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RACKETEERING

Two attorneys with Seyfarth Shaw LLP undertake the first-ever detailed review of the impact of the Defend Trade Secrets Act on civil litigation under the Racketeer Influenced and Corrupt Organizations Act. The authors survey pre-DTSA RICO claims and discuss the potential strategic use of trade-secrets-based RICO claims in a post-DTSA landscape.

An Endangered Claim Reemerges: The Defend Trade Secrets Act Breathes New Life Into Trade-Secrets-Based RICO Claims

BY ANDREW S. BOUTROS AND ALEX MEIER

The Defend Trade Secrets Act (DTSA) was a highly anticipated, substantial piece of federal legislation. Its passage in 2016 garnered extensive commentary for its whistle-blower notification requirement, its seizure provisions, and its federal cause of action for trade secrets misappropriation. But a more quiet provision that has received virtually no attention from commentators may promise to be a very effective hammer in trade secrets litigation: The DTSA amends the Racketeer Influenced and Corrupt Organizations Act (RICO) to include as predicate acts the theft of trade secrets and economic espionage. 18 U.S.C. § § 1831-32. RICO, a criminal statute originally used to take down organized crime, can be (and has been) used by private parties in civil litigation. To be sure, when used in civil litigation, it can be finicky and difficult to plead with sufficient detail, especially for those unfamiliar with the statute's nuances. But, once a RICO claim clears the pleading stage, some courts have described it as an ''unusually potent weapon'' that can be considered the ''litigation equivalent of a thermonuclear device.'' *Miranda v. Ponce Fed. Bank*, 948 F.2d 41, 44 (1st Cir. 1991).

This DTSA amendment creates at least two potential circumstances under which ''traditional'' trade secrets disputes can reach RICO status: **First**, when several employees all decamp to join the same competitor, taking with them trade secrets to the new employer. **Second**, when a magpie competitor habitually raids a competitor for employees as part of a strategy to acquire trade secrets and confidential information. Both of these claims are now viable because the DTSA does not distinguish between the *use* of misappropriated trade and the *act* of misappropriation—a distinction that barred earlier efforts to establish RICO liability for trade secrets misappropriation.

This is the first full-length article to examine the DTSA's impact on civil RICO litigation. It begins by providing an overview of the RICO statute, then moves to surveying pre-DTSA RICO claims based on a trade secrets misappropriation theory, and concludes by discussing the potential strategic use of trade-secrets-based RICO claims in a post-DTSA landscape.

Brief Overview of RICO

RICO is a powerful statute that creates criminal and civil liability for a (1) ''person'' who conducts the affairs of a distinct (2) ''enterprise'' through a (3) ''pattern'' of (4) ''racketeering activity.'' *See, e.g.*, *Jennings v. Auto Meter Prods. Inc.*, 495 F.3d 466, 472-73 (7th Cir. 2007) (citing *Sedima S.P.R.L. v. Imrex Co.*, 473 U.S. 479, 481 (1985)). RICO's teeth are in Sections 1962(c) and 1962(d), which prohibit a person from conducting the affairs of an enterprise through a pattern of racketeer-

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ing activity and from conspiring to violate RICO, respectively.

Section 1961 broadly defines ''racketeering activity'' to include any state and federal offense listed in the provision. These listed offenses are commonly known as ''predicate acts.'' General offenses such as torts and contractual breaches do not qualify as a ''racketeering activity'' under RICO; only acts listed in Section 1961 qualify as eligible RICO predicate acts. *Tabas v. Tabas*, 47 F.3d 1280, 1296-97 (3d Cir. 1995) (noting that RICO is not meant to ''federalize garden-variety fraud''). Predicate acts include violations that immediately come to mind when you think of organized crime, such as drug trafficking, extortion, and money laundering, as well as less ''mob''-related offenses, like criminal copyright infringement.

