

791 F.3d 811
United States Court of Appeals,
Eighth Circuit.

The STONEBRIDGE COLLECTION, INC.,
Plaintiff–Appellant

v.

Keith CARMICHAEL; Glenna Carmichael; Steven
Massey; John Mark Taylor; Cutting–Edge USA,
LLC; **TaylorMade Unlimited, LLC**, Defendants–
Appellees

The Stonebridge Collection, Inc., Plaintiff–
Appellee

v.

Keith Carmichael; Glenna Carmichael; Steven
Massey; John Mark Taylor; Cutting–Edge USA,
LLC; **TaylorMade Unlimited, LLC**, Defendants–
Appellants.

Nos. 14–1514, 14–1601. | Submitted: Feb. 12, 2015. |
Filed: June 26, 2015.

Opinion

RILEY, Chief Judge.

The Stonebridge Collection, Inc., an engraver of promotional pocket knives, sued (1) former distributor Cutting–Edge USA, LLC and its members, Keith and Glenna Carmichael; (2) competitor knife engraver TaylorMade Unlimited, LLC (TaylorMade) and its sole member and manager John Mark Taylor, a former Stonebridge employee; and (3) Steven Massey, a TaylorMade employee and former Stonebridge employee (collectively, defendants), on ten counts arising from Massey’s copying Stonebridge’s computer files. Relevant to this appeal, Stonebridge brought claims under the Racketeer Influenced and Corrupt Organizations Act (RICO), 18 U.S.C. §§ 1961–1968; the Arkansas Deceptive Trade Practices Act (ADTPA), Ark.Code Ann. §§ 4–88–101 *et seq.*; and Arkansas common law. After a four-day bench trial, the district court¹ partially found for Stonebridge on its fraud and conversion claims, dismissed the remaining eight claims, and denied the parties’ motions for attorney fees. Having appellate jurisdiction under 28 U.S.C. § 1291, we affirm in part and remand for further proceedings.

I. BACKGROUND

A. Facts

Stonebridge² engraves and sells personalized pocket knives, both directly to end-use customers and to distributors. End-use customers who order directly from Stonebridge are referred to as “inside” customers—over 50% of Stonebridge’s inside-customer orders are reorders. End-use customers who order knives from a distributor like Cutting–Edge are “outside” customers.

From late 2004 through January 2011, Cutting–Edge distributed Stonebridge’s engraved knives to outside customers, who paid Cutting–Edge directly. From late 2004 through March 2010, Stonebridge provided Cutting–Edge free engraved knife samples. Stonebridge delivered over 125,000 sample knives to Cutting–Edge and over 8,000 sample knives to Cutting–Edge’s distributors. Stonebridge delivered 6,476 of these sample knives after July 2009.

Once Cutting–Edge represented to Stonebridge it had received an order, Stonebridge provided Cutting–Edge free “proofs,” which included the customer’s logos and computer generated art depicting the customer’s logo to be placed on the customer’s knives. Stonebridge sent to Cutting–Edge the proofs, contained on “proof selection forms,” and “final proof pages,” used for final proof approval and ordering. Both the proof selection forms and the final proof pages generally included an order number, customer contact information, and, if applicable, a note indicating the order was a reorder. Stonebridge also sent proof selection forms and final proof pages directly to inside customers. Stonebridge created the art in Corel Draw (CDR) file format and converted it to Adobe PDF file format for customer approval. Defendants claim Stonebridge’s proof selection forms and final proof pages usually were sent to customers in PDF format and rarely in CDR format.

From 2005 until he quit on July 23, 2009, Taylor was Stonebridge’s general manager. Five days after quitting his job with Stonebridge, Taylor formed TaylorMade, a knife engraver. Around this time, the Carmichaels purchased two laser engraving machines for TaylorMade and loaned TaylorMade \$25,000. Like Stonebridge’s machines, TaylorMade’s machines used computer generated art stored in CDR files. Around September 2009, Cutting–Edge started placing some of its engraved knife orders with TaylorMade. After that time, Cutting–Edge continued to place orders with Stonebridge, paying Stonebridge over \$165,000. Cutting–Edge placed its last order with Stonebridge in January 2011.

From 2005 through September 14, 2009, Massey was Stonebridge’s graphic artist, creating art for the engraving machines. Around September 9, 2009, unbeknownst to Stonebridge, Massey downloaded from Stonebridge’s computer system, onto a flashdrive, (1) forms and templates; (2) more than 20,000 CDRs and PDFs with proof selection forms, final proof pages, and art for Cutting–Edge outside customers; and (3) more than 2,000 CDRs and PDFs with proof selection forms, final proof pages, and art for other customers, including inside customers.

