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FALSE PATENT, TRADEMARK, AND COPYRIGHT APPLICATIONS A PREDICATE ACT UNDER RICO?

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When filing an application with either the Patent and Trademark Office (PTO) or the Copyright Office, it is always best to be scrupulously honest and careful with the information presented on the application. But, what happens in those instances where a party may throw caution to the wind in order to obtain either a patent, copyright, or trademark by filing materially false documents with the United States government? Certainly the filing of false documents with the government is punishable in itself under 18 U.S.C. 1001. However, the specter of a civil RICO action for treble damages and mandatory attorney's fees lurks in the shadows as well. As discussed below, a party injured as a result of another's filing of a false application with the PTO or Copyright Office may have a RICO claim, based on the predicate act of mail fraud.

The essential elements of a private RICO cause of action are: (1) a pattern of racketeering activity or unlawful debt collection; (2) an enterprise engaged in or affecting interstate or foreign commerce; (3) a connection between the pattern of racketeering activity and the enterprise; and (4) injury to plaintiff's business or property as a result of the predicate acts of the defendant. A predicate act under RICO includes "[A]ny act or threat involving murder, kidnaping, gambling, arson, robbery, bribery, extortion, dealing in obscene matter, or dealing in narcotics or other dangerous drugs, which are chargeable under state law and punishable by imprisonment for more than one year [1961 (1)(A)]" or any act which is indictable under several listed sections of Title 18, including wire fraud and mail fraud. Because the mail and wire fraud statutes may be construed to cover virtually any form of fraudulent activity that utilizes the United States mails or wires, there is very little to prevent a civil litigant from stating a RICO claim which can severely shift the balance of remedies and risks in "garden variety" litigation in both state and federal courts.

In both the civil and criminal context, the elements of mail fraud violation are: (1) that defendant devised a scheme or artifice to defraud; (2) that defendant used the mail in furtherance of its scheme; and (3) that defendant acted with the specific intent to deceive or defraud. *Sun Savings & Loan Association v. Diedorff*, 825 F.2d 187 at 195 (9th Cir. 1987). The mail fraud statute requires a showing of specific intent to engage in a scheme or artifice to defraud. *United States v. Green*, 45 F.2d 1205 at 1207 (9th Cir. 1984). In *Diedorff*, the Savings & Loan sued its former president, alleging a RICO violation predicated on mail fraud consisting of four letters, written by Diedorff, to cover up a scheme by which he had been receiving kickbacks from Sun Savings & Loan customers. The court correctly pointed out that the mail fraud statute imposes criminal liability on those who devise "any scheme or artifice to defraud, or, for obtaining money or property by means of false or fraudulent pretenses, representations, or promises," and use the United States mail "for the purpose of executing such a scheme or artifice or attempting to do so."

The Supreme Court held in *McNally v. United States*, 483 U.S. 350, 107 S. Ct. 2875, 97 L. Ed. 2d 292 (1987) that the mail fraud statute does not reach "schemes to defraud citizens of their intangible rights to honest and impartial government" and that the statute is "limited in scope to the protection of property rights." In *McNally*, defendants' convictions of mail fraud for their actions in requiring insurance agents providing insurance to the state to share premiums with an insurance agency in which defendants owned an interest, was overturned, because the court found that the mail fraud statute did not prohibit schemes to defraud people of their intangible rights to honest and impartial government.

Based on *McNally*, the court in *United States v. Murphy*, 836 F.2d 248 (6th Cir. 1988) found that the state's right to accurate information with respect to the issuance of bingo permits constituted an intangible right, and thus, the allegation that defendant schemed to defraud the state of the right to issue a permit could not serve as a predicate act for mail fraud.

However, Section 1341 encompasses intangible property rights. *Carpenter v. United States*, 484 U.S. 19 (1989). Even after *McNally*, the Supreme Court in *Carpenter*, held that the *Wall Street Journal's* right to keep confidential and exclusive prepublication use of its schedule and contents of its "Heard on the Street," column was property which was impermissibly interfered with by defendants who developed a scheme to use the information to make advantageous trades. The court found that the leaking of the information was in violation of Section 1341, realizing that "the object of the scheme was to take the Journal's confidential business information(c)(c)the publication schedule and contents of the 'Heard' column(c)(c)and its intangible nature does not make it any less property protected by the mail and wire fraud statutes. *McNally* did not limit the scope of Section 1341 to tangible, as distinguished from intangible property rights." *Carpenter* at 2425.

In *United States v. Kato*, 878 F.2d 267 (1989), defendant's conviction of mail fraud for defrauding the F.A.A. into issuing pilot's licenses to those unqualified to receive them was overturned because the court found that the issuance of such licenses did not affect the government's interest as a property holder which was required to support a mail fraud conviction. *Kato* at 268.

The impact of the *McNally* opinion and its progeny has been greatly diminished by the passage of Section 1346 which provides for express authorization of the intangible rights doctrine in mail and wire fraud prosecution. With the addition of Title 18, U.S.C. 1346, Congress amended the wire and mail fraud statutes on November 18, 1988, to reverse *McNally* by providing "for the purposes of this chapter, the terms, scheme, or artifice to defraud includes a scheme or artifice to deprive another of intangible rights of honest services." Courts have found that Section 1346 "may be viewed as restoring the law to its state prior to the *McNally* decision." See *United States v. Berg*, 710 F.Supp. 438 (E.D.N.Y. 1989).

It appears that the *Carpenter* decision, as well as Congress' reaction to *McNally* in the form of enacting Section 1346 has effectively determined that the filing of a false application with the Patent and Trademark Office or the Copyright Office, which would deprive the government of honest services, would therefore, qualify as a predicate for mail fraud, and, consequently as a predicate act under the RICO statute.

The consequences of a civil RICO claim are severe, even if the danger of federal prosecutors bearing down on an errant applicant for mail fraud may be unlikely. A successful civil RICO litigant will obtain attorney's fees, as well as treble damages for injuries flowing from the predicate acts of defendant.

A RICO claim predicated on mail fraud for filing a false application with either the Patent and Trademark Office or the Copyright Office can arm a private litigant with a potent weapon in what essentially may be a business tort or contract dispute, which would properly be heard in state court otherwise. Therefore, anyone who is even contemplating filing a materially false document with the Patent and Trademark Office or the Copyright Office should think again.

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