6-1-2012

Extra!! Extra!!: The Viability of the Hot News Misappropriation Claim Is in Jeopardy

Sean Winston Montgomery
Loyola Law School Los Angeles

EXTRA!! EXTRA!!
THE VIABILITY OF THE HOT NEWS MISAPPROPRIATION CLAIM IS IN JEOPARDY

Sean Winston Montgomery[*]

Nearly a century ago, the International News Service appropriated news articles from its competitor, the Associated Press, without expending time, labor, or money. Naturally, the Associated Press took exception to this anticompetitive business practice. To resolve the conflict, the Supreme Court created the hot news misappropriation tort, which proscribed the copying of breaking news items collected by a commercial competitor. Over the years, the hot news misappropriation tort has survived in spite of the oft-used critique that it seeks to protect the same rights and privileges as copyright infringement, and therefore should be rendered null and void by the copyright preemption section of the Copyright Act.

In 2011, the tort took center stage once again in *Barclays Capital Inc. v. Theflyonthewall.com*, as powerful investment banks sought to prevent an online financial news aggregator from appropriating its investment recommendations. Ultimately, the Second Circuit Court of Appeals ruled in favor of the financial aggregators, and called the continued viability of hot news misappropriation into question. In light of the Second Circuit's recent decision, this article criticizes the Second Circuit for failing to recognize the qualitative differences between hot news misappropriation and copyright preemption. Specifically, hot news misappropriation rewards the diligent effort undertaken to collect the news with a limited right to publish news, at least while it remains valuable, while federal copyright laws reward originality by granting authors exclusive rights exercisable against anyone. Furthermore, in an effort to clearly delineate when hot news ap-

* J.D./M.B.A. Candidate, Loyola Law School, 2013; B.S., California State University, Northridge, 2008. The author would like to thank his family (Beverley, Henry, and Henry Jr.) and girlfriend (Amanda Smith) for their loving support throughout this labor-intensive process. This article is dedicated to them. The author would also like to thank Professor Gary Craig, Jenna Spatz, Carly Strocker, and Jay Strozdas, for their guidance and invaluable constructive criticism. Finally, particular gratitude is owed to the editors and staff writers of the *Loyola of Los Angeles Entertainment Law Review* for their tireless efforts editing this article.

propriation should survive copyright preemption, this article advocates for the use of a five-part extra element test.

I. INTRODUCTION

While recent news articles concerning the securities industry have focused on the persistent problem of insider trading, a silent and oft-overlooked war has waged between powerful investment firms and Internet-based news subscription companies.[1] The Second Circuit's recent decision in *Barclays v. Theflyonthewall.com, Inc.* ("*Barclays*"), a victory for the news subscription companies, highlighted the evolving conflict.[2]

Wall Street investment firms, such as Morgan Stanley, Barclays Capital,[3] and Merrill Lynch (collectively, "Investment Firms")[4] spent hundreds of millions of dollars to research publicly traded companies and develop equity research reports.[5] Typically, these reports contained time-sensitive investment recommendations.[6] After compiling the equity research reports, the Investment Firms distributed them to their clients, who consisted of both institutional and individual investors.[7]

Armed with the equity research reports, clients traded on the information, usually through the Investment Firm that disseminated the report to them.[8] Since the Investment Firms derived a commission from the trades, each trade, at least in part, reimbursed the Investment Firm for the initial

---

1. *Compare* Azam Ahmed & Ben Protess, *Deal Lawyer Accused of Insider Trading Scheme*, N.Y. TIMES DEALBOOK (Apr. 6, 2011, 8:55 PM), http://dealbook.nytimes.com/2011/04/06/two-charged-in-insider-trading-scheme-tied-to-law-firms/, *NY Lawyer Gets 3 Years for Insider Trading*, FOX NEWS (Aug. 19, 2011), http://www.foxnews.com/us/2011/08/19/ny-lawyer-gets-3-years-for-insider-trading, *and* Peter Lattman, *Gupta Faces New Charges In Insider Trading Case*, N.Y. TIMES DEALBOOK (Jan. 31, 2012, 6:26 PM), http://dealbook.nytimes.com/2012/01/31/gupta-faces-new-charges-in-insider-trading-case/, *with* Jeffrey D. Neurberger, *Can Financial Firms Use 'Hot News Doctrine' to Stifle Aggregators?*, PBS (June 16, 2010), http://www.pbs.org/mediashift/2010/06/can-financial-firms-use-hot-news-doctrine-to-stifle-aggregators167.html.

2. Barclays Capital Inc. v. Theflyonthewall.com, Inc., 650 F.3d 876 (2d Cir. 2011).

3. Barclays Capital joined the lawsuit after acquiring Lehman Brothers in 2008. Barclays Capital Inc. v. Theflyonthewall.com, 700 F. Supp. 2d 310, 313–14 n.1 (S.D.N.Y. 2010).

4. *Id.* at 315 ("The Investment Firms are major financial institutions that provide wealth and asset management, securities trading and sales, corporate finance, and various investment services. Collectively, their customers include large institutional clients, foundations, corporations, businesses of every size, families, and individuals.").

5. *Id.* at 335.

6. *Id.* at 316.

7. *Id.* at 317.

8. *Id.* at 319.

outlay of resources necessary to produce the equity research reports.[9] This practice, referred to as the "equity research business model,"[10] generated a substantial source of revenue for the Investment Firms, and therefore, continued to incentivize the production of equity research reports.[11]

Although the equity research reports were only supposed to be distributed to the Investment Firms' clients, financial news aggregators often managed to "compile securities-firm recommendations . . . [along] with the associated reports or summaries thereof" without the Investment Firms' permission.[12] For a monthly subscription fee, the financial news aggregators provided their online subscribers with access to the Investment Firms' equity research reports shortly before the stock markets opened each day.[13] Additionally, some financial news aggregators facilitated trades by either providing links to discount brokerages or offering a trading service for an additional fee.[14] Since the services offered by financial news aggregators were often cheaper than those of the Investment Firms,[15] the demand for financial news aggregators rapidly increased over the years.[16] For example, at the time of the *Barclays* litigation, Theflyonthewall.com ("Fly"), a pioneer in the financial news aggregator industry, had over 5,300 institutional investors, day traders/brokers, and individual investors as subscribers.[17] To account for its increase in subscribers, Fly added twenty-six additional employees over a six-year period.[18]

---

9. *Barclays*, 700 F. Supp. 2d at 319 ("[E]quity research reports . . . are ultimately justified only by the role that research plays in driving commission revenue."); *see also* Ari Weinberg, *Banks Still Seeking Value from Equity Research*, WALL ST. J. BLOG (Mar. 24, 2010, 3:30 PM), http://blogs.wsj.com/marketbeat/2010/03/24/banks-still-seeking-value-from-equity-research/.

10. *Barclays*, 700 F. Supp. 2d at 315.

11. *Id.* at 319; *see* Weinberg, *supra* note 9.

12. *Barclays*, 650 F.3d at 882.

13. *Id.* at 882–83.

14. *Barclays*, 700 F. Supp. 2d at 324–25.

15. *Compare Free Trial to Briefing In Play*® Plus, BRIEFING, https://www.briefing.com/GeneralContent/Active/Signup/InPlayEQ/InPlayTrial.aspx?Product=BriefingInPlayPlus (last visited Nov. 13, 2012) (stating that Briefing.com's third-tier service costs $720 per year), *and Subscription Rates*, THEFLYONTHEWALL.COM, http://www.theflyonthewall.com/splashPage.php?action=subscriptionRates (last visited Nov. 13, 2012) (stating that all of Fly's services can be offered for $624 per year), *with Barclays*, 700 F. Supp. 2d at 315–16, 318 (indicating that because the production of equity research reports is not a self-sustaining business, the Investment Firms need to rely on commissions generated from each trade to justify the hundreds of millions of dollars they expend to produce the reports).

16. *Barclays*, 700 F. Supp. 2d at 324.

17. *Id.* at 324–25.

18. *Id.* at 325.

From the Investment Firms' perspective, the unauthorized distribution of their equity research reports hinders the economic incentive to produce those reports.[19] To deter the actions of the financial news aggregators, the Investment Firms instituted several internal policies, and, in 2006, filed a lawsuit against Fly, which they considered to be the most egregious culprit.[20] The lawsuit alleged copyright infringement and hot news misappropriation,[21] a judicially-created doctrine designed to protect companies that expended time, skill, and labor to collect and distribute time-sensitive news, from unfair competition.[22] In response, Fly conceded the copyright infringement claim, but asserted that the hot news misappropriation claim was preempted by section 301 of the Copyright Act.[23]

The Southern District Court of New York awarded Morgan Stanley and Barclays Capital statutory damages[24] because of Fly's "almost verbatim [appropriation of the] most creative and original aspects of the reports"—the financial analyses and predictions.[25] Based on the same underlying facts, the District Court used a five-part test set forth in *National Basketball Ass'n v. Motorola, Inc.* ("*NBA v. Motorola*")[26] to grant relief to all of the Investment Firms on their hot news misappropriation claim.[27] Consequently, the District Court issued a permanent injunction restraining Fly from "reporting headlines about the [Investment] Firms' [r]ecommendations before one half-hour following the [New York Stock Exchange] opening or two hours after the [r]ecommendations were released."[28]

---

19. *See id.* at 341 (explaining that this belief is made apparent by one of the required elements of a hot news misappropriation claim: the defendant's free-riding reduces the plaintiff's economic incentive to produce the product or service and substantially threatens the product's or service's quality and existence).

20. *Id.* at 327.

21. *Id.*

22. *Barclays*, 650 F.3d at 895.

23. *See Barclays*, 700 F. Supp. 2d at 328.

24. *Id.* at 348 (awarding Morgan Stanley $6,000 in statutory damages and Barclays Capital $6,750 in statutory damages).

25. *Id.* at 330.

26. Nat'l Basketball Ass'n v. Motorola, Inc., 105 F.3d 841, 845 (2d Cir. 1997); *see also Barclays*, 700 F. Supp. 2d at 334–35 (explaining that the five-part test requires the plaintiff to prove: "(1) [it] generates or gathers information at a cost; (ii) the information is time-sensitive; (iii) a defendant's use of the information constitutes free-riding on the plaintiff's efforts; (iv) the defendant is in direct competition with a product or service offered by the plaintiffs; and (v) the ability of other parties to free-ride on the efforts of the plaintiff or others would so reduce the incentive to produce the product or service that its existence or quality would be substantially threatened.").

27. *Barclays*, 700 F. Supp. 2d at 348.