Mens Rea Requirement. For almost all predicate acts, the offense carries an ''intended'' or ''knowing'' requirement, which the civil claimant must prove by a preponderance of the evidence standard. *So. Atlantic Ltd. P'ship of Tenn. L.P. v. Riese*, 284 F.3d 518, 530 (4th Cir. 2002). But as a criminal statute with civil application, RICO requires a *mens rea* standard higher than most other civil claims. Even if the burden to establish the applicable *mens rea* standard is reduced from beyond a reasonable doubt to a preponderance of the evidence, the claimant often must still prove some iteration of specific intent and must plead allegations related to fraud with particularity. *See, e.g.*, 18 U.S.C. § 1343 (defining *mens rea* for wire fraud as an individual ''having devised or intending to devise any scheme or artifice to defraud''); *see also* Fed. R. Civ. P. 9(b). A rote recitation of the statutory elements will never survive a motion to dismiss (at least it shouldn't) and could even result in sanctions to the submitting attorney. *See, e.g.*, *Dangerfield v. Merrill Lynch*, No. 1:02-cv-02561, 2003 WL 22227956, at *13 (S.D.N.Y. Sept. 26, 2003) (''Courts have not hesitated to impose sanctions under Rule 11 when RICO claims have been found to have been frivolous.'') (citations omitted).

Continuity. To plead a RICO offense, one must allege at least two predicate acts. A ''pattern of racketeering activity'' is the occurrence of at least two acts of racketeering activity within a period of 10 years. *Dongelewicz v. First E. Bank*, 80 F. Supp. 2d 339, 344 (M.D. Pa. 1999). The predicate acts must be ''related'' and must ''amount to,'' or ''pose a threat of,'' continued criminal activity. *H.J. Inc. v. Nw. Bell Tel. Co.*, 492 U.S. 229, 239 (1989). In turn, predicate acts pose a threat of continued criminal activity if they are ''related'' and ''continuous.''

To be related, the predicate acts must have ''the same or similar purposes, results, participants, victims, or methods of commission, or otherwise are interrelated by distinguishing characteristics and are not isolated events.'' *Id.* at 239.

And, to be continuous, the predicate acts must also present a danger of continuity. Continuity has two variants. The first is ''close-ended,'' meaning a series of events extending over a substantial period of time. *Id.* at 242. It is said that close-ended continuity is extremely difficult to establish; indeed, courts have found that racketeering activity spanning more than 17 months did not constitute a substantial period of time. *Vemco Inc. v. Camardella*, 23 F.3d 129, 134 (6th Cir. 1994). The second is ''open-ended,'' meaning an ongoing scheme that includes conduct that ''by its nature projects into the future with a threat of repetition.'' *H.J. Inc.*, 492 U.S. at 243-43. A plaintiff can establish an open-ended scheme by alleging that the predicate acts are part of the normal course of how a defendant regularly conducts business. *Id.*

The Existence of an Enterprise. RICO requires an ongoing enterprise to conduct the racketeering activity. An enterprise does not need to be a formal legal entity, like an LLC or corporation. Although the enterprise must have some degree of structure, it does not need something as formal as an operating agreement, charter, or bylaws; instead, an enterprise is sufficiently ascertainable when it has a purpose, relationship among those associated with the enterprise, and longevity sufficient to permit those associates to pursue the enterprise's purpose. *Boyle v. United States*, 556 U.S. 938, 941 (2009); *United States v. Philip Morris USA Inc.*, 566 F.3d 1095, 1111 (D.C. Cir. 2009). Usually, such an enterprise is known as an ''enterprise in fact.''

The following is a diagram of a simple RICO enterprise.

The DTSA's Effect on RICO Claims

Many litigants have long tried unsuccessfully to turn ordinary trade secrets misappropriation into racketeering activity. Pre-DTSA, courts rarely allowed RICO claims based primarily on stealing trade secrets because the acts attending the trade secrets theft did not present an ongoing threat of continued criminal activity associated with the theft, as is the case with receipt of stolen property, wire fraud, and mail fraud, for example. *See, e.g.*, *Brake Parts Inc. v. Lewis*, No. 5:09-cv-00132, 2010 WL 3470198, at *7 (E.D. Ky. Aug. 31, 2010) (''The key element in the 'continuity test is the element of repetition of the past racketeering acts in the future. Here [the plaintiff] does not allege that any further predicate acts may occur, but rather that the defendants will use the confidential and proprietary information already in their possession to improve their own brake pads.'') (citation and internal quotation marks omitted); *Bro-Tech Corp v. Thermax Inc.*, 651 F. Supp. 2d 378,

