UIC John Marshall Journal of Information Technology & Privacy Law

Volume 5
Issue 2 *Computer/Law Journal - Fall 1984*

Article 1

Fall 1984

RICO: Modern Weaponry Against Software Pirates, 5 Computer L.J. 143 (1984)

Ronald B. Coolley

RICO: MODERN WEAPONRY AGAINST SOFTWARE PIRATES†

by RONALD B. COOLLEY*

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The proliferation of computer software has been accompanied by the equally prolific growth of a new crime: piracy of software. While this growth can be explained in part by the ease of pirating software, much of it is caused by the inadequacy of weapons available to software owners to combat pirates. Remedies typically available against software pirates are insufficient to deter the pirate, who

* Partner, in the law firm of Mason, Kolehmainen, Rathburn & Wyss, Chicago, Illinois, J.D., M.B.A., University of Iowa, 1972, B.S.A., Iowa State University, 1969.

is usually back in business a short time after having been caught. A potent weapon that offers substantial sanctions is available, however. This weapon is the Racketeer Influenced and Corrupt Organizations Act, better known as "RICO."[1] Until recently, the criminal provisions of the statute were virtually the only source of RICO litigation. Only in recent years have private parties begun to supplement antitrust, securities and common law claims with charges based on RICO.

I. RICO AND SOFTWARE PROTECTION

Remedies under RICO are available to software owners who have obtained copyright or trade secret protection on their software. This assertion may not be obvious upon initial reading of RICO, as there is no mention of infringing or counterfeiting copyrights or stealing trade secrets within the Act. RICO lists predicate acts or crimes (racketeering activities)[2] that are punishable under existing federal or state laws. A plaintiff must establish that a pattern of one or more of these racketeering activities was committed in order to prove a RICO violation. Although no copyright or trade secret violations are listed as racketeering activities under 18 U.S.C. § 1961,[3] at least one of four activities listed under the section will occur in almost every copyright counterfeiting or trade secret misappropriation situation. These four activities are:

(1) mail fraud[4]
(2) wire fraud[5]
(3) interstate transportation of stolen property;[6] and
(4) receiving stolen property transported interstate.[7]

A violator of a copyright or trade secret may violate RICO by committing one or more of these four racketeering activities. Accordingly, the first question one should ask is whether a pattern of one or more of these four activities has occurred.

II. RACKETEERING ACTIVITIES UNDER RICO

This section explains the four racketeering activities common to cases of copyright counterfeiting and trade secret misappropriation.

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1. 18 U.S.C. §§ 1961-1968 (1982).
2. 18 U.S.C. § 1961(1) (1982).
3. 18 U.S.C. § 1961 (1982). All sections referenced herein refer to 18 U.S.C. unless otherwise noted.
4. 18 U.S.C. § 1341 (1982).
5. 18 U.S.C. § 1343 (1982).
6. 18 U.S.C. § 2314 (1982).
7. 18 U.S.C. § 2315 (1982).

An understanding of these activities is vital to determining whether a RICO violation has occurred.

A. Mail and Wire Fraud

The mail[8] and wire[9] fraud statutes are two of the broadest statutes incorporated in RICO that designate racketeering activities.[10] These statutes can be the basis for a RICO action where mail or wire is used to perpetrate a fraud. For example, a RICO action can be based on these statutes where mail or wire is employed to offer counterfeit software or stolen trade secrets to a potential purchaser, to cash checks received as payment for counterfeit software or stolen trade secrets, or to transmit communications between conspirators.

The language of the mail fraud statute is particularly applicable to copyright counterfeiting actions, as the statute prohibits anyone from selling, distributing or furnishing for unlawful use any "counterfeit article."[11] This language supports the argument that the legis-

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8. The mail fraud statute sets forth the following pertinent language:

> Whoever, having devised or intending to devise any scheme or artifice to defraud, or for obtaining money or property by means of false or fraudulent pretenses, representations, or promises, or to sell, dispose of, loan, exchange, alter, give away, distribute, supply, or furnish or procure for unlawful use any counterfeit or spurious coin, obligation, security, or other article, or anything represented to be or intimated or held out to be such counterfeit or spurious article, for the purpose of executing such scheme or artifice or attempting so to do, places in any post office or authorized depository for mail matter, any matter or thing whatever to be sent or delivered by the Postal Service, or takes or receives therefrom, any such matter or thing, or knowingly causes to be delivered by mail according to the direction thereon, or at the place at which it is directed to be delivered by the person to whom it is addressed, any such matter or thing, shall be fined not more than $1,000 or imprisoned not more than five years, or both.

18 U.S.C. § 1341 (1982).

9. The wire fraud statute sets forth the following pertinent language:

> Whoever, having devised or intending to devise any scheme or artifice to defraud, or for obtaining money or property by means of false or fraudulent pretenses, representations, or promises, transmits or causes to be transmitted by means of wire, radio, or television communication in interstate or foreign commerce, any writings, signs, signals, pictures, or sounds for the purpose of executing such scheme or artifice, shall be fined not more than $1,000 or imprisoned not more than five years, or both.

18 U.S.C. § 1343 (1982).

10. Strafer, Massumi & Skolnick, *Civil RICO In The Public Interest: "Everybody's Darling,"* 19 Am. Crim. L. Rev. 655, 658 (1982). *See also* United States v. States, 488 F.2d 761, 764 (8th Cir. 1973), *cert. denied*, 417 U.S. 909 (1974) ("[t]he definition of fraud in § 1341 is to be broadly and liberally construed to further the purpose of the statute").

11. *See supra* note 8.

lature intended that this statute be applicable to counterfeit software protected by a copyright.

