CHAPTER SIXTEEN

Copyright & State Misappropriation Law: Preemption

Art. 6 cl. 2, U.S. Constitution:
This Constitution, and the laws of the United States which shall be made in pursuance thereof; and all treaties made, or which shall be made, under the authority of the United States, shall be the supreme law of the land; and the judges in every state shall be bound thereby, any thing in the Constitution or laws of any state to the contrary notwithstanding.

Introduction

As we mentioned in the Trademark section of this book, Federal law often coexists with state law that protects similar, or even identical, types of intellectual property. State trademark law is the most obvious example of this. Trade secrecy, which now has both Federal and state protection, is another. (Chapter 22 will explore whether preemption restricts the possible reach of rights under trade secrecy.)

What limits are there on this happy coexistence in the realm of copyright? When does Federal copyright law preempt state law? That is the subject of this chapter. More specifically, here we return to the law of misappropriation that we first met in *INS v. AP* in Chapter 1, and use that doctrinal area to explore some of the knottier issues in copyright preemption.

The Supreme Court has stressed that preemption turns largely on Congressional intent. Did Congress mean for this labeling requirement for cigarettes, or pesticides, or this automobile safety rule to preempt state laws that deal with roughly the same subject matter? Where Congress is silent, the courts will generally assume that its intent was *not* to preempt state law—at least in traditional areas of state regulation. (Preemption is often discussed with respect to state statutory schemes but it is important to remember that it can also include preemption of common law actions—for example, in tort law.) There are, however, at least two areas where intention takes a back seat—or is implied from the context. In "field preemption cases," where Federal law has effectively seized the entire field of activity, state regulatory action may be prohibited altogether. (Defining what counts as "the field," however, is often problematic, as recent cases on immigration have shown.) In "conflict preemption cases," it is impossible to comply both with the Federal and the state law. In that case, the Supremacy Clause governs and the state law is without effect.

Enter copyright.

State intellectual property law and Federal copyright law have had a tangled relationship from the beginning. The *Eldred* case features an extended wrangle among the Justices about how to understand the first Federal copyright statute, which largely replaced state schemes mainly rooted in the common law. But state "common law copyright" continued to exist until the 1976 Act, and the common law copyrights over sound recordings dating from the 1970's are still being litigated today.

Section 301 of the 1976 Copyright Act contains Congress's explicit instructions about preemption.

§ 301.—Preemption with respect to other laws

(a) On and after January 1, 1978, all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103, whether created before or after that date and whether published or unpublished, are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.

(b) Nothing in this title annuls or limits any rights or remedies under the common law or statutes of any State with respect to—

(1) subject matter that does not come within the subject matter of copyright as specified by sections 102 and 103, including works of authorship not fixed in any tangible medium of expression; or

(2) any cause of action arising from undertakings commenced before January 1, 1978;

(3) activities violating legal or equitable rights that are not equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106; or

(4) State and local landmarks, historic preservation, zoning, or building codes, relating to architectural works protected under section 102(a)(8).

(c) With respect to sound recordings fixed before February 15, 1972, any rights or remedies under the common law or statutes of any State shall not be annulled or limited by this title until February 15, 2067. The preemptive provisions of subsection (a) shall apply to any such rights and remedies pertaining to any cause of action arising from undertakings commenced on and after February 15, 2067. Notwithstanding the provisions of section 303, no sound recording fixed before February 15, 1972, shall be subject to copyright under this title before, on, or after February 15, 2067.

(d) Nothing in this title annuls or limits any rights or remedies under any other Federal statute.

(e) The scope of Federal preemption under this section is not affected by the adherence of the United States to the Berne Convention or the satisfaction of obligations of the United States thereunder.

(f)(1) On or after the effective date set forth in section 610(a) of the Visual Artists Rights Act of 1990, all legal or equitable rights that are equivalent to any of the rights conferred by section 106A with respect to works of visual art to which the rights conferred by section 106A apply are governed exclusively by section 106A and section 113(d) and the provisions of this title relating to such sections. Thereafter, no person is entitled to any such right or equivalent right in any work of visual art under the common law or statutes of any State.

(2) Nothing in paragraph (1) annuls or limits any rights or remedies under the common law or statutes of any State with respect to—

(A) any cause of action from undertakings commenced

before the effective date set forth in section 610(a) of the Visual Artists Rights Act of 1990;
(B) activities violating legal or equitable rights that are not equivalent to any of the rights conferred by section 106A with respect to works of visual art; or
(C) activities violating legal or equitable rights which extend beyond the life of the author.

The broad structure of § 301 depends on two limitations: general scope and subject matter. It preempts "all legal or equitable rights **that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106** in **works of authorship** that are **fixed in a tangible medium** of expression **and** come within the **subject matter of copyright as specified by sections 102 and 103**." Subsection b.) effectively restates this point in the negative—by saying that if the legal or equitable rights are not within the general scope of copyright or if they are over subject matter that copyright does not cover, then they are not preempted.

But therein lies a problem. As we have stressed in this casebook, intellectual property is defined as much by that which it excludes as that which it includes. To come back to the discussion of *Sony* in *The Public Domain*, "the holes matter as much as the cheese." The *exclusion* of ideas, facts and unoriginal material from copyright is as central to the Federal copyright scheme, as is the *inclusion* of original expression, fixed in material form. That is the essence of copyright. Yet, read literally, § 301 seems to say that states are entirely free to make law over all the things excluded from copyright. For example, § 102 says "[i]n no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery." Those things are outside the subject matter of copyright. Does that mean that we could have 50 different state systems, in some of which ideas, unoriginal compilations of fact, methods of operation and so on, were subject to exclusive rights under state law? Might the white pages telephone directory from *Feist v. Rural*, the method of doing accountancy from *Baker v. Selden*, the menu structure from *Lotus v. Borland*—might all of these be protected under the laws of some state or other? Could someone in California be granted an exclusive right over the *idea* of a chase scene? Could someone in New York be given an exclusive right over the *facts* of the atomic weights of the elements?

What about scope? § 106 conveys only a limited number of exclusive rights. Can the states add to those without limit? Might reading a book without permission count as a violation of the law in Rhode Island, singing a song in the shower be a tort in South Dakota? § 107 explicitly limits the exclusive rights of § 106. If it is a fair use, it is not a violation of the § 106 exclusive rights. *A fortiori* this would seem to mean that fair uses are outside the general scope of copyright. Does this mean, then, that states are free to make all fair uses illegal? Could parodies be prohibited in Pennsylvania, and quotations in a critical review be a tort in Connecticut? Certainly the First Amendment would have something to say about those questions, but what about copyright law? Can it really be—as a literal reading of § 301 suggests—that none of these state rules would be preempted?

Thankfully, the answer is no—common sense still has an occasional role in statutory construction, and § 301 does not exhaust all of the indications to be grasped from the Copyright Act about those things which Congress must be assumed to want to preempt. (If intent is truly the touchstone here, as the courts always insist, then one has to say that Congress needs a lot of judicial speech-therapy to articulate those intentions.) But that still leaves the courts struggling to come up with a coherent idea of copyright preemption. Their problem is, effectively, a double-sided slippery slope. If they follow the literal language of

§ 301, then the states are allowed to make nonsense of Federal copyright policy by creating rights that negate all of its deliberate limitations and exceptions—whether in subject matter or scope. In other words, if only copyright's "inclusions"—in scope and subject matter—are preempted, then copyright's "exclusions" are fair game and that seems absurd. But on the other side, if we say that—for the purpose of preemption—copyright's empire consists of all the stuff that it covers *and all the stuff it excludes*, then preemption reaches very far indeed. What would *not* be preempted under such a standard? Copyright law gives no rights against defamation or trespass. Does that mean that defamation and trespass are preempted? And if they are not—as they clearly are not—then why can there not be state rights in ideas and unoriginal collections of facts, or state rights to prevent parodies and prohibit quotation? After all, those things are also outside of copyright's ambit.

What lies between these two slippery slopes? We will explore that question in the context of a single tort—misappropriation, the first intellectual property issue we covered in this book. But the implications of the discussion apply far beyond misappropriation, to give you a sense of how courts would deal with copyright-based preemption in any area of law.

PROBLEM 16-1
FRAMING AND PREEMPTION.

You have recently acquired a new client, HotNews.com, based in Manhattan. HotNews is a company whose sole product is an extremely popular internet site and whose sole revenue comes from advertisers who wish to place their messages on its site. The site is so popular because it offers, in the words of the HotNews slogan, "Your one-stop choice for Web News." HotNews does not gather news of its own. Instead it uses a process called "framing" to offer visitors to its page simultaneous access to the websites of a variety of news sources on the Web, including *The New York Times*, *The Washington Post*, and *Sports Illustrated*. A visitor to the HotNews page sees a screen divided into a number of partitions, like the frames of a picture (hence the name). Inside each of these frames will be shown the front page of a particular news-site, such as *The New York Times*, carefully identified as such. Since HotNews is, in effect, showing the newspapers' own sites, the viewer will see the familiar mastheads of each paper or magazine.

