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TheFlyonTheWall: A Judicial Paradox?

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Lawyers crave structure. Give them a cause of action that has several well-defined elements and you can keep them occupied for days on end, arguing about each prong. If you number the elements so they can converse in code, so much the better. But a legal theory with obscure architecture gives most of them conniptions. If you are one of "those" lawyers, you probably don't like the Second Circuit decision in *Barclay's Capital, Inc. v TheFlyonTheWall.com, Inc.*, 650 F.3d 876 (2d Cir. 2011). Addressing the "hot news misappropriation" tort spawned by *International News Service v. Associated Press*, 248 U.S. 215 (1918), the court rejected a claim by several investment banks that an online news service was tortiously misappropriating the plaintiffs' stock buy and sell recommendations, which were shared on a limited basis with preferred clients, by republishing them before the banks were able to reap the economic benefit of those recommendations. Along the way, the court "held" that the five-part test for hot news misappropriation articulated in *National Basketball Association v. Motorola, Inc.*, 105 F. 3d 841 (2d Cir. 1997), was actually dictum. The quotation marks in the previous sentence are used advisedly.

Those of us who have toiled in the vineyard of media law have become accustomed to *NBA*'s five-part test, and some may shed a tear as it seemingly fades into the netherworld of dictum. What is or was that test? Answering that question shouldn't be controversial, but it is. Part of the problem, according to Judge Sack's majority opinion in *Fly*, is that the *NBA* court iterated the test twice, and the five elements didn't come out quite the same each time. Here's the first recitation, at 845:

> (i) a plaintiff generates or gathers information at a cost; (ii) the information is time-sensitive; (iii) a defendant's use of the information constitutes free-riding on the plaintiff's efforts; (iv) the defendant is in direct competition with a product or service offered by the plaintiffs; and (v) the ability of other parties to free-ride on the efforts of the plaintiff or others would so reduce the incentive to produce the product or service that its existence or quality would be substantially threatened.

And here's the second, at 852 (citations omitted):

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[1] The author, a partner in Patterson Belknap Webb & Tyler LLP, has litigated several misappropriation cases on behalf of plaintiffs and filed an amicus brief in the *FlyOnTheWall* case on behalf of Dow Jones & Company, Inc., supporting neither side on appeal. Some years ago, the author also worked with now-Judge Sack, author of the *Fly* majority decision, when the judge was in private practice on *Board of Trade of the City of Chicago v. Dow Jones & Co., Inc.*, 456 N.E.2d 84 (Ill. 1983), which applied misappropriation doctrine to bar unlicensed use of a stock index as the basis for a futures trading product. Thanks to Robert Fair for research assistance on this article.

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

To be sure, the differences are not extravagant (they include "a cost" versus "some cost" in element 1, "time-sensitive" versus "highly time sensitive" in element 2, the presence of the adjective "costly" in element 3, and the phrase "or others" in element 5); although, as the *Fly* majority demonstrates, a scan of the authorities cited by the *NBA* court in support of the second recitation of the test would expose further possible discrepancies. *Id.* at 852. As the majority opinion observes, moreover, the *NBA* decision also at one point offers a *three*-element test. The three-part version at 853 omits the elements of costliness of collection and direct competition and substantially restates the last element by omitting impairment of quality as a sufficient showing:

> 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 *Fly* majority seems to have concluded that only the free-riding element was necessary to the *NBA* decision, hence the rest of the three or five-part test was dictum.

Here's the delicious paradox. Deciding the *Fly* case required only two findings: that the identity of the particular banks making the stock recommendations was itself news and that the defendant credited those banks as the source of the recommendations. It was this combination that took the *Fly* facts out of the *INS* paradigm and compelled the conclusion that the banks making news by offering stock recommendations could not penalize a media entity that broke that news. But neither of those findings and the resulting legal conclusion overlaps with any of the *NBA* elements, other than "free-riding" in the most conclusory sense. The *Fly* court did not need to address the other elements of the supposed five-part test, such as time-sensitivity or direct competition. Using the same logic that the *Fly* majority employed to relegate the *NBA* five-part test to dictum, one would have to conclude that *Fly*'s "holding" that *NBA*'s five-part test was dictum is itself dictum because it was not necessary to the decision. It is a perfect judicial paradox.

Where does that leave us structure-loving practitioners?

