**BARCLAYS CAPITAL INC v.  
THEFLYONTHEWALL.COM, INC,**

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

Before: POOLER, SACK, and RAGGI, Circuit Judges.

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.,* 105 F.3d 841 (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.

In an attempt to preserve their business models, the Firms have increasingly taken measures to seek to prevent or curtail such pre-market — and therefore, from their point of view, premature — public dissemination of their recommendations. As the district court reported in *Barclays Capital Inc. v. Theflyonthewall.com* ("*Fly I*"), 700 F.Supp.2d 310 (S.D.N.Y.2010), the Firms have, for example: "communicated to their employees that the unauthorized dissemination of their equity research or its contents is a breach of loyalty to the Firm, undermines the Firm's creation of revenue, and can result in discipline, including firing," *id.* at 319-20; included in their licensing agreements with third-party distributors and in the reports themselves provisions prohibiting redistribution of their content, *id.* at 320; adopted policies limiting public dissemination of the reports and the information they contain, *id.;* and employed emerging Internet technology by which the Firms can seek to find the source of such "leaks" and to "plug" them, *id.* It is not clear from the record the extent to which these efforts are currently effective, but no concern has been expressed to us as to their legality or legitimacy.

The Firms instituted this litigation as part of the same endeavor. 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. *See Fly I,* 700 F.Supp.2d at 328 ("Fly no longer disputes... that it infringed the copyrights in [seventeen of the Firms' reports].... [J]udgment shall [therefore] be entered for the [Firms] on their claims of copyright infringement."). 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. Appellant's Br. at 61.

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**

We find little to take issue with in the district court's careful findings of facts, to which we must in any event defer. We therefore borrow freely from them.

***The Firms and their Research Reports***

The Firms are multinational financial entities that provide a variety of asset management, sales and trading, investment banking, and brokerage services to institutional investors, businesses of various sizes, and individuals. Among their many activities, the Firms compile research reports on specific companies whose securities are publicly traded, on industries, and on economic conditions generally. They disseminate such reports and accompanying trading recommendations to clients, such as hedge funds, private equity firms, pension funds, endowments, and individual investors. The reports, which vary in format, range from a single page to hundreds of pages in length. They typically include data analysis, qualitative discussion, and the recommendation. In the process of producing and disseminating the reports, the Firms employ hundreds of research analysts and spend hundreds of millions of dollars annually.

In preparing a company report, an analyst will gather data related to its business, and may visit its physical facilities, converse with industry experts or company executives, and construct financial or operational models. The analyst then uses that information in light of his or her expertise, experience, and judgment to arrive at formal projections and recommendations regarding the value of the company's securities.

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." *Fly I,* 700 F.Supp.2d at 316. 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.[[1]](#footnote-1) The Firms then conduct an orchestrated sales campaign in which members of their sales 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.[[2]](#footnote-2)

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."[[3]](#footnote-3)

***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." Tony Rogers, "Aggregator," *About.com Guide, available at* http://journalism.about.com/od/journalismglossary/g/aggregatordefinition.htm (latest visit Jan. 4, 2011).

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." *Fly I,* 700 F.Supp.2d at 322 (internal quotation marks omitted). It advertises that its "quick to the point news is a valuable resource for any investment decision." *Id.* 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." *Id.* at 322-23 (internal quotation marks omitted).

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." *Id.* at 323.

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.[[4]](#footnote-4)

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. The Firms describe these steps as follows:

The Firms have made a "very substantial and costly effort to study the unauthorized dissemination of their research reports and ... to plug the leaks they have found." Merrill Lynch, for example, has: (a) worked with third-party vendors to limit access to Merrill Lynch clients; (b) employed an internal security program to detect breaches of security; (c) investigated Merrill Lynch employees, including a review of cell phones, for leaks to third parties; (d) internalized Merrill Lynch's email subscription system; (e) identified and blacklisted websites that seek to post links to Merrill Lynch content; and (f) created unique signature URLs when links to research are sent to clients so that clients' usage can be monitored and abuse tracked. [citation to record] (describing breach control as an "all-consuming task"). Barclays and Morgan Stanley have undertaken comparable measures to protect their research.