28. *Id.*

On appeal, the Second Circuit in *Barclays* reversed the lower court's opinion in part, and held that the Investment Firms' hot news misappropriation claim did not survive copyright preemption.[29] The Second Circuit declined to employ the five-part test discussed in *NBA v. Motorola* and used by the lower court.[30] Instead, the Second Circuit used the abridged three-part extra element test set forth by the court in *NBA v. Motorola* to reach its conclusion.[31]

In light of the Second Circuit's opinion, this Comment analyzes the continued viability of a hot news misappropriation claim. Part II discusses the history of the hot news misappropriation claim and its relationship with existing copyright laws. Part III gives a broad overview of the underlying conflict between investment firms and news aggregators. Next, Part IV criticizes the Second Circuit's use of a three-part extra element test to determine whether a hot news misappropriation claim survives copyright preemption in *Barclays*.[32] Part IV alternatively advocates for the use of the five-part test set forth in *NBA v. Motorola* to determine whether a hot news misappropriation claim survives copyright preemption[33] and re-analyzes the Investment Firms' hot news misappropriation claim under the five-part test. Finally, Part V asserts the reasons that hot news misappropriation should remain a viable option to protect against this unique form of piracy.

II. THE INTERRELATIONSHIP BETWEEN COPYRIGHT LAWS AND HOT NEWS MISAPPROPRIATION

The framers of the Constitution empowered Congress to create copyright laws to incentivize original works of authorship.[34] However, these laws did not allow authors to copyright mere facts.[35] As such, when a news service complained about the systematic usurpation of its news stories by a competitor in *International News Service v. Associated Press* ("*INS*"), the

29. *Barclays*, 650 F.3d at 902.

30. *Id.* at 898–901.

31. *Id.* at 900 (explaining that under the three-part test, the only elements relevant to determine whether a hot news misappropriation claim survives preemption are: "(1) the time-sensitive value of factual information; (2) free-riding by a defendant; and (3) the threat to the very existence of the product or service provided by the plaintiff.").

32. *Id.* at 901.

33. *Nat'l Basketball Ass'n*, 105 F.3d at 852–53.

34. *A Brief Introduction and History*, U.S. COPYRIGHT OFFICE, http://www.copyright.gov/circs/circ1a.html (last visited Nov. 13, 2012).

35. *What Does Copyright Protect?*, U.S. COPYRIGHT OFFICE (Sept. 13, 2010), http://www.copyright.gov/help/faq/faq-protect.html.

Supreme Court fashioned a tort—hot news misappropriation—to operate where copyright laws could not.[36]

Following the Supreme Court's decision in *INS*, several states created their own hot news misappropriation claims that extended beyond the scope of the news industry, and at times conflicted with federal copyright laws.[37] Consequently, in 1976, Congress enacted a copyright preemption provision to combat the various state law claims that conflicted with federal copyright law.[38] The provision sets forth a two-prong test to determine whether federal copyright law preempts state law.[39] Currently, at least five states have formally acknowledged that a hot news misappropriation claim can escape copyright preemption, albeit in limited circumstances.[40]

A. History of Copyright Laws

1. Federal Copyright Protection

Initially enacted by Congress in 1790, federal copyright laws were designed to allow the authors of original work to "reap the fruits of his or her intellectual creativity."[41] "Copyright protection [did] not extend to every idea, procedure, process, slogan, or discovery."[42] Instead, originality was, and still remains, the touchstone of copyright protection.[43] Although the Copyright Act has yet to define "originality,"[44] federal courts inferred that the term merely required the work of authorship be independently created.[45]

---

36. *See* Int'l News Serv. v. Associated Press, 248 U.S. 215 (1918).

37. Lauren M. Gregory, Note, *Hot Off the Presses: How Traditional Newspaper Journalism Can Help Reinvent the "Hot News" Misappropriation Tort in the Internet Age*, 13 VAND. J. ENT. & TECH. L. 577, 588–89 (2011).

38. 17 U.S.C. § 301 (2006); Gregory, *supra* note 37, at 592–93.

39. Gregory, *supra* note 37, at 593.

40. *See, e.g.*, Nat'l Basketball Ass'n v. Motorola, 105 F.3d 841, 852 (2d Cir. 1997); X17, Inc. v. Lavandeira, 563 F. Supp. 2d 1102, 1107 (C.D. Cal. 2007); Agora Fin., LLC v. Samler, 725 F. Supp. 2d 491, 500–02 (D. Md. 2010); Scranton Times, L.P. v. Wilkes-Barre Publ'g Co., No. 3:08-cv-2135, 2009 WL 585502, at *4 (M.D. Pa. Mar. 6, 2009); Fred Wehrenberg Circuit of Theatres, Inc. v. Moviefone, Inc., 73 F. Supp. 2d 1044, 1050 (E.D. Mo. 1999).

41. *A Brief Introduction and History*, *supra* note 34; *see* U.S. CONST. art. 1, § 8, cl. 8. Federal copyright laws were later overhauled in 1831, 1870, 1909, and 1976. *Id.*

42. *A Brief Introduction and History*, *supra* note 34.

43. Feist Publ'ns, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 347 (1991).

44. *See generally* 17 U.S.C. § 101 (2006) (indicating that originality is not one of the defined terms of the statute). Congress revised the Copyright Act in 1831, 1870, 1909 and 1976. *A Brief Introduction and History*, *supra* note 34.

45. *See* MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 2.01 (2011); *see, e.g.*, Alfred Bell & Co. v. Catalda Fine Arts, Inc., 191 F.2d 99, 102–03 (2d Cir. 1951); Wihtol v. Wells, 231 F.2d 550, 553 (7th Cir. 1956).

Additionally, the Copyright Act of 1976 requires works of authorship be fixed in a tangible medium of expression.[46] If an original work of authorship satisfied the requisite threshold of originality, and was fixed in a tangible medium of expression, the author was afforded copyright protection.[47]

Among other things, federal copyright law, enacted in 1909, granted the author of a copyrighted work the exclusive right to print or reprint the copyrighted work, translate the copyrighted work into other languages, and deliver or authorize delivery of the copyrighted work in public for profit, if it was a lecture or similar production.[48] These rights could be licensed, assigned, or transferred by will.[49] Furthermore, copyright owners could prevent infringers—those who violated the author's exclusive rights—from profiting from the exclusive work.[50] For example, copyright owners could use the judicial system to obtain statutorily available remedies, which included fines and injunctions.[51] Despite the protection afforded to copyright owners under federal laws, the Copyright Act of 1909 expressly enabled copyright owners to seek remedies at common law or equity.[52]

2. State Law Copyright Claims

With the apparent blessing of Congress, states began to protect original works of authorship through common law copyright.[53] While common law copyright mirrored federal copyright law in many instances, it was arguably broader than the federal statute in several other aspects.[54] For example, the common law extended "absolute" copyright protection to unpublished works.[55] Furthermore, under common law, some states prohibited the fair use doctrine,[56] a key defense under the federal copyright regime.[57]

---

46. 17 U.S.C § 102 (2006). A compilation is comprised of preexisting materials selected, organized, or arranged in such a way that the resulting work, as a whole, constitutes an original work of authorship. *Id.* § 101. By contrast, a derivative work consists of editorial revisions, annotations, elaborations, or other modifications of a preexisting work which, as a whole, represents an original work of authorship. *Id.*

47. *See* Mazer v. Stein, 347 U.S. 201, 214 (1954).

48. Copyright Act, ch. 320, § 1, 35 Stat. 1075, 1075 (1909) (repealed 1978), *available at* http://www.copyright.gov/history/1909act.pdf (last visited Nov. 13, 2012).

49. *Id.* § 41, 35 Stat. 1075, 1091.

50. *Id.* § 25, 35 Stat. 1075, 1085–87.

51. *Id.*

52. *Id.* § 2, 35 Stat. 1075, 1077.

53. See Gregory, *supra* note 37, at 588–89.

54. 2 NIMMER & NIMMER, *supra* note 45, § 8C.02, at 8C-6.

55. *Id.* at 8C-5.

56. *Id.* The fair use doctrine provides several permissible purposes for which someone other than the copyright owner can use, copy, or distribute the copyrighted work. See Pamela Samuel-

3. Copyright Preemption

In an effort to create uniformity between national copyright law and the various state tort claims purporting to prevent similar conduct, Congress created a preemption provision within the Copyright Act of 1976.[58] Section 301 mandates that federal copyright laws will preempt the common law or state statutes if the state law claim falls within the subject matter of copyright and protects rights that are equivalent to any exclusive rights guaranteed by federal copyright law.[59]

The first prong of a copyright preemption analysis, the subject matter requirement, requires the work of authorship to be fixed in a tangible medium of expression.[60] Furthermore, the work of authorship must fall within the subject matter of copyright, as defined by sections 102 and 103.[61] Section 102 provides an illustrative list of works eligible for copyright protection, including literary works, musical works, dramatic works, pantomimes and choreographic works, pictorial, graphic and sculptural works, motion pictures and audiovisual works, sound recordings, and architectural works.[62]

The second prong of a copyright preemption analysis, referred to as the equivalency test, concerns the general scope requirement of the Copyright Act.[63] Under the equivalency test, a state law claim falls within the general scope requirement of the Copyright Act when it seeks to vindicate the exclusive rights protected by federal copyright law, namely the right to reproduce the copyrighted work and create derivative works.[64] To avoid copyright preemption, courts require plaintiffs to prove an extra element,

---

son, *Unbundling Fair Uses*, 77 FORDHAM L. REV. 2537, 2546–47 (2011); *Copyright & Fair Use*, STAN. U. LIBR. & ACAD. INFO. RESOURCES, http://fairuse.stanford.edu/Copyright_and_Fair_Use_Overview/chapter9/ (last visited Nov. 13, 2012). These permissible purposes, which are exceptions to the copyright owner's exclusive rights and therefore do not constitute copyright violations, include news reporting, teaching, and criticism. 17 U.S.C. § 107 (2006); see Sony Corp. of Am. v. Universal Studios, Inc., 464 U.S. 417, 475–79 (1984).

57. 2 NIMMER & NIMMER, *supra* note 45, § 8C.02, at 8C-5 (citing Stanley v. Columbia Broad. Sys., Inc., 221 P.2d 73 (Cal. 1950)).

58. H.R. REP. NO. 94-1476, pt. 1, at 129 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5748.

59. 17 U.S.C. § 301; *see* Daboub v. Gibbons, 42 F.3d 285, 288–89 (5th Cir. 1995).

60. 17 U.S.C. § 301(a).