The elements of proof of mail fraud and wire fraud are essentially the same, except proof of wire fraud requires proof of an interstate communication whereas proof of mail fraud does not.[12] To establish either mail or wire fraud, plaintiff must prove:

(1) a scheme or artifice to defraud;
(2) a use of mail or wire for the purpose of executing the scheme; and
(3) a culpable participation in that use of mail or wire by defendant either by making use of mail or wire himself or by knowingly causing someone else to make the use.[13]

Software piracy can often be classified as fraud since the concept of fraud is broadly defined. As one court explained:

> [W]e recognize that the forms of fraud are as multifarious as human ingenuity can devise; that courts consider it difficult, if not impossible, to formulate an exact, definite and all-inclusive definition thereof; and that each case must be determined on its own facts. In general, and in its generic sense, fraud comprises all acts, conduct, omissions and concealment involving breach of a legal or equitable duty and resulting in damage to another.[14]

Schemes to make or sell counterfeit software or to steal trade secrets in software form clearly fall within this description. For example, unauthorized interception of trade secrets (such as software) communicated by telephone between remote terminals and a main computer defrauds the owner and violates the wire fraud statute.[15] Such a scheme also takes the software owner's money (by causing the owner to lose sales) and property by false or fraudulent pretenses. In addition, if it can be established that there is a duty to disclose material information to the purchaser, the unknowing purchaser of the stolen software is defrauded when the pirate or infringer conceals the material fact that the software is stolen.[16]

Advertising that includes false statements about software also

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12. Parrish, *RICO Civil Remedies: An Untapped Resource For Insurers*, 49 INS. COUNS. J. 337, 343 (1982). *See also* United States v. Tarnopol, 561 F.2d 466, 475 (3d Cir. 1977) ("Judicial decisions construing § 1341 are applicable to § 1343").

13. United States v. Brickey, 426 F.2d 680 (8th Cir. 1970), *cert. denied*, 400 U.S. 828 (1970).

14. Isaacs v. United States, 301 F.2d 706, 713 (8th Cir. 1962), *cert. denied*, 391 U.S. 818 (1962).

15. United States v. Seidlitz, 589 F.2d 152 (4th Cir. 1978), *cert. denied*, 441 U.S. 922 (1979).

16. *See* United States v. Bush, 522 F.2d 641, 651 (7th Cir. 1975), *cert. denied*, 424 U.S. 977 (1976).

may be a violation of the mail and wire fraud statutes.[17] A seller is permitted to engage in puffing or innocent exaggeration of the quality of his wares but if he goes beyond this, and uses mail or other interstate communication facilities in doing so, he may be engaging in fraudulent acts prohibited under sections 1341 and 1343.[18]

Proof of mail or wire fraud does not require proof that the defendant intended to use mail or interstate communication facilities in furtherance of the scheme. The plaintiff need only prove that the mail or interstate communication facilities were used to carry out the scheme, and that the use was reasonably foreseeable even though it was not actually intended.[19] If the defendant merely "causes" the use, he is chargeable.[20] For example, if an innocent purchaser pays for stolen software by check and the check, in its transmission between banks, is sent through the mail, section 1341 applies.[21] The matter mailed or transmitted need not be fraudulent in itself; it is enough that it aids in the execution of the fraudulent scheme.[22]

It is not necessary that a mailing or wire transmission take place between the pirate and the victim. Any mailing or wire transmission made in connection with the fraudulent scheme is sufficient.[23] Mailings or wire transmissions between participants in a piracy scheme, even if only used incidentally to inform co-schemers of the progress of the plan, can be sufficient to violate the statutes.[24] If mail or wire fraud is alleged, however, the plaintiff must describe the contents of the mailings or wires with particularity, including the dates they were made and how they relate to the scheme to defraud. Otherwise, the cause of action may be dismissed.[25]

B. Transporting and Receiving Stolen Property

Two other activities designated as racketeering activities under

17. United States v. Andreadis, 366 F.2d 423, 428 (2d Cir. 1966) (misrepresentation concerning a diet plan), *cert. denied*, 385 U.S. 1001 (1967).

18. *See generally* Comment, *Mail Fraud—Fraudulent Misrepresentations Must Be Distinguished From "Puffing" or "Sellers Talk" In Offenses Under 18 U.S.C. § 1341*, 22 S.C.L. Rev 434 (1970).

19. Pereira v. United States, 347 U.S. 1, 8 (1954); United States v. Stafford, 589 F.2d 285, 295 (7th Cir. 1978), *cert. denied*, 440 U.S. 983 (1979).

20. Pereira v. United States, 347 U.S. 1, 9 (1954).

21. United States v. Regent Office Supply Co., 421 F.2d 1174, 1179 (2d Cir. 1970).

22. United States v. Reid, 533 F.2d 1255, 1265 (D.C. Cir. 1976).

23. United States v. International Term Papers, Inc., 477 F.2d 1277, 1279 (1st Cir. 1973).

24. United States v. Craig, 573 F.2d 455, 483 (7th Cir. 1977), *cert. denied*, 439 U.S. 820 (1978).

25. County of Cook v. Midcon Corp., 574 F. Supp. 902, 921 (N.D. Ill. 1983).

RICO are transporting and receiving stolen[26] goods valued at five thousand dollars or more.[27] The purpose of this designation was to insure that RICO can reach all means by which owners might be wrongfully deprived of the use or benefits of their property.[28]

Whether RICO protects software owners against these activities depends upon whether software is included under the statutory language of "goods, wares [or] merchandise." Courts have decided that this language does include software.

In *United States v. Sam Goody, Inc.*,[29] a copyright counterfeit action was brought under section 2314. The defendant had transported (across state lines) and sold counterfeit tapes. The court held that the intangible aggregation of sounds comprising a recorded musical work constituted goods that could be stolen, converted or taken by fraud within the meaning of section 2314.[30] The court ruled that the phrase "stolen, converted or taken by fraud" covers all forms of wrongful taking.[31] Based upon this interpretation, the court held that infringing a copyright by making unauthorized duplications of copyrighted musical works qualifies as stealing, converting or taking by fraud under section 2314.[32]

Sections 2314 and 2315 have also been applied in actions for misappropriation of trade secrets. In *United States v. Seagraves*,[33] an action for misappropriation of trade secrets was brought under section 2314. In *Seagraves*, geophysical maps had been stolen, transported interstate and sold. The court held that the terms "goods, wares [and] merchandise" were general designations of chattels

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26. "Stolen" as used in 18 U.S.C. § 2312 has been defined as including "all felonious takings . . . with intent to deprive the owner of the rights and benefits of ownership, regardless of whether or not the theft constitutes common-law larceny." United States v. Turley, 352 U.S. 407, 417 (1957).