Each Firm has a restrictive media and communications policy intended to preserve the time-sensitive value of Recommendations for their clients. The policies provide that any disclosure of equity research to the press occurs only after expiration of a prescribed period of time, and even then it is limited to entities that use the research as part of contextual news reporting and analysis. Appellees' Br. at 13 (citations omitted). As outlined above, the district court also cataloged these efforts, emphasizing their increasing intensity "in recent years." It is not clear from the record, however, the extent to which these efforts increased in response to the actions of Fly and others similarly disseminating the Recommendations on Internet-borne services, nor does the record disclose how successful the measures have been. Fly has not challenged the legality of the Firms' anti-dissemination efforts in these proceedings.[[5]](#footnote-5)

***The Complaint and Pre-Trial District Court Proceedings***

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The Firms assert two causes of action in their complaint: copyright infringement based on Fly's extensive excerpting of 17 research reports released in February and March 2005, and "hot news" misappropriation based on Fly's continual electronic publication of the Firms' Recommendations. The gravamen of the latter claim is that the aggregate widespread, unauthorized reporting of Recommendations by Fly and other financial news providers — including better known, better financed, more broadly accessed outlets — has threatened the viability of the Firms' equity research operations. The Firms allege that this unauthorized distribution allows clients and prospective clients to learn of Recommendations from sources other than the Firms before the Firms' sales staff can reach out to them to solicit their business, thereby reducing the ability of research to drive commission revenue. This, they assert, seriously threatens their ability to justify the expense of maintaining their extensive research operations.

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***The Trial and The District Court Decision***

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At a four-day bench trial in early March of last year, the witnesses for the plaintiffs were primarily Firm executives responsible for or familiar with a Firm's research activities. The defendant called, *inter alios,* Fly employees to testify, including Fly's President and majority owner, Ron Etergino. Inasmuch as Fly had effectively conceded liability for copyright infringement, the primary issues at trial were (1) the scope of remedies for copyright infringement, (2) whether Fly was liable for "hot news" misappropriation and, if so, (3) the appropriate remedy.

On March 18, 2010, the district court issued its Opinion and Order, deciding for the plaintiffs on both the copyright-infringement and the "hot news" misappropriation claims. It awarded the plaintiffs statutory damages and attorney's fees[17] related to the copyright infringement claim. As part of its judgment in favor of the plaintiffs on the misappropriation claim, the court entered an order, *inter alia,* enjoining Fly from reporting Recommendations for a period ranging from thirty minutes to several hours after they are released by the plaintiffs. *See Fly I,* 700 F.Supp.2d at 348; Permanent Injunction (Dkt. No 138), *Barclays Capital v. The-flyonthewall.com,* No. 06-cv-4908 (S.D.N.Y. March 18, 2010) (the "Permanent Injunction").

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**DISCUSSION**

**I. Standard of Review**

"When reviewing a judgment following a bench trial in the district court, we review the court's findings of fact for clear error and its conclusions of law *de novo.*" *Tiffany (NJ) Inc. v. eBay Inc.,* 600 F.3d 93, 96 (2d Cir.), *cert. denied,* \_\_\_ U.S. \_\_\_, 131 S.Ct. 647, 178 L.Ed.2d 513 (2010).

**II. Viability of the "Hot News" Misappropriation Tort**

Amici Google, Inc. and Twitter, Inc., referring to the "hot news" misappropriation tort as an "end-run" around the Constitution's Copyright Clause and Supreme Court precedent, and arguing that their position is supported by "[i]mportant public policy concerns," urge us to "repudiate the tort." Brief for Google, Inc. and Twitter, Inc. as Amici Curiae Supporting Reversal at 3, *Barclays Capital Inc. v. Theflyonthewall.com,* No. 10-1372-cv (2d Cir. June 22, 2010).

We need not address the viability *vel non* of a "hot news" misappropriation tort under New York law. Were we to do so, though, plainly we would be bound by the conclusion of the previous Second Circuit panel in *NBA* that the tort survives. *See, e.g., United States v. Jass,* 569 F.3d 47, 58 (2d Cir.2009) (explaining the binding nature of one panel opinion on a subsequent panel of the same circuit); *Meacham v. Knolls Atomic Power Lab.,* 461 F.3d 134, 141 (2d Cir.2006) (similar), *rev'd on other grounds,* 554 U.S. 84, 128 S.Ct. 2395, 171 L.Ed.2d 283 (2008). We are therefore without the authority to "repudiate" that view.

