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***Barclays v. Thefly*: Protecting Online News Aggregators from
the Hot News Doctrine**

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***Barclays v. Thefly*: Protecting Online News Aggregators from the Hot News Doctrine**

By Ray Hashem

I. INTRODUCTION

¶1 The proliferation of online media has dramatically changed the way in which people consume news. About 37% of the population goes online for news three or more times a week. This is a larger number than for morning or nightly network news, and about the same as for cable news.¹ Online news sources are largely supplanting their paper counterparts. For example, the New York Times's online readership is about ten times larger than that of its print circulation.² As more news became available online, new services arose that index news for easy searching and that aggregate news to allow access to multiple accounts of any given story. The heavyweight in this area is Google News, which indexes the content of more than 25,000 publishers and is responsible for more than a billion click-throughs every month.³ A fundamentally new phenomenon in news distribution is the rise of user-driven portals like reddit.com and digg.com, which allow readers to post links to news stories and prioritize their display on the main page through mass voting. These sites also allow users to engage with the news and with each other through comment forums attached to each article. These portals generate substantial revenue. Publishing giant Condé Nast purchased reddit.com in 2006,⁴ and as of late 2010, the site received about 13 million unique visitors per month.⁵

¶2 The proliferation of news aggregation and indexing sites has brought the often-studied but little-used legal doctrine of hot news misappropriation to the attention of Internet giants like Google and Twitter.⁶ *International News Service v. The Associated*

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¹ *Key News Audiences Now Blend Online and Traditional Sources*, PEW RESEARCH CENTER FOR THE PEOPLE & THE PRESS (Aug. 17, 2008), <http://people-press.org/report/444/news-media>.

² Scott Karp, *Newspaper Online vs. Print Ad Revenue: The 10% Problem*, PUBLISHING 2.0 (July 17, 2007), <http://publishing2.com/2007/07/17/newspaper-online-vs-print-ad-revenue-the-10-problem>.

³ Josh Cohen, *Same Protocol, More Options for News Publishers*, GOOGLE NEWS BLOG (Dec. 2, 2009, 8:10 AM), <http://googlenewsblog.blogspot.com/2009/12/same-protocol-more-options-for-news.html>.

⁴ Michael Arrington, *Breaking News: Condé Nast/Wired Acquires Reddit*, TECHCRUNCH (Oct. 31, 2006), <http://techcrunch.com/2006/10/31/breaking-news-conde-nastwired-acquires-reddit>.

⁵ *todayilearned*, REDDIT (Oct. 20, 2010), http://www.reddit.com/r/todayilearned/comments/dtyro/til_that_only_053_of_the_people_who_visit_reddit/c12x6dm.

⁶ Christie Smythe, *Barclays 'Hot News' Ruling Threatens Google, Twitter*, LAW360 (Aug. 6, 2010), <http://www.law360.com/topnews/articles/185889/barclays-hot-news-ruling-threatens-google-twitter>.

Press (INS) established the tort of hot news misappropriation.⁷ In *INS*, the court determined that organizations which invested the effort and expense of gathering time-sensitive but non-copyrightable factual information (“hot news”) were entitled to some protection from parties who simply copied that news. Recently, major investment banks Barclays, Merrill-Lynch & Co., and Morgan Stanley & Co. (the Firms) brought a hot news misappropriation claim in federal district court against an aggregator of financial news, TheFlyontheWall.com (TheFly).⁸ The Firms claimed that TheFly published information on its online newsfeed, which it derived from the Firms’ equity research recommendations. The district court, relying on the five-factor test for hot news misappropriation laid out in *National Basketball Association v. Motorola (NBA)*,⁹ ruled against TheFly and issued an injunction preventing it from publishing stock recommendations within one-half hour of the opening of the markets.¹⁰

¶3 On appeal, TheFly argued that the plaintiffs failed to prove the time-sensitivity, free-riding, direct competition, and reduced incentives elements of the *NBA* test.¹¹ The Court of Appeals for the Second Circuit reversed, holding that federal copyright law preempted the Firms’ misappropriation tort claim.¹² The Second Circuit acknowledged that the hot news misappropriation tort generally survived preemption by copyright law,¹³ but declined to apply the five-factor *NBA* test.¹⁴ Instead, the Second Circuit employed the rationale from *INS* of disallowing free-riding and held that the claim was preempted because TheFly was not simply free-riding on the work of the Firms.¹⁵

¶4 Since the Second Circuit did not overrule *NBA*, and because it is unclear at this time whether other courts will deemphasize the *NBA* factors in future cases against online news aggregators, this Note focuses on the district court’s application of those factors while briefly previewing the implications of the Second Circuit’s opinion.

¶5 First, this Note looks at the district court’s application of the third, fourth, and fifth *NBA* factors, with an eye towards three recurrent themes: (1) the court’s weighing of economic equities without sufficient appreciation for the tremendous value added through aggregation of information; (2) the court’s misleading analogies between hot news misappropriation and copyright protection that are potentially at odds with Congressional intent; and, (3) the court’s lack of sufficient emphasis on the language of *NBA* that repeatedly asserts that the hot news doctrine that survives preemption by the 1976 Copyright Act is “narrow.”¹⁶

⁷ See generally 248 U.S. 215 (1918).

⁸ *Barclays Capital, Inc. v. Theflyonthewall.com*, 700 F. Supp. 2d 310 (S.D.N.Y. 2010), *rev’d*, 650 F.3d 876 (2d Cir. 2011).

⁹ 105 F.3d 841, 845 (2d Cir. 1997).

¹⁰ *Barclays Capital*, 700 F. Supp. 2d at 348.

¹¹ *Barclays Capital, Inc. v. Theflyonthewall.com*, 650 F.3d 876, 890 (2d Cir. 2011).

¹² *Id.* at 878.

¹³ *Id.* at 905–06.

¹⁴ *Id.* at 906.

¹⁵ *Id.* at 907.

¹⁶ *NBA*, 105 F.3d at 843.

