, particularly since the 2016 enactment of the federal Defend Trade Secrets Act ("DTSA"), and how courts have attempted to draw the line to avoid converting every case involving alleged trade secret theft into a RICO case.[3]

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THE DTSA ADDED TRADE SECRET THEFT TO THE LIST OF "PREDICATE ACTS" UNDER RICO

A plaintiff seeking damages under RICO must allege four elements to state a claim: (1) "conduct" [causing injury to business or property] (2) of an "enterprise" (3) through a "pattern" (4) of "racketeering activity."[4] A "pattern of racketeering activity" requires proof of at least two enumerated predicate acts within a 10-year period.[5] Among other things, the "pattern requirement is intended to prevent routine commercial disputes from turning into civil RICO claims."[6]

The RICO statute identifies dozens of state and federal criminal acts that qualify as predicate acts of racketeering, with the vast majority being things commonly associated with organized crime, such as drug trafficking, extortion, mail and wire fraud and money laundering. Common law torts and breaches of contract are not predicate acts under RICO, and prior to 2016, neither was trade secret misappropriation.

When the DTSA was enacted in May 2016, it specifically amended RICO to add economic espionage and trade secret theft (18 U.S.C. §§ 1831-32)

to RICO's list of predicate acts.[7] Thus, a plaintiff may now be able to assert a RICO claim where at least one of the underlying predicate acts of racketeering includes trade secret theft.

In theory, this makes sense. After all, one can easily envision a criminal enterprise that, among other things, steals intellectual property and trade secrets. Imagine an internet hacking ring that uses fraudulent emails to hack into company websites, access and steal trade secrets, and then use them as ransom. Such coordinated criminal activity would seem to fall squarely within the intended scope of RICO.

Yet, this hypothetical does not fit the vast majority of trade secret cases. Many trade secret cases involve only a handful of parties and a single plaintiff's trade secrets. Should those, too, give rise to RICO claims?

ESTABLISHING A "PATTERN OF RACKETEERING ACTIVITY" IN TRADE SECRET CASES

A key issue courts are grappling with is whether a singular scheme to steal trade secrets can, without more, establish a "pattern of racketeering activity" under RICO. For example, if a defendant steals a single trade secret and then uses it in various ways over an extended period of time, can the continued use, without more, be broken down into separate predicate acts? To date, at least one court has suggested that, "yes," the ongoing use of a single trade secret can be broken down into separate predicate acts and give rise to a "pattern of racketeering activity" under RICO.

Other courts have rejected the idea that the ongoing use of a trade secret is sufficient to establish a "pattern of racketeering activity" under RICO.

In *Brand Energy & Infrastructure Services, Inc. v. Irex Contracting Group,*[8] the plaintiff Brand Energy claimed that its former employees stole trade secrets when they left the company and continued using those trade secrets at a new company. The court noted that in addition to the plaintiff alleging "dozens of DTSA violations," the defendants were continuing to use plaintiff's trade secrets "in their business affairs at [the new company]."[9] The court found that the plaintiff's allegations regarding the defendants' continued use of its trade secrets alone were sufficient to plead a pattern of racketeering activity under RICO and therefore allowed the plaintiff's RICO claim to proceed.[10]

Under the court's reasoning in *Brand Energy* – whereby the continuing use of a trade secret is deemed sufficient to establish a "pattern of racketeering activity" – almost any trade secret theft could support a RICO claim. Indeed, virtually all trade secret cases involve an initial "theft" as well as ongoing use. Yet, RICO is an exemplary statute aimed at "long-term criminal conduct," and was never intended for garden-variety business disputes or trade secret cases.[11]

Other courts have rejected the idea that the ongoing use of a trade secret is sufficient to establish a "pattern of racketeering activity" under RICO. For example, in *Attia v. Google LLC*,[12] the plaintiffs alleged that the defendants, including Google and its executives, engaged in racketeering by repeatedly and purposefully meeting with inventors, getting them to divulge ideas under assurances of confidentiality and promises of partnership, and then turning around and stealing their intellectual property.[13] The plaintiffs argued that "each new 'use' of Plaintiffs' trade secrets constitutes a new and independent predicate act."[14] Unlike in *Brand Energy*, the court rejected the "theory that 'ongoing use' of trade secrets can somehow constitute *two* predicate acts under RICO," calling it "entirely unsupported and illogical."