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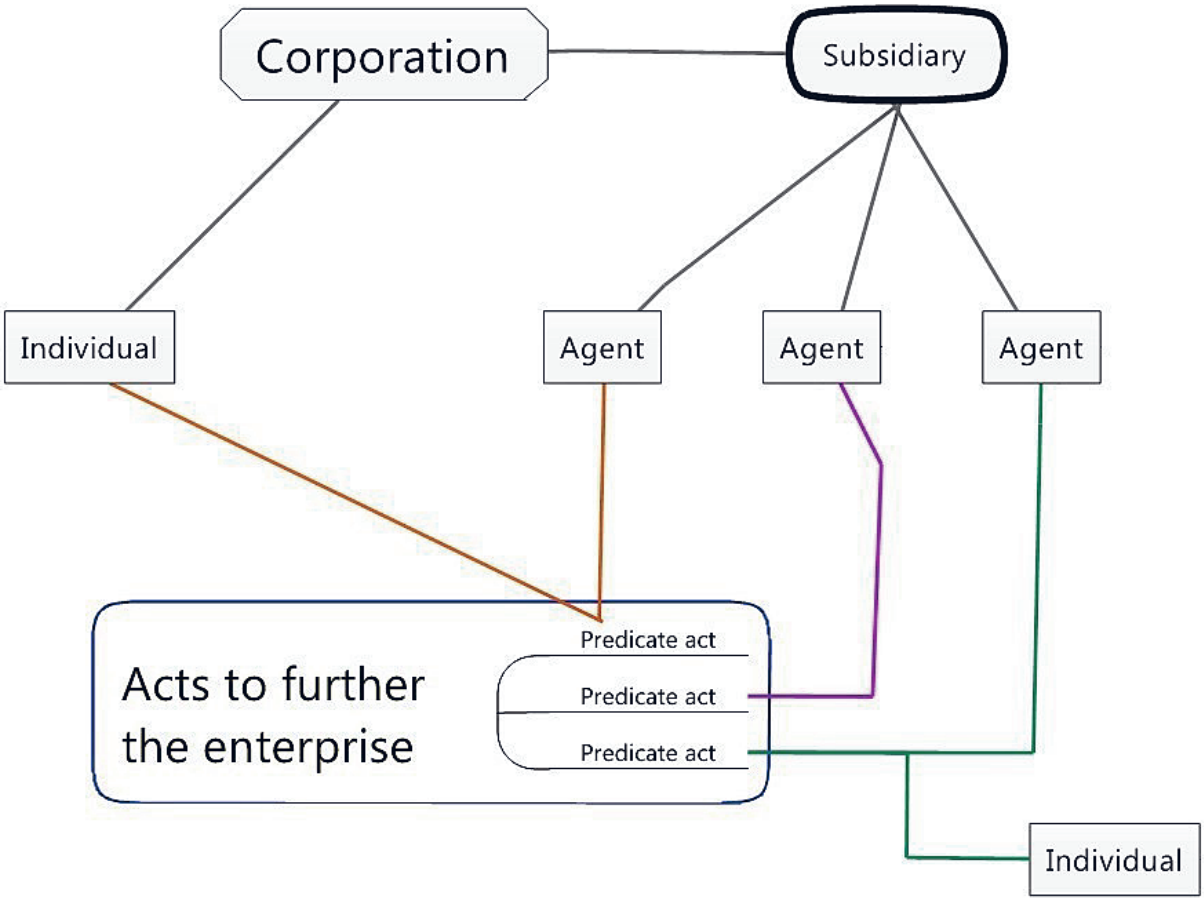

404 (E.D. Pa. 2009) (declining to find continuity by distinguishing between ''similar fraudulent misappropriation, or predicate act[s] incidental to the same,'' and ''subsequent business use'' of misappropriated trade secrets); *Clement Comm'cns v. Am. Future Sys.*, No. 2:89-cv-06280, 1990 WL 106762, at *6 (E.D. Pa. July 19, 1990) (''Once the defendants left [the plaintiff's] employ and put his trade secrets to work in their own business, the harm to [the plaintiff] was done and the scheme ended. There could be no ongoing theft of trade secrets by defendants as they could hardly go back to [the plaintiff's] employ to steal more [trade secrets] . . . .'').

Reviewing courts analogized continued use of stolen trade secrets to the proceeds from a theft:

> When a thief steals $100, the law does not hold him to a new theft each time he spends one of those dollars. [The defendant's] subsequent and varied uses of the stolen [information] would not constitute new offenses but would go only to the issue of damages.