61. *Id.*

62. *Id.*

63. *Id.*

64. 7 NIMMER & NIMMER, *supra* note 46, § 301. Section 106 of the Copyright Act enumerates six exclusive rights afforded to authors of copyrighted work, including the rights to reproduce the copyrighted work; create derivative works; distribute copies or phonorecords to the public; publicly perform literary, musical, dramatic and choreographic works; publicly display literliterary, musical, dramatic, and choreographic works; and, perform sound recordings via digital audio transmission. 17 U.S.C. § 106 (2006).

which qualitatively changes the nature of the action.[65] An acceptable example of an extra element has been breach of confidential relationships.[66]

B. History of the Hot News Misappropriation Claim

1. The Birth of the Hot News Concept

The hot news misappropriation concept, established in the 1918 Supreme Court case *INS*,[67] provides a remedy for conduct that falls outside the realm of copyright protection.[68]

In *INS*, the Associated Press, a cooperative news service comprised of over 950 daily newspapers, expended an exorbitant amount of money to gather the news and subsequently distribute it to its member newspapers across the country.[69] Each member newspaper was permitted to use the information collected by the Associated Press in their newspapers, but could not share the information with non-member newspapers.[70] Although cognizant of this restriction, a telegraph editor from the Cleveland News, an Associated Press member newspaper, routinely provided tips regarding "big news stories" gathered by the Associated Press to a rival news service, International News Service ("INS"), before the Cleveland News articles

65. *See Nat'l Basketball Ass'n*, 105 F.3d at 850 ("[I]f an extra element is required instead of or in addition to the acts of reproduction, performance, distribution, or display, in order to constitute a state-created cause of action, then the right does not lie within the general scope of copyright."); Trandes Corp. v. Guy F. Atkinson, Co., 996 F.2d 655, 659 (4th Cir. 1993) (stating that the elements, rather than the facts pled to prove them, is the appropriate inquiry for the second prong of copyright preemption); *see also* Blue Nile, Inc. v. Ice.com, Inc., 478 F. Supp. 2d 1240 (W.D. Wash. 2007) (holding that the Copyright Act preempted a Washington Consumer Protection Act claim—because the Consumer Protection Act incorporated copyright claims by reference, it was not qualitatively different from the Copyright Act).

66. Computer Assocs. Int'l, Inc., v. Altai, Inc., 982 F.2d 693, 717 (2d Cir. 1992); Stromback v. New Line Cinema, 384 F.3d 283, 302–03 (6th Cir. 2004); *see also* Rutledge v. High Point Health Sys., 558 F. Supp. 2d 611, 617 (M.D.N.C. 2008) ("Common examples of extra elements in unfair competition claims that typically avoid preemption include . . . breach of a confidential relationship."). A breach of a confidential relationship is typically an element of a trade secret misappropriation claim. To prove this element, the plaintiff must establish that the defendant improperly disclosed secret, company information, and therefore breached a duty of trust owed to the plaintiff. M-I, LLC v. Stelly, 733 F. Supp. 2d 759, 786 (S.D. Tex. 2010).

67. *See generally Int'l News Serv.*, 248 U.S. 215.

68. Brian Westley, Comment, *How A Narrow Application Of "Hot News" Misappropriation Can Help Save Journalism*, 60 AM. U. L. REV. 691, 701–02 (2011). The claim is still viable today, even though *INS* was decided under federal general common law, a body of law later overruled by the *Erie* doctrine. Gregory, *supra* note 37, at 588–89.

69. *Int'l News Serv.*, 248 U.S. at 229.

70. Associated Press v. Int'l News Serv., 240 F. 983, 984–85 (S.D.N.Y. 1917).

were published.[71] Once it received the tips, INS appropriated the published stories, often from the bulletin boards of Associated Press member newspapers in New York, and distributed the information to its own newspapers on the west coast.[72]

The Supreme Court granted certiorari to determine whether profit-seeking entrepreneurs should be afforded property rights in the time-sensitive information for which they expended time, labor, and money to gather.[73] At the outset, Justice Pitney, writing for the majority, dismissed the notion that the Associated Press had general property rights in news because the framers of the Constitution did not intend to confer copyright protection "to the first to report a historic event."[74] However, the Associated Press did not need a general property right in news to obtain an injunction.[75] Instead, Justice Pitney reasoned that the expense and labor incurred by the Associated Press to collect the news afforded it an equitable right to profit from its dissemination.[76] This right was later referred to as the "sweat of the brow" doctrine.[77]

Turning to the question of unfair competition, Justice Pitney keenly recognized that in the news industry, information was only valuable while it was fresh.[78] As such, it was patently unfair that INS

> [took] material that [had] been acquired by the complainant as the result of organization and the expenditure of labor, skill, and money, and which [was] salable by complainant for money, and that defendant in appropriating it and selling it as its own is endeavor[ed] to reap where it ha[d] not sown.[79]

Consequently, the Supreme Court affirmed the injunction imposed by the trial court—not to provide the Associated Press with a monopoly over the news—but simply to give it enough lead time to profit from its costly

---

71. *Id.* at 985–88.

72. Rod S. Berman, *Some Like It Hot: Digital Technology Has Raised Questions About the Reach of the Tort of Misappropriation of Hot News*, 33 L.A. LAW 20, 22 (2010).

73. Gregory, *supra* note 37, at 586–87.

74. *Int'l News Serv.*, 248 U.S. at 234–35.

75. *Id.* at 236.

76. *Id.* ("[T]he right to acquire property by honest labor or the conduct of a lawful business [was] as much entitled to protection as the right to guard property already acquired.").

77. *See* Gregory, *supra* note 37, at 597 (defining the sweat of the brow doctrine); Veach v. Wagner, 116 F. Supp. 904, 906 (D. Alaska 1954).

78. *Int'l News Serv.*, 248 U.S. at 235; *see also* Shyamkrishna Balganesh, *"Hot News": The Enduring Myth of Property in News*, 111 COLUM. L. REV. 419, 440 (2011).

79. *Int'l News Serv.*, 248 U.S. at 239.

expenses incurred to gather the news.[80] Thus, the Supreme Court created a narrow claim that gave newspapers a quasi-property right in the news, which could only be asserted against competitors.[81] Newspapers could not assert this quasi-property right against the public.[82]

2. State Courts Respond to *INS*

After *INS*, state courts took various approaches with regard to hot news misappropriation claims.[83] While the specific language of the claim varied from state to state, each state's claim can be classified as a general *INS*-based misappropriation claim that protected profit-seeking entrepreneurs against the systematic theft of a competitor's news.[84] Some states, including California and Pennsylvania, created common law hot news misappropriation claims that extended beyond the news industry.[85] Similarly, New York further broadened the scope of the doctrine to protect "any forms of commercial immorality."[86] On the other hand, Massachusetts expressly rejected the viability of a hot news misappropriation claim,[87] and other states limited its applicability to situations where "one party attempt[ed] to pass off a competitor's goods as its own."[88]

---

80. Gregory, *supra* note 37, at 588.

81. *Int'l News Serv.*, 248 U.S. at 239.

82. *Id.* (holding that while newspapers could assert the claim against their competitors, the tort could not be used to prevent "the purchaser of a single newspaper [from] spread[ing] knowledge of its contents gratuitously, for any legitimate purpose not interfering with the complainant's right to make merchandise of it").

83. *See* Gregory, *supra* note 37, at 588–89.

84. *See id.*

85. *See* McCord Co. v. Plotnick, 239 P.2d 32 (Cal. Ct. App. 1951) (extending the hot news misappropriation claim to the publication of news within the textile industry); *see also* Pottstown Daily News Publ'g Co. v. Pottstown Broad. Co., 192 A.2d 657, 663–64 (1963) (holding that an *INS*-based hot news misappropriation claim could be used to prevent a radio station from appropriating the current events gathered by a newspaper).

86. *Nat'l Basketball Ass'n*, 105 F.3d at 851; *see* Metro. Opera Ass'n., Inc. v. Wagner-Nichols Recorder Corp., 101 N.Y.S. 2d 483, 492 (N.Y. Sup. Ct. 1950) ("The modern view as to the law of unfair competition does not rest solely on the ground of direct competitive injury, but on the broader principle that property rights of commercial value are to be and will be protected from any form of . . . commercial immorality, and a court of equity will penetrate and restrain every guise resorted to by the wrongdoer.").

87. Triangle Publ'ns, Inc. v. New England Newspaper Publ'g Co., 46 F. Supp. 198, 204 (D. Mass. 1942).

88. Gregory, *supra* note 37, at 589.

C. Hot News Misappropriation Survives Copyright Preemption

1. Congressional Intent

At first glance, a hot news misappropriation claim appears to conflict with federal copyright law.[89] After all, from a macro perspective, both hot news misappropriation and copyright infringement claims share the common purpose of preventing the unauthorized reproduction of an author's work.[90] However, upon further review, hot news misappropriation differs from copyright in one glaring aspect: the Supreme Court created the hot news misappropriation claim to protect the time, labor, and expense that the Associated Press undertook to collect the news.[91] Copyright law, by contrast, expressly rejects the notion that the expense of time and labor shall be afforded protection.[92]

This distinction is bolstered by Congress' express intent to preserve the viability of hot news misappropriation claims.[93] In the legislative history of section 301 of the Copyright Act, Congress reasoned "[m]isappropriation is not necessarily synonymous with copyright infringement"; as long as a state law misappropriation claim is not based on a right within the subject matter of copyright or a right equivalent thereto, it should not be preempted.[94] Moreover, Congress believed that states, under traditional principles of equity, should have the flexibility to afford a remedy for the misappropriation of facts, "whether in the traditional mold of *International News Service v. Associated Press*, or in the newer form of data updates from scientific, business, and financial data bases [sic]."[95]

---

89. *See id.* at 592–93.

90. *Id.* at 593.

91. *Id.* at 597; *see Int'l News Serv.*, 248 U.S. at 241–42 (stating INS' conduct presents a more "direct and obvious" fraud on the Associated Press' rights than traditional cases of unfair competition); *Feist Publ'ns, Inc.*, 499 U.S. at 354 (stating that protection for the fruits of such research under a "sweat of the brow" theory may be protected under unfair competition).

92. *Feist Publ'ns*, 499 U.S. at 359–60.

93. H.R. REP. NO. 94-1476, pt. 1, at 132 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5748; *see Nat'l Basketball Ass'n*, 105 F.3d at 850; *Fred Wehrenberg Circuit of Theatres, Inc.*, 73 F. Supp. 2d at 1050.

94. H.R. REP. NO. 94-1476; *see Nat'l Basketball Ass'n*, 105 F.3d at 850; Barclays Capital Inc. v. Theflyonthewall.com, Inc., 650 F.3d 876, 894 (2d Cir. 2011) (stating that the inclusion of this passage within the legislative history of the 1976 Copyright Act amendments anticipated that "*INS*-like state-law torts would survive preemption").