27. 18 U.S.C. §§ 2314, 2315 (1982). The pertinent portion of 18 U.S.C. § 2314 allows an action against anyone who "transports in interstate or foreign commerce any goods, wares, merchandise . . . of the value of $5000 or more, knowing the same to have been stolen, converted or taken by fraud." The pertinent portion of 18 U.S.C § 2315 provides: "Whoever receives, conceals, stores, barters, sells, or disposes of any goods, wares, or merchandise, securities, or money of the value of $5,000 or more, . . . moving as, or which are a part of, or which constitute interstate or foreign commerce, knowing the same to have been stolen, unlawfully converted, or taken, . . . [s]hall be fined not more than $10,000 or imprisoned not more than ten years, or both."

28. United States v. Evans, 579 F.2d 360, 361 (4th Cir. 1978) (quoting Lyda v. United States, 279 F.2d 461, 464 (5th Cir. 1960)).

29. 506 F. Supp. 380 (E.D.N.Y. 1981).

30. *Id.* at 386.

31. *Id.* at 390.

32. *Id.* at 391.

33. 265 F.2d 876 (3d Cir. 1959).

which are ordinarily a subject of commerce.[34] Thus the court ruled the maps were goods, wares or merchandise within the terms of section 2314 since maps of the type involved were frequently sold.[35]

In a similar ruling, the court in *United States v. Greenwald*[36] ruled that secret chemical formulae fall within the statutory language of "goods, wares [or] merchandise" and that the theft of such formulae was punishable under section 2314.

The defendant in *United States v. Bottone*[37] argued that what he stole, transported and sold were merely *copies* of a secret manufacturing process rather than the process itself, and that copies were not goods under section 2314. The court held that the scope of the statute encompassed copies of a secret as well as the original secret.[38]

Like the mail and wire fraud statutes, sections 2314 and 2315 have been broadly construed. These statutes apply not only to interstate commerce, but also to transportation into the United States from a foreign country.[39] In addition, since both the sender and receiver of stolen or converted goods are liable, these statutes substantially increase the number of parties a software owner can sue.

The essential elements of proof of a violation of sections 2314 and 2315 are:

1) interstate transportation of stolen, converted, or fraudulently taken goods valued at $5,000 or more;

2) fraudulent intent;[40] and

3) knowledge that the goods have been stolen, converted, or fraudulently taken.[41]

III. UNDERSTANDING A RICO COMPLAINT

Once it has been determined that one or more racketeering activities might have occurred, the victim should consider filing a RICO complaint. To prepare the complaint properly, certain features of RICO must be understood.

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34. *Id.* at 880.

35. *Id. See also* United States v. Gottesman, 724 F.2d 1517, 1520 (11th Cir. 1984).

36. 479 F.2d 320 (6th Cir. 1973), *cert. denied*, 414 U.S. 854 (1973).

37. 365 F.2d 389 (2d Cir. 1966), *cert. denied*, 385 U.S. 974 (1966).

38. *Id.* at 394.

39. United States v. Davis, 608 F.2d 555, 556 (5th Cir. 1979).

40. United States v. Freeman, 619 F.2d 1112, 1118 (5th Cir. 1980), *cert denied*, 450 U.S. 910 (1981).

41. United States v. Graves, 669 F.2d 964, 970 (5th Cir. 1982).

A. ELEMENTS OF RICO

No racketeering activity is prohibited per se under RICO; rather, section 1962 prohibits any person from:

(1) receiving income derived from a pattern of racketeering activity and using the income to acquire an interest in an enterprise,[42] or
(2) acquiring through a pattern of racketeering activity an interest in or control of an enterprise,[43] or
(3) conducting the affairs of an enterprise through a pattern of racketeering activity,[44] or
(4) conspiring to commit any of the above three offenses.[45]

In a software piracy action, the typical RICO violation is that the affairs of an enterprise have been conducted through a pattern of racketeering activity.[46] To establish a civil violation of RICO, and specifically a violation of section 1962(c), the plaintiff must prove all of the following:

(1) that a person;
(2) through a pattern of racketeering activity (such as mail fraud, wire fraud, or transportation or receipt of stolen goods);
(3) directly or indirectly participated in;
(4) an enterprise, the activities of which affect interstate commerce.[47]

Each of these elements will be examined to explain how one should plead a civil RICO action or count.

1. *Person*

RICO defines "person" as including "any individual or entity capable of holding a legal or beneficial interest in property."[48] This definition is broad enough to include almost any counterfeiter or misappropriator of software.

2. *Direct or Indirect Participation*

A person able to commit racketeering activities solely by virtue of that person's position in an enterprise or involvement in or con-

42. 18 U.S.C. § 1962(a) (1982).
43. 18 U.S.C. § 1962(b) (1982).
44. 18 U.S.C. § 1962(c) (1982).
45. 18 U.S.C. § 1962(d) (1982).
46. 18 U.S.C. § 1962(c) (1982).
47. Long, *Treble Damages For Violations of the Federal Securities Laws: A Suggested Analysis and Application of the RICO Civil Cause of Action*, 85 DICK. L. REV. 201, 211 (1981).
48. 18 U.S.C. § 1961(3) (1982).

trol over the affairs of the enterprise is subject to RICO's civil provisions.[49] Examples of relationships between a person and an enterprise that will render that person liable under RICO are:

(1) an investor in an enterprise;
(2) a controlling party in an enterprise;
(3) an employee or associate of an enterprise; and
(4) a conspirator in a conspiracy to maintain the position of an investor, controller, employee or associate in an enterprise.[50]

These types of relationships indicate that the statute covers more than just those persons who manage or operate an enterprise. Indirect participation by employees is also prohibited.[51] This exposes to liability not only the top echelon of an operation but also salesmen, agents, engineers and others who are involved in the operation's daily activities.