Were we indeed called upon to consider the continued viability of the tort *under New York law,* perhaps we would certify that issue to the New York Court of Appeals. The issue we address, however, is federal preemption. As a federal court, we answer that question ourselves.

**III. Copyright Act Preemption**

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

*National Basketball Association v. Motorola, Inc.,* 105 F.3d 841 (2d Cir.1997), appears to be the only judicial decision — surely the only decision binding upon us — that addresses directly the preemption issue raised in this appeal.

There, defendant Motorola, Inc. produced and sold (or otherwise provided) to members of the public a telephonic pager called SportsTrax. Motorola's co-defendant, STATS, Inc., supplied statistical information about National Basketball Association ("NBA") professional basketball games. The information was transmitted to SportsTrax pagers owned or leased by Motorola and STATS customers roughly simultaneously with the playing of the games. *NBA,* 105 F.3d at 843. The information included "(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." *Id.* at 844.

The information [was] updated every two to three minutes, with more frequent updates near the end of the first half and the end of the game. There [was] a lag of approximately two or three minutes between events in the game itself and when the information appear[ed] on the pager screen. *Id.*

SportsTrax gathered the information for the service by employing persons who would watch the games on television or listen to accounts of them on the radio and supply the information to STATS's host computer. The computer compiled, analyzed, and formatted the data for retransmission. The information was then sent to FM radio stations which retransmitted them to the subscribers' individual SportsTrax pagers. *Id.*

The NBA itself also publicly disseminated similar, and therefore to some extent competitive, information. As Judge Winter wrote for the *NBA* panel:

[T]he 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.

*Id.* at 853.

The district court whose decision was on appeal in *NBA* had found for the plaintiff on its New York-law "hot news" misappropriation claim arising out of the defendants' taking, redistributing, and profiting from the facts generated by the NBA in the course of the playing of NBA games. The district court therefore had entered a permanent injunction against the defendants, but stayed that injunction pending appeal. *Id.*

***1.* NBA *Preemption Analysis.***

**a. Copyright Act**

The *NBA* panel began its analysis by noting that prior to the 1976 amendments to the Copyright Act, the Act contained no express provisions as to the circumstances under which the federal copyright law preempted state law. The 1976 Amendments changed that.

Title 17 U.S.C. § 301, enacted in 1976, sets forth a two-part test to determine whether a state-law claim is preempted by the Copyright Act, with a further "extra elements" exception we discuss below. Such a claim is preempted (i) if it 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 — the "general scope requirement"; and (ii) if the work in question is of the type of works protected by the Copyright Act under 17 U.S.C. §§ 102 and 103 — the "subject matter requirement."[[6]](#footnote-6) *NBA,* 105 F.3d at 848 (quoting 17 U.S.C. § 301).

The *NBA* panel observed that "[t]he subject matter requirement" — the second factor in a preemption analysis — "is met when the work of authorship being copied or misappropriated `falls within the ambit of copyright protection.'" *Id.* at 849 (quoting *Harper & Row, Inc. v. Nation Enters.,* 723 F.2d 195, 200 (2nd Cir.1983) (brackets omitted), *rev'd on other grounds,* 471 U.S. 539, 105 S.Ct. 2218, 85 L.Ed.2d 588 (1985)). In deciding whether a state-law claim is preempted by the Copyright Act, then, it is not determinative that the plaintiff seeks redress with respect to a defendant's alleged misappropriation of uncopyrightable material — e.g., facts — contained in a copyrightable work. "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," if the work as a whole satisfies the subject matter requirement. *NBA,* 105 F.3d at 849; *see also id.* at 850 (quoting *ProCD, Inc. v. Zeidenberg,* 86 F.3d 1447, 1453 (7th Cir.1996)).

In *NBA,* facts about what transpired during broadcasted NBA basketball games thus fell within the subject matter of copyright for the purpose of the court's preemption analysis, even though the games themselves were not copyrightable. *Id.* at 848-49 ("Although game broadcasts are copyrightable while the underlying games are not, the Copyright Act should not be read to distinguish between the two when analyzing the preemption of a misappropriation claim based on copying or taking from the copyrightable work.").