95. H.R. REP. NO. 94-1476.

2. NBA v. Motorola

Taking its cue from the legislative history of the preemption provision of the Copyright Act, the Second Circuit, in *National Basketball Ass'n. v. Motorola, Inc.* ("*NBA v. Motorola*"), created a test to determine whether a hot news misappropriation claim survived copyright preemption.[96] Prior to the recent *Barclays v. Theflyonthewall.com, Inc.* ("*Barclays*") decision, *NBA v. Motorola* served as the authoritative case on the issue.[97]

In *NBA v. Motorola*, Motorola, along with the Sports Team Analysis and Tracking System ("STATS"), launched a hand-held pager named SportsTrax that relayed real-time information[98] regarding National Basketball Association ("NBA") games to fans.[99] More specifically, SportsTrax transmitted the score, ball possession, team fouls, and time remaining of each NBA game.[100]

The NBA, a joint venture of its twenty-nine member teams,[101] believed that the systematic transmission of the contents of its games constituted hot news misappropriation and filed suit in 1996.[102] At trial, Judge Preska, a district court judge in the Southern District of New York, distinguished the NBA games from the simultaneous broadcasts.[103] As audiovisual works, the broadcasts satisfied the subject matter requirement of section 102 of the 1976 Copyright Act;[104] on the other hand, the District Court held that NBA games lacked the requisite originality to warrant protection by the Copyright Act.[105] Using a partial preemption doctrine, Judge Preska concluded that section 301 of the Copyright Act preempted state law claims relating to the broadcast, but not the NBA's interest in the underlying game.[106] The Judge then held that the defendants usurped the real-time information of NBA games, its

---

96. *Nat'l Basketball Ass'n*, 105 F.3d at 850–51, 853.

97. *Barclays*, 650 F.3d at 898–99.

98. *See* Nat'l Basketball Ass'n v. Sports Team Analysis and Tracking Sys., Inc., 939 F. Supp. 1071, 1075 n.3 (S.D.N.Y. 1996) (defining "real-time information" as statistics that are disseminated while the game is in progress).

99. Brief of Appellees-Cross Appellants at 8, Nat'l Basketball Ass'n v. Motorola, Inc., 105 F.3d 841 (2d Cir. 1997) (Nos. 96-7975, 96-7983, 96-9123).

100. *Id.*

101. *Id.* at 5.

102. *Nat'l Basketball Ass'n*, 105 F.3d at 843.

103. *Id.* at 845–47.

104. *Id.* at 847.

105. *Id.* at 846.

106. Nat'l Basketball Ass'n v. Sports Team Analysis and Tracking Sys., Inc., 931 F. Supp. 1124, 1146–47 (S.D.N.Y. 1996), *amended and superseded by* 939 F. Supp. 1071.

most valuable asset, without expending the time, labor, or money to produce the games—in essence hot news misappropriation.[107]

On appeal, the Second Circuit quickly dismissed the partial preemption concept because the doctrine would render section 301 superfluous.[108] The Second Circuit pointed to the legislative history of section 301, which stated: "[a]s long as a work fits within one of the general subject matter categories of sections 102 or 103, [section 301] prevents the States from protecting it even if it fails to achieve Federal statutory copyright."[109] Consequently, the Second Circuit analyzed the broadcasts and the underlying games together.[110]

Next, the Second Circuit delved into whether the NBA's hot news misappropriation claim survived federal copyright preemption.[111] The Circuit Judges looked to *INS*, Congress' intent, and case precedent, all of which advocated for the use of hot news misappropriation claims in limited circumstances.[112] The Second Circuit then *held*:

> the elements central to an *INS* claim are:
>
> (i) the plaintiff generates or collects information at some cost or expense;
>
> (ii) the value of the information is highly time-sensitive;
>
> (iii) the defendant's use of the information constitutes free-riding on the plaintiff's costly efforts to generate or collect it;
>
> (iv) the defendant's use of the information is in direct competition with a product or service offered by the plaintiff;
>
> (v) the ability of other parties to free-ride on the efforts of the plaintiff would so reduce the incentive to produce the product or service that its existence or quality would be substantially threatened.[113]

Despite this definitive language,[114] the Second Circuit stated, just two paragraphs later, that in addition to the elements of copyright infringement, the extra elements that enabled a hot news misappropriation claim to sur-

---

107. *Id.* at 1159.

108. *Nat'l Basketball Ass'n*, 105 F.3d at 849.

109. *Id.* (quoting H.R. REP. NO. 94-1476, pt. 1, at 131 (1976)).

110. *Id.* at 850.

111. *Id.* at 853.

112. *Id.* at 849–50.

113. *Id.* at 852 (internal citation omitted).

114. *See Barclays*, 650 F.3d at 898–99 (stating that a court cannot distill precedent from dictum simply by inserting the word "hold") (emphasis added).

vive were (1) the time sensitivity of the information, (2) the free-riding by the defendant, and (3) the threat to the existence of the plaintiff's product or service.[115] Applying the newly created three-part copyright preemption test, the Second Circuit determined that Motorola did not free-ride on the NBA's efforts to collect factual information regarding basketball games; rather Motorola and STATS used their own resources to collect and transmit statistical data.[116] Accordingly, the Second Circuit held that the NBA's hot news misappropriation claim did not survive copyright preemption.[117] Equally important to the outcome of the case was the Second Circuit's construction and application of a narrow, three-part copyright preemption test that focused on the defendant's alleged conduct.[118] In employing this narrow test, the court expressly rejected the notion that hot news misappropriation was intended to protect all forms of commercial immorality.[119]

III. THE UNDERLYING CONFLICT

The recent *Barclays v. Theflyonthewall.com, Inc.* ("*Barclays*")[120] decision detailed the underlying conflict between the Morgan Stanley & Co. ("Morgan Stanley"), Barclays Capital ("Barclays"), Merrill Lynch, Pierce, Fenner & Smith ("Merrill Lynch") (collectively, "Investment Firms") and a financial news aggregator, Theflyonthewall.com ("Fly"). More specifically, the conflict centered on whether Fly's systematic appropriation of the Investment Firms' equity research recommendations infringed on the Investment Firms' limited right to derive value from news they expended time, money, and effort to collect.[121] The district court granted relief under the Investment Firms' hot news misappropriation theory,[122] but the Second Circuit Court of Appeals reversed.[123]

A. Investment Firms' Equity Research Model

The Investment Firms were three of the world's premier financial institutions.[124] They provided a wide array of investment services, such as

115. *Nat'l Basketball Ass'n*, 105 F.3d at 853.
116. *Id.* at 854.
117. *Id.*
118. *Id.* at 853.
119. *Id.* at 851.
120. Barclays Capital Inc. v. Theflyonthewall.com, 700 F. Supp. 2d 310 (S.D.N.Y. 2010).
121. *Id.* at 313.
122. *Id.* at 310.
123. Barclays Capital Inc. v. Theflyonthewall.com, Inc., 650 F.3d 876 (2d Cir. 2011).
124. *Barclays*, 700 F. Supp. 2d at 315.

wealth and asset management, to their respective clients.[125] More specifically, each investment firm, in what is referred to as the "equity research business model," gathered company-specific financial results, tracked industry and economic trends, and occasionally visited facilities of companies; analysts then used the information collected to produce an equity research report.[126] Hundreds of millions of dollars and several full-time employees were dedicated to the production of these reports each year.[127]

Each research report contained, among other things, an analysis of economic and political events that bore upon a company's prospects, projections of future stock prices, judgments about how a company would perform relative to its peers, and recommendations about whether investors should buy, sell, or hold stock in a given company.[128] In addition, each report contained a unique rating system, which conveyed the analysts' belief about the future value of the stock.[129]

While each Investment Firm produced hundreds of reports each day, only a few of these reports "upgrade[d] or downgrade[d] a security; beg[a]n research coverage of a company's security[,] . . . or predict[ed] a change in the security's target price," and therefore few had the ability to spur immediate investor trading decisions.[130] To stimulate investor action, the Investment Firms typically distributed these "actionable reports" just before the New York Stock Exchange ("the Market") opened.[131] Each Investment Firm distributed its reports to its clients via its own password-protected platforms,[132] licensed third-party distributors,[133] and private conference calls or webcasts where analysts summarized the recommendations.[134]

The Investment Firms' clients capitalized on the actionable recommendations by trading within a few hours of the Market opening,[135] which

125. *Id.* (stating that each firm's client base consists of large institutional clients, corporations, families, and individuals).

126. *Id.* at 315–16.

127. *Id.* at 316.

128. *Id.* at 315; *see* 15 U.S.C. § 78o-6(c) (2006) (defining the contents of research reports); Complaint at 3, Barclays Capital Inc. v. Theflyonthewall.com, Inc., 700 F. Supp. 2d 310 (S.D.N.Y. 2010) (No. 06 Civ 4908) [hereinafter *Barclays Complaint*].

129. *Barclays*, 700 F. Supp. 2d at 315–16.

130. *Id.* at 316.

131. *Id.*

132. *Id.* at 317 n.7.

133. *Id.* at 317–18.

134. *Id.* at 316.

135. *Barclays*, 700 F. Supp. 2d at 318–19.

clearly made a portion of the actionable reports time-sensitive.[136] In return, the Investment Firms collected a commission on each buy or sell trade that the client placed through them.[137]

B. Financial News Aggregators

Recognizing that there was a market for individuals who did not have authorized access to the Investment Firms' reports but were still interested in paying for early access to the information, companies such as Fly began to aggregate the equity research reports of the Investment Firms.[138] Aptly referred to as a financial news aggregator, Fly subsequently distributed the recommendations and reports of the Investment Firms via a newsfeed for a monthly subscription fee.[139] Although Fly expressly stated that its aggregation of the news was for informational purposes only, it encouraged potential customers to use its newsfeed in order to become "informed investors."[140]

Ironically, unbeknownst to the Investment Firms, Fly used employees of the Investment Firms to gain access to their coveted recommendations.[141] Although not always verbatim, the recommendations on Fly's newsfeed bore a distinct similarity to the recommendations created by the Investment Firms.[142] For instance, on February 16, 2005, Morgan Stanley downgraded the stock of the General Maritime Company.[143] The recommendation read as follows: "We are downgrading GMR from Overweight-

136. *Id.* at 316 ("While the actionable reports, which the parties and this Opinion will refer to as [r]ecommendations, are issued around the clock, the vast majority of them are issued between midnight and 7:00 AM. Recommendations may move the market price of a stock significantly, particularly when a well-respected analyst makes a strong [r]ecommendation. Such market movement usually happens quickly, often within hours of the market opening following the [r]ecommendation's [sic] release to clients. Thus, timely access to [r]ecommendations is a valuable benefit to each [Investment] Firm's clients, because the [r]ecommendations can provide them an early informational advantage.").