> Plaintiffs do not provide any legal authority authorizing a single trade secret dispute to serve as the basis for *two* predicate acts under RICO merely because a defendant did not stop the alleged use. Accepting Plaintiffs' theory would turn a single trade secret misappropriation claim into a RICO offense every time a defendant violated the DTSA and then did not immediately stop their allegedly unlawful use of the trade secrets.[15]

Similarly, in *Magnesita Refractories Co. v. Tianjin New Century Refractories Co.*,[16] the court indicated that the ongoing use of a trade secret, without more, was insufficient to establish a "pattern of racketeering activity." Plaintiffs alleged that a former employee forwarded himself valuable trade

secrets via email just before his retirement from the company in 2014, and then gave the trade secrets to the defendant company who used them to manufacture and market its products. The parties proffered conflicting interpretations "of how to quantify predicate acts premised on alleged theft of trade secrets."[17]

The plaintiffs argued that each occurrence of "use activity" – e.g., "copying, downloading, uploading, sending, communicating, conveying, and possessing" – constituted a separate predicate act. Conversely, the defendants argued that the plaintiffs' complaint set forth "a single scheme to allegedly misappropriate Plaintiffs' trade secrets," constituting only one predicate act.[18]

The court criticized both interpretations. It explained that under the plaintiffs' theory, "each dolomite brick produced . . . incorporating Plaintiffs' stolen trade secrets [would constitute] a predicate act under RICO." This "would transform nearly every DTSA case into a RICO matter, often involving an infinite number of predicate acts premised on each item manufactured or sale made using another's trade secret."[19] Yet, the defendants' interpretation – whereby a single trade secret scheme could only constitute a single predicate act – would severely limit the reach of the DTSA, "which sets forth multiple, distinct ways one can commit theft of trade secrets, including (1) outright theft, (2) use or disclosure, and (3) knowing receipt of a stolen or wrongfully obtained trade secret."[20] Thus, the court hinted that a single trade secret scheme could be broken down into multiple predicate acts, at least where the "theft of trade secrets" occurred in multiple ways.

Ultimately, however, the court refused to "resolve the parties' competing views" because it found that the purported theft of trade secrets occurred in 2014, well before theft of trade secrets became a RICO predicate on May 11, 2016. Based on the plaintiffs' allegations, it was "not at all clear whether each of the claimed predicate acts occurred at a time when they were deemed predicate acts under federal law."[21]

More recently, the U.S. District Court for the Eastern District of Texas had the opportunity to address this issue in *ESPOT, Inc. v. MyVue Media, LLC*.[22] In *ESPOT*, the plaintiff alleged that the defendants worked together to steal the plaintiff's trade secrets and then incorporated the stolen intellectual property into tablets, which the defendants distributed and marketed to potential customers.[23] The plaintiff contended that "the 'use' of a trade secret [was] an independent RICO predicate that [occurred or would occur] each and every time the [defendants] program or ship a tablet, contract with [a plaintiff] advertiser, or service a prospective [plaintiff] customer. . . ."[24]

The court rejected the plaintiff's argument, however, finding that the plaintiff was conflating the civil and criminal RICO statutes.[25] The court pointed out that the list of RICO predicate acts only refers to the criminal trade secret statute (18 U.S.C. § 1832), which criminalizes the theft of a trade secret, but not the "use" of a trade secret.[26] Although the civil provisions of the DTSA (18 U.S.C. § 1836) provide a private right of action for the misappropriation – meaning, the disclosure or use – of a trade secret, the criminal provision (Section 1832) never mentions the "term 'misappropriate' nor the term 'use.' To the contrary, the plain language of the statute appears to invoke the ways in which a person or entity can take or receive a trade secret, *not use it once taken*."[27] Thus, the court indicated while the initial theft of that trade secret could serve as a predicate act for purposes of RICO, its subsequent use could not.[28]

This reasoning makes sense and seems to draw a line between those cases that involve trade secret theft plus some other unlawful conduct (potentially giving rise to a RICO claim) and those cases that do not.