Describing the operation of their service to interested journalists, the HotNews management has been insistent that HotNews merely offers a set of useful instructions to the computers of its users; it is the user's computer that then fetches the different news sites and displays them side-by-side on the user's screen. In effect, the HotNews website tells the visitor's web-browsing program:

> "Divide your screen up into three frames. In number one, fetch and display http://www.nytimes.com, in number 2, fetch and display http://www.washingtonpost.com and in number 3, fetch and display http://www.sportsillustrated.com. In the spaces between and around these three frames, show HotNews' advertisements."

The HotNews site's most important feature is called deep-linking. Each day, HotNews' news analysts identify all the stories on a particular topic from different newspapers. Thus, for example, all the stories on Iraq or the search for the missing mass in the universe, would be indexed—whatever their source. The index would "deep link" the viewer directly to the story—bypassing the task of navigating through the newspaper's own screens and menus, and in the process avoiding some of the newspaper's advertising. What is more, the resultant stories would each be displayed in the "frame" for that publication. Thus a viewer could compare coverage given by the *Post* and *Times* to the same story; articles would appear literally side-by-side. Visitors to HotNews can then click through the various screens and stories in the different sites, all without ever moving out of the HotNews frames. HotNews claims that this is a significant convenience to its customers, and the number of people using the site (more than one million per day) seems to bear this claim out.

The New York Times and other featured newspapers and magazines do not see the process in such a benevolent light. Their reason is that the HotNews frames fit over, and replace, many of the banner advertisements carried at the top of their pages. Thus, a person viewing *The New York Times* at the HotNews site sees exactly the page they would get were they to go directly to http://www.nytimes.com, with one crucial exception: the advertisements at the tops and sides of the page will be those that HotNews has been paid to display, not those that *The New York Times* has been paid to display. Ads that are included inside the four corners of the article's dimensions will be shown, but these command a lower advertising fee than the prestigious banner position atop an article. *The New York Times* and the other likely plaintiffs are upset about this because it lowers their advertising revenue from Web-based news services.

All of the publications to which HotNews links offer a limited number of free articles to casual browsers. Once that limit—10 articles a month in the case of *The New York Times*—has been reached, the site will not show more stories unless the user purchases a digital subscription. (In practice, this nag-wall is easily circumvented if the user simply clears cookies from her machine.) HotNews does not disturb the nag screens or article limits in any way. If a user has gone over their limit, they see the same warning that they need to purchase a subscription in the relevant window on their desktop. However, the news sites believe that, precisely by offering *so many news sites*, HotNews might enable users to get their daily news without going over the relevant article limit. HotNews argues instead that it will drive more users to their sites, leading to more subscribers.

At present web journalism is struggling. The market for print is all but dead. Some mixture of paywalls and online advertising is the future. Thus newspapers are particularly touchy about aggregators. HotNews has come to believe it will soon be sued and has turned to you for legal advice.

Your mission: Using only the materials for today's assignment, you need to research whether the news organizations have a cause of action for "hot news misappropriation" against HotNews.com under New York State law, and whether that cause of action can be stated in such a way as to avoid preemption by Federal copyright law. [Hint: what are the § 106 exclusive rights potentially implicated here? You might want to look beyond the obvious and reread the discussion of the display right, and of fair use, in *Perfect 10*.] Bonus question: does Article 1, § 8, cl. 8 play a role in your *preemption* analysis? Should it? If so, how?

International News Service v. The Associated Press
28 U.S. 215 (1918)

Please re-read *INS* from Chapter 1, page 26.

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1.) Subject Matter and General Scope: Extra Elements

National Basketball Assoc. v. Motorola, Inc.
105 F.3d 841 (2d Cir. 1997)

WINTER, Circuit Judge.

Motorola, Inc. and Sports Team Analysis and Tracking Systems ("STATS") appeal from a permanent injunction. The injunction concerns a handheld pager sold by Motorola and marketed under the name "SportsTrax," which displays updated information of professional basketball games in progress. The injunction prohibits appellants, absent authorization from the National Basketball Association and NBA Properties, Inc. (collectively the "NBA"), from transmitting scores or other data about NBA games in progress via the pagers, STATS's site on America On-Line's computer dial-up service, or "any equivalent means."

The crux of the dispute concerns the extent to which a state law "hot-news" misappropriation claim based on *International News Service v. Associated Press* (1918) ("*INS*"), survives preemption by the federal Copyright Act and whether the NBA's claim fits within the surviving *INS*-type claims. We hold that a narrow "hot-news" exception does survive preemption. However, we also hold that appellants' transmission of "real-time" NBA game scores and information tabulated from television and radio broadcasts of games in progress does not constitute a misappropriation of "hot news" that is the property of the NBA.

I. BACKGROUND

The facts are largely undisputed. Motorola manufactures and markets the SportsTrax paging device while STATS supplies the game information that is transmitted to the pagers. The product became available to the public in January 1996, at a retail price of about $200. SportsTrax's pager has an inch-and-a-half by inch-and-a-half screen and operates in four basic modes: "current," "statistics," "final scores" and "demonstration." It is the "current" mode that gives rise to the present dispute. In that mode, SportsTrax displays the following information on NBA games in progress: (i) the teams playing; (ii) score changes; (iii) the team in possession of the ball; (iv) whether the team is in the free-throw bonus; (v) the quarter of the game; and (vi) time remaining in the quarter. The information is updated every two to three minutes, with more frequent updates near the end of the first half and the end of the game. There is a lag of approximately two or three minutes between events in the game itself and when the information appears on the pager screen.

SportsTrax's operation relies on a "data feed" supplied by STATS reporters who watch the games on television or listen to them on the radio. The reporters key into a personal computer changes in the score and other information such as successful and missed shots, fouls, and clock updates. The information is relayed by modem to STATS's host computer, which compiles, analyzes, and formats the data for retransmission. The information is then sent to a common carrier, which then sends it via satellite to various local FM radio networks that in turn emit the signal received by the individual SportsTrax pagers.

Finding Motorola and STATS liable for misappropriation, Judge Preska entered the permanent injunction, reserved the calculation of damages for subsequent proceedings, and stayed execution of the injunction pending appeal. Motorola and STATS appeal from the injunction.

II. THE STATE LAW MISAPPROPRIATION CLAIM

A. Summary of Ruling

Because our disposition of the state law misappropriation claim rests in large part on preemption by the Copyright Act, our discussion necessarily goes beyond the elements of a misappropriation claim under New York law, and a summary of our ruling here will perhaps render that discussion—or at least the need for it—more understandable.

The issues before us are ones that have arisen in various forms over the course of this century as technology has steadily increased the speed and quantity of information transmission. Today, individuals at home, at work, or elsewhere, can use a computer, pager, or other device to obtain highly selective kinds of information virtually at will. *INS* was one of the first cases to address the issues raised by these technological advances, although the technology involved in that case was primitive by contemporary standards. *INS* involved two wire services, the Associated Press ("AP") and International News Service ("INS"), that transmitted news stories by wire to member newspapers. INS would lift factual stories from AP bulletins and send them by wire to INS papers. INS would also take factual stories from east coast AP papers and wire them to INS papers on the west coast that had yet to publish because of time differentials. The Supreme Court held that INS's conduct was a common-law misappropriation of AP's property.

With the advance of technology, radio stations began "live" broadcasts of events such as baseball games and operas, and various entrepreneurs began to use the transmissions of others in one way or another for their own profit. In response, New York courts created a body of misappropriation law, loosely based on *INS*, that sought to apply ethical standards to the use by one party of another's transmissions of events.

Federal copyright law played little active role in this area until 1976. Before then, it appears to have been the general understanding—there being no caselaw of consequence—that live events such as baseball games were not copyrightable. Moreover, doubt existed even as to whether a recorded broadcast or videotape of such an event was copyrightable. In 1976, however, Congress passed legislation expressly affording copyright protection to simultaneously-recorded broadcasts of live performances such as sports events. Such protection was not extended to the underlying events.

The 1976 amendments also contained provisions preempting state law claims that enforced rights "equivalent" to exclusive copyright protections when the work to which the state claim was being applied fell within the area of copyright protection. *See* 17 U.S.C. § 301. Based on legislative history of the 1976 Amendments, it is generally agreed that a "hot-news" *INS*-like claim survives preemption. H.R. No. 94-1476 at 132 (1976). However, much of New York misappropriation law after *INS* goes well beyond "hot-news" claims and is preempted.

B. Copyrights in Events or Broadcasts of Events

The NBA asserted copyright infringement claims with regard both to the underlying games and to their broadcasts. The district court dismissed these claims, and the NBA does not appeal from their dismissal. Nevertheless, discussion of the infringement claims is necessary to provide the framework for analyzing the viability of the NBA's state law misappropriation claim in light of the Copyright Act's preemptive effect.

1. Infringement of a Copyright in the Underlying Games

In our view, the underlying basketball games do not fall within the subject matter of federal copyright protection because they do not constitute "original works of authorship" under 17 U.S.C. § 102(a). Sports events are not "authored" in any common sense of the word. There is, of course, at least at the professional level, considerable preparation for a game. However, the preparation is as much an expression of hope or faith as a determination of what will actually happen. Unlike movies, plays, television programs, or operas, athletic events are competitive and have no underlying script. Preparation may even cause mistakes to succeed, like the broken play in football that gains yardage because the opposition could not expect it. Athletic events may also result in wholly unanticipated occurrences, the most notable recent event being in a championship baseball game in which interference with a fly ball caused an umpire to signal erroneously a home run.