Turning to the other preemption element, the *NBA* panel thought it clear that what the NBA was seeking to protect fell within the "general scope of copyright." Title 17 U.S.C. § 106, which states that the general scope of copyright, "affords a copyright owner the exclusive right to: (1) reproduce the copyrighted work; (2) prepare derivative works; (3) distribute copies of the work by sale or otherwise; and, with respect to certain artistic works, (4) perform the work publicly; and (5) display the work publicly. *See* 17 U.S.C. 106(1)-(5)." *Computer Assocs. Int'l, Inc. v. Altai, Inc.,* 982 F.2d 693, 716 (2d Cir.1992). "Section 301 [of the Copyright Act] thus 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," *id.* (quoting *Harper & Row,* 723 F.2d at 200), i.e., "acts of reproduction, performance, distribution or display," *id.* (internal quotation marks omitted). The claim of tortious behavior in *NBA* was indeed for the acts of reproduction, distribution, and display of facts by the defendants of material taken from the copyrighted broadcasts. The *NBA* panel therefore concluded that the plaintiff's tort claim was within the general scope of copyright.

The court was thus satisfied that both preemption factors were met.

**b. Extra-Element Test**

Having decided that the two preliminary factors counseled in favor of preemption, the *NBA* panel observed:

[C]ertain forms of commercial misappropriation otherwise within the general scope requirement will survive preemption if an "extra-element" test is met. As stated in *Altai:*

But if an "extra element" is "required instead of or in addition to the acts of reproduction, performance, distribution or display, in order to constitute a state-created cause of action, then the right does not lie `within the general scope of copyright,' and there is no preemption."

*Altai,* 982 F.2d at 716 (quoting 1 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 1.01[B] at 1-14-15 (1991)). *NBA,* 105 F.3d at 850; *see also Harper & Row,* 723 F.2d at 200 ("[W]hen a state law violation is predicated upon an act incorporating elements beyond mere reproduction or the like, the rights involved are not equivalent and preemption will not occur."). It is with respect to the "extra elements" that the *NBA* Court proffered a three-factor analysis: "We ... find the extra elements — those in addition to the elements of copyright infringement — that allow a `hotnews' 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."

*Id.* at 853 (emphasis added).

**i. *International News Service v. Associated Press***

The *NBA* Court briefly summarized the Supreme Court's seminal 1918 "hot news" decision, *International News Service v. Associated Press,* 248 U.S. 215, 39 S.Ct. 68, 63 L.Ed. 211 (1918) ("*INS*"):

*INS* involved two wire services, the Associated Press ("AP") and International News Service ("INS"), that transmitted news stories by wire to member newspapers. *Id.* INS would lift factual stories from AP bulletins and send them by wire to INS papers. *Id.* at 231 [39 S.Ct. 68]. 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. *Id.* at 238 [39 S.Ct. 68]. The Supreme Court held that INS's conduct was a common-law misappropriation of AP's property. *Id.* at 242 [39 S.Ct. 68].

*NBA,* 105 F.3d at 845.

*INS* itself is no longer good law. Purporting to establish a principal of federal common law, the law established by *INS* was abolished by *Erie Railroad Co. v. Tompkins,* 304 U.S. 64, 58 S.Ct. 817, 82 L.Ed. 1188 (1938), which largely abandoned federal common law. But, as the *NBA* panel pointed out, "[b]ased on legislative history of the 1976 [Copyright Act amendments], it is generally agreed that a `hot-news' *INS*-like claim survives preemption." *NBA,* 105 F.3d at 845 (citing H.R.Rep. No. 94-1476 at 132).

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The *NBA* Court thus used *INS* as a description of the type of claims — "*INS*-like" — that, Congress has said, are not necessarily preempted by federal copyright law. Some seventy-five years after its death under *Erie, INS* thus maintains a ghostly presence as a description of a tort theory, not as precedential establishment of a tort cause of action.