137. *Id.* at 315 ("One principal source of revenue for the [Investment] Firms is the commissions earned when they facilitate trading on behalf of their clients.").

138. *See id.* at 323 ("Theflyonthewall.com is designed to bridge the gap between Wall Street's big players 'in the know' and those who want into their club.").

139. *Id.* at 351 n.8 ("Fly has approximately 3,300 direct subscribers to its website and another 2,000 subscribers who access its content through licensed financial content partners. Fly offers its ten categories of content in three packages, and charges its monthly subscribers either $25 for access to one package or $50 for access to all three packages.").

140. *Compare Disclaimer and Terms of Use*, THEFLYONTHEWALL.COM, http://www.theflyonthewall.com/splashPage.php?action=disclaimer (last visited Nov. 13, 2012), *with* THEFLYONTHEWALL.COM, http://www.theflyonthewall.com (last visited Apr. 22, 2012).

141. *Barclays*, 700 F. Supp. 2d at 325.

142. *See id.*; *Barclays Complaint*, *supra* note 128, at 15.

143. *Barclays Complaint*, *supra* note 128, at 9.

V to Equal-weight. Current valuation represents 142% of NAV, a 22% premium to TK, which suggests a re-rating of the shares to reflect the new dividend policy with a risk/reward profile largely in line with its peer group."[144] By providing access to the Investment Firms' recommendations, Fly's success rapidly increased.[145] To illustrate, Fly expanded its staff from five full-time employees to twenty-eight full- and part-time employees in an eight-year period.[146] Furthermore, Fly increased the price of its services by thirty percent,[147] increased its subscribers to approximately 5,300 institutional and individual investors and day traders/brokers, and linked its news service to online discount brokerages.[148]

C. The Investment Firms Respond to the Conduct of Financial News Aggregators

By 2004, as more financial news aggregators entered the Market, the Investment Firms became aware that their recommendations were being appropriated.[149] In response, the Investment Firms conducted a widespread investigation to determine how financial news aggregators obtained their information before the stock market opened each day.[150] The Investment Firms also devised strategies to prevent the continued appropriation of their recommendations.[151]

Through internal investigations conducted in 2005, the Investment Firms determined that their own employees were responsible for the leaked recommendations.[152] To combat the continuous and systematic appropriation of their recommendations by financial news aggregators, the Investment Firms implemented four distinct strategies designed to prevent further leaks.[153] First, the Investment Firms limited full access to their research reports to clients who met a certain threshold of revenue generation, typically $50,000 to $100,000.[154] Second, the Investment Firms informed their

144. *Id.*

145. *Barclays*, 700 F. Supp. 2d at 338.

146. *Id.* at 325.

147. *Compare id.*, *with Subscription Rates*, THEFLYONTHEWALL.COM, http://www.theflyonthewall.com/splashPage.php?action=subscriptionRates (last visited Nov. 13, 2012).

148. *Barclays*, 700 F. Supp. 2d at 324–25.

149. *Id.* at 321.

150. *Id.*

151. *Id.* at 326–27.

152. *Id.* at 325.

153. *Id.* at 319–20.

154. *Barclays*, 700 F. Supp. 2d at 319.

employees that the unauthorized dissemination of their equity research was a breach of loyalty and could result in termination.[155] Third, the Investment Firms limited media access to their equity research by placing standard prohibitions on reports distributed to clients and using contractual covenants to prevent licensed distributors from disseminating the reports to unauthorized users.[156]

Finally, the Investment Firms exploited technological innovations to curb access to their equity research.[157] For example, the Investment Firms developed vendor-specific watermarks and private URLs[158] that allowed them to monitor any abuse.[159] As an additional precautionary measure, the Investment Firms "blacklisted" certain websites and social networking platforms, thus preventing URLs embedded in these websites from functioning.[160]

D. The Lawsuit

The Investment Firms also commenced legal action.[161] In spring 2005, the Investment Firms each sent cease-and-desist letters to Fly, the most systematic and egregious re-distributor of its equity research reports.[162] Among other things, the letters accused Fly of "free-riding on the [Investment Firms'] efforts to formulate and disseminate timely market information to their clients."[163]

In light of the lawsuit, Fly changed its reporting practices to avoid any conflict with the Investment Firms' copyrighted research materials.[164] In particular, Fly claimed that it checked the reports posted on the websites of its competitors, which included Bloomberg Market News, StreetAccount.com, Thomson Reuters, and Briefing.com.[165] Fly also entered anonymous chat rooms, where the contents of the Investment Firms' equity re-

---

155. *Id*.

156. *Id.* at 320.

157. *Id.*

158. *Definition: URL (Uniform Resource Locator)*, TECHTARGET, http://searchnetworking.techtarget.com/definition/URL (last visited Nov.13, 2012) (explaining that "URL" is an abbreviation for "Uniform Resource Locator." It functions as a unique address for a file that is accessible via the Internet); *Barclays*, 700 F. Supp. 2d at 320.

159. *Barclays*, 700 F. Supp. 2d at 320.

160. *Id.*

161. *Id.* at 327.

162. *Id.*

163. *Id.*

164. *Id.* (explaining that the Investment Firms were only notified of changes through Fly's response letter and that Fly did not divulge its method of acquiring information until trial).

165. *Barclays*, 700 F. Supp. 2d at 326.

search reports were discussed[166] in order to confirm the accuracy of the information contained on its competitors' newsfeeds.[167] Finally, Fly's president verified the contents of the equity research reports it obtained from competitors with money managers and individual hedge fund managers.[168] Since the Investment Firms' recommendations were arguably the principal driver of Fly's revenue,[169] Fly posted the recommendations only after it conducted this extensive fact-checking routine.[170]

As of 2006, Fly continued to post the Investment Firms' recommendations, often an hour before the principal stock markets within the United States opened.[171] In a final effort to deter Fly and other financial news aggregators, the Investment Firms filed a lawsuit against Fly in the Southern District of New York, alleging both copyright infringement and hot news misappropriation.[172] At trial, Fly conceded to the Investment Firms' copyright infringement claim, but contested the viability of a hot news misappropriation claim.[173] Turning to the hot news misappropriation claim, Judge Cote applied the five-part test, set forth in *NBA v. Motorola*, to determine whether the Investment Firms had proved its prima facie case and whether its claim survived copyright preemption.[174] Ultimately, Judge Cote concluded that Fly's conduct constituted hot news misappropriation.[175] Fly subsequently appealed the ruling of the district court.[176]

---

166. Fly contended that it entered the chat rooms only after it received an invite from the chat room moderator. *Id.*

167. *Id.*

168. *Id.*

169. *See generally id.* at 323–24 (indicating that Fly's newsfeed, where it posted the Investment Firms' recommendations, was the "cornerstone" of its business and the reason for its rapid initial growth). Over time, Fly used a really simple syndication ("RSS") feed containing many of the financial headlines it compiled on a daily basis to attract additional subscribers. Notably absent from Fly's free RSS feed were the Investment Firms' recommendations. To access this information, customers had to subscribe to Fly's online newsfeed. *Id.* at 325.

170. *Barclays*, 700 F. Supp. 2d at 326. Fly's assertion that it obtained the Investment Firms' recommendations via public outlets is called into question by the fact that it filed a lawsuit against its competitor, TTN, for the misappropriation of the same recommendations that it liberally borrowed from the Investment Firms. The lawsuit settled in 2008 and TTN was enjoined from accessing "non-public news information reported on Fly's newsfeed." *Id.* at 327–28 (internal quotations omitted).

171. *Id.* at 327.

172. *Barclays Complaint*, *supra* note 128, at 1; *see also Barclays*, 700 F. Supp. 2d at 327.

173. *Barclays*, 700 F. Supp. 2d at 328.

174. *Id.* at 334–35 (citing National Basketball Ass'n v. Motorola, Inc., 105 F.3d 841, 845 (2d Cir. 1997)).

175. *Id.* at 343. In accordance with her conclusion, Judge Cote imposed a permanent injunction on Fly, which prevented it from disseminating its news reports until one half hour after the Market opened or 10 AM, whichever was later. *Id.* at 347.

1. An Attempt to Decipher the Holding of *NBA v. Motorola*

On appeal, the Second Circuit determined that the lower court erred when it relied on the *NBA* court's use of the word "hold" to conclude that the five-part test was the appropriate copyright preemption test for a hot news misappropriation claim.[177] In an attempt to resolve this conflict, the *Barclays* majority asserted that the five-part test merely states the elements of the tort, while the three-part test focuses on the elements necessary to avoid copyright preemption.[178] Therefore, the Second Circuit concluded that the three-part test in *NBA* should be employed and that the discussion of the five-part test was dicta to the central premise of *NBA*—determining when a hot news misappropriation claim survives copyright preemption.[179]

2. Copyright Preemption

After concluding that the three-part test was appropriate to determine whether a hot news misappropriation claim survived preemption, the Second Circuit analyzed the facts of the case.[180] Focusing on the free-riding element, the *Barclays* majority concluded that Fly had not unfairly taken material that had been acquired by the Investment Firms as a result of their labor, skill, and money.[181] To reach this conclusion, the majority distinguished the businesses practices of the Investment Firms from the Associated Press' conduct in *INS*.[182] According to the Second Circuit, the Associated Press acquired factual information through efforts akin to reporting, while in *Barclays*, the Investment Firms used their own expertise to create the recommendations.[183]

Next, the majority reasoned that Fly did not sell the recommendations as their own because it attributed each recommendation to the Investment Firm that made it.[184] Finally, the majority stated that Fly, like Motorola and STATS, expended its own resources to gather the factual information of the Investment Firms.[185] Taken together, the majority held that Fly's

176. *See generally Barclays*, 650 F.3d 876.
177. *Id.* at 898–900.
178. *Id.* at 900–01.
179. *Id.* at 899.
180. *Id.* at 902.
181. *Id.* at 905.
182. *Barclays*, 650 F.3d at 905.
183. *Id.* at 903.
184. *Id.*
185. *Id.* at 905.

practices amounted to reporting rather than free-riding.[186] Consequently, the Second Circuit reversed the lower court's decision.[187]

In a concurring opinion that employed the five-part test used in NBA to determine copyright preemption, Judge Raggi of the Second Circuit focused on the direct competition between the Investment Firms and Fly.[188] More specifically, she stated that the Investment Firms only disseminated their own recommendations to select clients, while Fly disseminated all of the Investment Firms' recommendations.[189] In doing so, Fly satisfied a separate demand for the original recommendations, a practice that placed its product in direct competition with other financial news outlets, not the Investment Firms.[190] Furthermore, because the products satisfied different demands, they were not sufficiently similar to satisfy the "direct competition" element of a hot news misappropriation claim.[191]

IV. RE-ANALYZING THE *BARCLAYS* DECISION

The Second Circuit's recent decision in *Barclays Capital Inc. v. Theflyonthewall.com, Inc.* ("*Barclays*") erroneously departs from the lower court's opinion in several respects and leaves the viability of a hot news misappropriation claim in doubt. First, the majority advocated for the use of a three-part extra element test to determine copyright preemption,[192] which fails to encompass the spirit of *International News Service v. Associated Press* ("*INS*"). Second, the majority improperly ignored the partial preemption doctrine during its analysis of the free-riding element of a hot news misappropriation claim.[193] Finally, Judge Raggi's concurrence failed to acknowledge the complex realities of the developing competition between investment firms and financial news aggregators.[194]

As a result, this part of the article advocates for the use of the five-part test expressed in *Nat'l Basketball Ass'n v. Motorola, Inc.* ("*NBA v. Motorola*") to determine copyright preemption and reanalyzes the decision with the Second Circuit's mistakes in mind. Theflyonthewall.com ("Fly")

186. *Id.*

187. *Id.* at 907.