Mgmt Comp. Servs. Inc. v. Hawkins, Ash, Baptie & Co., 883 F.2d 48, 51 (7th Cir. 1989).

RICO's focus is preventing racketeering activity, not bad acts generally. To circumscribe RICO's reach, courts framed continuity in terms of whether the defendant would continue to commit RICO predicate acts in the future. Many courts swatted down trade-secret-based RICO claims because ''[m]isappropriating trade secrets is not a RICO predicate act,'' instead focusing on whether the predicate acts alleged presented an ongoing threat—not whether the product of those one-time acts could result in an ongoing threat to the claimant. *Thermodyn Corp. v. 3M Co.*, 593 F. Supp. 2d 972, 981-82 (N.D. Ohio 2008) (''Misappropriating trade secrets is not a RICO predicate act. Thus, the relevant

question here is whether there is an ongoing threat of wire fraud, mail fraud, or theft.'').

No differently than not using a cannon to kill a mosquito, barring extenuating circumstances, routine trade secrets violations may be better handled under traditional, non-RICO based doctrines and litigation strategies.

These trade-secrets-based RICO claims failed because the continued use or disclosure of stolen trade secrets did not qualify as a predicate act.

To this end, the cases generally found ''that using trade secrets is quite different from the initial act of stealing them.'' *Binary Semantics Ltd. v. Minitab Inc.*, No. 4:07-cv-01750, 2008 WL 763575, at *4 (M.D. Pa. Mar. 20, 2008). Although a defendant might have committed predicate acts to acquire the trade secrets, the victim usually could not establish that the defendant would be likely to commit RICO predicate acts to steal other trade secrets in the future. Courts distinguished between predicate actions that ''revolve[d] around the alleged transmission of trade secrets,'' which required the commission of predicate acts, with the *use* of those trade secrets after they were misappropriated. *Thermodyn Corp.*, 593 F. Supp. 2d at 982. The cases generally found that ''using trade secrets is quite different from the initial act of stealing them.'' *Binary Semantics Ltd. v. Minitab Inc.*, 2008 WL 763575, at *4 (M.D. Pa. Mar. 20, 2008).

The DTSA removed this hurdle. By making Section 1831 a predicate act, the ''use'' of a stolen trade secret, along with a laundry list of impermissible actions other than the initial theft of the trade secret, such as copying, downloading, uploading, sending, communicating, conveying, and possessing a trade secret belonging to another, provide much more fertile ground for advocating open-ended continuity. Each of these can constitute a discrete predicate act. *United States v. Zhang*, No. 5:05-cr-00812, 2012 WL 1932843, at *1 (N.D. Cal. May 29, 2012) (finding defendant guilty of theft and unauthorized transmission, possession, and copying of trade secrets). By including various means of using misappropriated trade secrets as separate predicate acts, Congress held the trade-secrets-taker to a new crime every time he spends. ''His subsequent and varied uses of the stolen [information]'' might now constitute new offenses, because each instance of use or disclosure is in fact a separate offense under the statute. *Mgmt Comp. Servs. Inc.*, 883 F.2d at 51.

The following diagram illustrates how crimes, such as mail and wire fraud, run into continuity problems that are not presented by trade-secrets misappropriation which, through continued use and communication, appears to create open-ended continuity.

This federal revision also has substantial state-law implications.

Many states have RICO statutes modeled after the federal RICO statute, and these state analogues often define predicate acts by incorporating what qualifies as a predicate act under federal RICO. *Compare* O.C.G.A. § 16-14-3(9)(A)(xxix) (including ''[a]ny conduct defined as 'racketeering activity' under 18 U.S.C. § 1961 (1)(A), (B), (C), and (D)'' as racketeering activity under Georgia RICO) *and* MPC § 750.159g(pp) (same), *with* 720 ILCS 5/33-g(e) (defining RICO predicates in terms of state law felonies, which would exclude trade secrets misappropriation) *and* Va. Code Ann. § 18.2-513 (same).