**ii. Moral Dimensions**

One source of confusion in addressing these misappropriation cases is that *INS* 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.[[7]](#footnote-7)" *INS,* 248 U.S. at 239, 39 S.Ct. 68. The Court said: This defendant ... admits that it is 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 that defendant in appropriating it and selling it as its own is endeavoring to reap where it has not sown, and by disposing of it to newspapers that are competitors of complainant's members is appropriating to itself the harvest of those who have sown. Stripped of all disguises, the process amounts 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 transaction speaks for itself, and *a court of equity ought not to hesitate long in characterizing it as unfair competition* in business. *Id.* at 239-40, 39 S.Ct. 68 (emphasis added). This dicta has been absorbed by New York misappropriation law:

New York courts have noted the incalculable variety of illegal practices falling within the unfair competition rubric, calling it a broad and flexible doctrine that depends more upon the facts set forth than in most causes of action. It has been broadly described as encompassing any form of commercial immorality, or simply as endeavoring to reap where one has not sown; it is taking the skill, expenditures and labors of a competitor, and misappropriating for the commercial advantage of one person a benefit or property right belonging to another. The tort is adaptable and capacious.

*Roy Exp. Co. Establishment of Vaduz, Liech. v. Columbia Broad. Sys., Inc.,* 672 F.2d 1095, 1105 (2d Cir.1982) (citation and alteration omitted). And it has been reflected in the rhetoric of federal district courts applying New York law. *See, e.g., Fly I,* 700 F.Supp.2d at 336 (quoting *INS*); *NBA v. Sports Team Analysis & Tracking Sys.* ("*NBA SDNY*"), 939 F.Supp. 1071, 1075 (S.D.N.Y.1996) (quoting *INS*), *rev'd, NBA,* 105 F.3d 841.

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.'" *NBA,* 105 F.3d at 851 (brackets in original) (quoting *NBA SDNY,* 939 F.Supp. at 1098-1110) (internal citation omitted). 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." *NBA,* 105 F.3d at 851 (deeming preempted the broad theory of misappropriation embodied in *Metropolitan Opera Ass'n v. Wagner-Nichols Recorder Corp.,* 199 Misc. 786, 101 N.Y.S.2d 483 (N.Y. County Sup. Ct.1950), *aff'd,* 279 A.D. 632, 107 N.Y.S.2d 795 (1st Dep't 1951)).

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,[[8]](#footnote-8) 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. *See id.*

**iii. Narrowness of the Preemption Exception**

The *NBA* panel repeatedly emphasized the "narrowness" of the "hot news" tort exception from preemption. *See id.* at 843, 848, 851, 852 (using the word "narrow" or "narrowness" five times). Although our discussion of preemption in *NBA* did not focus on the importance of maintaining the uniform nationwide scheme that the Copyright Act, with its 1976 preemption amendment, 17 U.S.C. § 301, provides, we later underscored it. In *Krause v. Titleserv, Inc.,* 402 F.3d 119, 123 (2d Cir.2005), we declined to limit protection for copyrights held by "owners" of computer programs to those with formal title to such programs. The first reason we gave was that title may depend on state law that differs from one state to another.

The result would be to undermine some of the uniformity achieved by the Copyright Act.... If [the relevant section of the Copyright Act] required formal title, two software users, engaged in substantively identical transactions might find that one is liable for copyright infringement while the other is protected by [the section], depending solely on the state in which the conduct occurred. *Such a result would contradict the Copyright Act's "express objective of creating national, uniform copyright law by broadly preempting state statutory and common-law copyright regulation.*" *Community for Creative Non-Violence v. Reid,* 490 U.S. 730, 740, 109 S.Ct. 2166, 104 L.Ed.2d 811 (1989); *see also* 17 U.S.C. § 301(a).

*Id.* at 123 (emphasis added).

Indeed, central to the principle of preemption generally is the value of providing for legal uniformity where Congress has acted nationally. *See, e.g., Paneccasio v. Unisource Worldwide, Inc.,* 532 F.3d 101, 113 (2d Cir.2008) ("The purpose of ERISA preemption is to ensure that all covered benefit plans will be governed by unified federal law, thus simplifying life for employers administering plans in several states, because a patchwork scheme of regulation would introduce considerable inefficiencies in benefit program operation." (internal quotation marks and brackets omitted)).

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 of New York. In *Associated Press v. All Headline News Corp.,* 608 F.Supp.2d 454 (S.D.N.Y.2009), 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."[[9]](#footnote-9) *Id.* at 459-60.

