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Civil RICO: A trade secrets super weapon

A RICO claim can be game-changing but potency, cost and effort may make it inappropriate in all but the largest, most egregious cases, say Andrew Boutros and Jay Schleppenbach of Shook, Hardy & Bacon.

When people hear about actions under the Racketeer Influenced and Corrupt Organizations Act (RICO), they frequently think of Hollywood-like movies of federal prosecutors targeting gangsters for trafficking drugs, engaging in extortion, and even ordering murders along the way.

But the scope of the RICO statute is actually much broader than that, and its use also applies to organisations that allegedly engage in a racketeering pattern of less exotic offences such as wire fraud, mail fraud, criminal copyright infringement, and counterfeiting.

As we observed years ago, with the passage of the Defend Trade Secrets Act (DTSA) in 2016, Congress also added trade secret theft as an available predicate for a criminal or civil RICO action.

RICO actions can be challenging to plead but, if successful, provide an "unusually potent weapon" that can be considered the "litigation equivalent of a thermonuclear device."

An introduction to RICO

RICO is a dual purpose statute. It can be used by criminal prosecutors in support of criminal charges, or by private parties in civil litigation. Thus, RICO is one of those statutes that creates both 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."

It is unlawful to maintain an interest in such an enterprise, to participate in the conduct of that enterprise's affairs through racketeering activity, to receive income derived from a pattern of racketeering activity, or to conspire to do any of those things.

Another section of RICO broadly defines "racketeering activity" to include several listed state and federal offences, frequently called RICO "predicate offences".

As mentioned above, offences like drug trafficking, extortion, money laundering, and witness tampering are included as predicates, but so are wire fraud, mail fraud, criminal copyright infringement, counterfeiting, economic espionage, and the theft of trade secrets.

For good reason, garden-variety offences like torts and contractual breaches do not qualify as a "racketeering activity" under RICO.

RICO claims may be attractive to plaintiffs because they provide plaintiffs with greater access to discovery, given that the scope of the RICO enterprise can be pleaded broadly and a wide array of predicate acts that may be considered relevant.

Even acts involving victims other than the plaintiff and acts that could not themselves support a lawsuit due to statutes of limitations can serve as RICO predicate acts and bases for discovery. Discovery into these acts may go back decades and could involve many distinct factual scenarios. In addition, from a recovery standpoint, the statute mandates recovery of reasonable attorneys' fees and treble damages (meaning 3X damages), which are generally not available under the DTSA and analogous state laws.

On the flip side, RICO claims can be complex to plead and prove and can be difficult for a jury. For example, RICO claims require the existence of an "enterprise" that is separate from the "person" conducting its affairs. The distinctness of the enterprise and person is often hotly disputed.

And, if the enterprise alleged is not a formal legal entity, courts will want to see specific allegations about its purpose, the relationships among those associated with the enterprise, and how the enterprise has longevity sufficient to permit those associates to pursue the enterprise's purpose.

Similarly, to establish a pattern of racketeering activity, a plaintiff must plead at least two "related" and "continuous" predicate acts within a period of ten years that pose a threat of continued criminal activity. There is often substantial litigation surrounding the continuity and relationship of alleged predicate acts.

An introduction to the DTSA

Prior to the DTSA, trade secret claims were not recognised as predicate acts for a RICO action. But testimony in support of the DTSA from well-known companies with significant intellectual property illustrated the magnitude of the trade secret theft issue and the need for powerful remedies.

Upon its passage, the DTSA then expressly provided for RICO to be amended to include violations of "sections 1831 and 1832 (relating to economic espionage and theft of trade secrets)" as predicate acts of racketeering. Of particular interest to trade secret holders, Section 1832 of the DTSA applies criminal penalties to anyone who, with intent to convert a trade secret and knowingly:

- steals, or without authorisation appropriates, takes, carries away, or conceals, or by fraud, artifice, or deception obtains such information;
- without authorisation copies, duplicates, sketches, draws, photographs, downloads, uploads, alters, destroys, photocopies, replicates, transmits, delivers, sends, mails, communicates, or conveys such information;
- knowingly receives, buys, or possesses such information; or
- attempts or conspires to do any of these things.

So by incorporating Sections 1831 and 1832 as RICO predicates, the DTSA brought a wide range of trade secret offences within the ambit of the racketeering statute.

Of course, the DTSA also contains various potent provisions that do not deal directly with RICO. Perhaps most relevant here is the revision to 18 USC § 1836 to permit an owner of a trade secret that is misappropriated to bring a civil action, including for civil seizure to prevent the propagation or dissemination of the trade secret.

The term "misappropriation" is defined to include "acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means" and "disclosure or use of a trade secret of another without express or implied consent" under certain circumstances.

"[I]mproper means" is in turn defined to include "theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means" but not "reverse engineering, independent derivation, or any other lawful means of acquisition."

Cost/benefit analysis for DTSA plaintiffs contemplating RICO claims

DTSA-based RICO claims have had a mixed record of success since the statute's passage in 2016. The same also can be said of civil RICO claims generally.

Having brought one of the first-ever RICO-DTSA cases filed in the US, as well as being early (indeed, perhaps the first) writers on the interplay between RICO and the DTSA, we can say from firsthand experience that RICO claims are technical, with multiple complex elements that have been subject to slightly different legal analyses in different jurisdictions. It should be expected that they can therefore be tricky to plead and prove.

Accordingly, in our view, DTSA plaintiffs should bring an objective lens to evaluating any RICO cause of action, especially one sounding in the DTSA.

As plaintiffs, aggrieved trade secrets holders should not shun away from using RICO's powerful firepower where warranted, but simultaneously, should avoid adding RICO claims to their complaints when doing so does not substantially improve the case.

Thus, the best course of action in our view is for trade secret holders to conduct a careful cost/benefit analysis, weighing the likely strength of such a claim against its potential impact on the litigation.

For example, RICO claims can be high maintenance for a plaintiff, requiring extensive time, attention, and resources. Viable RICO claims require considerable investigation, time, and skill to draft.

The rigorous pleading standard of Federal Rule of Civil Procedure 9(b) applies to RICO claims when the underlying predicates sound in fraud, plus some jurisdictions require plaintiffs to submit a detailed RICO case statement contemporaneously with pleading any RICO claim.

In addition, adding a RICO claim can increase the scope of discovery, which may be a benefit, but also comes with increased costs.

Nor should litigation risk be underestimated, as the DTSA is still a fairly young enactment that has not been as widely interpreted as others, particularly as it interacts with RICO.

Depending on the circuit (or even district), RICO plaintiffs and defendants may well be subjected to different pleading rules and standards on when DTSA violations rise to the level of a RICO claim. It is true that RICO claims allow recovery of reasonable attorneys' fees and treble damages if they are successful, but they also have the potential for ruining an otherwise good case if not properly brought and supported.

So trade secret plaintiffs should consider the rule of proportionality before adding a RICO claim to their pleadings. 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, including those with egregious facts.

Barring special circumstances or case-specific reasons, “ordinary” trade secrets violations may be better handled under traditional, non-RICO based federal and state causes of actions (including the DTSA itself) and their related litigation strategies.

But in the appropriate jurisdiction and with the right, raw facts, a RICO claim may add a significant—indeed, game-changing—weapon to a trade secret plaintiff’s lawsuit.

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