What "authorship" there is in a sports event, moreover, must be open to copying by competitors if fans are to be attracted. If the inventor of the T-formation in football had been able to copyright it, the sport might have come to an end instead of prospering. Even where athletic preparation most resembles authorship—figure skating, gymnastics, and, some would uncharitably say, professional wrestling—a performer who conceives and executes a particularly graceful and difficult—or, in the case of wrestling, seemingly painful—acrobatic feat cannot copyright it without impairing the underlying competition in the future. A claim of being the only athlete to perform a feat doesn't mean much if no one else is allowed to try.

For many of these reasons, Nimmer on Copyright concludes that the "far more reasonable" position is that athletic events are not copyrightable. Nimmer notes that, among other problems, the number of joint copyright owners would arguably include the league, the teams, the athletes, umpires, stadium workers and even fans, who all contribute to the "work."

Concededly, caselaw is scarce on the issue of whether organized events themselves are copyrightable, but what there is indicates that they are not. In claiming a copyright in the underlying games, the NBA relied in part on a footnote in *Baltimore Orioles, Inc. v. Major League Baseball Players Assn.* (7th Cir. 1986), which stated that the "players' performances" contain the "Modest Creativity Required for Copyrightability." However, the Court went on to state, "moreover, even if the players' performances were not sufficiently creative, the players agree that the cameramen and director contribute creative labor to the telecasts." This last sentence indicates that the court was considering the copyrightability of telecasts—not the underlying games, which obviously can be played without cameras.

We believe that the lack of caselaw is attributable to a general understanding that athletic events were, and are, uncopyrightable. Indeed, prior to 1976, there was even doubt that broadcasts describing or depicting such events, which have a far stronger case for copyrightability than the events themselves, were entitled to copyright protection. Indeed, as described in the next subsection of this opinion, Congress found it necessary to extend such protection to recorded broadcasts of live events. The fact that Congress did not extend such protection to the events themselves confirms our view that the district court correctly held that appellants were not infringing a copyright in the NBA games.

2. Infringement of a Copyright in the Broadcasts of NBA Games

As noted, recorded broadcasts of NBA games—as opposed to the games themselves—are now entitled to copyright protection. The Copyright Act was amended in 1976 specifically to insure that simultaneously-recorded transmissions of live performances and sporting events would meet the Act's requirement that the original work of authorship be "fixed in any tangible medium of expression." 17 U.S.C. § 102(a). Accordingly, Section 101 of the Act, containing definitions, was amended to read:

> A work consisting of sounds, images, or both, that are being transmitted, is "fixed" for purposes of this title if a fixation of the work is being made simultaneously with its transmission.

Congress specifically had sporting events in mind:

> [T]he bill seeks to resolve, through the definition of "fixation" in section 101, the status of live broadcasts—sports, news coverage, live performances of music, etc.—that are reaching the public in unfixed form but that are simultaneously being recorded.

The House Report also makes clear that it is the broadcast, not the underlying game, that is the subject of copyright protection. In explaining how game broadcasts meet the Act's requirement that the subject matter be an "original work[ ] of authorship," the House Report stated:

> When a football game is being covered by four television cameras, with a director guiding the activities of the four cameramen and choosing which of their electronic images are sent out to the public and in what order, there is little doubt that what the cameramen and the director are doing constitutes "authorship."

Although the broadcasts are protected under copyright law, the district court correctly held that Motorola and STATS did not infringe NBA's copyright because they reproduced only facts from the broadcasts, not the expression or description of the game that constitutes the broadcast. The "fact/expression dichotomy" is a bedrock principle of copyright law that "limits severely the scope of protection in fact-based works." *Feist Publications, Inc. v. Rural Tel. Service Co.* (1991). "No author may copyright facts or ideas. The copyright is limited to those aspects of the work—termed 'expression'—that display the stamp of the author's originality."

We agree with the district court that the "defendants provide purely factual information which any patron of an NBA game could acquire from the arena without any involvement from the director, cameramen, or others who contribute to the originality of a broadcast." Because the SportsTrax device and AOL site reproduce only factual information culled from the broadcasts and none of the copyrightable expression of the games, appellants did not infringe the copyright of the broadcasts.

C. The State-Law Misappropriation Claim

The district court's injunction was based on its conclusion that, under New York law, defendants had unlawfully misappropriated the NBA's property rights in its games. The district court reached this conclusion by holding: (i) that the NBA's misappropriation claim relating to the underlying games was not preempted by Section 301 of the Copyright Act; and (ii) that, under New York common law, defendants had engaged in unlawful misappropriation. We disagree.

1. Preemption Under the Copyright Act

a) Summary

When Congress amended the Copyright Act in 1976, it provided for the preemption of state law claims that are interrelated with copyright claims in certain ways. Under 17 U.S.C. § 301, a state law claim is preempted when: (i) the state law claim seeks to vindicate "legal or equitable rights that are equivalent" to one of the bundle of exclusive rights already protected by copyright law under 17 U.S.C. § 106—styled the "general scope requirement"; and (ii) the particular work to which the state law claim is being applied falls within the type of works protected by the Copyright Act under Sections 102 and 103—styled the "subject matter requirement."

The district court concluded that the NBA's misappropriation claim was not preempted because, with respect to the underlying games, as opposed to the broadcasts, the subject matter requirement was not met. The court dubbed as "partial preemption" its separate analysis of misappropriation claims relating to the underlying games and misappropriation claims relating to broadcasts of those games. The district court then relied on a series of older New York misappropriation cases involving radio broadcasts that considerably broadened *INS*. We hold that where the challenged copying or misappropriation relates in part to the copyrighted broadcasts of the games, the subject matter requirement is met as to both the broadcasts and the games. We therefore reject the partial preemption doctrine and its anomalous consequence that "it is possible for a plaintiff to assert claims both for infringement of its copyright in a broadcast and misappropriation of its rights in the underlying event." We do find that a properly-narrowed INS "hot-news" misappropriation claim survives preemption because it fails the general scope requirement, but that the broader theory of the radio broadcast cases relied upon by the district court were preempted when Congress extended copyright protection to simultaneously-recorded broadcasts.

b) "Partial Preemption" and the Subject Matter Requirement

The subject matter requirement is met when the work of authorship being copied or misappropriated "falls within the ambit of copyright protection." We believe that the subject matter requirement is met in the instant matter and that the concept of "partial preemption" is not consistent with section 301 of the Copyright Act. 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. We believe that:

> [O]nce a performance is reduced to tangible form, there is no distinction between the performance and the recording of the performance for the purposes of preemption under § 301(a). Thus, if a baseball game were not broadcast or were telecast without being recorded, the Players' performances similarly would not be fixed in tangible form and their rights of publicity would not be subject to preemption. By virtue of being videotaped, however, the Players' performances are fixed in tangible form, and any rights of publicity in their performances that are equivalent to the rights contained in the copyright of the telecast are preempted.

Baltimore Orioles.

Copyrightable material often contains uncopyrightable elements within it, but Section 301 preemption bars state law misappropriation claims with respect to uncopyrightable as well as copyrightable elements. In *Harper & Row* [the Second Circuit decision that was reversed by the Supreme Court regarding the issue of fair use, not preemption] for example, we held that state law claims based on the copying of excerpts from President Ford's memoirs were preempted even with respect to information that was purely factual and not copyrightable. We stated:

> The [Copyright] Act clearly embraces "works of authorship," including "literary works," as within its subject matter. The fact that portions of the

> Ford memoirs may consist of uncopyrightable material . . . does not take the work as a whole outside the subject matter protected by the Act. Were this not so, states would be free to expand the perimeters of copyright protection to their own liking, on the theory that preemption would be no bar to state protection of material not meeting federal statutory standards.

The legislative history supports this understanding of Section 301(a)'s subject matter requirement. The House Report stated:

> As long as a work fits within one of the general subject matter categories of sections 102 and 103, the bill prevents the States from protecting it even if it fails to achieve Federal statutory copyright because it is too minimal or lacking in originality to qualify, or because it has fallen into the public domain.

Adoption of a partial preemption doctrine—preemption of claims based on misappropriation of broadcasts but no preemption of claims based on misappropriation of underlying facts—would expand significantly the reach of state law claims and render the preemption intended by Congress unworkable. It is often difficult or impossible to separate the fixed copyrightable work from the underlying uncopyrightable events or facts. Moreover, Congress, in extending copyright protection only to the broadcasts and not to the underlying events, intended that the latter be in the public domain. Partial preemption turns that intent on its head by allowing state law to vest exclusive rights in material that Congress intended to be in the public domain and to make unlawful conduct that Congress intended to allow.

c) The General Scope Requirement

Under the general scope requirement, Section 301 "preempts only those state law rights that 'may be abridged by an act which, in and of itself, would infringe one of the exclusive rights' provided by federal copyright law." However, certain forms of commercial misappropriation otherwise within the general scope requirement will survive preemption if an "extra-element" test is met.