First, the core case of news distributor vs. news distributor in the *INS* mold lives on to fight another day, provided that the appropriator achieves cost savings by using the work product of

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[2] As the quote makes plain, *NBA* was a copyright preemption decision, and not an attempt to formulate (or reformulate) the common-law elements of misappropriation. The *Fly* decision likewise takes pains to make that distinction. Yet, at least under a state-law regime like New York's in which the common-law doctrine is expansive, the test for copyright preemption converges with the test that must be met to establish the tort.

the originator rather than doing its own reporting and, perhaps, fails to give attribution. Although the majority opinion seems to give equal emphasis to these two prongs, the first element (free-riding) and not the second (lack of attribution) must be the key. If challenged with a case in which rampant copying occurred but attribution was given ("So-and-so reports" inserted in front of each item), the content originator should win. The attribution prong of *Fly*'s two-part holding should not create a talismanic immunity from misappropriation; instead, it reflects the particular fact pattern of the case and the importance the court attributed to the newsworthiness of the identity of the speakers. *Fly*, 650 F.3d at 902–905, and especially fn. 38. There is a loose analogy to the neutral reportage principle of *Edwards v. National Audubon Society*, 556 F. 2d 113 (2d Cir. 1977) (the republication of a libelous statement was not actionable where the fact that the speaker had made the statement was newsworthy). So we really have a one-part test, in which free-riding, not crediting of the source, should be the touchstone.

Second, while *Fly* was received by many observers as a narrowing and perhaps a death-knell for misappropriation, I disagree. The majority decision may make some misappropriation cases easier by collapsing the former five-part test into a single and exquisitely fact-sensitive element of free-riding and casting off everything else as dictum. I share the view expressed in Judge Raggi's concurrence that most of the five elements of *NBA* are really saying the same thing in different words—free-riding pretty much assumes that it costs money to compile the material, and, therefore, allowing the copying undermines the economic incentives to originate content—so right there you have at least three elements rolled up into one. The most conspicuous exception is time-sensitivity. There is no particular reason why free-riding needs to be limited to time-sensitive information, other than the historical happenstance that that was one of the features of the *INS* facts. As far as timing goes, the real requirement seems to be (as *INS* itself said) that the copyist grabbed the material at the point where the profit is to be reaped. I can think of various situations in which that test would be met under other than real-time dissemination conditions. Thus, the catchphrase of some of the amici in *Fly* who argued for complete abandonment of the misappropriation tort—"in the digital age, hot news becomes cold in a nanosecond"—may have taken a beating. If, paradoxes aside, you believe that the five-part *NBA* test is mere dictum, you have a clean slate on which to argue that time-sensitivity is not an essential element of misappropriation. Perhaps one can say the same for the "direct competition" prong; the *Fly* majority opinion opens the door to an argument that the direct-competition prong of *NBA* is no longer necessary if free-riding can still be shown. After all, that seems to be the reason Judge Raggi wrote separately and failed to join the majority.

Third, left unsaid in *Fly*—because the court did not need to reach the issue—is how systematic the taking must be to be actionable. Presumably regular and repeated rather than occasional appropriation of material originated by another is more likely to be viewed as a sufficient threat to the economic viability of the content originator's operations. That was the fact pattern of *INS*, and the one lesson that emerges with clarity from reading *Fly*, *NBA*, and other misappropriation cases is that no court is willing to say there should be no liability on the facts of *INS.* That is so even though the *Fly* majority stated twice that *INS* "is no longer good law." 650 F.3d at 894, 905.

True, it was decided under federal common law, which *Erie Railroad Co. v. Tompkins*, 304 U.S. 64 (1938), later said federal courts should not be making. But to dismiss *INS* for that reason as "not good law" seems an overstatement. Courts deciding misappropriation cases under state law

should consider *INS* to be an instructive, perhaps persuasive, albeit not binding decision from the highest court of another jurisdiction, just as the supreme court of one state would look to the decisions of the supreme court of another as persuasive precedent on a question of first impression. At least one federal district court has so reasoned in finding that *INS* would likely be adopted by the supreme court of California. *X17, Inc. v. Lavandeira*, 563 F. Supp.2d 1102 (C.D. Cal. 2007). That is a far cry from saying such decisions are "no longer good law."

Learned Hand and other detractors of the misappropriation doctrine gladly would have jettisoned it years ago. Nonetheless, hot-news misappropriation continues to serve a purpose as interstitial common law barring certain acts of piracy that fall between the cracks of copyright. Copyright, like patent, is a blunt instrument. My doodlings on a legal pad are protected by copyright for the same number of years as the next great American novel. The cure for cancer will be patent-protected for the same time period, as will a small improvement to the common widget. Misappropriation, by contrast, is fact-specific. The relative obscurity of its elemental architecture is both a curse and a blessing. Some cases will provide compelling reason to protect the plaintiff's product, and in those cases the number of elements of the tort will not decide the result.