State RICO claims are often significantly broader than federal RICO allegations. Georgia's RICO statute, for example, completely lacks the continuity requirement that is essential in the federal statute. *See Dover v. State*, 385 S.E.2d 417, 420 (Ga. Ct. App. 1989). Even if a federal RICO claim is invalid, either because the plaintiff wants to avoid federal subject matter jurisdiction or because the facts are insufficient to state a federal RICO claim, a state RICO claim might offer most of the same benefits.

When Misappropriation-Based RICO Claims Can Change Civil Trade-Secrets Litigation in a Post-DTSA Regime

Two Paradigms Where the DTSA May Give Rise to Trade Secrets RICO Claims. DTSA's statutory amendments create at least two potential situations where a party may assert a compelling RICO or RICO conspiracy claim: first, in cases involving multiple departing employees leaving to join the same competitor while taking trade secrets information with them to their new employer; and, second, in cases involving a competitor who frequently faces claims for trade secrets misappropriation or has mounted a concerted effort to acquire a company's trade secrets.

Under the first scenario, the civil theory of RICO liability relies on the employees creating a separate, distinct enterprise to misappropriate trade secrets before the employees leave for a competitor. Under this circumstance, the former employer may successfully be able to claim that the employee groups' activity of forwarding information, conspiring and coordinating their departure, and any misrepresentations to gain access to trade secrets, constitute an enterprise with more than two predicate acts in furtherance of the enterprise. The former employer can likely plead open-ended continuity based on the continued use of those trade secrets to cause economic harm to the former employer. Additionally, the intrinsic value in trade secrets makes it relatively easy to meet the *mens rea* requirement. The federal statute requires the perpetrator to intend or know that the offense will injure the trade secrets' owner. 18 U.S.C. § 1831(a). That standard should be satisfied by noting that this information must have economic value if the employee misappropriated it, and the employee should know that using valuable, proprietary information will dilute—a synonym for harm—the information's value to the holder. *See United States v. Hanjuan Jin*, 833 F. Supp. 2d 977, 1014 (N.D. Ill. 2012) (''[A defendant's knowledge of a trade secret] is sufficient if the defendant was aware that the information had the general attributes of a trade secret—that it was valuable to its owner because it was not generally known and that the owner had taken measures to protect it.''). Further, trade secrets protection depends on the information re-

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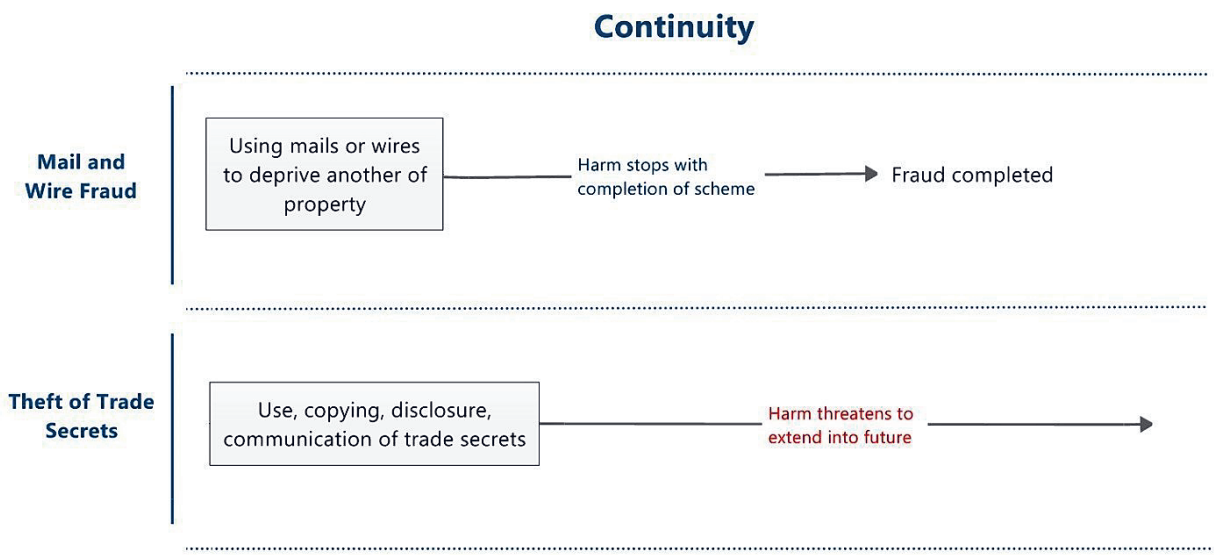

maining nonpublic, so unrestrained disclosure of the trade secrets threatens the existence of the trade secrets and could be framed as another injury to the trade secrets' owner. *Id.* at 1018.