We turn, therefore, to the question of the extent to which a "hot-news" misappropriation claim based on *INS* involves extra elements and is not the equivalent of exclusive rights under a copyright. Courts are generally agreed that some form of such a claim survives preemption. This conclusion is based in part on the legislative history of the 1976 amendments. The House Report stated:

> "Misappropriation" is not necessarily synonymous with copyright infringement, and thus a cause of action labeled as "misappropriation" is not preempted if it is in fact based neither on a right within the general scope of copyright as specified by section 106 nor on a right equivalent thereto. For example, state law should have the flexibility to afford a remedy (under traditional principles of equity) against a consistent pattern of unauthorized appropriation by a competitor of the facts (i.e., not the literary expression) constituting "hot" news, whether in the traditional mold of *International News Service v. Associated Press* (1918), or in the newer form of data updates from scientific, business, or financial data bases.

The crucial question, therefore, is the breadth of the "hot-news" claim that survives preemption.

In *INS*, the plaintiff AP and defendant INS were "wire services" that sold news items to client newspapers. AP brought suit to prevent INS from selling facts and information lifted from AP sources to INS-affiliated newspapers. One method by which INS was able to use AP's news was to lift facts from AP news bulletins. Another method was to sell facts taken from just-published east coast AP newspapers to west coast INS newspapers whose editions had yet to appear. The Supreme Court held (prior to *Erie R. Co. v. Tompkins*) that INS's use of AP's information was unlawful under federal common law. It characterized INS's conduct as

> amount[ing] to an unauthorized interference with the normal operation of complainant's legitimate business precisely at the point where the profit is to be reaped, in order to divert a material portion of the profit from those who have earned it to those who have not; with special advantage to defendant in the competition because of the fact that it is not burdened with any part of the expense of gathering the news.

The theory of the New York misappropriation cases relied upon by the district court is considerably broader than that of *INS*. For example, the district court quoted at length from *Metropolitan Opera Ass'n v. Wagner-Nichols Recorder Corp*. (N.Y. Sup. Ct. 1950). *Metropolitan Opera* described New York misappropriation law as standing for the "broader principle that property rights of commercial value are to be and will be protected from any form of commercial immorality"; that misappropriation law developed "to deal with business malpractices offensive to the ethics of [ ] society"; and that the doctrine is "broad and flexible."

However, we believe that *Metropolitan Opera*'s broad misappropriation doctrine based on amorphous concepts such as "commercial immorality" or society's "ethics" is preempted. Such concepts are virtually synonymous for wrongful copying and are in no meaningful fashion distinguishable from infringement of a copyright. The broad misappropriation doctrine relied upon by the district court is, therefore, the equivalent of exclusive rights in copyright law.

Most of the broadcast cases relied upon by the NBA are simply not good law. Those cases were decided at a time when simultaneously-recorded broadcasts were not protected under the Copyright Act and when the state law claims they fashioned were not subject to federal preemption. For example, *Metropolitan Opera* involved the unauthorized copying, marketing, and sale of opera radio broadcasts. As another example, in *Mutual Broadcasting System v. Muzak Corp.* (N.Y. Sup. Ct. 1941), the defendant simultaneously retransmitted the plaintiff's baseball radio broadcasts onto telephone lines. As discussed above, the 1976 amendments to the Copyright Act were specifically designed to afford copyright protection to simultaneously-recorded broadcasts, and *Metropolitan Opera* and *Muzak* could today be brought as copyright infringement cases. Moreover, we believe that they would have to be brought as copyright cases because the amendments affording broadcasts copyright protection also preempted the state law misappropriation claims under which they were decided.

Our conclusion, therefore, is that only a narrow "hot-news" misappropriation claim survives preemption for actions concerning material within the realm of copyright. In our view, 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, [and] (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.

INS is not about ethics; it is about the protection of property rights in time-sensitive information so that the information will be made available to the public by profit-seeking entrepreneurs. If services like AP were not assured of property rights in the news they pay to collect, they would cease to collect it. The ability of their competitors to appropriate their product at only nominal cost and thereby to disseminate a competing product at a lower price would destroy the incentive to collect news in the first place. The newspaper-reading public would suffer because no one would have an incentive to collect "hot news."

We therefore find the extra elements—those in addition to the elements of copyright infringement—that allow a "hot-news" claim to survive preemption are: (i) the time-sensitive value of factual information, (ii) the free-riding by a defendant, and (iii) the threat to the very existence of the product or service provided by the plaintiff.

2. The Legality of SportsTrax

We conclude that Motorola and STATS have not engaged in unlawful misappropriation under the "hot-news" test set out above. To be sure, some of the elements of a "hot-news" *INS*-claim are met. The information transmitted to SportsTrax is not precisely contemporaneous, but it is nevertheless time-sensitive. Also, the NBA does provide, or will shortly do so, information like that available through SportsTrax. It now offers a service called "Gamestats" that provides official play-by-play game sheets and half-time and final box scores within each arena. It also provides such information to the media in each arena. In the future, the NBA plans to enhance Gamestats so that it will be networked between the various arenas and will support a pager product analogous to SportsTrax. SportsTrax will of course directly compete with an enhanced Gamestats.

However, there are critical elements missing in the NBA's attempt to assert a "hot-news" *INS*-type claim. As framed by the NBA, their claim compresses and confuses three different informational products. The first product is generating the information by playing the games; the second product is transmitting live, full descriptions of those games; and the third product is collecting and retransmitting strictly factual information about the games. The first and second products are the NBA's primary business: producing basketball games for live attendance and licensing copyrighted broadcasts of those games. The collection and retransmission of strictly factual material about the games is a different product: e.g., box-scores in newspapers, summaries of statistics on television sports news, and real-time facts to be transmitted to pagers. In our view, the NBA has failed to show any competitive effect whatsoever from SportsTrax on the first and second products and a lack of any free-riding by SportsTrax on the third.

With regard to the NBA's primary products—producing basketball games with live attendance and licensing copyrighted broadcasts of those games—there is no evidence that anyone regards SportsTrax as a substitute for attending NBA games or watching them on television. In fact, Motorola markets SportsTrax as being designed "for those times when you cannot be at the arena, watch the game on TV, or listen to the radio. . . ."

The NBA argues that the pager market is also relevant to a "hot-news" *INS*-type claim and that SportsTrax's future competition with Gamestats satisfies any missing element. We agree that there is a separate market for the real-time transmission of factual information to pagers or similar devices. However, we disagree that SportsTrax is in any sense freeriding off Gamestats.

An indispensable element of an *INS* "hot-news" claim is free-riding by a defendant on a plaintiff's product, enabling the defendant to produce a directly competitive product for less money because it has lower costs. SportsTrax is not such a product. The use of pagers to transmit real-time information about NBA games requires: (i) the collecting of facts about the games; (ii) the transmission of these facts on a network; (iii) the assembling of them by the particular service; and (iv) the transmission of them to pagers or an on-line computer site. Appellants are in no way free-riding on Gamestats. Motorola and STATS expend their own resources to collect purely factual information generated in NBA games to transmit to SportsTrax pagers. They have their own network and assemble and transmit data themselves.

SportsTrax and Gamestats are each bearing their own costs of collecting factual information on NBA games, and, if one produces a product that is cheaper or otherwise superior to the other, that producer will prevail in the marketplace. This is obviously not the situation against which *INS* was intended to prevent: the potential lack of any such product or service because of the anticipation of free-riding.

For the foregoing reasons, the NBA has not shown any damage to any of its products based on free-riding by Motorola and STATS, and the NBA's misappropriation claim based on New York law is preempted.

IV. CONCLUSION

We vacate the injunction entered by the district court and order that the NBA's claim for misappropriation be dismissed.

Questions:

1.) Why are football games not copyrightable? (The game itself, not the live recording of it.) Is any sport copyrightable? If professional wrestling were to be entirely a sham sport, scripted in its entirety (which of course we know is untrue) would *it* be copyrightable? What would the copyright cover? The actual bout? The script for the bout? And how would it be classed? As choreography?

[Some of you will now be playing out all kinds of other copyright scenarios in your head. Is improvisational theater—in which characters are given general role guidelines, but no lines—copyrightable? Is a jazz jam session where all the musicians riff off each other's contributions copyrightable? Do you have a copyright over the awesomely destructive and unlikely path your character just took through World of Warcraft? This is a deadly serious editorial interjection: if you are indeed delightedly geeking out on this kind of stuff, you should consider a career as an intellectual property lawyer. Really. It is what makes it fun. Conversely, if all this strikes you as metaphysics for nerds (which it is) then intellectual property may not be for you.]

2.) Why are the live recordings of sporting events copyrightable? What is the original expression required by *Feist*? Who is the author? Does contemporaneous recording satisfy the constitutional fixation requirement?

3.) The District Court came up with the idea of partial preemption—that copyright would preempt giving a state right that covered the copyrightable elements of the broadcast, but not the non-copyrightable elements of the game (such as the game itself, the facts and so on). Why is this wrong? Isn't that what § 301 explicitly says?

4.) What are the requirements this case lays down for a state hot news misappropriation tort that survives Federal preemption?

5.) "[W]e believe that *Metropolitan Opera*'s broad misappropriation doctrine based on amorphous concepts such as "commercial immorality" or society's "ethics" is preempted. Such concepts are virtually synonymous for wrongful copying and are in no meaningful fashion distinguishable from infringement of a copyright." True? Are your favorite immoral or unethical ideas synonymous with wrongful copying? Even your best commercially immoral ideas? What does the court mean when it says this?