The most recent federal court to address this issue took a similar approach. In *Hardwire v. Ebaugh*,[29] the plaintiff Hardwire alleged that defendants, including a former employee, stole thousands of computer files and trade secrets, and then used them to unfairly compete against the plaintiff on construction projects. As in prior cases, the plaintiff argued that although its trade secrets had initially been stolen in 2014 (prior to the enactment of the DTSA), defendants' continued "use and disclosure of [its] trade secrets" constituted a pattern of racketeering activity.[30]

The court rejected the plaintiffs' interpretation, and found that although the initial theft of trade secrets was prohibited by Section 1832 (the criminal RICO statute), it had occurred in 2014 and thus "predated the amendment of the

RICO statute to include the theft of trade secrets as a predicate act of racketeering activity."[31] All of the allegations regarding defendants' "conduct after the enactment of the DTSA relate[d] to the further *use* of those trade secrets."[32] The court explained that although that alleged misappropriation (or use) of trade secrets might give rise to civil remedies under Section 1836, it fell outside the scope of conduct prohibited under Section 1832 and RICO, and as such, the plaintiff had failed to allege any actionable predicate acts under RICO.

Going forward, we are likely to see an increasing number of plaintiffs bring RICO claims in connection with trade secret cases.

The court found that accepting the plaintiff's theory would "turn a single trade secret misappropriation claim into a RICO offense every time a defendant violated the DTSA and then did not immediately stop their allegedly unlawful use of the trade secrets."[33] The court was "skeptical that Congress intended to furnish all DTSA plaintiffs with the 'drastic' remedies afforded to prevailing RICO plaintiffs."[34]

LIMITING THE ABUSE OF RICO IN TRADE SECRET CASES POST-DTSA

Going forward, we are likely to see an increasing number of plaintiffs bring RICO claims in connection with trade secret cases. Although courts have recently rejected the popular plaintiffs' theory – that ongoing "use" of a trade secret is sufficient to establish a "pattern of racketeering activity" – this area of the law is continuing to evolve. Moreover, plaintiffs may be able to establish a pattern of racketeering activity in other ways including, for example, by pointing to various underlying acts of trade secret "theft." Courts have not directly addressed whether distinct acts of trade secret theft – as opposed to ongoing trade secret "use" – can be broken down into separate predicate acts, but in *Magnesita Refractories*, the court hinted that they could.[35] Plaintiffs may also be able to establish that the defendants engaged in some other illegal conduct above and beyond mere trade secret theft.

The fact that plaintiffs may be able to parse a trade secret theft into distinct predicate acts, however, does not mean that a RICO claim is appropriate. The Supreme Court has made clear that "proof of two acts of racketeering activity, without more, does not establish a pattern" of racketeering.[36] Rather, the "pattern" element requires a showing of continuity plus relationship.[37]

Accordingly, a federal district court in Washington, D.C., recently dismissed a RICO claim, despite the fact that the alleged scheme "involved twelve predicate acts."[38] The court noted that all acts "constitut[ed] a single scheme, not multiple schemes" – namely, a fraudulent proposal to steal the plaintiff's business "through fraud and misappropriation."[39] The court noted that it is "virtually impossible for plaintiffs to state a RICO claim" where there is "only a single scheme, a single injury, and few victims."[40] The court further noted that "[p]redicate acts extending over a few weeks or months" with no threat of continuing cannot establish a pattern."[41]

Trade secret cases likewise often resolve around a single scheme – the scheme to steal trade secrets – involve a single injury, and a few victims. In most trade secret cases, the theft has already occurred and happened at a distinct point in time. While there may be a threat of continuing trade secret use, there is typically no risk of future trade secret thefts.

Accordingly, even though the DTSA makes trade secret theft a predicate RICO act, and will likely lead to an increased number of RICO claims being asserted in trade secret cases, it does not mean those claims should survive a motion to dismiss. Courts should scrutinize such claims carefully, and defendants should advocate for a rigorous application of RICO's "pattern" requirement. If properly applied, the pattern requirement can effectively limit the use (and abuse) of RICO claims in future trade secret cases.

Notes

1. *See Menzies v. Seyfarth Shaw LLP*, 943 F.3d 328, 336 (7th Cir. 2019).
2. RICO claims offer advantages over traditional trade secret misappropriation claims, including the recovery of costs, attorneys' fees and treble damages. 18 U.S.C. § 1964(c). By contrast, the DTSA and many state trade secret statutes only allow for exemplary damages, limited

to double damages, and attorneys' fees upon a showing of willful and malicious appropriation. 18 U.S.C. §§ 1836(b)(3)(C-D).