It is unclear, however, what relationship must exist between the racketeering activity and the person's association with the enterprise for there to be a violation of the statute. Judicial opinions vary as to when an employee, in the course of employment, has engaged in racketeering activities outside the scope of the usual affairs of the enterprise.[52]

The defendant in a RICO action is the "person" who has engaged in conduct defined as unlawful by section 1962. Unlawful conduct, such as mail fraud, perpetrated by a lower-level corporate executive acting without corporate sanction makes the executive, not the coporation, liable under RICO.[53] For the corporation to be liable, it must have participated "in the conduct of . . . affairs . . ." as required by section 1962(c) under a theory such as respondeat superior.[54]

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49. United States v. Scotto, 641 F.2d 47, 54 (2d Cir. 1980).

50. Parrish, *supra* note 12, at 341 n.23.

51. United States v. Chovanec, 467 F. Supp. 41, 44 (S.D.N.Y. 1979).

52. *Compare* United States v. Gibson, 486 F. Supp. 1230, 1244 (S.D. Ohio 1980) (defendant's conduct must involve the affairs of the enterprise rather than defendant's personal affairs) *and* United States v. Ladmer, 429 F. Supp. 1231, 1244 (E.D.N.Y. 1977) (offenses must relate to the essential functions of the enterprise) *with* United States v. DePalma, 461 F. Supp. 778, 785-86 (S.D.N.Y. 1978) (racketeering activity need not be part of daily business operation of an enterprise).

53. Parnes v. Heinold, 548 F. Supp. 20, 28 (N.D. Ill. 1982).

54. *Id.* at 30. RICO does not hold the enterprise liable, only those persons who seek to participate in the affairs of the enterprise through a pattern of racketeering activity. D & G Enter. v. Continental Ill. Nat'l Bank, 574 F. Supp. 263, 270 (N.D. Ill. 1983). At least one court has required that the defendant has participated in the affairs of the enterprise. Bennett v. Berg, 710 F.2d 1361, 1364 (8th Cir. 1983).

3. *Pattern of Racketeering Activity*

A person must participate in a pattern of racketeering activities in order to violate RICO. For a "pattern" to exist, section 1961(5) requires "at least two acts of racketeering activity, one of which occurred after the effective date of this chapter and the last of which occurred within ten years . . . after the commission of a prior act of racketeering activity." In an action for misappropriation of trade secret or copyright piracy, a pattern of racketeering activity can be proven easily. Proof of only two mailings or wires, for example, is sufficient.[55]

The statutory language does not require that the two racketeering activities be related.[56] Courts are divided on whether racketeering activities must be related for a pattern to exist.[57] The accepted view is that sporadic activity does not constitute a pattern of racketeering activity,[58] and that to form a pattern, the racketeering activities must be connected either by having some common scheme, plan or motive or by having similar purposes, results, participants, victims or methods of commission.[59] Some courts also require that the racketeering activities comprising the pattern be related to the affairs of the enterprise.[60]

4. *Enterprise*

Another essential element of any RICO cause of action is the existence of an enterprise. Section 1961(4) defines "enterprise" as including "any individual, partnership, corporation, association, or other legal entity, and any union or group of individuals associated in fact although not a legal entity." The courts have consistently held that an enterprise may be legal or illegal, public or private, corporate or individual, domestic or foreign.[61]

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55. United States v. Weatherspoon, 581 F.2d 595, 602 (7th Cir. 1978).

56. Strafer, Massumi & Skolnick, *supra* note 10, at 657.

57. *Compare* United States v Stofsky, 409 F. Supp. 609, 614 (S.D.N.Y. 1973) (predicate acts must be connected with each other by some common scheme, plan or motive) *with* United States v. Elliott, 571 F.2d 880, 899 n.23 (5th Cir. 1978), *cert. denied*, 439 U.S. 953 (1978) (interrelation of acts not implied by statutory language).

58. CORNELL INSTITUTE ON ORGANIZED CRIME, MATERIALS ON RICO 114 (1970).

59. Strafer, Massumi & Skolnick, *supra* note 10, at 657 n.19.

60. United States v. Nerone, 563 F.2d 836, 850-52 (7th Cir. 1977), *cert. denied*, 435 U.S. 951 (1978).

61. United States v. Turkette, 452 U.S. 576, 593 (1981) (the term "enterprise" as used in RICO encompasses both legitimate and illegitimate enterprises); United States v. Elliott, 571 F.2d 880, 889 (5th Cir. 1978) (informal association of individuals controlling a secret criminal network is an enterprise within the meaning of RICO), *cert. denied*, 439 U.S. 953 (1978); United States v. Frumento, 563 F.2d 1083, 1092 (3d Cir. 1977) (state agency enforcing tax laws on an interstate industry is an enterprise

Congress intended the term "enterprise" to have a very broad meaning.[62] Consequently, an enterprise may consist of a group of individuals informally organized for a common purpose[63] as well as a group of corporations.[64] RICO is sufficiently broad to apply even in those situations where an individual, rather than a group of individuals or an organization, is the enterprise.[65]

RICO requires that the activity of the enterprise affect interstate commerce. That requirement is met whenever the enterprise's activity affects interstate commerce, regardless of whether the activity is non-racketeering activity,[66] racketeering activity,[67] or activities not involving the individual defendant.[68] An enterprise that counterfeits copyrights or misappropriated trade secrets affects interstate commerce not only if the copies or stolen trade secrets move in interstate commerce, but also if local purchasers of the goods buy those goods with funds that would have been used to purchase other goods or services in interstate commerce.[69]

B. Advantages of RICO Actions

Application of RICO to software cases is a new development. Many conservative software owners may question why they should assert a RICO count in a copyright counterfeiting or trade secret misappropriation action. The most obvious reason is that a successful plaintiff in a RICO action is entitled to mandatory awards of

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within the meaning of RICO), *cert. denied*, 434 U.S. 1072 (1977); United States v. Parness, 503 F.2d 430, 439 (2d Cir. 1974) (foreign corporation is an enterprise within the meaning of RICO), *cert. denied*, 419 U.S. 1104 (1975); United States v. DePalma, 461 F. Supp. 778, 785-86 (S.D.N.Y. 1978) (racketeering activity need not be part of day to day business operation of an enterprise).