6.) This case is about preemption of one specific state tort—misappropriation. What can you glean from it about the reach of copyright-based preemption in, for example, the case of a state statute forbidding parodies, or giving an exclusive right to the compiler of white pages telephone directories? Would the specific extra elements the court mentioned here be relevant?

2.) Preemption, Misappropriation & the Fact/Expression Dichotomy

Barclays Capital Inc. v. Theflyonthewall.com, Inc.

650 F.3d 876 (2d Cir. 2011)

SACK, Circuit Judge.

The parties, the district court, and *amici* have raised a wide variety of interesting legal and policy issues during the course of this litigation. We need not address most of them. We conclude that under principles that are well established in this Circuit, the plaintiffs' claim against the defendant for "hot news" misappropriation of the plaintiff financial firms' recommendations to clients and prospective clients as to trading in corporate securities is preempted by federal copyright law. Based upon principles explained and applied in *National Basketball Association v. Motorola, Inc.* (2d Cir. 1997) (sometimes hereinafter "*NBA*"), we conclude that because the plaintiffs' claim falls within the "general scope" of copyright, 17 U.S.C. § 106, and involves the type of works protected by the Copyright Act, 17 U.S.C. §§ 102 and 103, and because the defendant's acts at issue do not meet the exceptions for a "hot news" misappropriation claim as recognized by *NBA*, the claim is preempted. We therefore reverse the judgment of the district court with respect to that claim.

The plaintiffs-appellees—Barclays Capital Inc. ("Barclays"); Merrill Lynch, Pierce, Fenner & Smith Inc. ("Merrill Lynch"); and Morgan Stanley & Co. Inc. ("Morgan Stanley") (collectively, the "Firms")—are major financial institutions that, among many other things, provide securities brokerage services to members of the public. Largely in that connection, they engage in extensive research about the business and prospects of publicly traded companies, the securities of those companies, and the industries in which those companies are engaged. The results of the research are summarized by the Firms in reports, which customarily contain recommendations as to the wisdom of purchasing, holding, or selling securities of the subject companies. Although the recommendations and the research underlying them in the reports are inextricably related, it is the alleged misappropriation of the recommendations, each typically contained in a single sentence, that is at the heart of the district court's decision and the appeal here.

Each morning before the principal U.S. securities markets open, each Firm circulates its reports and recommendations for that day to clients and prospective clients. The recipients thus gain an informational advantage over non-recipients with respect to possible trading in the securities of the subject companies both by learning before the world at large does the contents of the reports and, crucially for present purposes, the *fact* that the recommendations are being made by the Firm. The existence of that fact alone is likely to result in purchases or sales of the securities in question by client and non-client alike, and a corresponding short-term increase or decrease in the securities' market prices. The Firms and similar businesses, under their historic and present business models, profit from the preparation and circulation of the reports and recommendations principally insofar as they earn brokerage commissions when a recipient of a report and recommendation turns to the firm to execute a trade in the shares of the company being reported upon.

The defendant-appellant is the proprietor of a news service distributed electronically, for a price, to subscribers. In recent years and by various means, the defendant has obtained information about the Firms' recommendations before the Firms have purposely made them available to the general public and before exchanges for trading in those shares open for the day. Doing so tends to remove the informational and attendant trading advantage of the Firms' clients and prospective clients who are authorized recipients of the reports and recommendations. The recipients of the information are, in turn, less likely to buy or sell the securities using the brokerage services of the reporting and recommending Firms, thereby reducing the incentive for the Firms to create such reports and recommendations in the first place. This, the Firms assert, will destroy their business models and have a severely deleterious impact on their ability to engage in further research and to create further reports and recommendations. . . .

. . . The first of their two sets of claims against the defendant sounds in copyright and is based on allegations of verbatim copying and dissemination of portions of the Firms' reports by the defendant. The Firms have been entirely successful on these copyright claims. Although the extent to which the Firms' success on the copyright claims has alleviated their overall concerns is not clear, their victory on these claims is secure: Fly has not challenged the resulting injunction on appeal.

What remains before us, then, is the second set of claims by the Firms, alleging that Fly's early republication of the securities recommendations that the Firms create—their "hot news"—is tortious under the New York State law of misappropriation. The district court agreed and granted carefully measured injunctive relief. It is to the misappropriation cause of action that this appeal and therefore this opinion is devoted.

BACKGROUND

. . . This litigation concerns the trading "Recommendations," a term which the district court defined as "actionable reports," i.e., Firm research reports "likely to spur any investor into making an immediate trading decision. Recommendations upgrade or downgrade a security; begin research coverage of a company's security (an event known as an 'initiation'); or predict a change in the security's target price." The better known and more respected an analyst is, the more likely that a recommendation for which he or she is primarily responsible will significantly affect the market price of a security.

Most Recommendations are issued sometime between midnight and 7 a.m. Eastern Time, allowing stock purchases to be made on the market based on the reports and Recommendations upon the market opening at 9:30 a.m. Timely receipt of a Recommendations affords an investor the opportunity to execute a trade in the subject security before the market has absorbed and responded to it.

The Firms typically provide complimentary copies of the reports and Recommendations to their institutional and individual clients using a variety of methods.[6] The Firms then conduct an orchestrated sales campaign in which members of their sales

[6] . . . The universe of authorized report recipients is strikingly large. Morgan Stanley estimates that it distributes its research reports to 7,000 institutional clients and 100,000 individual investors. Each institutional client may in turn identify multiple employees to receive reports. Morgan Stanley estimates that in aggregate approximately 225,000 separate people are authorized to receive its reports.

forces contact the clients the Firms think most likely to execute a trade based upon the Recommendation, with the understanding that continued receipt of reports and Recommendations may be made contingent on the generation of a certain level of trading commissions paid to the Firm.

The Firms contend that clients are much more likely to place a trade with a Firm if they learn of the Recommendation directly from that Firm rather than elsewhere, and estimate that more than sixty percent of all trades result from Firm solicitations, including those highlighting Recommendations. It is from the commissions on those trades that Firms profit from the creation and dissemination of their reports and Recommendations. They assert that the timely, exclusive delivery of research and Recommendations therefore is a key to what they frequently refer to as their "business model."

Theflyonthewall.com

The defendant-appellant Theflyonthewall.com, Inc. ("Fly") is, among other things, a news "aggregator." For present purposes, "[a]n aggregator is a website that collects headlines and snippets of news stories from other websites. Examples include Google News and the Huffington Post."

Understanding that investors not authorized by the Firms to receive the reports and Recommendations are interested in and willing to pay for early access to the information contained in them—especially the Recommendations, which are particularly likely to affect securities prices—several aggregators compile securities-firm recommendations, including the Recommendations of the Firms, sometimes with the associated reports or summaries thereof, and timely provide the information to their own subscribers for a fee. Fly is one such company. It employs twenty-eight persons, about half of whom are devoted to content production. It does not itself provide brokerage, trading, or investment-advisory services beyond supplying that information.

Typical clients of the Firms are hedge funds, private equity firms, pension funds, endowments, and wealthy individual investors. By contrast, Fly's subscribers are predominately individual investors, institutional investors, brokers, and day traders. These customers purchase one of three content packages on Fly's website, paying between $25 and $50 monthly for unlimited access to the site.

In addition to maintaining its website, Fly distributes its content through third-party distributors and trading platforms, including some, such as Bloomberg and Thomson Reuters, that also separately provide authorized dissemination of the Firms' Recommendations. Fly has about 3,300 direct subscribers through its website, and another 2,000 subscribers who use third-party platforms to receive the service.

Fly characterizes itself as a source for breaking financial news, claiming to be the "fastest news feed on the web." It advertises that its "quick to the point news is a valuable resource for any investment decision." Fly has emphasized its access to analyst research, saying that its newsfeed is a "one-stop solution for accessing analyst comments," and brags that it posts "breaking analyst comments as they are being disseminated by Wall Street trading desks, consistently beating the news wires."

The cornerstone of Fly's offerings is its online newsfeed, which it continually updates between 5:00 a.m. and 7:00 p.m. during days on which the New York Stock Exchange is open. The newsfeed typically streams more than 600 headlines a day in ten different categories, including "hot stocks," "rumors," "technical analysis," and "earnings." One such category is "recommendations." There, Fly posts the recommendations (but not the underlying research reports or supporting analysis) produced by sixty-five investment firms' analysts, including those at the plaintiff Firms.

A typical Recommendation headline from 2009, for example, reads "EQIX: Equinox initiated with a Buy at BofA/Merrill. Target $110."

Fly's headlines, including those in the "recommendations" category, are searchable and sortable. Users can also subscribe to receive automated e-mail, pop-up, or audio alerts whenever Fly posts content relevant to preselected companies' securities.

Fly publishes most of its recommendation headlines before the New York Stock Exchange opens each business day at 9:30 a.m. Fly estimates that the Firms' Recommendation headlines currently comprise approximately 2.5% of Fly's total content, down from 7% in 2005.