By September 18, 2009, four days after Massey quit Stonebridge, Massey started working for TaylorMade. Massey uploaded the Stonebridge files from the flashdrive to his home computer and his TaylorMade work computer. TaylorMade and Cutting–Edge consulted these files to solicit Stonebridge customers. From November 2010 through March 2011, Massey sent Carmichael emails with attached images of Stonebridge proof pages for Stonebridge customers who were not yet Cutting–Edge’s or TaylorMade’s customers. TaylorMade modeled its proof selection, final proof approval, and ordering forms on Stonebridge’s.

The parties stipulated neither Stonebridge’s documents used to send proposed art to end-use customers nor its sales invoices were trademarked or copyrighted. Stonebridge claims it had an unwritten policy—communicated to Taylor and Massey—that “no artwork, no files [were] ever to leave Stonebridge property.” But Stonebridge admits it had no agreement with any defendant prohibiting them from using Stonebridge’s art or forms.

Cutting–Edge’s knife shipments for outside customers identified only Cutting–Edge as the shipper—Cutting Edge’s customers did not know the identity of the engraver. Around September 18, 2009, four engraving orders originally placed with Stonebridge—for which Stonebridge developed art free of charge at Keith Carmichael’s request—were instead engraved by TaylorMade. In early 2010, Stonebridge discovered Cutting–Edge was filling engraving orders with another engraver, so Stonebridge stopped sending free sample knives to Cutting–Edge.

In early 2011, Keith Carmichael used the information Massey downloaded about Stonebridge’s inside customers to create a mailing list. Carmichael transferred the list to a marketing company, who sent advertising postcards to the inside customers in May 2011, November 2011, and April 2012, which resulted in sales to Cutting–

Edge.

B. Procedural History

Stonebridge filed a complaint asserting both federal and Arkansas state law claims, invoking federal question and supplemental jurisdiction, *see* 28 U.S.C. §§ 1331, 1367(a). After a four-day bench trial, the district court issued findings of fact and conclusions of law, dismissing eight of the ten claims and partially ruling in favor of Stonebridge on its fraud and conversion claims. The district court then denied the parties’ motions for attorney fees. Stonebridge appeals the partial dismissal of and damages award on the conversion claim, the dismissal of its RICO, ADTPA, and tortious interference claims, and the denial of attorney fees. Defendants cross-appeal the fraud and conversion judgments on the merits, each damages award, and the district court’s attorney fee order.

II. DISCUSSION

“In reviewing a judgment after a bench trial, this court reviews the court’s factual findings for clear error and its legal conclusions de novo.” *Tussey v. ABB, Inc.*, 746 F.3d 327, 333 (8th Cir.2014) (quoting *Outdoor Cent., Inc. v. GreatLodge.com, Inc.*, 688 F.3d 938, 941 (8th Cir.2012)).

* * * * *

E. RICO

RICO states, “It shall be unlawful for any person employed by or associated with any enterprise engaged in ... interstate ... commerce, to conduct or participate, directly or indirectly, in the conduct of such enterprise’s affairs through a pattern of racketeering activity.” 18 U.S.C. § 1962(c). “Racketeering activity” includes “a host of so-called predicate acts,” *Bridge v. Phoenix Bond & Indem. Co.*, 553 U.S. 639, 647, 128 S.Ct. 2131, 170 L.Ed.2d 1012 (2008), including those “indictable under [18 U.S.C.] section 1341 (relating to mail fraud) [and] section 1343 (relating to wire fraud),” 18 U.S.C. § 1961(1)(B). RICO allows a person victimized by a racketeering scheme to bring a civil action, *see id.* § 1964(c), and “provides for drastic remedies”—“a person found in a private civil action to have violated RICO is liable for treble damages, costs, and attorney’s fees.” *H.J. Inc. v. Nw. Bell Tel. Co.*, 492 U.S. 229, 233, 109 S.Ct. 2893, 106 L.Ed.2d 195 (1989).