188. *Barclays*, 650 F.3d at 907–15 (Raggi, J., concurring).

189. *Id.* at 914 (Raggi, J., concurring).

190. *Id.* (Raggi, J., concurring).

191. *Id.* at 914–15 (Raggi, J., concurring).

192. Barclays Capital Inc. v. Theflyonthewall.com, Inc., 650 F.3d 876, 898–901 (2d Cir. 2011).

193. *See id.* at 902–907.

194. *See id.* at 914–15 (Raggi, J., concurring).

conceded the first two elements of a hot news misappropriation claim: (1) Wall Street investment firms such as Morgan Stanley, Barclays Capital, and Merrill Lynch ("Investment Firms") expend significant resources to collect the information contained within the equity research reports and (2) the equity research reports are time-sensitive;[195] thus, this part of the article will discuss the remaining three elements of the five-part test of *NBA* in greater detail.[196]

A. The Appropriate Test

Saying the *NBA v. Motorola* court's articulation of the appropriate extra-element test for a hot news misappropriation claim is unclear would be an understatement.[197] In the opinion, the court set forth both a five-part test and a three-part extra-element test.[198] Confused about which test should be followed, several district courts have simultaneously applied the five-element test as the prima facie case for hot news misappropriation and copyright preemption.[199] By contrast, at least one court has applied the condensed three-part test to determine copyright preemption.[200] In *Barclays*, both the Investment Firms and Fly advocated for the use of the five-part test to determine copyright preemption.[201] To further complicate matters, even the Second Circuit judges in *Barclays* differed on which test should be used.[202]

Although the Second Circuit presents a plausible distinction between the three- and five-part tests, separated by only one paragraph in the *NBA v. Motorola* opinion, its adoption of the three-part test as the appropriate test for copyright preemption fails to properly encompass the narrow concept created in *INS*.[203] The five-part test incorporates the competitor limitation of the hot news misappropriation claim and clearly encompasses the "sweat

---

195. Shourin Sen, *SDNY Grants Summary Judgment on Hot News Claim*, SEN LAW (Mar. 25, 2010, 9:00 AM), http://senlawoffice.com/exclusiverights/category/misappropriation/.

196. Nat'l Basketball Ass'n v. Motorola, Inc., 105 F.3d 841, 852–53 (2d Cir. 1997).

197. *See Barclays*, 650 F.3d at 898–901, 906–07 (indicating that there have been multiple iterations of the appropriate extra element test for a hot news misappropriation claim).

198. *Nat'l Basketball Ass'n*, 105 F.3d at 852–53; *see also* Agora Fin., LLC v. Samler, 725 F. Supp. 2d 491, 499 n.8 (D. Md. 2010).

199. *See* Associated Press v. All Headlines News, Corp., 608 F. Supp. 2d 454, 461 (S.D.N.Y. 2009); BanxCorp v. Costco Wholesale Corp., 723 F. Supp. 2d 596, 612 (S.D.N.Y. 2010); Morris Commc'n Corp. v. PGA Tour, Inc., 235 F. Supp. 2d 1269, 1279 n.16 (M.D. Fla. 2002).

200. *Agora Fin.*, 725 F. Supp. 2d at 499–500 (citing Lowry Reports, Inc. v. Legg Mason, Inc., 271 F. Supp. 2d 737, 754 (D. Md. 2003)).

201. *Barclays*, 650 F.3d at 898.

202. *Compare id.* at 898–901, *with id.* at 907 (Raggi, J., concurring).

203. *See* Int'l News Serv. v. Associated Press, 248 U.S. 215, 239 (1918).

of the brow" doctrine.[204] Therefore, it should be used to determine when a hot news misappropriation claim survives copyright preemption.

With respect to hot news misappropriation claims, strict adherence to the narrow concept of *INS* has always been suggested.[205] In order to avoid copyright preemption, a hot news misappropriation claim must be qualitatively different from copyright protection.[206] The hot news misappropriation concept was created to "protect[] property rights in time-sensitive information so that the information will be made available to the public by profit seeking entrepreneurs,"[207] thus recognizing that some form of protection should be afforded to those who expend time, labor, and skill to gather factual information.[208] Furthermore, because the remedy created in *INS* was designed to promote fair competition, it could only be enforced against competitors, not the public.[209] *INS* provided a remedy to those who collect information from the "sweat of their brow,"[210] a remedy that is only enforceable against competitors, which makes hot news misappropriation qualitatively different from copyright infringement.[211]

In contrast to the central elements of a hot news misappropriation action, a copyright infringement claim merely requires (1) ownership of a copyrightable work of authorship and (2) proof that the infringer has violated one of the exclusive rights afforded to copyright owners in section 106 of the Copyright Act.[212]

The three-part test adopted by the Second Circuit in *Barclays* failed to recognize the qualitative differences between hot news misappropriation and copyright infringement.[213] To start, the three-part test, which lists time

---

204. *See generally* Gregory, *supra* note 37, at 600 (stating that the district court used the five-part test derived from *NBA v. Motorola* to reward the Investment Firms for the time, labor, and skill they each employed to gather the news).

205. *See, e.g.*, *Nat'l Basketball Ass'n*, 105 F.3d at 845; 1 ALEXANDER LINDEY & MICHAEL LANDAU, LINDEY ON ENTERTAINMENT, PUBLISHING AND THE ARTS § 1:4 (3d ed. 2004).

206. *Nat'l Basketball Ass'n*, 105 F.3d at 850.

207. *Id.* at 853.

208. *See generally* Daniel S. Park, Note, *The Associated Press v. All Headline News: How Hot News Misappropriation Will Shape the Unsettled Customary Practices of Online Journalism,* 25 BERKELEY TECH. L.J. 369, 383 (2010); Barclays Capital Inc. v. Theflyonthewall.com, Inc., 700 F. Supp. 310, 332 (S.D.N.Y. 2010) ("A fair reading of this passage suggests that the [*INS*] Court's decision was strongly influenced by several policy ideals: a 'sweat-of-the-brow' or 'labor' theory of property . . . .").

209. *Int'l News Serv.*, 248 U.S. at 239.

210. *Barclays*, 700 F. Supp. 2d at 332.

211. Gregory, *supra* note 37, at 596–98.

212. Norma Ribbon & Trimming, Inc. v. Little, 51 F.3d 45, 47 (5th Cir. 1995); Playboy Entm't v. Webbworld, Inc., 968 F. Supp. 1171, 1174 (N.D. Tex. 1997).

213. *See Barclays*, 700 F. Supp. 2d at 332.

sensitivity, free-riding, and substantial threat to the existence of the plaintiff's product or service as the elements necessary for a hot news misappropriation claim to survive copyright preemption,[214] ignores the requirement of expending resources to collect factual information. In adopting this three-part test, the Second Circuit neglected to recognize this important pillar underpinning hot news misappropriation claims.[215]

In addition, the three-part test ignores the reality that a remedy for copyright infringement can be imposed even when the copyright owner has not exercised the exclusive rights afforded to him or her.[216] Thus, the requirement of direct competition, as expressed by the fourth element of the five-part test, arguably imposes an additional requirement that further differentiates hot news misappropriation from copyright infringement.

The five-part test expressed in *NBA v. Motorola* strictly adheres to the concept created in *INS*[217] and resolves the shortcomings of the three-part extra element test. First, by requiring a plaintiff to prove that it "generates or collects information at some cost or expense," the five-part test acknowledges one of the central tenets of *INS*: the sweat of the brow doctrine.[218] Second, by requiring both the plaintiff and defendant to offer competing products or services, the five-part test acknowledges that hot news misappropriation claims are limited in scope.[219] Therefore, the five-part test expressed in *NBA v. Motorola* should be the appropriate test for determining whether a hot news misappropriation claim survives copyright preemption.

B. Applying the Five-Part Extra Element Test

1. The Investment Firms Expend Significant Resources to Collect and Generate Their Equity Research Reports

As mentioned at the outset of this Note, each Investment Firm depended on its equity research model to generate a substantial portion of its annual revenue.[220] In order to fuel its equity research model, each Invest-

214. *Barclays*, 650 F.3d at 887.

215. *See Barclays*, 700 F. Supp. 2d at 332.

216. *See Playboy Entm't*, 968 F. Supp. at 1174 (stating that the only elements necessary to prove copyright infringement are ownership of a copyright and violation of one of the author's exclusive rights). *See generally* 17 U.S.C. § 501(a) (2006) (stating that anyone who violates the copyright owner's exclusive rights is an infringer of the copyright).

217. *See Nat'l Basketball Ass'n*, 105 F.3d at 852 (finding support in *INS* for each element of a hot news misappropriation claim).