¶16 Second, this Note considers the hot news doctrine, as a whole, in the context of recent decisions regarding the protection of information online and argues that modern cases have trended towards providing strong legal protections to services that aggregate, index, and disseminate information. It further argues that this trend calls for cabinining the scope of the hot news doctrine to a narrow one in the proper spirit of *INS*, to be reserved for only those scenarios where misappropriation actually threatens the very existence of a valuable public good.

¶17 Finally, it briefly discusses the implications of the Second Circuit's opinion in *Barclays*.

II. DISCUSSION

A. *The District Court's Opinion*

¶18 TheFly is a website that bills itself as a “source of up-to-the-minute financial news,” reporting “unbiased market intelligence to both professional and individual investors.”¹⁷ TheFly claims to utilize its “long standing relationships with trading desk sources to . . . report the latest breaking news.”¹⁸ The plaintiffs were global investment banking firms, each with tens of thousands of employees and tens of billions of dollars per year in revenues.¹⁹ Among their various business activities, the Firms actively engage in market research. The Firms use industry trends, company-specific research, and financial modeling to produce equity research reports that forecast future prices of stocks, assess the relative performance of companies, and recommend whether to buy, sell, or hold particular equities.²⁰ The production of the reports is time consuming and expensive. One of the Firms covers 3,200 different stocks in 48 different markets and issues 40,000 equity reports per year.²¹ To produce all of these reports, the Firms have large equity research budgets, over \$100 million at some of the firms.²²

¶19 The key products of the Firms' research activities are the actionable recommendations contained in the reports. In these recommendations, the Firms' analysts upgrade or downgrade the status of particular securities or set new target prices

¹⁷ THEFLYONTHEWALL, <http://www.theflyonthewall.com/splashPage.php?action=aboutUs> (last visited Nov. 7, 2011).

¹⁸ *Id.*

¹⁹ BARCLAYS PLC GRP., BARCLAYS PLC 2010 ANNUAL REPORT 5 (2011), available at http://www.barclaysannualreport.com/ar2010/files/Annual_Report_2010.pdf; *Morgan Stanley Reports First Quarter 2010*, MORGAN STANLEY (Apr. 21, 2010), <http://www.morganstanley.com/about/ir/shareholder/1q2010.html>.

²⁰ *Barclays Capital, Inc. v. Theflyonthewall.com*, 700 F. Supp. 2d 310, 317 (S.D.N.Y. 2010), *rev'd*, 650 F.3d 876 (2d Cir. 2011); *id.* at 315.

²¹ *Id.* at 316.

²² *The Lehman Equity Research Handbook*, INTEGRITY RES. ASSOCS., <http://www.integrity-research.com/cms/2010/04/06/the-lehman-equity-research-playbook> (last visited Nov. 17, 2011) (noting that the research budgets at Lehman, now Barclays, and Merrill are significantly larger now than the early 1990s figure of \$100 million).

for particular securities.²³ These recommendations, which are generally released before the exchanges open each day, are very important to the market.²⁴ A strong recommendation can cause significant movement in the price of a security in the hours after the exchange opens.²⁵

¶10 The litigation in the case concerned TheFly's practice of posting the information contained in the Firms' reports on its equity research newsfeed. TheFly collects this information from semi-public sources, such as its contacts in the financial industry who are authorized to receive the reports, and through reports on other financial websites that license the Firms' research content.²⁶ TheFly takes the reports' most salient market-moving factors, such as new target prices for particular equities, and posts the information as headlines on its newsfeed.²⁷ For example, one such headline read, "EQIX: Equinox initiated with a Buy at BofA/Merrill. Target \$110."²⁸ These recommendations are often posted before 9:30 A.M. on days the exchanges are open.²⁹ While these recommendations are a key component of TheFly's content, this information is not the only information on the site. TheFly aggregates news and rumors from a number of sources. The recommendations are displayed on a tab called "Recommendations" on the site, adjacent to a number of other tabs, such as "General News" and "Periodicals."³⁰

¶11 The Firms became aware of TheFly's practices in 2004.³¹ In March and April of 2005, several of the Firms sent cease and desist letters to TheFly, asking it to remove their content from its site.³² In April and May of 2005, TheFly responded to these letters indicating that it had taken steps to avoid verbatim copying from the Firms' research reports. However, as of June 2006, TheFly was still posting headlines derived from information in the Firms' equity research reports.³³

¶12 The Firms brought suit on two grounds: copyright infringement for copying the Firms' reports verbatim and hot news misappropriation for posting the recommendations on its web site.³⁴ Initially, TheFly claimed that its copying of the reports' content was fair use and thus protected, but eventually conceded that it had infringed on seventeen reports.³⁵ However, TheFly defended itself on the hot news misappropriation charge.

²³ *Barclays*, 700 F. Supp. 2d at 316.

²⁴ *Id.*

²⁵ *Id.*

²⁶ *Id.* at 325.

²⁷ *Id.* at 323.

²⁸ *Id.*

²⁹ *Id.*

³⁰ *Id.*

³¹ *Id.* at 327.

³² *Id.*

³³ *Id.*

³⁴ *Id.* at 328.

³⁵ *Id.*

¶13 The claim of hot news misappropriation arose in *INS* when International News Service took news reports from The Associated Press's bulletins and resold that news to its own member newspapers.³⁶ The case ceased to be precedent with the abrogation of federal general common law in *Erie Railroad Co.*³⁷ However, a form of the claim was adopted into New York state law.³⁸ The doctrine was threatened when the 1976 Copyright Act added an explicit provision preempting all state-law claims protecting authorship rights similar to copyright.³⁹ However, the Second Circuit, in *NBA*, ruled that a narrow version of the claim survived preemption because it added an additional element not present in copyright protection.⁴⁰ The *NBA* court laid out a widely adopted five-factor test, which has become the standard for identifying hot news misappropriation.⁴¹

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; (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.⁴²

¶14 The parties in *Barclays* did not contest that the *NBA* factors were the appropriate test under New York tort law for a misappropriation claim.⁴³ The court devoted no further analysis to the matter, determining that the Firms' recommendations were indeed "news" within the meaning of the misappropriation claim and applied the *NBA* factors to the facts.⁴⁴

¶15 The court determined that misappropriation had occurred and fashioned a remedy. It weighed the equities and fashioned an injunction that would provide the "minimal level of protection necessary to ensure that a socially valuable product is not driven out of the market through unfair competition."⁴⁵ The order enjoined TheFly from posting the Firms' recommendations until one-half hour after the opening of the market, if the research report which carried the recommendation was released when the market was closed. If the research report was released while the market was open, the order enjoined

³⁶ *INS*, 248 U.S. 215, 231 (1918).