The second situation is admittedly more difficult—but likely not insurmountable—to assert in civil trade secrets RICO litigation. In this second paradigm, after encountering a series of departing employees fleeing the coop to the same competitor, an employer could raise a RICO claim against the departing employees, the competitor, and the competitor's employees. The employer could either allege that its competitor (1) engaged in a pattern of racketeering activity by regularly encouraging, soliciting or even urging employees to join it to take trade secrets on their way out the door or (2) engaged in an ongoing racketeering activity to steal particular trade secrets information. *See Bryant v. Mattel, Inc.*, No. 2:04-cv-09049, 2010 WL 3705668 (C.D. Cal. Aug. 2, 2010) (finding a RICO enterprise comprised of a parent company, its employees, its subsidiaries, and employees of RICO plaintiff who left to join RICO defendant).

Routine trade secrets disputes are almost certainly insufficient to state a claim under this second paradigm, but DuPont's written statement to Congress in support of the DTSA illustrate that factual scenarios exist where it would be appropriate to assert a trade-secrets-based RICO claim because of targeted efforts by a competitor to misappropriate trade secrets.

Suggestions to Congress for Contemplated Use of Civil RICO in Trade Secrets Litigation. DuPont is no stranger to trade secrets litigation. And, its associate general counsel submitted a written statement to Congress in support of the DTSA's passage. In doing so, she described a real-life DuPont case that could have benefitted from a civil trade-secret-based RICO claim. In that case, a DuPont competitor coordinated a multi-year campaign to convert DuPont's trade secrets for making Kevlar to improve its competing product. The competitor repeatedly met with former DuPont employees to obtain confidential DuPont information about Kevlar and employed others as ''consultants'' to contact their former colleagues and obtain additional proprietary information. The competitor ultimately pled guilty to one count of conspiring to commit theft of trade secrets and paid $85 million in criminal fines and $275 million in restitution. Although the defendant in the Kevlar theft case was criminally punished, most trade secrets violators are not—including those whose conduct qualifies for criminal prosecution. As such, the DTSA trade secrets expansion affords victims—especially corporate victims—some powerful self-help in situations where egregious violations have been committed.

The Benefits and Costs Of Civil RICO Claims

The Benefits. ''Civil RICO is an unusually potent weapon,'' and RICO claims provide a host of benefits that a generic misappropriation of trade secrets claim does not. *See Miranda v. Ponce Fed. Bank*, 948 F.2d 41, 44 (1st Cir. 1991). A RICO claim mandates recovery of reasonable attorneys' fees and treble damages. 18 U.S.C. § 1964(c). By contrast, the DTSA on its own as well as many analogous state laws authorize only exemplary damages, limited to double damages, and attorneys' fees only upon a showing of willful and malicious appropriation. 18 U.S.C. § § 1836(b)(3)(C-D). Certainly, RICO liability is unlikely unless the misappropriation was willful and malicious, but a RICO claim removes the guesswork. Further, the successful RICO claimant will likely be able to submit fees that otherwise might be excluded as unrelated to the misappropriation claim, like fees and expenses related to establishing a conspiracy claim.

Pleading a RICO claim can also afford a victim plaintiff with exponentially more discovery. A RICO plaintiff can establish a pattern of racketeering activity by looking for predicate acts at any point within *10 years* after

the commission of a prior act of racketeering activity. 18 U.S.C. § 1961(5). As a result, courts have uniformly held that otherwise time-barred acts can serve as a predicate act for an otherwise timely RICO claim. *See, e.g., Hoxworth v. Blinder, Robinson & Co.*, 980 F.2d 912, 924-25 (3d Cir. 1992). And, as a corollary, that means that RICO plaintiffs have occasionally convinced courts to permit extremely expansive discovery during the claimed period of racketeering activity. Such expansive discovery, if authorized, has the potential to substantially affect the litigation strategy and metrics, especially once a claim gets beyond the motion-to-dismiss stage.