According to Fly, over time it has changed the way in which it obtains information about recommendations. Some investment firms, such as Wells Fargo's investment services, will send Fly research reports directly as soon as they are released. Others, including the plaintiff Firms, do not. Until 2005, for recommendations of firms that do not, including the plaintiff Firms, Fly relied on employees at the investment firms (without the firms' authorization) to e-mail the research reports to Fly as they were released. Fly staff would summarize a recommendation as a headline (e.g., "EQIX initiated with a Buy at BofA/Merrill. Target $110."). Sometimes Fly would include in a published item an extended passage taken verbatim from the underlying report.

Fly maintains that because of threats of litigation in 2005, it no longer obtains recommendations directly from such investment firms. Instead, it gathers them using a combination of other news outlets, chat rooms, "blast IMs" sent by people in the investment community to hundreds of recipients, and conversations with traders, money managers, and its other contacts involved in the securities markets. Fly also represents that it no longer publishes excerpts from the research reports themselves, and now disseminates only the Recommendations, typically summarizing only the rating and price target for a particular stock.

The Firms' Response to the Threat Posed by Fly and Other Aggregators

Because the value of the reports and Recommendations to an investor with early access to a Recommendation is in significant part derived from the informational advantage an early recipient may have over others in the marketplace, most of the trading the Firms generate based on their reports and Recommendations occurs in the initial hours of trading after the principal U.S. securities markets have opened. Such sales activity typically slackens by midday. The Firms' ability to generate revenue from the reports and Recommendations therefore directly relates to the informational advantage they can provide to their clients. This in turn is related to the Firms' ability to control the distribution of the reports and Recommendations so that the Firms' clients have access to and can take action on the reports and Recommendations before the general public can.

The Firms have employed a variety of measures in an attempt to stem the early dissemination of Recommendations to non-clients. Most of them have either been instituted or augmented relatively recently in response to the increasing availability of Recommendations from Fly and competing aggregators and news services. . . .

DISCUSSION

III. Copyright Act Preemption

A. *National Basketball Association v. Motorola, Inc.*

. . . ii. Moral Dimensions

One source of confusion in addressing these misappropriation cases is that *INS v.*

AP itself was a case brought in equity to enjoin INS from copying AP's uncopyrightable news. In that context, the *INS* Court emphasized the unfairness of INS's practice of pirating AP's stories. It condemned, in what sounded biblical in tone, the defendant's "reap[ing] where it ha[d] not sown." . . .

The *NBA* court also noted that the district court whose decision it was reviewing had "described New York misappropriation law as standing for the 'broader principle that property rights of commercial value are to be and will be protected from any form of commercial immorality'; that misappropriation law developed 'to deal with business malpractices offensive to the ethics of [] society'; and that the doctrine is 'broad and flexible.'" But Judge Winter explicitly rejected the notion that "hot news" misappropriation cases based on the disapproval of the perceived unethical nature of a defendant's ostensibly piratical acts survive preemption. The Court concluded that "such concepts are virtually synonymous [with] wrongful copying and are in no meaningful fashion distinguishable from infringement of a copyright. The broad misappropriation doctrine relied upon by the district court is, therefore, the equivalent of exclusive rights in copyright law."

No matter how "unfair" Motorola's use of NBA facts and statistics may have been to the NBA—or Fly's use of the fact of the Firms' Recommendations may be to the Firms—then, such unfairness alone is immaterial to a determination whether a cause of action for misappropriation has been preempted by the Copyright Act. The adoption of new technology that injures or destroys present business models is commonplace. Whether fair or not,[29] that cannot, without more, be prevented by application of the misappropriation tort. Indeed, because the Copyright Act itself provides a remedy for wrongful copying, such unfairness may be seen as supporting a finding that the Act preempts the tort.

iii. Narrowness of the Preemption Exception

The *NBA* panel repeatedly emphasized the "narrowness" of the "hot news" tort exception from preemption. . . . This is a pressing concern when considering the "narrow" "hot news" misappropriation exemption from preemption. The broader the exemption, the greater the likelihood that protection of works within the "general scope" of the copyright and of the type of works protected by the Act will receive disparate treatment depending on where the alleged tort occurs and which state's law is found to be applicable.

The problem may be illustrated by reference to a recent case in the Southern District

[29] It is in the public interest to encourage and protect the Firms' continued incentive to research and report on enterprises whose securities are publicly traded, the businesses and industries in which they are engaged, and the value of their securities. But under the Firms' business models, that research is funded in part by commissions paid by authorized recipients of Recommendations trading not only with the benefit of the Firms' research, but on the bare *fact* that, for whatever reason, the Recommendation has been (or is about to be) issued. If construed broadly, the "hot news" misappropriation tort applied to the Recommendations alone could provide some measure of protection for the Firms' ability to engage in such research and reporting. But concomitantly, it would ensure that the authorized recipients of the Recommendations would in significant part be profiting because of their knowledge of the *fact* of a market-moving Recommendation before other traders learn of that fact. In that circumstance, the authorized recipient upon whose commissions the Firms depend to pay for their research activities would literally be profiting at the expense of persons from whom such knowledge has been withheld who also trade in the shares in question ignorant of the Recommendation.

None of this affects our analysis, nor do we offer a view of its legal implications, if any. We note nonetheless that the Firms seem to be asking us to use state tort law and judicial injunction to enable one class of traders to profit at the expense of another class based on their court-enforced unequal access to knowledge of a *fact*—the fact of the Firm's Recommendation.

of New York. In *Associated Press v. All Headline News Corp.*, the court sought to determine whether there was a difference between New York and Florida "hot news" misappropriation law in order for it to analyze, under choice-of-law principles, which state's law applied. Judge Castel observed that "[n]o authority has been cited to show that Florida recognizes a cause of action for hot news misappropriation. Then again, defendants have not persuasively demonstrated that Florida would not recognize such a claim."

It appears, then, that the alleged "hot news" misappropriation in *All Headline News Corp.* might have been permissible in New York but not in Florida. The same could have been said for the aggregation and publication of basketball statistics in *NBA*, and the same may be said as to the aggregation and publication of Recommendations in the case at bar. To the extent that "hot news" misappropriation causes of action are not preempted, the aggregators' actions may have different legal significance from state to state—permitted, at least to some extent, in some; prohibited, at least to some extent, in others. It is this sort of patchwork protection that the drafters of the Copyright Act preemption provisions sought to minimize, and that counsels in favor of locating only a "narrow" exception to Copyright Act preemption.

c. Three- and Five-Part "Tests"

Before concluding that the NBA's claim was preempted, the *NBA* panel set forth in its opinion—twice—a five-part "test" for identifying a non-preempted "hot news" misappropriation claim. The district court in this case, when applying *NBA*, structured its conclusions-of-law analysis around *NBA*'s first iteration of the "test". . . . But the [*NBA*] panel restated the five-part inquiry later in its opinion. . . .

Throughout this litigation the parties seem to have been in general agreement that the district court and we should employ a five-part analysis taken from the *NBA* opinion. It is understandable, of course, that counsel and the district court did in this case, and do in other comparable circumstances, attempt to follow our statements in precedential opinions as to what the law is—which we often state in terms of what we "hold." But that reading is not always either easy to make or technically correct. As Judge Friendly put it in colorful terms: "A judge's power to bind is limited to the issue that is before him; he cannot transmute dictum into decision by waving a wand and uttering the word 'hold.'" *United States v. Rubin* (2d Cir. 1979), *quoted in* Pierre N. Leval, *Judging Under the Constitution: Dicta about Dicta*, 81 N.Y.U. L. Rev. 1249, 1249 (2006). *See also generally* Leval ("A dictum [i.e., a conclusion or point of view in an opinion that is not a holding] is an assertion in a court's opinion of a proposition of law [that] does not explain why the court's judgment goes in favor of the winner.").

It is axiomatic that appellate judges cannot make law except insofar as they reach a conclusion based on the specific facts and circumstances presented to the court in a particular appeal. Subordinate courts and subsequent appellate panels are required to follow only these previous appellate legal "holdings." The *NBA* panel decided the case before it, and we think that the law it thus made regarding "hot news" preemption is, as we have tried to explain, determinative here. But the Court's various explanations of its five-part approach are not.[32]

Indeed, we do not see how they can be: The two five-part "tests" are not entirely

[32] Indeed, rather than identifying a set of required and specific "extra elements" essential to a non-preempted *INS*-like "hot news" claim, the Court in *NBA* was opining about the hypothetical set of circumstances—not present in that case—that might give rise to such a claim. Because the *NBA* court concluded that no such claim could be established on the facts of that case because of the absence of free-riding, its conjecture was descriptive and a helpful window into its reasoning, but could not bind subsequent courts. . . .

consistent, and are less consistent still with the three-"extra element" test, which also appears later in the opinion:

> We therefore find the extra elements—those in addition to the elements of copyright infringement—that allow a "hot-news" claim to survive preemption are: (i) the time-sensitive value of factual information, (ii) the free-riding by a defendant, and (iii) the threat to the very existence of the product or service provided by the plaintiff.

For example, the fifth of the five factors in the first iteration of the test is that "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." (emphasis added). The second iteration is similar, but adds a quotation from *INS* which can be read to make the factor far more difficult to demonstrate: that the conduct "would render [the plaintiff's] publication profitless, or so little profitable *as in effect to cut off the service by rendering the cost prohibitive in comparison with the return*.'" (emphasis added). Then, in rehearsing the "extra elements" that may avoid preemption, the panel referred to "the threat to the *very existence* of the product or service provided by the plaintiff." (emphasis added).

