

# Supreme Court Ruling Raises RICO Risk for Cannabis Firms

## Supreme Court Expands Civil RICO Claims to Include Economic Losses from Personal Injury Cases

*Landmark Decision Opens the Door for More Lawsuits Against Cannabis and CBD Companies Over Product Labeling*

In a pivotal decision with wide-reaching consequences, the United States Supreme Court ruled in *Medical Marijuana, Inc. v. Horn* that economic harms stemming from personal injuries may be recoverable under the civil provisions of the Racketeer Influenced and Corrupt Organizations Act (RICO). The ruling is expected to reshape legal risk exposure across the cannabis and CBD sectors, which already face significant scrutiny from regulators, consumers, and insurers.

### **Civil RICO Now Permits Claims for Economic Losses Resulting from THC Exposure in Mislabeled CBD Products**

The case involved Douglas Horn, a commercial truck driver who was terminated from his job after failing a random drug screening. Horn had used a cannabidiol (CBD) tincture, “Dixie X,” marketed as containing 0% tetrahydrocannabinol (THC). After lab testing confirmed the presence of THC in the product and in Horn’s system, he brought a civil RICO action against the three companies responsible for its production and distribution. His suit claimed that the defendants engaged in a pattern of racketeering activity, including mail and wire fraud, through the sale and false advertising of the product.

### **Supreme Court Reverses Lower Court’s Dismissal of the RICO Claim Based on Economic Harm Tied to Personal Injury**

Although the U.S. District Court dismissed Horn’s claims, arguing that RICO does not apply to economic injuries flowing from personal injuries, the U.S. Court of Appeals for the Second Circuit reversed that decision. The Supreme Court granted certiorari to resolve a split among the circuits and, in a 5-4 decision, sided with Horn.

The Court held that RICO does not impose a categorical bar on claims for business or property loss simply because they are traceable to a personal injury. Economic harms such as job termination and lost future wages, when resulting from racketeering activity like product misrepresentation, are actionable under RICO even if the root cause includes a personal injury like THC ingestion.

### **New Legal Precedent Heightens Risk for Cannabis Industry Already Under Intense Regulatory and Financial Pressure**

The ruling is expected to prompt a surge of civil RICO claims targeting cannabis and CBD companies, especially those whose labeling or advertising practices misrepresent THC content. These cases may become attractive to plaintiffs' attorneys, as RICO statutes permit successful plaintiffs to recover treble damages in addition to legal fees.

With product mislabeling now more legally perilous, cannabis businesses could face increased operational and insurance costs. Regulatory bodies may also respond by tightening rules on product testing and transparency, potentially leading to heightened compliance demands across the industry.

## **Cannabis and CBD Companies Urged to Reassess Labeling, Marketing, and Quality Control Measures to Reduce Exposure**

Given the expanded legal risks, cannabis operators are being urged to take extra precautions in marketing THC-free products and ensure all product claims are supported by independent testing. Inaccurate THC-free labeling, whether intentional or negligent, may now open companies up to RICO litigation, increasing exposure to expensive and reputation-damaging lawsuits.

Industry stakeholders must not only update compliance frameworks but also assess their risk management strategies in light of the Supreme Court's interpretation of civil RICO provisions. As litigation risks rise, especially from consumers who suffer economic losses from THC exposure, robust product validation and cautious marketing will be essential.

## **RICO's Broad Definitions of Racketeering Activity and Enterprise Could Ensnare More Cannabis Companies in Future Claims**

RICO defines "racketeering activity" broadly to include mail and wire fraud, which may be triggered when companies falsely advertise or label products. A "RICO enterprise" may consist of formal or informal groups operating with a shared purpose, leaving open the possibility for suits targeting networks of cannabis-related businesses.

Because civil RICO claims often involve protracted litigation and carry the potential for significant financial penalties, the Horn decision could transform legal strategy and product liability standards across the cannabis industry. The ruling marks a pivotal shift in the intersection of cannabis regulation, consumer protection, and federal anti-racketeering law.

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