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Open Question: Use of Stolen Trade Secrets May or May Not Qualify as a Predicate Act Under RICO

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Since the passage of the Defend Trade Secrets Act (DTSA), trade secret owners have been able to use allegations of trade secret misappropriation under the DTSA to support civil claims under the Racketeer Influence and Corrupt Organizations Act (RICO). Specifically, DTSA violations that qualify as predicate acts can be used to show a pattern of racketeering activity, which may allow a trade secret owner to state civil claims under RICO, and thus take advantage of the substantial remedies that the RICO statute provides, including the potential for treble damages and attorney's fees.

To state a civil RICO claim, a plaintiff must allege:

(1) the existence of an enterprise affecting interstate commerce;

(2) that the defendant was employed by or associated with the enterprise;

(3) that the defendant participated, either directly or indirectly, in the conduct or the affairs of the enterprise; and

(4) that the defendant participated through a pattern of racketeering activity that included at least two racketeering acts

Magnesita Refractories Co. v. Tianjin New Century Refractories Co., CIVIL ACTION NO. 1:17-CV-1587, 2019 U.S. Dist. LEXIS 32559, at *28 (E.D. Pa. Feb 28, 2019).

Given the DTSA's relatively recent enactment in 2016, however, jurisprudence concerning what type(s) of violations may qualify as a "predicate act" under RICO is still developing. Interestingly, while several courts have found that the **theft or receipt** of trade secrets qualify as predicate acts, the circumstances under which the **use** of misappropriated trade secrets may qualify as a predicate act remains a somewhat unsettled question.

For example, the U.S. District Court for the Central District of California recently held that the use of misappropriated trade secrets qualifies as a predicate act under RICO. In *Skye Orthobiologics, LLC v. CTM Biomedical*, the plaintiffs alleged that the defendants stole and used various trade secrets related to its tissue products, including customer lists and pricing models. 2021 WL 6102520, at *9-10 (C.D. Cal Feb. 9, 2021). On a motion to dismiss, the court considered whether the "use" of stolen trade secrets qualified as a predicate act sufficient to show a pattern of racketeering activity under RICO, explaining that:

Plaintiffs allege that the RICO Defendants used information gained through trade secret misappropriation on numerous occasions, and continue to use such information, to market an almost-identical product and to divert business from Skye to CTM. Plaintiffs allege that Defendants used these trade secrets in order to target former and current Skye customers.

2021 WL 6104163, at *4 (C.D. Cal Aug. 30, 2021). In denying the motion to dismiss the RICO claims, the Court ultimately held that the use of stolen trade secrets qualified as a predicate act under RICO, and thus concluded that "Plaintiffs have alleged a pattern of racketeering activity." *Id.*

Two other district courts, however, also recently reached opposite conclusions, holding that mere use of trade secrets does not qualify as a predicate act under RICO.

In ESPOT, Inc. v. MyVue Media, LLC, plaintiff ESPOT alleged the defendant-consultants stole source code related to its product (which allowed coaches of children's sports teams to communicate certain information to parents, while also serving them ads, via a tablet), as well as client lists and financial projections. ESPOT further alleged that these consultants worked with the defendant-competitors to create and market a competing product. 492 F. Supp. 3d 672, 680 (E.D. Tex. Oct 2, 2020). ESPOT alleged that this theft and use of its trade secrets qualified as RICO predicate acts. Defendant, MyVue, moved to dismiss for failure to adequately plead two predicate acts.

In considering the motion, the Court explained that 18 U.S.C § 1832, which concerns criminal liability for trade secret theft and is listed among those statutes under which racketeering activity can be found following passage of the DTSA, concerns the theft or receipt of trade secrets, but does not cover the "use" of them:

Notably, section 1832, does not use 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. 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.

The Court granted the motion to dismiss the RICO claim, holding that "ESPOT cannot rely on allegations that the MyVue Defendants are *using* its trade secrets, and will continue to do so, to establish an open-ended pattern of racketeering activity." (emphasis added).

In Hardwire, LLC v. Ebaugh, the plaintiff alleged that a former employee stole more than 27,000 electronic files containing its trade secrets about its proprietary technology concerning protective armor for bridges and other public infrastructure. 2021 WL 3809078, at *1 (D. Md. August 26, 2021). Further alleging that the former employee did so in an attempt to start a new company and obtain a multi-million dollar contract for the replacement of a bridge in New York City, Hardwire brought a claim for, among other things, a RICO violation. Defendant, Freyssinet USA, a bridge company with which the former employee previously collaborated, moved to dismiss.

The Court noted that a RICO claim “must include an allegation of a pattern of racketeering activity consisting of at least two related predicate acts that amount to or pose a threat of continued criminal activity”. Like the court in *ESPOT*, the Maryland District Court found that violations of the DTSA’s criminal offenses under 18 U.S.C. § 1832 (including stealing and receiving trade secrets) qualify as RICO predicate acts, but that DTSA civil causes of action under § 1836, including “using” those stolen trade secrets, do not. After quoting extensively from *ESPOT*, the Court granted the motion to dismiss, reasoning that:

All of Hardwire's allegations regarding Freyssinet USA's conduct after the enactment of the DTSA relate to the further use of those trade secrets. Although that alleged misappropriation of trade secrets may entitle Hardwire to civil remedies under § 1836, it falls outside the scope of conduct prohibited under § 1832. As such, Hardwire fails to allege any predicate acts of racketeering activity, and accordingly, Hardwire fails to state a claim for relief under RICO.

Given the substantial relief that a RICO claim can provide, including treble damages and attorney’s fees, litigants will undoubtedly continue to bring RICO claims alleging DTSA violations as predicate acts. And with evolving jurisprudence surrounding the DTSA, we expect to continue to see some tension between various federal district courts concerning whether the “use” of misappropriated trade secrets counts as a RICO predicate act. We will continue to monitor this evolving area of the law.

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