The distinctions between these various statements of a multi-part test are substantial. Were we required to rule on the district court's findings of fact ourselves in light of these various versions of elements, we might well perceive no clear error in a finding that the existence *or quality* of the Firms' reports were placed in jeopardy by what the district court found to be "free riding." By contrast, we might otherwise conclude that there is insufficient record evidence to sustain a finding either that the alleged free-riding by Fly and similar aggregators "in effect . . . cut off the [Firms'] service by rendering the cost prohibitive in comparison with the return" or were a "threat to the very existence of the product or service provided by the plaintiff[s]." It seems to us that each of *NBA*'s three multi-element statements serves a somewhat different purpose. The first is a general introduction, by way of summary, of what the decision concludes. The second may be described as "stating the elements of the tort." And the third focuses on what "extra elements" are necessary to avoid preemption despite the conclusion that the "general scope requirement" and the "subject matter requirement" have been met.

In our view, the several *NBA* statements were sophisticated observations in aid of the Court's analysis of the difficult preemption issues presented to it. Inconsistent as they were, they could not all be equivalent to a statutory command to which we or the district court are expected to adhere. . . .

B. Preemption and This Appeal

We conclude that applying *NBA* and copyright preemption principles to the facts of this case, the Firms' claim for "hot news" misappropriation fails because it is preempted by the Copyright Act. First, the Firms' reports culminating with the Recommendations satisfy the "subject matter" requirement because they are all works "of a type covered by section[] 102," i.e., "original works of authorship fixed in a[] tangible medium of expression." As discussed above, it is not determinative for the Copyright Act preemption analysis that the facts of the Recommendations themselves are not copyrightable. Second, the reports together with the Recommendations fulfill the "general scope" requirement because the rights "may be abridged by an act which, in and of itself, would infringe one of the 'exclusive rights' provided by federal copyright law," i.e., "acts of reproduction, performance, distribution or display."

Third and finally, the Firms' claim is not a so-called *INS*-type non-preempted claim because Fly is not, under *NBA*'s analysis, "free-riding." It is collecting, collating and disseminating factual information—the *facts* that Firms and others in the securities business have made recommendations with respect to the value of and the wisdom of purchasing or selling securities—and attributing the information to its source. The Firms are making the news; Fly, despite the Firms' understandable desire to protect their business model, is breaking it. As the *INS* Court explained, long before it would have occurred to the Court to cite the First Amendment for the proposition:

> [T]he news element—the information respecting current events contained in the literary production—is not the creation of the writer, but is a report of matters that ordinarily are *publici juris*; it is the history of the day. It is not to be supposed that the framers of the Constitution, when they empowered Congress "to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries" (Const., Art. I, § 8, par. 8), intended to confer upon one who might happen to be the first to report a historic event the exclusive right for any period to spread the knowledge of it.

The use of the term "free-riding" in recent "hot news" misappropriation jurisprudence exacerbates difficulties in addressing these issues. Unfair use of another's "labor, skill, and money, and which is salable by complainant for money," *INS*, sounds like the very essence of "free-riding," and, the term "free-riding" in turn seems clearly to connote acts that are quintessentially unfair.

It must be recalled, however, that the term free-riding refers explicitly to a requirement for a cause of action as described by *INS*. As explained by the *NBA* court, "[a]n indispensable element of an *INS* 'hot news' claim is free-riding by a defendant on a plaintiff's product."

The practice of what *NBA* referred to as "free-riding" was further described by *INS*. The *INS* Court defined the "hot news" tort in part as "taking material that has been acquired by complainant as the result of organization and the expenditure of labor, skill, and money, and which is salable by complainant for money, and . . . appropriating it and selling it as [the defendant's] own. . . ." That definition fits the facts of *INS*: The defendant was taking news gathered and in the process of dissemination by the Associated Press and selling that news as though the defendant itself had gathered it. But it does not describe the practices of Fly. The Firms here may be "acquiring material" in the course of preparing their reports, but that is not the focus of this lawsuit. In pressing a "hot news" claim against Fly, the Firms seek only to protect their Recommendations, something they *create* using their expertise and experience rather than *acquire* through efforts akin to reporting.

Moreover, Fly, having obtained news of a Recommendation, is hardly selling the Recommendation "as its own." It is selling the information with specific attribution to the issuing Firm. Indeed, for Fly to sell, for example, a Morgan Stanley Recommendation "as its own," as INS sold the news it cribbed from AP to INS subscribers, would be of little value to either Fly or its customers. If, for example, Morgan Stanley were to issue a Recommendation of Boeing common stock changing it from a "hold" to a "sell," it hardly seems likely that Fly would profit significantly from disseminating an item reporting that "*Fly* has changed its rating of Boeing from a hold to a sell." It is not the identity of Fly and its reputation as a financial analyst that carries the authority and weight sufficient to affect the market. It is Fly's accurate attribution of the Recommendation to the creator that gives this news its value.

We do not perceive a meaningful difference between (a) Fly's taking material that a Firm has *created* (not "acquired") as the result of organization and the expenditure of labor, skill, and money, and which is (presumably) salable by a Firm for money, and selling it *by ascribing the material to its creator Firm* and author (not selling it as Fly's own), and (b) what appears to be unexceptional and easily recognized behavior by members of the traditional news media—to report on, say, winners of Tony Awards or, indeed, scores of NBA games with proper attribution of the material to its creator. *INS* did not purport to address either.

It is also noteworthy, if not determinative, that *INS* referred to INS's tortious behavior as "amount[ing] to an unauthorized interference with the normal operation of complainant's legitimate business *precisely at the point where the profit is to be reaped*, in order to *divert a material portion of the profit* from those who have earned it to those who have not. . . ." (emphases added). As we have seen, the point at which the Firms principally reap their profit is upon the execution of sales or purchases of securities. It is at least arguable that Fly's interference with the "normal operation" of the Firms' business is indeed at a "point" where the Firms' profits are reaped. But it is not at all clear that *that* profit is being in any substantial sense "diverted" to Fly by its publication of Recommendations news. The lost commissions are, we would think, diverted to whatever broker happens to execute a trade placed by the recipient of news of the Recommendation from Fly.

To be sure, as the district court pointed out, "Fly [has made efforts], which have met with *some* success, to link its subscribers to discount brokerage services." (emphasis added). The court viewed these steps as "reflect[ing] the final stage in [Fly's] direct competition with the Firms by leveraging its access to their Recommendations and driving away their commission revenue[s]."

But we see nothing in the district court's opinion or in the record to indicate that the so-called "final stage" has in fact matured to a point where a significant portion of the diversion of profits to which the Firms object is lost to brokers in league with Fly or its competitors. Firm clients are, moreover, free to employ their authorized knowledge of a Recommendation to make a trade with a discount broker for a smaller fee. And, as we understand the record, the Firms channel fees to their brokerage operations using a good deal more than their Recommendations alone. A non-public Firm report, quite apart from the attached Recommendation—by virtue of the otherwise non-public information the report contains, including general news about the state of the markets, securities, and economic conditions—seems likely to play a substantial part in the Firms' ability to obtain trading business through their research efforts. It is difficult on this record for us to characterize Fly's publication of Recommendations as an unauthorized interference with the normal operation of Firms' legitimate business precisely at the point where the profit is to be reaped which, directly or indirectly, diverts a material portion of the Firms' profits from the Firms to Fly and others engaged in similar practices.

We do not mean to be parsing the language of *INS* as though it were a statement of law the applicability of which determines the outcome of this appeal. As we have explained, the law that *INS* itself established was overruled many years ago. But in talking about a "'hot-news' *INS*-like claim," as we did in *NBA*, or "the *INS* tort," as the district court did in this case, we are mindful that the *INS* Court's concern was tightly focused on the practices of the parties to the suit before it: news, data, and the like, gathered and disseminated by one organization as a significant part of its business, taken by another entity and published as the latter's own in competition with the former. The language chosen by the *INS* Court seems to us to make clear the substantial distance between that case and this one.

Here, like the defendants in *NBA* and unlike the defendant in *INS*, Fly "[has its] own network and assemble[s] and transmit[s] data [it] sel[f].” *NBA*. In *NBA*, Motorola and STATS employees watched basketball games, compiled the statistics, scores, and other information from the games, and sold the resulting package of data to their subscribers. We could perceive no non-preempted “hot news” tort. Here, analogous to the defendant’s in *NBA*, Fly’s employees are engaged in the financial-industry equivalent of observing and summarizing facts about basketball games and selling those packaged facts to consumers; it is simply the content of the facts at issue that is different.

And, according to our decision in *NBA*: “An indispensable element of a [non-preempted] *INS* ‘hot-news’ claim is free-riding by a defendant on a plaintiff’s product, enabling the defendant to produce a directly competitive product for less money because it has lower costs.” In *NBA*, we concluded that the defendant’s SportsTrax service was not such a product, in part because it was “bearing [its] own costs of collecting factual information on NBA games.” In this case, as the district court found, approximately half of Fly’s twenty-eight employees are involved on the collection of the Firms’ Recommendations and production of the newsfeed on which summaries of the Recommendations are posted. Fly is reporting financial news—factual information on Firm Recommendations—through a substantial organizational effort. Therefore, Fly’s service—which collects, summarizes, and disseminates the news of the Firms’ Recommendations—is not the “*INS*-like” product that could support a non-preempted cause of action for misappropriation.