³⁷ *Barclays*, 700 F. Supp. 2d at 332 (citing *Erie R.R. Co. v. Tompkins*, 304 U.S. 64 (1938)).

³⁸ *Id.*

³⁹ *Id.* at 333.

⁴⁰ *NBA*, 105 F.3d 841, 850 (2d Cir. 1997).

⁴¹ *Id.* at 852.

⁴² *Id.* (citations omitted).

⁴³ *Barclays*, 700 F. Supp. 2d at 335.

⁴⁴ *Id.*

⁴⁵ *Id.* at 347.

TheFly from posting the recommendation for two hours after the report's release.⁴⁶ The court determined that this period was sufficient for the Firms to "notify certain key clients" of the recommendations, "conduct a reasonable sales and trading effort," and to "generate an economic return on their research investment."⁴⁷

B. The Court's Misapplication of the NBA Test

¶16 While the five-factor test developed by the *NBA* court was the appropriate test to apply in this case, the court's application of those factors was not true to the reasoning in the *NBA* opinion.

1. Cost of generating the information

¶17 TheFly did not contest that the Firms had spent substantial money and energy in producing the reports.⁴⁸ It acknowledged that the Firms employed hundreds of people and spent hundreds of millions of dollars each year producing research.⁴⁹ The court concluded that the facts easily satisfied this factor.

¶18 The court in *NBA* distinguished the costs of producing the basketball games from the cost of gathering the game statistics, which were disseminated through the Gamestats service.⁵⁰ The court reasoned that the National Basketball Association would always incur the costs of the games, since those games were its primary business. Therefore, those costs should not be included in calculating the organization's cost to generate the information for the Gamestats service.⁵¹ The *Barclays* court failed to appreciate this reasoning. It ignored the fact that the Firms' must conduct equity research anyway as part of their core banking, trading, and investment management businesses. Only part of the costs of producing equity research are thus allocable to the activity of producing reports for the purpose of soliciting brokerage transactions. In ignoring this fact, the court overestimated the costs relevant to assessing this factor.

2. Timeliness of information

¶19 TheFly did not contest that the information contained in the reports was highly time-sensitive and that the value of the information was, to a large degree, related to how quickly it was posted before the market opened and to how other investors acted on the recommendations.⁵² Again, the court concluded that this factor was easily met.⁵³ TheFly conceded this point too easily, and the court accepted it too readily. Unlike headline

⁴⁶ *Id.*

⁴⁷ *Id.*

⁴⁸ *Id.* at 335.

⁴⁹ *Id.*

⁵⁰ *NBA*, 105 F.3d at 853–54 (2d Cir. 1997).

⁵¹ *Id.*

⁵² *Barclays*, 700 F. Supp. 2d at 336.

⁵³ *Id.*

news, the entirety of the real value of stock recommendations is not highly time-dependent. While some subset of investors try to make money from small fluctuations in the value of stocks, traditional investors use stock recommendations to determine what companies to invest in over the long term. If market research indicates that a company is a sound investment, that research is valuable to an investor even weeks or months later.

3. Free-riding

¶20 In economics, a free-rider problem exists when one actor can gain the benefit of another actor's production without bearing the costs of that production. In the absence of any external controls, free-riding reduces the incentive of all actors in a market to engage in production, since any other actor could easily and cheaply capture any benefits of those efforts.⁵⁴ At a macro-economic level, the danger of free-riding is that production of a particular good may cease entirely if no firm has a greater incentive to produce the good than it does to free-ride off the efforts of others.⁵⁵

¶21 The court considered the facts in the case and determined that TheFly did indeed free-ride on the Firms' efforts in producing equity research.⁵⁶ The court based this conclusion on a few key points. First, the court pointed out that TheFly makes no investment of its own in equity research, and does not conduct any market analysis for the headlines that it includes in its "Recommendations" feed.⁵⁷ The court noted that because TheFly conducts no research of its own, it can afford to sell its services at a cut-rate price as compared to the Firms.⁵⁸ Second, TheFly clearly attributes the recommendation of each firm to its source.⁵⁹ While in a copyright context, careful attribution would weigh in the suspected infringer's favor, the court found that TheFly's attributions simply served to further free-ride off the Firms' reputations in producing quality investment research.⁶⁰ Third, the court rejected TheFly's contention that it expended substantial effort and expense in aggregating the information it published by scouring various semi-public sources.⁶¹ The court determined that the fact that TheFly worked to aggregate information from various sources does not change the fact that it put no work into producing the recommendations themselves.⁶² Fourth, the court rejected TheFly's contention that the fact that the information it published was available from a number of other sources mitigated any misappropriation claim. The court stated, "The fact that others also engage in unlawful behavior does not excuse a party's own illegal

⁵⁴ E. C. Pasour, *The Free Rider as the Basis for Government Intervention*, 5 J. LIBERTARIAN STUD. 453, 454 (1981).

⁵⁵ *Id.* at 455.

⁵⁶ *Barclays*, 700 F. Supp. 2d at 336.

⁵⁷ *Id.*

⁵⁸ *Id.*

⁵⁹ *Id.* at 336-37.

⁶⁰ *Id.*

⁶¹ *Id.* at 337.