3. The "prospect of treble damages has led to 'widespread abuse' of civil RICO claims." *See Shibilski v. Moss*, No. 20-cv-666-wmc, 2021 U.S. Dist. LEXIS 18428, at *9 (W.D. Wis. Feb. 1, 2021) (citing *Midwest Grinding Co. v. Spitz*, 976 F.2d 1016, 1025 (7th Cir. 1992)). The U.S. Supreme Court has emphasized that RICO was enacted in response to "long-term criminal conduct," not isolated or sporadic unlawful activity. *See H.J., Inc. v. Nw. Bell Tel. Co.*, 492 U.S. 229, 240-41 (1989); *Sedima, S.P.R.L. v. Imrex Co.*, 473 U.S. 479, 496 n.14 (1985)).
4. *Sedima*, 473 U.S. at 496.
5. 18 U.S.C. § 1961(1), (5).
6. *C-Ville Fabricating, Inc. v. Tarter*, No. 5:18-cv-379-KKC, 2019 U.S. Dist. LEXIS 50373, at *50 (E.D. Ky. Mar. 26, 2019) (citations omitted).
7. *See* 18 U.S.C. § 1961(1) (citing 18 U.S.C. §§ 1831-32); Defend Trade Secrets Act of 2016, Pub. L. No. 114-153, § 3(b), 130 Stat. 376 (2016).
8. *Brand Energy & Infrastructure Services, Inc. v. Irex Contracting Group*, No. 16-2499, 2017 WL 1105648, at *8 (E.D. Pa. Mar. 24, 2017).
9. *Id.* at *28.
10. *Id*. Despite the court's broad holding, future defendants could distinguish *Brand Energy* by pointing out that the plaintiff did not rely *solely* on the DTSA as the predicate RICO acts, but also asserted claims of mail and wire fraud as well as transporting stolen property across state lines. Thus, although the court suggested that the mere continued use of plaintiff's trade secrets was enough to establish a "pattern of racketeering activity," it was really the collection of those crimes that established "a plausible pattern of racketeering activity." *See Brand Energy*, 2017 U.S. Dist. LEXIS 43497 at *30 ("Viewed together, the voluminous allegations of trade secrets theft, mail and wire fraud, and interstate transportation of stolen property form a plausible pattern of racketeering activity.").
11. *See H.J., Inc. v. Nw. Bell Tel. Co.*, 492 U.S. 229, 240-41 (1989); *Sedima*, 473 U.S. at 496 n.14. Various federal courts of appeal have warned against converting garden-variety common law claims into RICO violations. *See, e.g.*, *Midwest Grinding Co.*, 976 F.2d at 1025 (criticizing plaintiffs for "persist[ing] in trying to fit a square peg in a round hole by squeezing garden-variety business disputes into civil RICO actions"); *Malvino v. Delluniversita*, 840 F.3d 223, 231 (5th Cir. 2016); *Al-Abood v. El-Shamari*, 217 F.3d 225, 238 (4th Cir. 2000); *Banks v. Wolk*, 918 F.2d 418, 423 (3d Cir. 1990); *Flip Mortg. Corp. v. McElhone*, 841 F.2d 531, 538 (4th Cir. 1988) (explaining that Fourth Circuit precedent does "not lightly permit ordinary business contract or fraud disputes to be transformed into federal RICO claims"). Indeed, if Congress had wanted victims of trade secret misappropriation to get treble damages, it could have provided such a remedy under the DTSA but failed to do so.
12. *Attia v. Google LLC*, Civ. No. BLF-17-6037, 2018 WL 2971049 (N.D. Cal. June 13, 2018).
13. *Id*. at *3.
14. *Id*. at *56.
15. *Id*. at *56 n.15. The plaintiffs were granted leave to amend. In the subsequent amended complaint, plaintiffs pointed to two prior lawsuits as evidence establishing a pattern of racketeering activity. *See Attia v. Google LLC*, No. 17-cv-06037-BLF, 2019 WL 1259162, at *3 (N.D. Cal. Mar. 19, 2019), *aff'd*, 983 F.3d 420 (9th Cir. 2020). The court dismissed the RICO claim, finding that the plaintiffs failed to allege two or more predicate acts that occurred *after* May 11, 2016, and thus failed to establish a "pattern of racketeering" activity.
16. *Magnesita Refractories Co. v. Tianjin New Century Refractories Co*., No. 1:17-CV-1587, 2019 U.S. Dist. LEXIS 32559, at *28 (M.D. Pa. Feb. 28, 2019).
17. *Id*. at *29-30.
18. *Id*. at 30.
19. *Id*. at 30.
20. *Id*. (citing 18 U.S.C. § 1832(a)(1)-(3)).
21. *Magnesita Refractories Co. v. Tianjin New Century Refractories Co.*, No. 1:17-CV-1587, 2019 U.S. Dist. LEXIS 32559, at *29-31 (M.D. Pa. Feb. 28, 2019). The court held that plaintiffs had not alleged *two* predicate acts occurring *after* May 11, 2016, and dismissed the RICO claim.
22. *ESPOT, Inc. v. MyVue Media, LLC*, 492 F. Supp. 3d 672 (E.D. Tex. Oct. 2, 2020).
23. *Id*. at 692.
24. *Id*. at 694.
25. *See id*. at 694.
26. The criminal theft of trade secrets statute, 18 U.S.C. § 1832, is violated when "[w]hoever, with intent to convert a trade secret . . . knowingly –
    (1) steals, or without authorization appropriates, takes, carries away, or conceals, or by fraud, artifice, or deception obtains such information;
    (2) without authorization copies, duplicates, sketches, draws, photographs, downloads, upload, alters, destroys, photocopies, replicates, transmits, delivers, sends, mails, communicates, or conveys such information;
    (3) receives, buys, or possesses such information, knowing the same to have been stolen or appropriated, obtained, or converted without authorization[.]"