By way of comparison, we might, as the *NBA* court did, speculate about a product a Firm *might* produce which *might* indeed give rise to a non-preempted “hot-news” misappropriation claim. If a Firm were to collect and disseminate to some portion of the public facts about securities recommendations in the brokerage industry (including, perhaps, such facts it generated itself—its own Recommendations), and were Fly to copy the facts contained in the Firm’s hypothetical service, it might be liable to the Firm on a “hot-news” misappropriation theory. That would appear to be an *INS*-type claim and might survive preemption.[40] But the Firms have no such product and make no such claim. On the facts of this case, they do not have an “*INS*-like” non-preempted “hot news” misappropriation cause of action against Fly.

C. Judge Raggi’s Concurrence

Judge Raggi would reach the same outcome as do we, but “would apply the *NBA* test to this case and reverse on the ground that the Firms failed to satisfy its direct competition requirement for a non-preempted claim.” We express no opinion as to whether there is or was direct competition between the Firms and Fly with regard to the Recommendations because we are bound by the holding of *NBA*. On the facts of that case, the plaintiff’s cause of action was preempted by the copyright law because the defendants did not “free ride” on the plaintiff’s work product. The *NBA* panel did not decide the case before it on the basis of the presence or absence of direct competition, which it thought to be an element of the preemption inquiry but did not depend upon in its analysis. We think that the *NBA* panel’s decision that the absence of “free riding” was fatal to the plaintiff’s claim in that case is binding upon us on the facts presented here. In other words, even were we to conclude, hypothetically and contrary to Judge Raggi’s views, that there *was indeed* direct competition between the Firms and Fly with respect to the Recommendations, we would nonetheless be

[40] Judge Raggi writes that by distinguishing between those who make the news and those who break it, we “foreclose the possibility of a ‘hot news’ claim by a party who disseminates news it happens to create.” That issue is simply not before us. We therefore do not address it, let alone suggest or imply that such a claim would necessarily be foreclosed.

bound to reverse the judgment of the district court based on our reading of *NBA*. The presence or absence of direct competition is thus not determinative and is therefore a matter we are not called upon to decide here.

CONCLUSION

We conclude that in this case, a Firm's ability to make news—by issuing a Recommendation that is likely to affect the market price of a security—does not give rise to a right for it to control who breaks that news and how. We therefore reverse the judgment of the district court to that extent and remand with instructions to dismiss the Firms' misappropriation claim.

REENA RAGGI, Circuit Judge, concurring.

I join the court in reversing the judgment in favor of the Firms on their state law claims of "hot news" misappropriation on the ground that such claims are preempted by federal copyright law. Unlike my colleagues in the majority, I do not reject the five-part test enunciated in *National Basketball Association v. Motorola, Inc.* (2d Cir. 1997) ("*NBA*"), to reach this result. Whatever reservations I may have about that test as a means for identifying non-preempted "hot news" claims, I do not think it can be dismissed as *dictum*. Accordingly, I write separately to explain why I conclude that the Firms failed to satisfy the "direct competition" requirement of *NBA*'s test. . . .

b. *NBA*'s Test Is Not Dictum

Despite my reservations regarding *NBA*'s test, I think it controls our resolution of this appeal. My colleagues in the majority are of a different view. They conclude that *NBA* "held" only that the facts presented could not establish a non-preempted "hot news" claim. They dismiss *NBA*'s five-part test as an unnecessary discussion of hypothetical circumstances giving rise to a "hot news" claim, which, as dictum, we need not follow. I am not convinced.

In holding that the *NBA* plaintiff failed to assert a non-preempted "hot news" claim, the court was required to determine the "breadth of the 'hot news' claim that survives preemption." To answer that "crucial question," the court identified five factors required to state a non-preempted "hot news" claim, applied them to the facts presented, and concluded that plaintiff's claim failed. Because the test was thus necessary to the opinion's result, it is not dictum. . . .

Thus, I would apply the *NBA* test to this case and reverse on the ground that the Firms failed to satisfy its direct competition requirement for a non-preempted claim.

c. *The Firms Failed To Establish Direct Competition Between Their Recommendations and Fly's Substantially Different Aggregate Product*

In concluding that the Firms failed to establish a non-preempted "hot news" claim under the test identified in *NBA*, I rely on facts emphasized by the majority, namely, that Fly produces an aggregate product reporting many Firms' Recommendations among other financial news, and attributing each Recommendation to its source, while the Firms each disseminate only their own Recommendations to clients who engage in a particular level of trading with the Firms. The majority, however, uses these facts to draw a bright line distinguishing between the Firms, who generate news, and Fly and other news aggregators, who "break" the news, with the former falling outside of hot-news protection. I am not convinced that this distinction is determinative here because the Firms appear to play both roles. Not only do they generate their Recommendations, they then disseminate them, recouping the cost of generation through trading revenue. I am not prepared to foreclose the possibility of a "hot news" claim by a party who disseminates news it happens to create.

I conclude simply that the facts emphasized by the majority preclude the Firms from stating a non-preempted "hot news" claim for a different reason derived from *NBA*: the Firms' product and Fly's newsfeed do not directly compete.

Although *NBA* turned on the plaintiff's failure to show free riding on and a sufficient threat to its services, the court there discussed the direct competition element in noting that the plaintiff had "compresse[d] and confuse[d] three different informational products." Separating the NBA's dissemination of live basketball games and copyrighted broadcasts from its collection and transmission of factual material about the games through a pager service, the court determined that only the latter might directly compete with the defendant's product, another pager service providing facts about live games. In other words, only products in the "keenest" of competition satisfy the direct competition requirement for a non-preempted claim. *INS v. AP* (stating that plaintiff and defendant newspaper companies were "in the keenest competition" in gathering and publishing news throughout United States). . . .

It bears noting that, like the district court, I view Fly's conduct as strong evidence of free-riding, or worse depending on how it came into possession of the Recommendations. Although Fly expends some effort to gather and aggregate the Recommendations, Fly is usurping the substantial efforts and expenses of the Firms to make a profit without expending any time or cost to conduct research of its own. I cannot celebrate such practices, which allow Fly "to reap where it has not sown." As the majority notes, however, such apparent unfairness does not control preemption analysis. Although Fly free-rides on the Firms' efforts, Fly's attribution of aggregate Recommendations demonstrates the crucial difference between the businesses: while the Firms disseminate only their own Recommendations to select clients most likely to follow the advice and place trades with the Firms, Fly aggregates and disseminates sixty-five firms' Recommendations and other financial information to anyone willing to pay for it without regard to whether clients accept or trade on particular Recommendations.

An example illustrates the distinction. Two firms might disseminate opposing Recommendations on the same stock. These two firms directly compete in attempting to convince clients to follow their Recommendation and place a trade. Fly, on the other hand, would presumably report both opinions (as well as scores of others) to its readers without regard to whether they trade on the information. Some investors may place a particular value on learning all Recommendations, and some people may have a general interest in learning such news even without wishing to invest. Thus, Fly's product may directly compete with that of other financial news outlets, such as Dow Jones, that also seek to provide all Recommendations to anyone interested in such news. But Fly's aggregate subscription product is sufficiently distinct from the Firms' business model, which cannot be divorced from the trading market it targets, to preclude a finding of the direct competition required by *NBA*'s test. . . .

Questions:

1.) "It is understandable, of course, that counsel and the district court did in this case, and do in other comparable circumstances, attempt to follow our statements in precedential opinions as to what the law is—which we often state in terms of what we "hold." But that reading is not always either easy to make or technically correct. As Judge Friendly put it in colorful terms: "A judge's power to bind is limited to the issue that is before him; he cannot transmute dictum into decision by waving a wand and uttering the word 'hold.'" " So now we cannot trust judges about what they "hold" their own holding to be? Say *what*?

2.) Joking aside: this is a careful and thoughtful opinion, building law on top of the thoughtful *NBA* decision. As we pointed out at the beginning of this chapter, the *NBA* court was faced with a double-sided slippery slope—either everything is preempted or states can completely negate all of the limitations in copyright law. The *NBA* decision tries to avoid the problems it saw in the District Court's idea of partial preemption. What is this court trying to avoid in *NBA*'s "holding"? What *is* the holding of *NBA v. Motorola* according to this court? Why?

3.) Did the *NBA* court say that *the five part test* was necessary to survive preemption for hot news misappropriation? Or did it say that hot news misappropriation in New York could survive preemption if, *in* that five part test, there were three "extra elements"—the keys to surviving preemption? What does this court say?

4.) What law could New York draft which would a.) survive preemption and b.) stop news aggregators from spreading "facts" about brokerage recommendations?

5.) Final question: You are clerking in the 2d Circuit. Your judge tosses the two opinions you have just read at you and says—"My office, ten minutes. Tell me which is more important for copyright preemption, subject matter or scope?" Your answer?