⁶² *Id.*

conduct.”⁶³ Fifth, the court rejected TheFly’s contention that swapping this sort of information was prevalent practice in the financial industry and that anyone who participated in the “Wall Street rumor mill” would have had access to the contents of the recommendations.⁶⁴

¶22 Finally, the court rejected TheFly’s argument that the supposedly misappropriated information was only a small portion of its overall “product” and that, in addition to the recommendations, it also published “a broad range of financial news and data falling within ten categories.”⁶⁵ Interestingly, the court rejected this argument on two grounds. First, it pointed out that in *INS* the allegedly misappropriated news stories were only those pertaining to military and political developments during World War I.⁶⁶ Second, it analogized to a doctrine in copyright law which holds that the mere fact that the amount of material copied is small does not preclude a finding of infringement if that copying goes to the “heart of the work.”⁶⁷ The court equated the “heart of the work” at issue in *Harper & Row, Publishers, Inc. v. Nation Enterprises* with the key recommendations in the equity research reports and rejected TheFly’s contention that it was taking a permissibly small portion of the Firms’ work.⁶⁸

¶23 The *NBA* court derived the free-riding element from language in *INS*.⁶⁹ The *INS* court defined free-riding as the unauthorized interference with the normal operation of complainant’s legitimate business precisely at the point where the profit is to be reaped.⁷⁰ The *NBA* court expounded on that definition, noting that free-riding “enabl[ed] the defendant to produce a *directly competitive* product for less money because it has lower costs.”⁷¹ The language in these opinions suggests a narrow range of applicability that is not evident in the *Barclays* opinion. The fact that TheFly’s newsfeed is an aggregation and assimilation of information and not a mere reproduction of it is given short shrift in the opinion, but is very relevant to the application of the free-riding factor.

¶24 First, TheFly’s aggregation of information moves the facts in *Barclays* away from the situation in *INS*. In *INS* the news that was misappropriated diverted profits “precisely at the point where the profit [was] to be reaped.”⁷² In *Barclays*, the Firms were not selling information that was then co-opted by TheFly resulting in the loss of sales. The Firms were not even in the business of selling research reports to individual investors at all. Instead, the Firms depended on the prevailing custom in the financial industry wherein an investor who wishes to initiate a trade based on a recommendation generally

⁶³ *Id.*

⁶⁴ *Id.* at 337–38.

⁶⁵ *Id.* at 338 (internal quotation mark omitted).

⁶⁶ *Id.*

⁶⁷ *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 564–65 (1985).

⁶⁸ *Barclays*, 700 F. Supp. 2d at 338–39.

⁶⁹ *NBA*, 105 F.3d 841, 852 (2d Cir. 1997).

⁷⁰ *INS*, 248 U.S. 215, 240 (1918).

⁷¹ *NBA*, 105 F.3d at 854 (emphasis added).

⁷² *INS*, 248 U.S. at 240.

initiates that trade from the firm that issued the recommendation.⁷³ The path from dissemination of hot news to the Firms' profiting therefrom is thus indirect, while the language in *INS* is direct ("at precisely the point").

4. Direct competition

¶25 According to both the *INS* and *NBA* decisions, the party allegedly misappropriating the news must be engaged in direct competition with the party acquiring the news.⁷⁴ The *Barclays* court found that TheFly and the Firms were in direct competition for the distribution of equity recommendations to investors.⁷⁵ It based this conclusion on several points. First, it found that the production and dissemination of equity research is one of the primary businesses of the Firms. Similarly, the primary business of TheFly is the dissemination of the recommendations contained in the equity research of the Firms.⁷⁶ Second, the court noted that the Firms and TheFly disseminate their information through a number of the same online channels.⁷⁷ Third, the court noted that TheFly, by partnering with discount stock brokerages, had taken steps to compete even more directly with the Firms, which derive much of their revenue from providing brokerage services.⁷⁸ Fourth, the court rejected TheFly's argument that its primary business is not dissemination of research reports, but rather aggregation and dissemination of Wall Street news, and that it and the Firms thus compete in different areas.⁷⁹ Fifth, and finally, the court rejected TheFly's argument that the product it offers, news headlines, are not the same as the real product offered by the Firms' research reports, and, therefore, that TheFly and the Firms compete selling different products.⁸⁰

¶26 Contrary to the court's holding, TheFly does not directly compete with the Firms. Its product is an aggregator, a newsfeed that collects information from a large variety of sources in one place. The Firms' products are banking and brokerage services; the equity research reports are auxiliary to those services. Taken literally, TheFly's collection of information reported in the Firms' recommendations does not allow it to produce a "directly competitive product for less money." Perhaps it is not a big stretch to apply the doctrine in a slightly broader scope, from directly competing products to indirectly competing products, but the court did not clearly state that it was broadening this element in this way. This Note will later show that this broadening of the doctrine is not well advised.

⁷³ *Barclays*, 700 F. Supp. 2d at 319.

⁷⁴ *Id.* at 339.

⁷⁵ *Id.*

⁷⁶ *Id.*

⁷⁷ *Id.* at 339–40.

⁷⁸ *Id.* at 340.

⁷⁹ *Id.*

⁸⁰ *Id.* at 341.

5. Reduced economic incentives

¶27 The heart of the hot news misappropriation doctrine is the last factor: that misappropriation of hot news reduces the incentive of any organization to collect such news and that the resulting incentive structure might eliminate, as a product, the reporting of timely, topical news. The purpose, then, of the misappropriation claim is to allow news gatherers to make the “profit so necessary as an incentive in the commercial world” to ensure the continuance of a “prompt, sure, steady, and reliable service” that is “extremely useful in itself.”⁸¹ The court in *Barclays* plays arm-chair economist and characterizes equity research reports as a “socially valuable product” that would be “in danger of being under-produced” without the protections of hot news misappropriation.⁸² The court says that equity “research plays a vital role in modern capital markets by helping to disclose information material to the market, to price stocks more fairly and, as a result, to produce a more efficient allocation of capital.”⁸³ The court accepted the Firms’ assertions at face value that news aggregators like TheFly have affected their incentive to produce equity research because they make it difficult for the Firms to monetize the products of that research.⁸⁴ The court rejected TheFly’s challenges to the Firms’ assertions.