62. United States v. Cappetto, 502 F.2d 1351, 1358 (7th Cir. 1974), *cert. denied*, 420 U.S. 925 (1974); United States v. Elliott, 571 F.2d 880, 897 (5th Cir. 1978), *cert. denied*, 439 U.S. 953 (1978).

63. Cornell Institute on Organized Crime, *supra* note 58, at 112.

64. United States v. Huber, 603 F.2d 387, 394 (2d Cir. 1979), *cert. denied*, 445 U.S. 927 (1980).

65. Atkinson, *"Racketeer Influenced and Corrupt Organizations," 18 U.S.C. §§ 1961-68: Broadest of the Federal Criminal Statutes*, 69 J. Crim. L. & Criminology 1, 14-15 (1978); 18 U.S.C. § 1961(4) (1982) defines "enterprise" to include "any individual."

66. United States v. Rone, 598 F.2d 564, 573 (9th Cir. 1979), *cert. denied*, 443 U.S. 946 (1979).

67. Bunker Ramo Corp. v. United Business Forms, 713 F.2d 1272, 1289 (7th Cir. 1983).

68. United States v. Groff, 643 F.2d 396, 400 (6th Cir. 1981), *cert. denied*, 545 U.S. 828 (1981).

69. United States v. McManigal, 708 F.2d 276, 283 (7th Cir. 1983).

treble damages,[70] reasonable attorneys fees[71] and costs.[72]

A purpose of these mandatory sanctions is to deter potential violators who, in cases of organized crime, often rely on cash reserves of the criminal organization to insulate themselves from less severe sanctions imposed under other statutes.[73] Generous mandatory awards also increase the likelihood of private plaintiffs filing RICO actions despite the expense, annoyance and uncertainty of results, thereby lessening the burden on the government.[74]

In addition to treble damages, costs and attorneys fees is another interesting sanction; commentators have argued that section 1964(a) provides for equitable relief. The relief authorized is remedial, not punitive, and of the type traditionally granted by courts of equity. It is the same kind of relief that federal courts have been granting in civil actions brought under section 4 of the Sherman Act and section 15 of the Clayton Act.[75] Section 1964(a), say the commentators, authorizes the trial court to enter interim orders pending final resolution of the case. These orders include preliminary injunctions and temporary restraining orders, which are valuable and often necessary in cases involving software piracy and trade secret misappropriation.[76]

At least one district court has held, however, that no equitable relief is available in private civil RICO actions.[77] Until this issue is resolved, reliance on a civil RICO action is risky where injunctive relief is the principal remedy sought.

Who is qualified to seek treble damages, attorneys fees, costs

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70. 18 U.S.C. § 1964(c) (1982). A recent decision has substantially increased the interest in civil RICO actions. A district court for the first time has awarded treble damages in a private action. Hirsch, Inc. v. Enright Refining Co., 577 F. Supp. 339, 348 (D.N.J. 1983).

71. 18 U.S.C. § 1964(c) (1982). *But see* Aetna Casualty and Surety Co. v. Liebowitz, 570 F. Supp. 908 (E.D.N.Y. 1983) (attorneys fees not awarded in a civil RICO action where the suit was settled after a preliminary injunction was entered but before a final judgment on the merits).

72. 18 U.S.C. § 1964(c) (1982); Parrish, *supra* note 12, at 349.

73. Note, *Civil RICO: The Temptation and Impropriety of Judicial Restriction*, 95 HARV. L. REV. 1101, 1112 (1982).

74. *Id.* at 1113 n.66.

75. United States v. Cappetto, 502 F.2d 1351, 1357 (7th Cir. 1974), *cert. denied*, 420 U.S. 925 (1974).

76. Note, *RICO's Enforcement Provisions: An Interpretative Analysis*, 15 SUFFOLK U. L. REV. 941, 973 (1981); A preliminary injunction was entered in Aetna Casualty and Surety Co. v. Liebowitz, 570 F. Supp. 908 (E.D.N.Y. 1983).

77. Kaushal v. State Bank of India, 556 F. Supp. 576, 581-84 (N.D. Ill. 1983). A second district court has indicated it would have reached the same conclusion if there had been a valid RICO claim before it. Trane Co. v. O'Connor Sec., 561 F. Supp. 301, 307 (S.D.N.Y. 1983).

and equitable relief? Under section 1964(c) any person (that is, any individual or entity capable of holding a legal or beneficial interest in property[78]) who has been "injured in his business or property"[79] has standing to assert a claim to recover damages caused by racketeering activities prohibited by section 1962.[80] Whether a software owner has standing thus depends on whether software can be defined as "business or property." Although the terms "business" and "property" have not yet been judicially interpreted under RICO, the use of these terms in an antitrust context (after which the civil RICO statute was modeled) provides an adequate basis for the conclusion that these terms refer to virtually anything of monetary worth that is transferable.[81] This definition would include software.

To be awarded damages and equitable relief, plaintiff must allege and prove that it was in fact injured and that the injury was a result of a violation of section 1962.[82] Although a plaintiff need not prove that defendant's scheme was successful in order to prove that racketeering activity has occurred, the plaintiff must do so in order to establish "injury" and collect damages or other relief under section 1964(c).[83] This will not be difficult in cases where software has been misappropriated and sold.