RICO also allows a plaintiff to search for predicate acts targeting *other victims* to show a pattern of racketeering activity. The plaintiff needs only to be injured by a single predicate act in furtherance of the enterprise. *See, e.g., Sedima, S.P.R.I. v. Imrex Co.*, 472 U.S. 479, 488-93 (1985). A plaintiff, therefore, may seek and obtain discovery on trade secrets disputes unrelated to those that harmed it. The prospect of discovery over ***any*** trade-secret dispute in the past 10 years is a potential game changer for both the RICO plaintiff and defendant.

Separately, there's a certain inherent stigma in being labeled as a ''racketeer.'' *Miranda*, 948 F.2d at 44 (''The very pendency of a RICO suit can be stigmatizing and its consummation can be costly.''). And a RICO claim can potentially occupy an opposing party to focus on the RICO claim (with its treble damages prospects) rather than the underlying predicates themselves. This, in turn, may cause an opposing party to overly focus its energy on the RICO claim, only to lose on the underlying predicate acts. Should that happen, the defendant may actually win the battle, but lose the war or even worse, lose both the battle and war.

The Costs. These benefits—although potentially substantial—are not cost-free. Although RICO claims can be a tremendous burden on a defendant, they are high-maintenance claims for a plaintiff that require extensive time, attention, and resources. Most successful—or at least viable—RICO claims require significant investigation, as well as time and skill to draft. The rigorous pleading standard required by Rule 9(b), plus some jurisdictions' requirements to submit a ''RICO case statement'' contemporaneously with pleading any RICO claim, demand a great deal of time, energy and upfront sunk costs. The time demanded makes it not only an expensive option for the client but also potentially tricky to prepare if the preferred filing date is ''as soon as possible'' or even more likely, ''yesterday.'' For those who have traversed through the RICO waters know all too well, defending a RICO is not cheap, but neither is establishing one.

Additionally, litigation risk should never be underestimated. The DTSA is virtually in brand new, mint condition and its existence as a qualifying RICO predicate is just as new. With a virtual dearth of cases interpreting trade-secrets RICO claims under the DTSA as well as a barren legislative history on why Congress decided to add theft of trade secrets and economic espionage as RICO predicate acts, federal courts may well read restrictions into the statute that would circumscribe RICO liability in the trade secrets context. And federal appellate courts may well diverge in their views of the DTSA's viability and application, as they have done in other RICO issues.

This means, depending on the circuit, RICO plaintiffs and defendants may well be subjected to inter-circuit different pleading rules and standards on the question of when a defendant's actions extend beyond garden-variety trade secrets misappropriation. For example, prior to the DTSA, copyright-based RICO claims have led some courts to hold that only ''egregious'' violations, like counterfeiting and piracy, can create RICO liability, while other courts have read the statute as written. *Compare Stewart v. Wachowski*, No. 2:03-cv-02873, 2005 WL 6184235, at *5 (C.D. Cal. June 14, 2005) (''Congress did not intend to criminalize all intentional copyright infringement or subject all multiple acts of intentional infringement to RICO liability.''), *with ICONICS, Inc. v. Massaro*, 192 F. Supp. 3d 254, 269 (D. Mass. 2016) (allowing RICO claims based on non-egregious copyright infringement because ''the plain text of the statute, not excursions through legislative history, governs here'').

With little legislative guidance and minimal binding authority, litigants face an uncharted path across RICO's treacherous landscape.

Finally, the rule of proportionality is always present—and should always be considered: The potency, cost, and effort of a civil RICO claim may make a trade-secrets-based civil RICO case inappropriate in all but large, substantial misappropriation cases. No differently than not using a cannon to kill a mosquito, barring extenuating circumstances, routine trade secrets violations may be better handled under traditional, non-RICO based doctrines and litigation strategies. The investment and litigation risk to plead a viable RICO claim—even in circumstances where liability might exist—might well be overkill when traditional, common-law remedies will lead to approximately equivalent recovery.

Conclusion

There is no law more powerful (perhaps) than the law of unintended consequences. As of 2016, DTSA-based RICO claims are new and real, but they have gone virtually unnoticed. To be sure, they may not be appropriate in every case. But in high-stakes trade secrets litigation involving multiple departing employees or a concerted effort to target an entity's trade secrets, such a claim could be lethal. Whether defending or filing trade secrets claims, trade-secrets and white-collar practitioners should be aware that the DTSA creates never-before-existing RICO liability.

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