¶28 First, the court rejected the argument that the Firms should have to present statistical evidence showing quantifiable damages.⁸⁵ The court noted that under a misappropriation claim no actual past damage must be shown, but merely potential future reduction in incentives.⁸⁶ Second, the court rejected the argument that TheFly was only one of many entities that were redistributing the information gleaned from the Firms’ research reports.⁸⁷ The court found that, under the *NBA* test, the plaintiff need only show that other parties generally misappropriating its news reduce its incentive to produce the news.⁸⁸ Fourth, the court rejected TheFly’s argument that numerous other factors, including the recent market crash, had removed the Firms’ incentive to produce equity research and that its activities were only a small contributor to the Firms’ problems.⁸⁹ The court held that the Firms had shown that TheFly’s activities had caused a “profound effect” on their business model and that such showing was sufficient under the terms of *NBA*.⁹⁰

¶29 The *Barclays* court made its most fundamental missteps with the application of this, arguably most important, factor.

⁸¹ *INS*, 248 U.S. 215, 235 (1918).

⁸² *Barclays*, 700 F. Supp. 2d at 341.

⁸³ *Id.* at 343.

⁸⁴ *Id.* at 341.

⁸⁵ *Id.* at 342.

⁸⁶ *Id.*

⁸⁷ *Id.*

⁸⁸ *Id.*

⁸⁹ *Id.* at 343.

⁹⁰ *Id.*

i) *Precedent warrants setting a high standard for the fifth factor*

¶30 The *NBA* court derived this factor from language in *INS*, which stated that unrestricted appropriation of news “would render publication profitless, or so little profitable as in effect to *cut off the service* by rendering the cost prohibitive in comparison with the return.”⁹¹ The court in *NBA* explained its understanding of the message of *INS* as such:

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.⁹²

To put an even finer point on it, the court stated that one of the key elements that saved hot news misappropriation from preemption by the 1976 Copyright Act was “the threat to the very existence of the product or service provided by the plaintiff.”⁹³

¶31 When hot news misappropriation claims initially came up to the Second Circuit, that court reacted by cabining the rule in *INS* to its facts.⁹⁴ Judge Learned Hand noted that there are “cases where the occasion is at once the justification for, and the limit of, what is decided” and presaged the ruling in *NBA* when he noted that a broad hot news doctrine that would encompass the protection of silk designs “would flagrantly conflict with the scheme which Congress has for more than a century devised to cover the subject-matter.”⁹⁵ While the Second Circuit did not follow Judge Hand’s reasoning and eventually developed a broad misappropriation tort,⁹⁶ this broad application of the *INS* doctrine was struck down in *NBA*. The *NBA* court stated that the “broadcast cases” which developed the broad misappropriation doctrine in New York were “simply not good law,” having been preempted by the provisions of the 1976 Copyright Act.⁹⁷

¶32 *NBA* is fairly clear on the point that the reduced economic incentives factor is not just a rule of thumb the court may rely on to guide its equitable application of the hot news misappropriation doctrine, but rather a fundamental distinguishing element that saves the claim from preemption.⁹⁸ The *Barclays* court reduced this factor to almost nothing. Instead of requiring the Firms to show a “threat to the very existence of their product or service,” the court essentially held that the Firms’ speculative, self-serving conjectures about reduced incentives were sufficient proof for the factor.⁹⁹ It is this fact that makes the *Barclays* court’s application of this factor—its deference to the Firms and trust in their statements—troubling.

⁹¹ *INS*, 248 U.S. 215, 241 (1918) (emphasis added).

⁹² *NBA*, 105 F.3d 841, 853 (2d Cir. 1997).

⁹³ *Id.*

⁹⁴ *Barclays*, 700 F. Supp. 2d at 332.

⁹⁵ *Cheney Bros. v. Doris Silk Corp.*, 35 F.2d 279, 280 (2d Cir. 1929).

⁹⁶ *Barclays*, 700 F. Supp. 2d at 333–34.

⁹⁷ *NBA*, 105 F.3d at 852.

⁹⁸ *Id.* at 853.

⁹⁹ *Barclays*, 700 F. Supp. 2d at 334.

¶33 It is unlikely the Firms would be able to meet the standard demanded by the *NBA* holding. A key distinction between actual news and market research shows that the very existence of the Firms' product is not in jeopardy in the way the AP's product was in *INS*—news is not actionable. As the *INS* court puts it, "The peculiar value of news is in the spreading of it while it is fresh; and it is evident that a valuable property interest in the news, as news, cannot be maintained by keeping it secret."¹⁰⁰ The court tried to analogize this reasoning to the Firms' recommendations by saying "the peculiar value [of research] is in the spreading of it while it is fresh."¹⁰¹ This analogy is highly misleading. Is the peculiar value of equity research held in the spreading of it while it is fresh? Unlike news, equity recommendations are actionable. While the only way that the AP could monetize its efforts in collecting news regarding the war in Europe was to charge newspapers for the right to disseminate that information, the Firms can monetize their equity research in numerous other ways besides dissemination. Indeed, the Firms' business model with regard to equity research is a peculiar one. They do not charge for the information in their equity reports, but rather use the research to persuade clients to do business with their brokerage services. If they are worried about entities like TheFly free-riding on their equity research, they could simply keep that research secret and use it to make money directly from stock movements or use it in the management of their clients' stock portfolios. They do not need to disseminate the recommendations to potentially hundreds of thousands of individuals and hope that all of them will keep it secret until a sufficient number have placed trades with their brokerage firm.¹⁰²

¶34 Even if it is taken for granted that equity research is a valuable public good of the sort contemplated by *INS*, it is unlikely that dissemination of just the target prices and other recommendations will "threat[en]. . . the very existence" of such research.¹⁰³ As TheFly notes, investors highly value the research reports themselves.¹⁰⁴ Only a certain subset of investors tries to extract value from short-term movements in the price of equities. Many sophisticated investors buy and hold for value, and those investors will not act based on a single headline. They will want to see the research reports, which are almost certainly protectable by copyright. So, if equity research is a valuable public good because of the "vital role" it plays in moving stocks to fair prices,¹⁰⁵ it is not at all clear that withholding hot news protection from recommendations will lead to a loss of incentives to produce such research that would threaten the very existence of the product.

¶35 The *Barclays* court seems very protective of the Firms' business model,¹⁰⁶ but it is hard to believe that *INS* stands for the proposition that misappropriation claims should be applied whenever a particular business model is threatened. A framework already exists

¹⁰⁰ *INS*, 248 U.S. 215, 235 (1918).