“[I]nherent in the statute as written” is the fact civil actions under § 1964(c) are typically brought against “respected and legitimate enterprises” “rather than against the archetypal, intimidating mobster.” *Sedima, S.P.R.L. v. Imrex Co.*, 473 U.S. 479, 499, 105 S.Ct. 3275, 87 L.Ed.2d 346 (1985) (quotation and marks omitted). But “RICO ‘does not cover all instances of wrongdoing. Rather, it is a unique cause of action that is concerned with eradicating organized, long-term, habitual criminal activity.’” *Crest Constr. II, Inc. v. Doe*, 660 F.3d 346, 353 (8th Cir.2011) (quoting *Gamboia v. Velez*, 457 F.3d 703, 705 (7th Cir.2006)). “We have in the past rejected attempts to convert ordinary civil disputes into RICO cases.... RICO was not intended to apply to ‘ordinary commercial fraud.’” *Craig Outdoor Adver., Inc. v. Viacom Outdoor, Inc.*, 528 F.3d 1001, 1029 (8th Cir.2008) (quoting *Terry A. Lambert Plumbing, Inc. v. W. Sec. Bank*, 934 F.2d 976, 981 (8th Cir.1991)).

“A violation of § 1962(c) requires appellants to show ‘(1) conduct (2) of an enterprise (3) through a pattern (4) of racketeering activity.’” *Nitro Distrib., Inc. v. Alticor, Inc.*, 565 F.3d 417, 428 (8th Cir.2009) (quoting *Sedima*, 473 U.S. at 496, 105 S.Ct. 3275).

[T]he definition of a “pattern of racketeering activity” differs from the other provisions in § 1961 in that it states that a pattern “requires at least two acts of racketeering activity,” not that it “means” two such acts. The implication is that while two acts are necessary, they may not be sufficient. Indeed, in common parlance two of anything do not generally form a “pattern.”

Sedima, 473 U.S. at 496 n. 14, 105 S.Ct. 3275 (quoting § 1961(5)). “[T]o prove a pattern of racketeering activity a plaintiff ... must show that the racketeering predicates are related, and that they amount to or pose a threat of continued criminal activity.” *H.J. Inc.*, 492 U.S. at 239, 109 S.Ct. 2893 (second emphasis added). “A party alleging a RICO violation may demonstrate continuity over a closed period by proving a series of related predicates extending over a substantial period of time. Predicate acts extending over a few weeks or months and threatening no future criminal conduct do not satisfy this requirement.” *Id.* at 242, 109 S.Ct. 2893. “Continuity can be shown by related acts continuing over a period of time lasting at least one year (closed ended continuity), or by acts which by their very nature threaten repetition (open ended continuity).” *United States v. Hively*, 437 F.3d 752, 761 (8th Cir.2006) (internal citation omitted).

“The determination of a pattern of racketeering activity is a factual determination,” *Handeen v. Lemaire*, 112 F.3d 1339, 1353 (8th Cir.1997) (quoting *Lambert*

Plumbing, 934 F.2d at 980), which we review for clear error. The district court did not clearly err in finding Stonebridge failed to prove the RICO continuity element.

Stonebridge alleges defendants committed three sets of predicate acts that violated RICO. We address each in turn. First, Stonebridge claimed defendants “used the mails to cause advertisements and promotional materials to be sent to Plaintiff’s customers, which contained deliberately misleading statements concerning the source or origin of the knives they sold to such customers.” The district court found no false representation in the defendants’ advertisements—a finding Stonebridge does not appeal. Because the advertisements “did not contain or constitute false representations,” the district court concluded, based on *Dahlgren v. First Nat’l Bank of Holdrege*, 533 F.3d 681, 689 (8th Cir.2008) (“ ‘Though mail fraud can be a predicate act, mailings are insufficient to establish the continuity factor unless they contain misrepresentations themselves.’ ” (emphasis added) (quoting *Wisdom v. First Midwest Bank of Poplar Bluff*, 167 F.3d 402, 407 (8th Cir.1999))), Stonebridge did not establish the RICO continuity factor.

Stonebridge claims the district court made an error of law, quoting *Bridge*, 553 U.S. at 647, 128 S.Ct. 2131 (“The gravamen of the [mail fraud] offense is the scheme to defraud, and any mailing that is incident to an essential part of the scheme satisfies the mailing element, even if the mailing itself contains no false information.” (emphasis added) (internal citation and marks omitted)). But the quotation from *Bridge* is inapposite in this context, because it addressed “the mailing element,” while the district court addressed “the continuity factor.” See *Primary Care Investors Seven, Inc. v. PHP Healthcare Corp.*, 986 F.2d 1208, 1215 (8th Cir.1993) (rejecting a “letter [that] evinces no fraud” as a possible “predicate act[] purportedly marking the beginning ... of the alleged scheme”). The district court did not err by finding defendants’ solicitation postcards, which contained no misrepresentations, could not be used to establish the continuity factor.