Another advantage of RICO, currently available only to government plaintiffs, exists when the defendant has been previously convicted of a criminal RICO offense. In a civil suit brought by the government against a defendant who has been previously convicted under RICO's criminal provisions, the defendant is estopped from denying any of the essential elements which the government proved in obtaining the defendant's criminal conviction.[84] While this estop-

78. 18 U.S.C. § 1961(3) (1982).

79. 18 U.S.C. § 1964(c) (1982).

80. Parrish, *supra* note 12, at 344. This has been interpreted as requiring a showing of either a racketeering enterprise injury or a competitive injury. A racketeering enterprise injury occurs when a civil RICO defendant's ability to harm plaintiff is enhanced by infusion of money from a pattern of racketeering acts into the enterprise. A competitive injury occurs where plaintiff is forced to compete with an enterprise that has gained an unfair market advantage through infusion of funds from racketeering activity. Sedima S.P.R.L. v. Imrex Co., 574 F. Supp. 963 (E.D.N.Y. 1983). It is questionable whether either of these injuries need be shown, *see* Seville Indus. Mach. Corp. v. Southmost Mach. Corp., 567 F. Supp. 1146, 1157 (D.N.J. 1983), but it seems a competitive injury would occur if a software owner were forced to compete with a company that gained money by combining counterfeiting or misappropriation with mail fraud, wire fraud, or interstate transportation. A similar argument can be made in cases where a racketeering enterprise injury has occurred.

81. Parrish, *supra* note 12, at 344 n.41.

82. CORNELL INSTITUTE ON ORGANIZED CRIME, *supra* note 58, at 667.

83. Note, *supra* note 73, at 1105.

84. 18 U.S.C. § 1964(d) (1982).

pel may eventually be expanded to apply to private plaintiffs, the current law specifically bars private plaintiffs from pleading estoppel in such a case.[85]

C. Drafting the Complaint

Once it is determined that a software owner has standing to bring suit under RICO, the contents of a complaint should be outlined. In doing so, care should be taken to avoid using the word "racketeer," since the majority of software misappropriation suits do not involve persons who fit the stereotype image of a racketeer. Even though there is substantial judicial precedent that RICO can apply to white collar crimes and legitimate businesspeople,[86] it may be best to avoid creating any undesirable connotations in the judge's mind.

First, and most importantly, the complaint must name an *enterprise* in which a person, through a pattern of racketeering activity, invested, maintained an interest, or participated. The complaint must allege that the plaintiff's injury was caused by the conduct of the enterprise rather than by the underlying racketeering activity itself.[87] The complaint must also allege that the enterprise affects interstate commerce, and must cite facts supporting the allegation.[88]

Second, care should be taken in determining who to name as defendants. It is often better to name a corporation, rather than an individual, as the defendant, since this enables the plaintiff to reach the party with the deepest pocket.[89] Where software copying, piracy, or trade secret misappropriation has occurred, it is rare that the culpable individuals working within a corporation have acted without corporate sanction. Consequently, the corporation, as well as those individuals, should be named as a defendant.

Finally, if a violation of either the mail or wire fraud statute is alleged, fraud must be pleaded with particularity in accordance with Rule 9(b) of the Federal Rules of Civil Procedure.

D. Burden of Proof, Jurisdiction and Venue

RICO does not define the burden of proof required to maintain a cause of action. Early in RICO's history there was some question as

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85. *Id.*

86. See *infra* section IV.

87. Schact v. Brown, 711 F.2d 1343, 1358 (7th Cir. 1983).

88. Cornell Institute on Organized Crime, *supra* note 58, at 664.

89. For a discussion of a corporation serving as both the enterprise and defendant, see Woodbridge, *RICO: The Corporation As "Enterprise" And Defendant*, 52 U. Cin. L. Rev. 503 (1983).

to whether the reasonable doubt standard or preponderance of the evidence standard would apply.[90] Then in 1971 the Supreme Court held that in cases for treble damages under antitrust laws, the ordinary or mere preponderance of evidence standard was applicable.[91] Given this standard, at least two courts have held that the civil provisions of RICO require the same burden of proof.[92]

In RICO actions, jurisdiction over the subject matter is vested in the district courts under section 1965(a). Venue is proper in the federal district court of the district where the defendant resides, is found, has an agent, or transacts his affairs.[93]

The RICO venue provision[94] is not necessarily exclusive. The legislative history of section 1965 reveals that it was patterned after the venue provisions of the antitrust laws, which provide that the general venue provisions of 28 U.S.C. sections 1391 et seq. supplement the antitrust venue provisions. Interpretation of the language and legislative history of section 1965 has led to the holding that the venue provision of section 1965 was intended to be sufficiently broad to include the venue provisions of 28 U.S.C. section 1391 et seq.[95]

Venue under RICO is sufficiently broad to allow a software owner to bring an action against most pirates, including foreign parties who are doing business in this country or who have agents here. RICO also provides that if venue is properly laid for at least one defendant, and the software owner cannot acquire either personal jurisdiction or proper venue over other defendants in the same court, the software owner may take advantage of the discretionary nationwide service of process and venue provisions of section 1965(b).

Section 1965(b) is potentially one of the most far reaching procedural devices of RICO. It authorizes the court to serve and join parties over whom the court would not ordinarily have personal jurisdiction and where venue would normally be improper. The suit need only be brought in a proper court for a least one defendant. Once this is done, section 1965(b) authorizes any party to be joined and brought before the court.[96] This provision is particularly advan-

90. Long, *supra* note 47, at 244.

91. Ramsey v. United Mine Workers of Am., 401 U.S. 302, 307-11 (1971).

92. United States v. Cappetto, 502 F.2d 1351, 1357 (7th Cir. 1974), *cert. denied*, 420 U.S. 925 (1974); Parnes v. Heinold Commodities, Inc., 487 F. Supp. 645, 647 (N.D. Ill. 1980).

93. 18 U.S.C. § 1965(a) (1982).