¹⁰¹ *Barclays*, 700 F. Supp. 2d at 336 (alteration in original) (quoting *INS*, 248 U.S. at 235) (internal quotation marks omitted).

¹⁰² *Id.* at 317.

¹⁰³ *NBA*, 105 F.3d at 853.

¹⁰⁴ *Barclays*, 700 F. Supp. 2d at 340.

¹⁰⁵ *Id.* at 343.

¹⁰⁶ *See id.* at 342.

to protect business models built on intellectual property: the copyright, trademark, and patent regimes. Congress has seen fit to protect business models built on these specific rights and has sent a strong message in the form of the preemption clause in the 1976 Copyright Act that it intends to limit the extent to which states may protect business models built on rights to intellectual property beyond federal copyright law.

¶36 Given these circumstances, it is difficult to argue that a hot news misappropriation claim should be sustained based merely on the plaintiffs' speculative claims of a reduction in their incentive to produce a particular product. A rule that would seem to better fit the language in *NBA* is that the aggrieved party must show a threat to the very existence of a product that is valuable to the public. The Firms in *Barclays* presented no such evidence, likely because they have no such evidence. Free-riding by TheFly might reduce the value of their equity research by reducing the ability of certain clients to profit from short-term movements of stock prices, but the research has other valuable uses that provide enough of an incentive for its continued existence.

ii) *Economics warrants setting a high standard for the fifth factor*

¶37 Economic theory also warrants construing the reduction in incentives factor as requiring a "threat to the existence of the product." The question of when government intervention is useful in addressing a perceived market failure, such as the free-rider problem, is a very complex one, one which is not done justice by the superficial economic analysis done by the *Barclays* court. One author argues that the judicial preoccupation with trying to eliminate every instance of free-riding, allowing creators to capture the entirety of the social value of their work, is inconsistent with what happens in the larger market economy.¹⁰⁷ Mark Lemley points out that in every other segment of the economy we actively oppose monopolies because they allow producers to extract the entirety of the social value of their products at the expense of the consumer surplus.¹⁰⁸ He argues that the "basic economic justification for intellectual property law comes from . . . the risk that creators will not make enough money in a market economy to cover their costs."¹⁰⁹ This traditional understanding of the economic basis for intellectual property protection suggests that protection should be granted to hot news only if the lack of such protection would jeopardize the very existence of the information in question. As shown above, this is unlikely to be the case for equity research; so, from a purely economic standpoint, it is not sensible to afford hot news misappropriation protection in *Barclays*.

C. *The Court's Misplaced Analogies to Copyright Law*

¶38 The *Barclays* court made analogies to copyright law in several places in order to bolster its conclusion to apply the hot news misappropriation doctrine. At the beginning of the opinion, the court suggested that *INS* was based on a sweat-of-the-brow theory of property of the sort that has occasionally been proffered as a basis for copyright

¹⁰⁷ Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 TEX. L. REV. 1031, 1031–1032 (2005).

¹⁰⁸ *Id.* at 1046–48.

¹⁰⁹ *Id.* at 1053.

protection.¹¹⁰ Later, it stated that “the Recommendations are not objective facts, but rather, subjective judgments based on complex and imperfect evidence. In this sense, the Recommendations produced by the Firms represent the kinds of information to which the Court of Appeals has seen fit to extend protection under copyright laws.”¹¹¹

¶39 These analogies to copyright law do not strengthen the court’s position, but weaken it. The 1976 Copyright Act states:

[A]ll 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 . . . come within the subject matter of copyright as specified by sections 102 and 103 . . . 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.¹¹²

It is clear that the “news” in *INS*, being the presumably unbiased reporting of factual events, does not come within the scope of copyright.¹¹³ However, recommendations based on equity research are not pure facts. Rather they are, as the *Barclays* court noted, imbued with some subjectivity and originality such that they creep closer to the scope of copyright protection.¹¹⁴ At least one post-*Barclays* decision, *Agora Financial, LLC v. Samler*, found that “a recommendation to invest in a company is not a fact, but instead an ‘original’ work, which, in plaintiffs’ case, entails ‘judgment’ and ‘creativity.’”¹¹⁵

¶40 Far from justifying the *Barclays* court’s conclusion, this analogy to copyright law undermines it. Section 301 makes it clear that Congress intended the Copyright Act to govern the rights to all works that come within its scope.¹¹⁶ If the Firms’ recommendations are, as the *Barclays* court suggests, the proper subject matter of copyright, then federal copyright law would preempt the misappropriation claim. The court in *Agora* concluded, on facts very similar to and after citing to *Barclays*, that “[w]hile plaintiffs may be able to protect their ‘original’ investment recommendations under federal copyright law, they cannot protect these recommendations under the ‘hot news’ misappropriation theory.”¹¹⁷

¶41 Furthermore, if the Firms’ recommendations are indeed verging on being proper subject matter for copyright, the court’s reading of *INS* as being based on a sweat-of-the-brow theory of property is misapplied to the facts of the case. In *Feist Publications, Inc. v. Rural Telephone Service Co.*, the court emphatically rejected the sweat of the brow

¹¹⁰ *Barclays*, 700 F. Supp. 2d at 332.

¹¹¹ *Id.* at 344.

¹¹² 17 U.S.C. § 301 (2006).

¹¹³ *INS*, 248 U.S. 215, 234 (1918) (noting that while the articles themselves had a “literary quality,” the events they reported were simply the “history of the day” and not within the scope of copyright protection).

¹¹⁴ *Barclays*, 700 F. Supp. 2d at 344 (describing the reports as “soft facts” that might be within the scope of copyright protection).

¹¹⁵ 725 F. Supp. 2d 491, 503 (D.Md 2010).

¹¹⁶ *See* 17 U.S.C. § 301.