Second, Stonebridge contends Cutting–Edge’s receipt of the sample knives it fraudulently induced Stonebridge to send via United Parcel Service amounted to mail fraud. The district court found Cutting–Edge fraudulently induced Stonebridge to send the 6,476 knives from July 2009 to March 2010, a time period too short to satisfy the continuity factor. See *Hively*, 437 F.3d at 761 (explaining a “closed ended continuity” claim, like the one brought here, must span “a period of time lasting at least one year”).

Finally, Stonebridge claims Massey’s emailing Stonebridge’s converted files from TaylorMade to Cutting–Edge between November 2010 and March 2011 and Cutting–Edge’s emailing the customer list in May 2011 constituted wire fraud. Even if we were to consider the two sets of actions together, we do not find “related acts *continuing over* a period of time lasting at least one year,” *id.* (emphasis added), nor do we find the “‘organized, long-term, habitual criminal activity,’” *Crest Constr. II*, 660 F.3d at 353 (quoting *Gamboa*, 457 F.3d at 705), over a “substantial period of time,” *H.J. Inc.*, 492 U.S. at 242, 109 S.Ct. 2893, contemplated by RICO. *See, e.g., Primary Care Investors*, 986 F.2d at 1215–16 (stating “[m]any cases in which courts have found a ‘substantial period of time’ have involved schemes extending for a number of years” and deciding eleven months was not a substantial period). Stonebridge has “presented evidence sufficient to establish violations of state law,” but it has “not presented sufficient evidence to satisfy the more onerous requirements of RICO.” *Craig*

Outdoor, 528 F.3d at 1029.¹¹

F. Attorney Fees

Both parties appeal the district court’s denial of attorney fees. We affirm the district court’s denial of attorney fees to Stonebridge under RICO, *see* 18 U.S.C. § 1964(c), and the ADTPA, and to defendants on Stonebridge’s conversion and fraud claims.

III. CONCLUSION

We affirm in part and remand to the district court for reassessment of the amount of damages due for conversion of the inside-customer files.

Footnotes

- 1 The Honorable Robert T. Dawson, United States District Judge for the Western District of Arkansas.
- 2 Stonebridge’s only shareholders are Mickey and Susan Gates.
- 3 Despite maintaining their innocence as to conversion, at oral argument, counsel for defendants acknowledged Massey’s act was “theft” and Massey “wrongfully took” the files.
- 4 The district court clearly erred here, because 61% of \$27,300 is \$16,653. On remand, the conversion award must be adjusted accordingly.
- 5 Stonebridge stated at oral argument it was “not challenging the district court’s factual findings.”
- 6 After observing a demonstration of the PDF–to–CDR conversion process at trial, the district court found this reverse process was “easily” done. We find no clear error in this factual finding.
- 7 Arguably, Massey’s copying of the outside-customer files was also a conversion, or “theft,” as the defendants’ counsel bluntly declared.
- 8 *See Johnson v. City of Shorewood, Minn.*, 360 F.3d 810, 817–18 (8th Cir.2004) (“It is not a court’s obligation to search the record for specific facts that might support a litigant’s claim, and we are not disposed to undertake such a task in this case.” (internal citation omitted)).
- 9 We also reject the defendants’ arguments suggesting the district court erred in awarding Stonebridge \$849.60 in damages for four fraudulently diverted engraving orders.
- 10 In a letter filed pursuant to [Federal Rule of Appellate Procedure 28\(j\)](#), defendants suggest Stonebridge did not plead a claim under [§ 4–88–107\(a\)\(10\)](#). Although Stonebridge did not cite the statute by number in its complaint, after making its factual allegations, Stonebridge asserted defendants “engaged in an unconscionable, false, or deceptive act or practice in business, commerce, or trade,” reciting the standard in [§ 4–88–107\(a\)\(10\)](#).
- 11 We have considered Stonebridge’s remaining RICO arguments and find them to be without merit. *See Johnson*, 360 F.3d at 817–18; *Orr v. Wal–Mart Stores, Inc.*, 297 F.3d 720, 725 (8th Cir.2002) (stating ordinarily we do not reach issues argued for

the first time on appeal).

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