94. *Id.*

95. Farmers Bank of the State of Del. v. Bell Mortgage Corp., 452 F. Supp. 1278, 1280-81 (D. Del. 1978).

96. Blakey & Gettings, *Racketeer Influenced and Corrupt Organizations (RICO): Basic Concepts - Criminal and Civil Remedies*, 53 TEMP. L. Q. 1009, 1039 (1980); *See also* Clement v. Pehar, 575 F. Supp. 436 (N.D. Ga. 1983).

tageous for software owners attempting to bring suit against widely scattered pirates, copiers and trade secret thieves.

IV. APPLICATION OF RICO BEYOND ORGANIZED CRIME

Early civil RICO decisions avoided extending application of RICO to ordinary businesspeople by requiring the plaintiff to show that the defendants were racketeers and belonged to organized crime.[97] Congress did not wish to reduce RICO's potency by burdening the plaintiff with the difficult or impossible task of proving the defendants' connections to organized crime. Instead Congress, in an attempt to avoid an impossible stringent burden of proof and possible constitutional infirmities, decided that statutory violators without links to organized crime should also be subject to RICO's criminal and civil sanctions.[98] The Supreme Court has dispelled the minority position that RICO could not apply to legitimate business organizations and businesspeople.[99]

Despite this history, the Second Circuit, in a trio of decisions,[100] limited the civil remedies available under RICO by ruling that private civil RICO suits may be instituted only after a defendant has been convicted of the two criminal activities forming the basis for the civil RICO count. The Court further ruled that future plaintiffs must demonstrate that in addition to the criminal convictions, the plaintiff suffered a "racketeering enterprise injury"; a type of injury which differs from the injuries caused by the underlying violations.

Reaction to these decisions has been quick and critical.[101] Although some lower courts have followed the lead of the Second Circuit,[102] every circuit court which has reviewed a civil RICO count since the trio of decisions has ruled contrary to the Second Circuit holding and upheld the prior law that no criminal convictions or links to organized crime must be proven.[103]

Until the Supreme Court acts on this confusion between the cir-

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97. Barr v. WUI/TAS, Inc, 66 F.R.D. 109 (S.D.N.Y. 1975).

98. Note, *supra* note 73, at 1109.

99. United States v. Turkette, 452 U.S. 576, 590-593 (1981); *see also* Morosani v. First Nat'l Bank of Atlanta, 703 F.2d 1220 (11th Cir. 1983).

100. Sedima, S.P.R.L. v. Imrex Co., Inc., 741 F.2d 482 (2d Cir. 1984); Bankers Trust Co. v. Rhoades, 741 F.2d 511 (2d Cir. 1984); Furman v. Cirrito, 741 F.2d 524 (2d Cir. 1984).

101. *A RICO Crisis*, The National Law Journal, Aug. 13, 1984.

102. Rush v. Oppenheimer & Co., Inc., 592 F. Supp. 1108 (S.D.N.Y. 1984); Atlantic Fed. Sav. & Loan Ass'n v. Dade Sav. & Loan Ass'n, 592 F. Supp. 1089 (S.D. Fla. 1984).

103. Alexander Grant & Co. v. Tiffany Indus., 742 F.2d 408 (8th Cir. 1984); Seville Indus. Mach. Corp. v. Southmost Mach. Corp., 742 F.2d 786 (3d Cir. 1984); Battlefield Builders Inc. v. Swango, 743 F.2d 1060 (4th Cir. 1984); Haroco, Inc. v. American Nat'l Bank & Trust Co., No. 83-2529 (7th Cir. Oct. 19, 1984).

cuits, plaintiffs should seek a hospitable venue outside the Second Circuit or file their claims in one of the twenty-two states that have passed their own RICO laws.

V. LIBERAL CONSTRUCTION

RICO actions often involve questions of defenses that may defeat the plaintiff's case. These questions include: whether the plaintiff has standing;[104] whether the plaintiff has brought the action in the correct jurisdiction; whether a motion to transfer under 28 U.S.C. section 1404 is appropriate; whether defendant is properly before the Court; whether the enterprise affects interstate commerce; and whether the plaintiff's injury occurred "by reason of" defendant's conduct.[105] Mail and wire fraud defenses include claims that the mailing or wire occurred before the scheme was devised or after it reached fruition,[106] and that there was no fraudulent intent.[107] To overcome concern over these defenses, and to strengthen the effectiveness of RICO, Congress included a unique liberal construction clause mandating that "the provisions of this title shall be liberally construed to effectuate its remedial purposes."[108] No other statute in the United States Code that imposes criminal penalties has a liberal construction directive.[109]

In drafting RICO, Congress was concerned about the general deleterious impact of organized crime on commerce. To attack this evil, Congress enacted a very broad and stringent act, using innovative measures to tackle a severe problem. Congress provided the liberal construction clause to insure that RICO would have the greatest impact on that problem.

Because there are no constitutional restrictions against Congress providing interpretational clauses, courts have no basis for refusing to obey the express liberal construction mandate in RICO in civil actions.[110] Courts have complied with this mandate and have construed the civil provisions of RICO broadly. A recent Seventh

104. Plaintiff is any person injured in business or property. Cenco, Inc. v. Seidman & Seidman, 686 F.2d 449 (7th Cir. 1982), *cert. denied*, 102 U.S. 177 (1982).

105. This defense was raised and acknowledged in Shact v. Brown, 711 F.2d 1343, 1358 (7th Cir. 1983).

106. United States v. Randhoff, 525 F.2d 1170 (7th Cir. 1975).

107. United States v. Curry, 681 F.2d 406 (5th Cir. 1982).

108. Organized Crime Control Act of 1970, Pub. L. No. 91-452, § 904(a), 84 Stat. 947 (1970).

109. Note, *RICO and the Liberal Construction Clause*, 66 CORNELL L. REV. 167, 168 n.6 (1980).

110. *Id.* at 183-84.