218. *Id.*

219. *Id.*

220. *See supra* Part I.

ment Firm spent more than $100 million per year.[221] Much of this expense was allocated to research analysts who "gather[ed] company-specific and industry-wide financial results; visit[ed] a company's facilities; . . . track[ed] industry and economic trends; assess[ed] relative stock valuations; create[d] and update[d] financial models; . . . [and] ma[d]e quantitative projections about future earnings . . . ."[222]

2. The Information is Highly Time-Sensitive

The actionable reports produced by the Investment Firms under their equity research model contain projections about future stock prices and recommendations about whether investors should buy or sell stocks.[223] The Investment Firms typically distribute these reports to their clients between midnight and 7 AM.[224] In order to profit from the information distributed by the Investment Firms, investors have to move quickly, usually soon after the stock market opens.[225] As such, the reports are highly time-sensitive and thus satisfy the second requirement of a hot news misappropriation claim.[226]

3. Free-riding by the Defendant

The third element of a hot news misappropriation claim requires that "the defendant's use of the information constitute free-riding on the plaintiff's costly efforts to generate or collect it."[227] In its simplest terms, free-riding is defined by Merriam-Webster Dictionary as "a benefit obtained at another's expense or without the usual cost or effort."[228] The *INS* court, although not specifically mentioning the phrase "free-riding," characterized the International News Service's piracy of the Associated Press' news stories as an attempt to "reap where it has not sown."[229] Moreover, free-riding, at least in the eyes of the *INS* court, did not hinge upon the credit given to the complainant; rather, a failure to give credit only accentuated the defendant's wrongful conduct.[230] In its analysis of the free-riding ele-

221. *Barclays*, 700 F. Supp. 2d at 316–17.

222. *Id.*

223. *Id.* at 315.

224. *Id.* at 316.

225. *Id.*

226. *See id.* at 336, *rev'd*, *Barclays*, 650 F.3d 876.

227. *Barclays*, 700 F. Supp. 2d at 336; *Nat'l Basketball Ass'n*, 105 F.3d at 852.

228. WEBSTER'S NEW COLLEGIATE DICTIONARY 491 (9th ed. 1988).

229. *Int'l News Serv.*, 248 U.S. at 239–40.

230. *See id.* at 242 (recognizing that "[t]he habitual failure to give credit to complainant for that which is taken is significant. . . . But these elements, although accentuating the wrong, are

ment of the copyright preemption test for hot news misappropriation, the Second Circuit not only strays from the definition of free-riding as defined by the *INS* court, but also (1) disregards the partial preemption doctrine and (2) incorrectly draws analogies between Fly's conduct and that of the defendants in *NBA v. Motorola*.

a. Partial preemption

The Second Circuit rejected the partial preemption doctrine in *NBA v. Motorola* because it would permit a plaintiff to separate the copyrightable elements of a work of authorship from the uncopyrightable elements, such as facts or ideas.[231] Allowing such a distinction to occur would have rendered the preemption section of the Copyright Act void because plaintiffs could obtain relief under various state law claims, even though the work of authorship fell within the scope of copyright protection.[232] Other Circuits, namely the Seventh Circuit in *ProCD v. Zeidenberg*, have taken a similar approach with respect to the use of the partial preemption doctrine.[233]

In *Barclays*, the Second Circuit cited a portion of the *NBA v. Motorola* opinion that referenced *ProCD v. Zeidenberg* with approval.[234] However, in its analysis of the free-riding element of a hot news misappropriation claim, the Second Circuit incorrectly limited its analysis of the Investment Firms' recommendations to the copyrightable material contained in the report, and thus ignored the underlying facts or uncopyrightable material.[235] Moreover, the Second Circuit's analysis of the free-riding element in *Barclays* departed from the Supreme Court's analysis of both the copyrightable and uncopyrightable elements of the Associated Press' news stories in *INS*.[236]

---

not the essence of it. It is something more than the advantage of celebrity of which complainant is being deprived.").

231. *See Nat'l Basketball Ass'n*, 105 F.3d at 848–49 ("Although game broadcasts are copyrightable while the underlying games are not, the Copyright Act should not be read to distinguish between the two when analyzing the preemption of a misappropriation claim based on copying or taking from the copyrightable work.").

232. *Id.*

233. *See* ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1453 (7th Cir. 1996) (stating that for copyright preemption purposes, uncopyrightable material and copyrightable material must be analyzed together).

234. *Barclays*, 650 F.3d at 892–93.

235. *Id.* at 903 ("In pressing a 'hot news' claim against Fly, the [Investment] Firms seek only to protect their [r]ecommendations, something they *create* using their expertise and experience rather than *acquire* through efforts akin to reporting.").

236. *Int'l News Serv.*, 248 U.S. at 234–36.

Turning to the Investment Firms' recommendations, it is clear that they contain factual elements that are uncopyrightable, and thus, are not preempted by Copyright law. An abstract of a recommendation appropriated by Fly illustrates this point:

> Potential positive events moving forward on an agreement for a highway bill (expected to be approved by May '05) which could come in near $284 billion (up from $218 billion on last bill) and possibly move to the president ahead of schedule. Additionally, ConExpo (construction industry conference) will take place from March 15th to the 19th and should provide a lot of comfort that commercial construction spending is poised to recover over the next few quarters.
>
> . . . .
>
> We continue to recommend purchase of IR, CAT, PH, ETN, ITW[,] and JOYG.[237]

In their lawsuit, the Investment Firms provided similar examples.[238]

b. Re-Analyzing the Free-Riding Element

Looking at the uncopyrightable and copyrightable elements of the Investment Firms' recommendations, it is evident that Fly's conduct constitutes free-riding as it does not use its employees to independently collect the underlying facts contained within the equity research reports.[239] Its employees do not make quantitative projections about future earnings, track industry or economic trends, or even maintain contact with company representatives.[240] In fact, it would be impossible for Fly to replicate the Investment Firms' production of 40,000 equity research reports covering 3,200 publicly traded companies with only 28 staff members.[241]

Instead, similar to the defendant's actions in *INS*, Fly coerced the Investment Firms' analysts to release proprietary, nonpublic information to

---

237. *Barclays*, 700 F. Supp. 2d at 325–26 n.22.

238. *Barclays Complaint*, *supra* note 128, at 9–15.

239. *See generally Barclays*, 700 F. Supp. 2d at 316–17 (describing how the Investment Firms' analysts determine the underlying facts and create the recommendations contained within the equity research reports).

240. *See generally id.* at 323–26.

241. *See generally id.* at 316–17 (referencing the number of publicly traded companies that the Investment Firms cover and how many research reports they individually produce every year).

its own employees.[242] Fly then perused the reports and lifted, essentially verbatim, the recommendations it wished to publish.[243] Once armed with the recommendations it desired, Fly used a few simple keystrokes to slightly alter the headlines before it disseminated the recommendations to its clients, thus giving credence to its tagline—"[h]aving a membership with the Fly is like having a seat at Wall Street's best [investment firms] and learning what they know when they know it."[244]

Finally, the attribution Fly gave the Investment Firms when it disseminated the reports and recommendations to its own clients should not absolve it of wrongdoing because the mere presence of attribution does not alter the nature of Fly's conduct.[245] In essence, Fly "reap[ed] where it had not sown."[246]

4. Fly's Use of the Recommendations Is in Direct Competition with the Investment Firms

The fourth element of a hot news misappropriation extra element test mandates that the "defendant's use of the information is in direct competition with a product or service offered by the plaintiff . . . ."[247] Judge Raggi's concurrence ignores the realities of competition between the Investment Firms and the financial news aggregators. Hot news misappropriation, a form of unfair competition,[248] parallels the goals of antitrust law;[249] therefore, antitrust principles should be used to analyze competition among allegedly competitive services. Competition, at least for antitrust purposes, requires the definition of a relevant product market.[250] "The outer boundaries of a product market are determined by the reasona-

242. *Id.* at 325.

243. *Id.*

244. *Id.* at 323.

245. *See Int'l News Serv.*, 248 U.S. at 242 ("The habitual failure to give credit to complainant for that which is taken is significant . . . . But these elements, although accentuating the wrong, are not the essence of it. It is something more than the advantage of celebrity of which complainant is being deprived.").

246. *Barclays*, 700 F. Supp. 2d at 332 (citing *Int'l News Serv.*, 248 U.S. at 239–40).

247. *Nat'l Basketball Ass'n*, 105 F.3d at 852 (citing *Int'l News Serv.*, 248 U.S. at 240).

248. *Id.* at 850 ("'Misappropriation' of 'hot' news . . . [is] a branch of the unfair competition doctrine . . . .") (quoting Fin. Info., Inc. v. Moody's Investors Serv., Inc., 808 F.2d 204, 209 (2d Cir. 1986)).

249. *See generally* 1 LOUIS ALTMAN & MALLA POLLACK, CALLMAN ON UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES § 4:3, at 4–16 (4th ed. 2011) (stating that "antitrust laws are designed to achieve and preserve *freedom* of competition, while the law of unfair competition strives to promote and maintain *fairness* in competition.").

250. Brown Shoe Co. v. United States, 370 U.S. 294, 324 (1962).

ble interchangeability of use or the cross-elasticity of demand between the product itself and substitutes for it."[251] Other factors used to define the relevant product market include industry or public recognition of a separate market, distinct customers, distinct prices, and specialized vendors.[252]

It is important to note that the Investment Firms provide two separate services: the distribution of financial recommendations and the facilitation of trades based on its recommendations.[253] Investment Firms and financial news aggregators likely compete in the former market. To elaborate, Investment Firms and financial news aggregators both distribute financial recommendations to the same subset of clients[254] using the same specialized vendors.[255] Furthermore, Fly's rapid growth to approximately 5,300 subscribers,[256] including institutional and individual investors, in just seven years[257] indicates that some consumers of financial information considered the services to be substitutes.[258] Moreover, despite Fly's assertion that it does not attempt to influence the sale or purchase of securities,[259] its internal documents indicate that its service was designed to "help[] investors to make better informed investment decisions."[260] Lastly, each service linked its distribution of the Investment Firms' recommendations to a trading service.[261]

---

251. *Id.* at 325.

252. *Id.*

253. *See Listed Derivatives*, MORGAN STANLEY, http://www.morganstanley.com/institutional/sales/derivatives.html (last visited Nov. 19, 2012) (indicating that Morgan Stanley enables clients to "stay on top of the markets with . . . commentary from Morgan Stanley . . . experts" and can then choose to execute trades through its integrated sales team); *see also Barclays*, 650 F.3d at 914 (stating that the Investment Firms' clients are not obligated to make trades with the Investment Firms after receiving access to the equity research reports because firms "disseminate only their [r]ecommendations to select clients most likely to follow the advice and place trades with the [Investment] Firms . . . .").

254. *Compare Barclays*, 700 F. Supp. 2d at 317 ("Morgan Stanley has approximately 7,000 institutional investor clients and close to 100,000 individual investors . . . ."), *with id.* at 325 ("Fly's subscribers include individual investors, institutional investors, retail investors, brokers, and day traders.").

255. *Compare id.* at 339–40 ("Such licensed distributors, which vary from firm to firm, include Bloomberg, Thomson Reuters . . . ."), *and Distribution Channels*, THEFLYONTHEWALL.COM, http://www.theflyonthewall.com/splashPage.php?action=partnersPage (last visited Nov. 19, 2012) (listing distribution channels as Bloomberg.com and Thomson Reuters).

