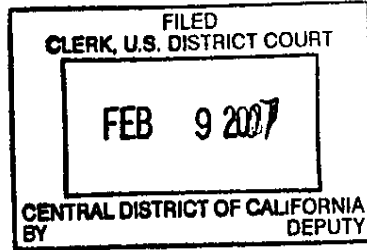


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UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

X17, Inc.,

Plaintiff,

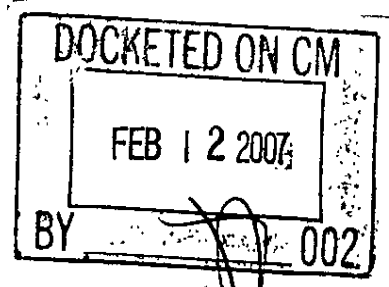
v.

MARIO LAVANDEIRA, dba Perez
Hilton,

Defendant.

Case No. CV 06-7608 GAF (JCx)

ORDER REGARDING DEFENDANT'S
MOTION TO DISMISS FOR FAILURE TO
STATE A CLAIM PURSUANT TO RULE
12(b)(6) OF THE FEDERAL RULES OF
CIVIL PROCEDURE



I.

INTRODUCTION AND BACKGROUND

Plaintiff X17, Inc. operates an archive of photographs in which it allegedly owns copyrights. Defendant Mario Lavandeira does business under the name "Perez Hilton" and operates the website perez Hilton.com. The website is a blog that provides a series of journal-like entries featuring celebrity gossip written by Lavandeira, and which allegedly generates millions of users and – consequently – thousands of dollars in advertising revenue each day. X17 alleges that perez Hilton.com has maintained its

13

1 popularity in large part because, since March of 2006, Lavandeira has posted on the
2 site more than 80 "virtually identical reproductions" of X17's copyrighted photographs.
3 The photographs are essentially paparazzi-type, candid shots that depict celebrities
4 engaged in their typical day-to-day activities – for example, Heather Locklear leaving
5 a lunch meeting, Nicole Richie grocery shopping, and Britney Spears exposing
6 herself.

7 Apparently realizing that Lavandeira's blog had begun to deprive it of revenue,
8 X17 initially filed only the predictable claim for copyright infringement, but later added
9 a second cause of action under a theory known as "hot news misappropriation," a
10 term that refers not to the salacious or arousing quality of the published material but
11 rather to its time sensitive nature. The claim essentially advances the theory that, in
12 addition to infringing on X17's interest in the photographs' copyrights, Lavandeira has
13 at times deprived X17 of a distinct interest in being the first to publish them.

14 Lavandeira now moves under Rule 12(b)(6) of the Federal Rules of Civil
15 Procedure to dismiss the "hot news" claim, contending that it is preempted by the
16 Copyright Act or not cognizable under California law. Alternatively, Lavandeira
17 contends that photographs cannot constitute "hot news" because the tort is limited to
18 written words and data.

19 The Court disagrees. The hot news claim, which the Court concludes
20 encompasses photographs as well as words and data, is a subset of the common law
21 tort of misappropriation, which California recognizes. Moreover, the Court is
22 persuaded by authority from the Second Circuit, which is entirely consistent with
23 California case law and explains why the hot news subset survives Copyright Act
24 preemption.

25 Accordingly, Lavandeira's motion to dismiss is **DENIED**.

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3 II.

4 DISCUSSION

5 **A. THE LEGAL STANDARD FOR A RULE 12(B)(6) MOTION**

6 A motion to dismiss a complaint tests the legal sufficiency of the claims
7 asserted. Fed. R. Civ. P. 12(b)(6). A court may not dismiss a complaint for failure to
8 state a claim "unless it appears beyond doubt that the plaintiff can prove no set of
9 facts in support of his claim which would entitle him to relief." Conley v. Gibson, 355
10 U.S. 41, 45-46 (1957). Thus, dismissal pursuant to Rule 12(b)(6) is proper only
11 where there is either a "lack of a cognizable legal theory" or "the absence of sufficient
12 facts alleged under a cognizable legal theory." Balistreri v. Pacifica Police Dep't, 901
13 F.2d 696, 699 (9th Cir. 1988). The Court accepts all factual allegations pleaded in the
14 complaint as true in deciding a motion to dismiss for failure to state a claim; in
15 addition, it construes those facts and draws all reasonable inferences from them in
16 favor of the nonmoving party. Cahill v. Liberty Mut. Ins. Co., 80 F.3d 336, 337-38 (9th
17 Cir. 1996).