Circuit Court of Appeals decision construing the civil provisions held:

> There is no doubt that many theoretical and practical objections may be raised to even the most routine application of RICO's civil damage provisions. As suggested above, Congress, by granting both plaintiff and defendant status to 'any person' who possesses the rudimentary connection with the operation of an enterprise through predicate offenses or who suffers injury therefrom, may well have created a runaway treble damage bonanza for the already excessively litigious. The statute, however, does not speak ambiguously, and Congress, as RICO's legislative history indicates, was alerted to the far-reaching implications of its enactment. The legislature having spoken, it is not our role to reassess the costs and benefits associated with the creation of a dramatically expansive, and perhaps insufficiently discriminate, tool for combating organized crime.[111]

The court also stated:

> We agree that the civil sanctions provided under RICO are dramatic, and will have a vast impact upon the federal-state division of substantive responsibility for redressing illegal conduct, but, like most courts who have considered this issue, we believe that such dramatic consequences are necessary incidents of the deliberately broad swath Congress chose to cut in order to reach the evil it sought; we are therefore without authority to restrict the application of the statute.[112]

The legislative and judicial histories, coupled with the mandate of liberal construction, insure that RICO can be used effectively in cases of software piracy, copying and trade secret misappropriation, not only against members of criminal organizations but also against legitimate businesses and persons.

VI. COLLATERAL ESTOPPEL

The Supreme Court has relaxed, if not entirely abolished, the mutuality requirement where collateral estoppel is sought in a private civil action where the government has already proceeded against the same defendant.[113] The central issue in determining whether a private party in a subsequent civil suit can assert collateral estoppel is whether the identical issue to which collateral estoppel is sought has been fully litigated. For collateral estoppel to apply, the civil defendant must have had a full and fair opportunity

111. Schact v. Brown, 711 F.2d 1343, 1361 (7th Cir. 1983) (citing United States v. Turkette, 452 U.S. 576, 586-87 (1981)).

112. Schact v. Brown, 711 F.2d at 1353.

113. Parklane Hosiery Co. v. Shore, 439 U.S. 322 (1979).

to argue the issue.[114] Many criminal defendants will be collaterally estopped on several elements in a subsequent civil RICO action, substantially enhancing the software owner's position and simplifying its case.

VII. STATUTE OF LIMITATIONS

It has been incorrectly assumed that since a "pattern of racketeering activity" requires at least two acts of racketeering activity within ten years of each other,[115] the statute of limitations for a RICO action is ten years. In fact, RICO has no specifically enacted statute of limitations.

It is well settled that when a federal statute creates a wholly federal right but specifies no particular statute of limitations to govern actions under the right, the federal court applies a state statute of limitations for an analogous type of action.[116] But under RICO, state law offenses forming the racketeering activities are not the gravamen of the RICO offense but merely included for definitional purposes. Accordingly, the applicable statute of limitations in RICO is determined by federal rather than state law. Under section 3282, a five year statute of limitations is applicable.[117]

VIII. DISCOVERY UNDER RICO

Software owners bringing civil actions under RICO have broad discovery rights provided under the Federal Rules of Civil Procedure. Since a pattern of racketeering activity is defined as commission of two of the offenses enumerated in section 1961(1) within a ten year period, a plaintiff may seek discovery into any transactions in the ten years preceding the most recent commission of an act of racketeering.[118] Discovery is limited, however, by the fifth amendment privilege against self-incrimination.[119] A defendant may invoke the privilege if there is any real possibility of prosecution.[120] The privilege applies to facts which directly or indirectly involve

114. SEC v. Everest Mgmt. Corp., 466 F. Supp. 167, 172-74 (S.D.N.Y. 1979); County of Cook v. Lynch, 560 F. Supp. 136 (N.D. Ill. 1982).

115. 18 U.S.C. § 1961(5) (1982).

116. International Union v. Hoosier Cardinal Corp., 383 U.S. 696 (1966).

117. United States v. Forsythe, 560 F.2d 1127, 1134 (3d Cir. 1977). Some courts, however, have looked to the forum state's statute of limitations for fraud actions. *See, e.g.*, State Farm & Casualty Co. v. Estate of Caton, 540 F. Supp. 673, 685 (N.D. Ill. 1982).

118. Ronald L. Marmer, Marguerite Tomkins & C. John Koch, *Strategic Considerations For Civil Conspiracy Claims under RICO*, Presentation to Litigation Section of the American Bar Association, Nov. 4, 1983.

119. Blakey & Gettings, *supra* note 96, at 1043.

120. *In re* Folding Carton Antitrust Litig., 609 F.2d 867, 871 (7th Cir. 1979).

criminal liability. Any information within the privilege is precluded from discovery.[121]

Where the defendant asserts the privilege against self-incrimination, a stay can be granted and discovery delayed until termination of the criminal proceeding.[122] A more effective alternative, however, may be a protective order under Rule 26(c) of the Federal Rules of Civil Procedure. A protective order would allow discovery to go forward but would insure that information is revealed only for use of the parties to the action.[123] A grant of immunity may also be sought. When this is granted, testimony given by a defendant in a civil case may be used against that defendant in that case but not in any criminal proceeding against the defendant.[124]

It has also been argued that assertion of the privilege of self-incrimination by a civil defendant may benefit the plaintiff. By asserting the privilege, the defendant may not be allowed to testify at trial on any issues for which the privilege was asserted, which can greatly impair its defense.[125]

CONCLUSION

With its provisions for mandatory treble damages, costs and attorneys fees, RICO is an effective weapon against modern pirates who steal bytes instead of bullion. Software owners should not overlook this cause of action in the war against copyright pirates and misappropriators of trade secrets.

121. DeVita v. Sills, 422 F.2d 1172, 1178 (3d Cir. 1970).

122. Blakey & Gettings, *supra* note 96, at 1044.

123. *Id.*

124. United States v. Cappetto, 502 F.2d 1351, 1359 (7th Cir. 1974), *cert. denied*, 420 U.S. 825 (1974).

125. Rakoff & Wolff, *Commercial Counterfeiting and the Proposed Trademark Counterfeiting Act*, 20 AM. CRIM. L. REV. 145, 198 (1982).