256. *Barclays*, 700 F. Supp. 2d at 324.

257. Fly began its financial news aggregation business in 1998. *Id.* at 322.

258. *See id.* at 323 (quoting Fly's advertisement, which convinces consumers that "a membership with Fly is like having a seat at Wall Street's best [investment firms] and learning what they know when they know it").

259. *Disclaimer and Terms of Use*, *supra* note 140.

260. *Barclays*, 700 F. Supp. 2d at 323.

261. *Compare id.* at 315, 318 (stating that the Investment Firms execute trades on behalf of their clients for a fee, thereby allowing them to recoup the costs of creating equity research re-

5. Threat to the Very Existence of the Investment Firms' Service

Finally, the fifth element of a hot news misappropriation claim requires the plaintiff to prove that the free-riding by the infringer would "so reduce the incentive to produce the product or service that its existence or quality would be substantially threatened."[262] As it is constructed, this element requires the Investment Firms to demonstrate that Fly's conduct, if permitted to continue, would significantly hinder the economic incentive to produce equity research reports for the benefit of their respective clients."[263]

At trial, the Investment Firms proved that staff reductions in their respective equity research departments were caused, at least in part, by Fly's reprehensible conduct.[264] Admittedly, a host of additional factors, including the downward spiraling economy, could have caused the Investment Firms to reduce their respective staffs.[265] However, the duplicative services offered by both the Investment Firms and Fly, Fly's rise in popularity among individual and institutional investors,[266] and the proliferation of financial news aggregators in a market where the Investment Firms once stood alone,[267] suggest that Fly's practices had some impact on the Investment Firms' bottom line. If left unchecked, these practices would eventually diminish the incentive to produce the service.[268] Consequently, the fifth element of a hot news misappropriation tort would likely be satisfied.[269]

V. WHY DO WE NEED HOT NEWS MISAPPROPRIATION?

Part IV's analysis of the facts in *Barclays Capital Inc. v. Theflyonthewall.com* ("*Barclays*"), under the appropriate five-part copyright preemption test, suggests the hot news misappropriation claim is still a viable remedy for the unauthorized and systematic appropriation of a complainant's

ports), *with id.* at 324–25 (stating that Fly distributed the Investment Firms' recommendations to eSignal, Track Data Corporation, and Cyber Trader, each of which were linked to discount brokerage platforms where investors could execute trades).

262. *Id.* at 341 (quoting *Nat'l Basketball Ass'n*, 105 F.3d at 852).

263. *See id.*; *Nat'l Basketball Ass'n*, 105 F.3d at 852.

264. *Barclays*, 700 F. Supp. 2d at 321.

265. *Id.* ("During this same period, of course, other factors have had an impact on the financial well-being of the investment firms in general and on their research budgets in particular. Since 2008, the world has experienced an economic cataclysm.").

266. *See id.* at 324 (stating that Fly has increased its subscriber list to approximately 5,300 since its inception).

267. *See id.* at 326–27.

268. *See id.* at 322 ("[T]he investment in research is justified by its ability to drive commission income, and when that linkage is broken, the justification is greatly diminished.").

269. *See supra* Part IV.B.5.

news stories.[270] Nonetheless, given that two of the Investment Firms obtained copyright protection for their recommendations, and were thus able to obtain an injunction without asserting a hot news misappropriation claim,[271] an appropriate question arises: is the claim's continued viability even necessary? The answer to this question must be in the affirmative.

A. Hot News Misappropriation Is Typically One of a Few Remedies Available to Plaintiffs

Hot news misappropriation was designed to operate where copyright protection could not.[272] While Morgan Stanley and Barclays Capital managed to obtain copyright protection for some of their equity research reports, the remaining plaintiff, Merrill Lynch, did not.[273] Without a viable hot news misappropriation cause of action, Merrill Lynch would have been deprived of the economic incentive to produce equity research reports.[274] Similarly, many firms that assert hot news misappropriation claims do so because it is one of a few remedies available to them.[275]

As an example, in *Agora Financial, LLC v. Samler*, a Maryland district court addressed a plaintiff's hot news misappropriation claim on facts similar to those in *Barclays*.[276] In *Agora Financial*, five financial firms that were in the business of publishing financial newsletters filed suit against Martin Samler, doing business as TipsTraders.com, for the unauthorized and continuous appropriation and dissemination of the investment

---

270. *See supra* Part IV; Barclays Capital Inc. v. Theflyonthewall.com, Inc., 650 F.3d 876 (2d Cir. 2011).

271. Barclays Capital Inc. v. Theflyonthewall.com, 700 F. Supp. 2d 310, 347 (S.D.N.Y. 2010) (imposing a permanent injunction on Fly which prevented it from disseminating its news reports until a half hour after the New York Stock Exchange opened or 10 AM, whichever was later).

272. *Id.* at 332 ("[T]he misappropriation doctrine was developed to protect costly efforts to gather commercially valuable, time-sensitive information that would otherwise be unprotected by law.").

273. *Id.* at 331 (holding that the "copyright plaintiffs," Morgan Stanley and Barclays Capital, were awarded a permanent injunction).

274. *See id.* at 322 ("[T]he investment in research is justified by its ability to drive commission income, and when that linkage is broken, the justification is greatly diminished.").

275. *See generally* Fred Wehrenberg Circuit of Theatres, Inc. v. Moviefone, Inc., 73 F. Supp. 2d 1044, 1045 (E.D. Mo. 1999) (illustrating that the plaintiff alleged two causes of action: hot news misappropriation and false or misleading description of fact); Agora Fin., LLC v. Samler, 725 F. Supp. 2d 491, 493 (showing that the plaintiff alleged a hot news misappropriation cause of action and a violation of section 43(a) of the Lanham Act); X17, Inc. v. Lavandeira, 563 F. Supp. 2d 1102, 1103 (showing that the plaintiff brought a copyright cause of action as well as a hot news misappropriation claim).

276. *See generally Agora Fin., LLC*, 725 F. Supp. 2d at 491.

recommendations contained within their newsletters.[277] To combat the piracy of its investment recommendations, the plaintiffs rested their hopes almost exclusively on a hot news misappropriation claim.[278] Ultimately, the district court ignored the persuasive authority of its sister jurisdictions, which acknowledged that a hot news misappropriation claim was qualitatively different from copyright protection, and denied the plaintiffs relief.[279]

B. Inadequacy of Other Remedies

The fact that hot news misappropriation is one of a few limited causes of action available to copyright plaintiffs belies the point that it is better equipped to combat this unique form of unfair competition than copyright protection.[280] Hot news misappropriation, as described by the Supreme Court in *International News Service v. Associated Press* ("*INS*"), provides companies that report the news a limited right to reap an economic benefit as a reward for the expense of significant resources required to compile it.[281] The right to reap an economic benefit only exists as long as the information remains valuable.[282] Copyright law, by contrast, typically grants the author of an original work of authorship the exclusive right to publish or distribute the copyrightable work for the duration of the author's life, "*plus an additional 70 years*."[283] In the fast-paced world of investing, where short-horizon investors need to make rapid decisions[284] and the reputations of publicly-traded companies change instantaneously,[285] the Investment Firms' recommendations to buy or sell have fleeting monetary

277. Complaint at 2, Agora Fin., LLC v. Samler, 725 F. Supp. 2d 491 (D. Md. 2010) (No. 09-01200).

278. *Agora Fin.*, 725 F. Supp. 2d at 505 ("As an initial matter, plaintiffs' [c]omplaint contains only minimal discussion of their [Lanham Act] claim, as it instead primarily focuses on plaintiffs' misappropriation claim.").

279. *Id.*

280. *See Barclays*, 700 F. Supp. 2d at 347 (imposing a permanent injunction based on copyright protections, not a hot news misappropriation claim.).

281. *See* Gregory, *supra* note 37, at 587–88.

282. *See* Int'l News Serv. v. Associated Press, 248 U.S. 215, 235 (1918).

283. *How Long Does Copyright Protection Last?* U.S. COPYRIGHT OFFICE, http://www.copyright.gov/help/faq/faq-duration.html (last modified Mar. 10, 2010) (emphasis added).

284. *See Barclays*, 700 F. Supp. 2d at 319.

285. *See, e.g.*, *Timeline of the Tyco International Scandal*, USA TODAY (Jun. 17, 2005), http://www.usatoday.com/money/industries/manufacturing/2005-06-17-tyco-timeline_x.htm (indicating that Tyco's share price dropped sharply after the public discovered that its Chief Executive Officer was under investigation for fraud and tax evasion); *see also* Huck Gutman, *Enron Scandal: The Long, Winding Trail*, DAWN (Feb. 16, 2002), *available at* http://www.commondreams.org/views02/0216-01.htm (stating that the lofty reputation of Enron plummeted almost instantaneously once investors learned of its deceptive accounting practices).

value.[286] Accordingly, lifetime duration of copyright protection seems like an ill-fitting remedy to protect the short-term utility of the Investment Firms' equity research reports.

VI. CONCLUSION

In conclusion, the systematic and unauthorized appropriation of the Investment Firms' recommendations and equity research reports presents a unique scenario that copyright law is ill-equipped to combat.[287] By contrast, the hot news misappropriation tort as expressed by the *Nat'l Basketball Ass'n v. Motorola, Inc.* ("*NBA v. Motorola*") court embodies the spirit of the original tort created nearly 100 years ago.[288] Specifically, the five-part test, as opposed to the three-part test set forth in *NBA v. Motorola*, recognizes the primary qualitative distinctions between hot news misappropriation and copyright preemption—the sweat of the brow doctrine and the requirement that the defendant's conduct must be in direct competition with the plaintiff's.[289] These distinctions, coupled with Congress' intent to exempt hot news misappropriation from copyright preemption,[290] serves as the primary reason to keep the tort of hot news misappropriation viable.

---

286. *See Barclays*, 700 F. Supp. 2d at 336 (citing *Int'l News Serv.*, 248 U.S. at 235) (finding the fleeting value of the equity research reports is embodied in the recognition that hot news misappropriation only protects news that is time-sensitive).

287. *See* Barclays Capital Inc. v. Theflyonthewall.com, 700 F. Supp. 2d 310, 332 (S.D.N.Y. 2010) ("[T]he misappropriation doctrine was developed to protect . . . time-sensitive information that would otherwise be unprotected by [copyright] law.").

288. *See* Nat'l Basketball Ass'n v. Motorola, 105 F.3d 841, 852–53 (2d Cir. 1997) (finding support in *International News Service v. Associated Press* for each element of a hot news misappropriation claim).

289. Gregory, *supra* note 37, at 597.

290. H.R. REP. NO. 94-1476, at 132 (1976).