¹¹⁷ *Agora*, 725 F. Supp. 2d at 503.

doctrine as applied to the protection of works within the proper scope of copyright.¹¹⁸ The court noted that the “doctrine had numerous flaws, the most glaring being that it extended copyright protection . . . to the facts themselves” and that courts applying the doctrine “eschewed the most fundamental axiom of copyright law—that no one may copyright facts or ideas.”¹¹⁹

¶42 The *Barclays* court cited *Feist* and noted that it “decisively repudiat[ed] the ‘sweat-of-the-brow’ theory of copyrightability,”¹²⁰ but throughout its opinion it adhered to a sweat-of-the-brow based view of *INS*. The court spent paragraphs discussing the amount of work the Firms put into producing equity research,¹²¹ while only cursorily mentioning the issue of whether free-riding would reduce the Firms’ incentives to produce research.¹²² Yet, it is clear from *INS* and *NBA* that free-riding that leads to an elimination of incentives to produce a product is the heart of the misappropriation claim, not the amount of effort the plaintiff put into making that product.

D. More appropriate analogies to copyright law

¶43 If hot news misappropriation is to be anything more than a narrow doctrine limited to the facts in *INS*, it is worthwhile to take a cue from the *Barclays* court and explore the connection between the protections available to creators of content under the hot news doctrine and those available under copyright law. It is beyond the scope of this note to undertake a full comparison between the two regimes, so this note will look at two specific issues: 1) the non-protection of designs under copyright and 2) the liberal scope of the fair use defense as interpreted in recent cases involving online aggregators of information.

1. Analogy to fashion designs

¶44 There is, by and large, no protection for fashion designs under copyright law.¹²³ Fashion designs are often lifted wholesale and sold for cut-rate prices, yet fashion apparel remains a thriving multi-billion dollar industry.¹²⁴ Although there are from time to time attempts at legislating protections for fashion design,¹²⁵ at this time “clothes are not

¹¹⁸ 499 U.S. 340, 353 (1991).

¹¹⁹ *Id.*

¹²⁰ *Barclays Capital, Inc. v. Theflyonthewall.com*, 700 F. Supp. 2d 310, 334 (S.D.N.Y. 2010), *rev’d*, 650 F.3d 876 (2d Cir. 2011).

¹²¹ *Id.* at 316–17.

¹²² *Id.* at 342.

¹²³ Jennifer Mencken, *A Design for the Copyright of Fashion*, 1997 B.C. INTELL. PROP. & TECH. F. 121201, ¶ 3–7 (1997), available at http://www.bc.edu/bc_org/avp/law/st_org/iptf/articles/index.html.

¹²⁴ *Id.* at ¶ 1.

¹²⁵ *Protection for Fashion Design: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Prop. of the H. Comm. on the Judiciary*, 109th Cong. (2006) (statement of the US Copyright Office), available at <http://www.copyright.gov/docs/regstat072706.html>.

copyrightable.”¹²⁶ Leaving aside for a moment the pertinent legal difference between fashion designs and equity research reports, that being that the latter’s value is predicated on timeliness in a way that takes it out of the scope of preemption by the 1976 Copyright Act, is there really a good reason why the latter is worthy of legal protection in a way that the former is not? Out of the five factors central to the hot news misappropriation doctrine—cost of creating information, timeliness of information, free-riding, direct competition, and reduced economic incentives—four are met even more strongly when a company makes a cheap knock-off of a Coach bag than when TheFly incorporates the recommendations from the Firms’ research reports into its newsfeed. Design houses invest substantial money coming up with new fashions every season. It is very easy for a competitor to copy a design once it is on the market. A competitor will often release a product that looks very similar and will, thus, be in direct competition with the designer item, and this competition reduces the incentive for a design house to invest in new fashions. Is the sole element of timeliness—that part of the value of the Firms’ recommendations is somewhat peculiarly tied to the timeliness of its dissemination—really sufficient to vault equity recommendations from the realm of unprotectable into the realm of protectable?

¶145 This is not to suggest that the hot news doctrine is preempted out of existence by the Copyright Act. *NBA* makes a convincing case to the contrary.¹²⁷ However, it does suggest that the doctrine, as an exception to Congress’s general intellectual property protection regime, is one that only has vitality when applied to the specific scenario of *INS*: when “the very existence” of a valuable public good is threatened by free-riding. The court in *Barclays* did not make a convincing case that equity research is valuable in a way that other intellectual creations, deemed unworthy of protection, are not. Nor did it convincingly argue that the existence of equity research is threatened by free-riding in a way that the existence of other similar intellectual creations is not.

2. Analogy to copyrightable images online

¶146 *Barclays* is not the first case to bring up the issue of how to protect intellectual property from online information aggregators. In *Perfect 10, Inc. v. Amazon.com, Inc.*,¹²⁸ the Ninth Circuit was confronted with a basic legal question of how to deal with online information aggregation services: What rights does a search engine company have to use images that were indexed, thumb-nailed, and cached within its database? The court determined that, although the plaintiff had established a prima facie case of copyright infringement, the defendant was protected under the fair use provisions of copyright law. The court stated that the “significantly transformative nature of Google’s search engine, particularly in light of its public benefit, outweighs Google’s superseding and commercial uses of the thumbnails in this case.”¹²⁹ The court criticized the lower court opinion, because, while it acknowledged that “search engines . . . provide great value to the

¹²⁶ *Knitwaves, Inc. v. Lollytogs, Ltd.*, 71 F.3d 996, 1002 (2d Cir. 1995).

¹²⁷ *NBA*, 105 F.3d 841 at 850–51 (arguing that hot news misappropriation claims are not synonymous with copyright infringement and contain an extra element that put such claims outside of preemption, since this extra element create a right that is not equivalent to those rights covered by federal copyright law.).

¹²⁸ 508 F.3d 1146 (9th Cir. 2007).

¹²⁹ *Id.* at 1168.

public,”¹³⁰ it did not “expressly consider whether this value outweighed the significance of Google’s superseding use.”¹³¹

¶47 Juxtaposing *Perfect 10* with *Barclays* yields a perplexing situation. In the former case, an information aggregator using content which is clearly within the scope of copyright, and is thus “real property,” can rely on the protection of a vigorous fair-use defense.¹³² In the latter case, an information aggregator using content which is not within the scope of copyright, and is “pseudo-property” at best, has no such defense. If one follows the district court’s opinion in *Barclays*, the pseudo-property is protected, while the real property is not.