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":

We hold that the surviving "hot-news" *INS*-like claim is limited to cases where: (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. We conclude that SportsTrax does not meet that test. *NBA,* 105 F.3d at 845; *see Fly I,* 700 F.Supp.2d at 334-35 (quoting the passage but omitting the first fifteen prefatory words). But the panel restated the five-part inquiry later in its opinion:

In our view, the elements central to an *INS* claim are: (i) the plaintiff generates or collects information at some cost or expense, *see* [*Financial Information, Inc. v. Moody's Investors Serv.,* 808 F.2d 204, 206 (2d Cir.1996) ("*FII*")]; *INS,* 248 U.S. at 240, 39 S.Ct. 68; (ii) the value of the information is highly time-sensitive, *see FII,* 808 F.2d at 209; *INS,* 248 U.S. at 231, 39 S.Ct. 68; Restatement (Third) Unfair Competition, § 38 cmt. c.; (iii) the defendant's use of the information constitutes free-riding on the plaintiff's costly efforts to generate or collect it, *see FII,* 808 F.2d at 207; *INS,* 248 U.S. at 239-40, 39 S.Ct. 68; Restatement § 38 at cmt. c.; *McCarthy,* § 10:73 at 10-139; (iv) the defendant's use of the information is in direct competition with a product or service offered by the plaintiff, *FII,* 808 F.2d at 209, *INS,* 248 U.S. at 240, 39 S.Ct. 68; (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, *FII,* 808 F.2d at 209; Restatement, § 38 at cmt. c.; *INS,* 248 U.S. at 241, 39 S.Ct. 68 ("[INS's conduct] would render [AP'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.").

*NBA,* 105 F.3d at 852.

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,* 609 F.2d 51, 69 (2d Cir.1979) (Friendly, *J.,* concurring), *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, *supra* (containing seminal discussion of judicial use of the term "holding"); *id.* at 1256 ("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."); Judith M. Stinson, *Why Dicta Becomes Holding and Why it Matters,* 76 Brook. L.Rev. 219, 219 n. 2 (2010) (collecting authorities addressing difficulties with judicial use of the term "hold").

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

*Id.* at 853.

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." *NBA,* 105 F.3d at 845 (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.*'" *Id.* at 852 (emphasis added) (quoting *INS,* 248 U.S. at 241, 39 S.Ct. 68). 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." *Id.* at 853 (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, id.* at 845, 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," *id.* at 852, or were a "threat to the very existence of the product or service provided by the plaintiff[s]," *id.* at 853.[33] 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." *ConFold Pac., Inc. v. Polaris Indus.,* 433 F.3d 952, 960 (7th Cir.2006) (Posner, *J.*). 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," *NBA,* 105 F.3d at 848, 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. *See* Leval, *supra,* at 1254. 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.

We engage in this somewhat extended discussion because the parties agreed that the district court should employ the five-part analysis derived *NBA,* and the district court did so. But we cannot supplant this Court's view of the law with the view of the parties. *See, e.g., Kamen v. Kemper Fin. Servs. Inc.,* 500 U.S. 90, 99, 111 S.Ct. 1711, 114 L.Ed.2d 152 (1991); *Hankins v. Lyght,* 441 F.3d 96, 104 (2d Cir.2006); *Becker v. Poling Transp. Corp.,* 356 F.3d 381, 390 (2d Cir.2004).

***2.* NBA *Preemption Analysis Applied to The* NBA *Facts***

Applying the principles of preemption it had identified, the *NBA* Court concluded that the tort claim that the NBA sought to assert against Motorola and STATS was preempted by the Copyright Act because, the "general scope requirement" and the "subject matter requirement" having been satisfied, the "extra elements" necessary for such a claim nonetheless to survive preemption were absent. This was so despite the fact that Motorola and STATS were indeed disseminating, on a timely basis, information about NBA games that the NBA was also circulating. The Court concluded that:

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.... Appellants are in no way free-riding on [the NBA service that provided game statistics to the public]. Motorola and STATS expend their own resources to collect purely factual information generated in NBA games to transmit to [Motorola] pagers. They have their own network and assemble and transmit data themselves.

To be sure, if appellants in the future were to collect facts from an enhanced [NBA] pager to retransmit them to [Motorola's] pagers, that would constitute free-riding and might well cause [the NBA service] to be unprofitable because it had to bear costs to collect facts that [Motorola] did not. If the appropriation of facts from one pager to another pager service were allowed, transmission of current information on NBA games to pagers or similar devices would be substantially deterred because any potential transmitter would know that the first entrant would quickly encounter a lower cost competitor free-riding on the originator's transmissions.