    Id. § 1832(a)(1)-(3).
27. *Id*. at 695 (emphasis in original).

28. *Id.* ("If the criminal statute is limited to the point in time that a trade secret falls into unauthorized hands, then the ongoing use of the trade secrets once obtained cannot be a predicate act to establish a threat of continued criminal activity.").
29. *Hardwire v. Ebaugh*, No. JKB-20-0304, 2021 U.S. Dist. LEXIS 162400 (D. Md. Aug. 25, 2021).
30. The plaintiffs relied on *Brand Energy*, 2017 WL 1105648, at *8-9 to argue that each alleged use of its trade secrets constituted a new instance of racketeering activity.
31. *Hardwire*, 2021 U.S. Dist. LEXIS 162400, at *21.
32. *Id.*
33. *Id.*, at *20-21 (citing *Attia*, 2018 WL 2971049, at *18 n.15; *see also Mgmt. Comput. Servs., Inc. v. Hawkins, Ash, Baptie & Co.*, 883 F.2d 48, 51 (7th Cir. 1989) (finding that the plaintiffs' allegation that the defendants copied software and then used it did not "involve[] long-term criminal conduct or activity that could, in commonsense, be called a pattern of racketeering"); *Binary Semantics, Ltd. v. Minitab, Inc.*, No. JFM-07-1750, 2008 WL 763575, at *4 (M.D. Pa. Mar. 20, 2008) (explaining that the use of "trade secrets is quite different from the initial act of stealing them. . . . If plaintiff's complaint were to allege that defendants would continue to steal plaintiff's trade secrets, as opposed to use those which have already been stolen, then there may well be a threat of continuity, but that is not the case here.")).
34. *Id.* at *21.
35. 2019 U.S. Dist. LEXIS 32559 at *30 (noting that the DTSA "sets forth multiple, distinct ways one can commit theft of trade secrets" under Section 1832).
36. *H. J. Inc.*, 492 U.S. at 238.
37. *Id.* at 237-39 (pattern reflects relation and continuity (or its threat)).
38. *Adler v. Loyd*, 496 F. Supp. 3d 269, 280 (D.D.C. 2020).
39. *Id.*
40. *Id.* (citing *W. Assocs. Ltd. P'shp v. Mkt. Square Assocs.*, 235 F.3d 629, 634 (D.C. Cir. 2001)).
41. *See Adler*, 496 F. Supp. 3d at 280 (citing *H.J., Inc.*, 492 U.S. at 242); *see also Edmondson & Gallagher v. Alban Towers Tenants Ass'n*, 48 F.3d 1260, 1265, (D.C. Cir. 1995) (finding that 15 alleged predicate acts committed over three years – with most occurring in a short time frame – could not establish a RICO pattern).