¶48 This comparison will not be lost on creators of content seeking to maximize their control of information in the online sphere. It is possible that other entities that fail to protect their content under copyright will turn to the hot news misappropriation doctrine as an alternative tool. This use of the doctrine seems contrary to *INS* and *NBA*’s repeated assertions that the doctrine is a narrow one applicable to peculiar facts.

III. REACTION TO *BARCLAYS*

¶49 The district court’s opinion elicited a strongly negative reaction throughout the Internet, unsurprisingly through the same blogs and news aggregators that would be threatened by a revitalized hot news doctrine applicable to online information.¹³³ Two Internet giants who stood to lose much from the decision, Google, Inc. and Twitter, Inc., filed an amicus brief in the appeal of *Barclays*.¹³⁴ The amici curiae criticized the opinion for its reliance on a sweat-of-the-brow theory¹³⁵ and noted that the tort may violate the Copyright Clause of the U.S. Constitution.¹³⁶ They asked that the court either disavow the hot news doctrine or, alternatively, limit it to the peculiar facts of *INS*.¹³⁷ In its amicus filing, the Electronic Frontier Foundation (EFF) noted that *NBA* did not reach the First Amendment implications of the hot news claim.¹³⁸

¹³⁰ *Perfect 10, Inc. v. Google, Inc.*, 416 F. Supp. 2d 828, 848–49 (C.D. Cal. 2006), *rev’d sub nom* *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146 (9th Cir. 2007).

¹³¹ *Perfect 10, Inc. v. Amazon.com*, 508 F.3d 1146, 1166 (9th Cir. 2007).

¹³² *Perfect 10, Inc. v. Google, Inc.*, 508 F.3d at 1163.

¹³³ See, e.g., Melise Blakeslee, *The Fly on the Wall Decision is Really Bugging Me*, SEQUEL TECH. & IP LAW, PLLC (Jan. 24, 2011), <http://www.sequeltechlaw.com/2011/01/the-fly-on-the-wall-decision-is-really-bugging-me>; Daniel Diskin, *Why Google and Twitter are Correct in Barclays*, COPYRIGHT & TRADEMARK BLOG (Jan. 3, 2011), <http://copymarkblog.com/2011/01/03/why-google-and-twitter-are-correct-in-barclays>.

¹³⁴ Brief for Google Inc. and Twitter, Inc. as Amici Curiae in Support of Reversal, *Barclays Capital, Inc. v. Theflyonthewall.com, Inc.*, 650 F.3d 876 (2d Cir. 2011) (No. 10-1372-CV), 2010 WL 2589770.

¹³⁵ *Id.* at 2.

¹³⁶ *Id.* at 3.

¹³⁷ *Id.* at 4.

¹³⁸ Brief for Citizen Media Law Project, Electronic Frontier Foundation, and Public Citizen, Inc. as Amici Curiae in Support of Neither Party at 5, *Barclays Capital, Inc. v. Theflyonthewall.com, Inc.*, 650 F.3d 876 (2d Cir. 2011) (No. 10-1372-CV), 2010 WL 2589770.

IV. THE SECOND CIRCUIT'S REVERSAL

¶50 The Second Circuit's opinion reversing the district court side-stepped some of the important issues in the case. The court decided that the Firms' claim was preempted because: (1) the reports were within the subject matter of copyright; (2) the claimed right to control distribution of the reports fell within the scope of the rights protected by copyright; and (3) TheFly's actions did not constitute free-riding on the Firms' efforts.¹³⁹ The court read *NBA* as carving out an *INS*-like exception to the preemption provisions of 17 U.S.C. § 301.¹⁴⁰ It reduced the test for that exception to whether the behavior in question was free-riding. It distinguished *Barclays* from *INS* by noting that in *INS* the plaintiff had acquired news, while in *Barclays* the Firms had created it, and by noting that in *INS* the defendant was selling the news as its own, while in *Barclays* TheFly attributed the Firms as its sources.¹⁴¹

¶51 The concurring opinion reached the same conclusion, but within the framework of *NBA*, finding that the district court had applied the direct competition element of *NBA* "more broadly than warranted."¹⁴² The concurrence noted that the Firms were in the business of generating research to guide its investors, while TheFly was in the business of aggregating recommendations.¹⁴³ The concurrence offered the example of two firms reaching opposing recommendations for the same stock. The firms would compete directly with each other in order to convince investors to follow their recommendation and place a trade, but TheFly would report both recommendations because its customers place value in learning about the firms' differing views.¹⁴⁴

¶52 While the majority based its decision on distinguishing *Barclays* from *INS*,¹⁴⁵ even while noting that *INS* has been overruled,¹⁴⁶ the concurrence offered concrete guidance to lower courts. In particular it shed light on a key feature of online news aggregators: that they add value by reporting multiple, sometimes conflicting, sources of information.¹⁴⁷

¶53 The Second Circuit opinion leaves the precise contours of the hot news doctrine more uncertain than ever. After *Barclays*, can a district court apply the *NBA* factors, even if it is not required to? Could a claim be preempted if the free-riding requirement is met, but none of the other factors are? Or does free-riding become the touchstone?

¹³⁹ *Barclays Capital, Inc. v. Theflyonthewall.com, Inc.*, 650 F.3d 876, 898 (2d Cir. 2011).

¹⁴⁰ *Id.* at 894.

¹⁴¹ *Id.* at 902–03.

¹⁴² *Id.* at 913.

¹⁴³ *Id.*

¹⁴⁴ *Id.* at 914.

¹⁴⁵ *Id.* at 903.

¹⁴⁶ *Id.* at 905.

¹⁴⁷ *Id.* at 913.

V. CONCLUSION

¶54 The hot news doctrine has a contentious history. It was poorly received at first, but then experienced a renaissance in the Second Circuit in the specific factual context of broadcast radio. Most of the doctrine was eliminated by the Copyright Act of 1976 and the decision in *NBA*.

¶55 At the beginning of the twenty-first century, there is a question of what role the doctrine has to play in protecting information in the online age. While the Second Circuit reached the right result in *Barclays*, overturning the district court's decision, the majority did not offer lower courts the concrete guidance they need in order to deal with the challenging issues presented in cases involving online news aggregators.