However, that is not the case in the instant matter. [Motorola] and [the NBA] are each bearing [its] 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.

*NBA,* 105 F.3d at 854 (footnote omitted).

***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 section102," i.e., "original works of authorship fixed in a tangible medium of expression." 17 U.S.C. § 102. As discussed above, it is not determinative for the Copyright Act preemption analysis that the facts of the Recommendations themselves are not copyrightable. *See NBA,* 105 F.3d at 850. 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," *Altai, Inc.,* 982 F.2d at 716 (citing *Harper & Row,* 723 F.2d at 200), i.e., "acts of reproduction, performance, distribution or display," *id.* (internal quotation marks omitted).

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. [[10]](#footnote-10) 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.

*INS,* 248 U.S. at 234.

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,* 248 U.S. at 239, 39 S.Ct. 68, 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." *NBA,* 105 F.3d at 854.

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...." *INS,* 248 U.S. at 239, 39 S.Ct. 68. 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," *INS,* 248 U.S. at 239, 39 S.Ct. 68. 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.[[11]](#footnote-11) *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...." *Id.* at 240, 39 S.Ct. 68 (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." *Fly I,* 700 F.Supp.2d at 340 (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]." *Fly I,* 700 F.Supp.2d at 340.

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. *See INS,* 248 U.S. at 240, 39 S.Ct. 68.

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,* 105 F.3d at 845, or "the *INS* tort," as the district court did in this case, *Fly I,* 700 F.Supp.2d at 336, 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,* 105 F.3d at 854. 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." *See id.* 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." *Id.* 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 I,* 700 F.Supp.2d at 325. 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, *see id.,* 105 F.3d at 854, speculate about a product a Firm *might* produce which *might* indeed give rise to an 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.[[12]](#footnote-12) That would appear to be an *INS*-type claim and might survive preemption. *See also, e.g., All Headline News Corp.,* 608 F.Supp.2d at 454 (suggesting, in a case presenting facts more closely analogous to *INS,* that the plaintiff may have had a non-preempted "hot news" cause of action). *See generally* Complaint (Dkt. No. 1), *AP v. All Headline News Corp.,* No. 08-cv-323 (S.D.N.Y. Jan. 14, 2008). 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.

\* \* \*

**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. *See* 17 U.S.C. § 301. Unlike my colleagues in the majority, I do not reject the five-part test enunciated in *National Basketball Association v. Motorola, Inc.,* 105 F.3d 841 (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.* [Judge Raggi went on to argue that Fly should prevail because “the Firms failed to satisfy the "direct competition" requirement of *NBA*'s test.”]

1. The Firms distribute reports directly to some of their clients via, *inter alia,* online platforms that the Firms maintain which provide authorized individuals with access to such research. The Firms also grant licenses to third-party distributors such as Bloomberg, Thomson Reuters, FactSet, and Capital IQ to distribute the reports and Recommendations on their respective platforms.

   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. [↑](#footnote-ref-1)
2. Each of the Firms conducts a daily morning meeting at roughly 7:15 a.m. During this meeting, analysts will describe to the sales force interesting or important Recommendations issued the previous night. Starting around 8:00 a.m., the sales staff will in turn call, e-mail, and instant message clients to draw their attention to the report and Recommendation, in the hopes that a client will decide to place a trade with the Firm as a result of this contact, earning the firm a commission. [↑](#footnote-ref-2)
3. Firm witnesses repeatedly referred to their concern for the well-being of their "business models." *See, e.g.,* Hurewitz Aff. in lieu of direct testimony (referring to the "business model" four times), and his articulate testimony on cross examination and redirect examination in open court, reproduced at Appendix 749-870 (referring to "business model" fifteen times); *see also Fly I,* 700 F.Supp.2d at 315 (titling the first section of its findings of fact, "The Firms' Equity Research Business Model."); *id.* at 342 ("[C]ommon sense and the circumstantial evidence about the plaintiffs' business model make the Firms' contentions about its reduced incentives utterly credible."); and references to the Firms' "business models" in Appellees' Br. at 10, 24, 25, 39, and 42 (twice). [↑](#footnote-ref-3)
4. The Firms also generate revenue from these reports through what is known as the "embargoed market." The embargoed market receives reports one to two weeks after initial distribution. Customers on the embargoed market, such as law firms, consulting firms, and universities, pay per-report or subscription fees to receive the Firms' reports. Revenues from the embargoed market are relatively modest and are immaterial to this appeal. [↑](#footnote-ref-4)
5. The contractual terms the Firms impose on their clients are presumably enforceable irrespective of the viability of a "hot news" cause of action. *See ProCD, Inc. v. Zeidenberg,* 86 F.3d 1447, 1454-55 (7th Cir.1996) (Easterbrook, *J.*) (quoted with approval in a related context in *NBA,* 105 F.3d at 849). [↑](#footnote-ref-5)
6. 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 . . .

   (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.

   17 U.S.C. § 301. [↑](#footnote-ref-6)
7. In the Bible, that turn of phrase seems to be more a threat than a promise. *See, e.g., Galatians* 6:7: "God is not mocked, for whatever a man sows, that he will also reap." *But cf. Leviticus* 23:22, setting forth circumstances under which persons are *forbidden* to reap where they have sown. [↑](#footnote-ref-7)
8. 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. [↑](#footnote-ref-8)
9. The court concluded that New York law applied, and that the plaintiffs had adequately pleaded a New York "hot news" misappropriation claim. *All Headline News,* 608 F.Supp.2d at 458-61. [↑](#footnote-ref-9)
10. For purposes of evaluating its behavior, at least, INS was not "breaking" news in this sense. It was not reporting on news AP was making by itself reporting news — e.g., "The Associated Press and major news networks reported late Sunday that President Obama plans to nominate Solicitor General Elena Kagan to replace retiring Supreme Court Justice John Paul Stevens." Maureen Hoch, *Reports: President Obama to Name Elena Kagan as Supreme Court Pick,* PBS Newshour (May 9, 2010, 11:08 PM) *available at* http://www.pbs.org/newshour/rundown/2010/05/reports-obama-to-name-elena-kagan-as-supreme-court-pick.html (latest visit Mar. 7, 2011) — let alone making news — e.g., "Tamer Fakahany, an assistant managing editor at the AP's Nerve Center in New York, has been named deputy managing editor overseeing the center at AP headquarters." *Tamer Fakahany Named AP Deputy Managing Editor,* Associated Press, Feb. 8, 2011, *available at* http://www.cnbc.com/id/41478155 (latest visit Mar. 7, 2011). By significant contrast, in *INS,* AP broke news, and INS repackaged that news as though it were "breaking" news of its own. [↑](#footnote-ref-10)
11. Another analogue that comes readily to mind is the regular practice of members of the news media — traditional and otherwise — to report on political endorsements by the editorial boards of competitors. The fact that the *New York Times* endorses a particular candidate seems to us *to be* news. When the newspaper publishes its endorsement, that fact is widely reported, without controversy so far as we know, by other news outlets. *See, e.g.,* Shailagh Murray, *Lieberman's Eroding Base,* Wash. Post, July 30, 2006, at A4 ("In an editorial published today, the New York Times endorsed [Ned] Lamont over [Senator Joseph] Lieberman [for a U.S. Senate seat in Connecticut], arguing that the senator had offered the nation a `warped vision of bipartisanship' by supporting [President] Bush on national security."); John Harwood, *Edwards Plies Limited Resources,* Wall St. J., Feb. 27, 2004, at A4 (reporting on the endorsement of Senator John Kerry for the Democratic presidential nomination by the New York Times); *Major Newspapers Reveal Their Favorite Candidates,* L.A. Times, Oct. 23, 2000, at A14 (describing and quoting from various major newspapers' endorsements during the 2000 U.S. Presidential election). [↑](#footnote-ref-11)
12. The district court pointed out that in October 2007, while this suit was pending and "settlement talks in this action were ongoing," Fly brought a "hot news" misappropriation suit against a competitor, TradeTheNews.com. *See Fly I,* 700 F.Supp.2d at 327-28. We find no legal significance in that fact. It hardly constitutes a concession that the present suit is meritorious. Fly could raise a creditable argument that its lawsuit based on the copying of facts from its service by a similar, competing service is closer to the hypothetically valid "hot news" causes of action referred to in *NBA,* 105 F.3d at 854, and here, than is the Firms' claim against Fly. [↑](#footnote-ref-12)