18 **B. ANALYSIS**

19 **1. OVERVIEW OF THE "HOT NEWS" MISAPPROPRIATION TORT**

20 The "hot news" tort is a particularly hardy species of the common law tort of
21 unfair competition through misappropriation that – at least in some jurisdictions – has
22 managed to survive even after the 1976 amendments to the Copyright Act preempted
23 most misappropriation claims. The misappropriation genus originated in large part
24 with the Supreme Court's decision in International News Service v. Associated Press,
25 248 U.S. 215 (1918) ("International News"). That case involved two wire services that
26 transmitted news stories to member newspapers. International News Service lifted
27 Associated Press ("AP") stories off the wire and sent them to its own members, and at
28 times would send the stolen stories from the East Coast to the West Coast where,

1 because of the time differential, they had not been published, thus "scooping" AP. Id.
 2 at 231, 238. The Supreme Court held that International News Service's conduct was
 3 a common-law "misappropriation" of AP's property. Id. at 242.

4 Because International News was a pre-Erie case premised on federal
 5 common law, it is no longer binding precedent in its own right. Alcatel USA, Inc. v.
 6 DGI Techs., 166 F.3d 772, 788 n.59 (5th Cir. 1999). But the misappropriation theory
 7 International News espoused was later adopted in several states, including California.
 8 Balboa Ins. Co. v. Trans Global Equities, 218 Cal. App. 3d 1327, 1342 (Ct. App.
 9 1990) (recognizing general tort of misappropriation under California law and tracing it
 10 to International News); see also Alcatel USA, Inc., 166 F.3d at 788 (Texas law); Nat'l
 11 Basketball Ass'n v. Motorola, Inc., 105 F.3d 841 (2d Cir. 1997) ("NBA") (New York
 12 law); GAI Audio of N.Y., Inc. v. Columbia Broad. Sys., Inc., 27 Md. App. 172, 189-93
 13 (Ct. Spec. App. 1975) (Maryland law). However, with the enactment of the 1976
 14 amendments to the Copyright Act, many variants of the misappropriation tort were
 15 federally preempted. The Ninth Circuit explained that, after these amendments,

16 A state law cause of action is preempted by the Copyright Act if two
 17 elements are present. First, the rights that a plaintiff asserts under
 18 state law must be "rights that are equivalent" to those protected by the
 19 Copyright Act. 17 U.S.C. § 301(a); 1 Nimmer [on Copyright], § 1.01[B],
 at 1-11 [("Nimmer")]. Second, the work involved must fall within the
 "subject matter" of the Copyright Act as set forth in 17 U.S.C. §§ 102
 and 103. Id.

20 Kodadek v. MTV Networks, Inc., 152 F.3d 1209, 1212 (9th Cir. 1998). The first
 21 requirement of equivalency means that

22 If under state law the act of reproduction, performance, distribution or
 23 display, no matter whether the law includes all such acts or only some,
 will in itself infringe the state created right, then such right is
 24 preempted. ***But if other elements are required, in addition to or***
instead of, the acts of reproduction, performance, distribution or
 25 ***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
 26 no preemption.

27 1 Nimmer § 1.01[B], at 1-13 (emphasis added). The Second Circuit has recently
 28 identified a claim that contained such additional elements.

1 In its 1997 NBA decision, the Second Circuit held that an International News-
2 type "hot news" version of the misappropriation tort (arising under New York law) was
3 not "equivalent" to a copyright infringement claim, and thus survived Copyright Act
4 preemption. NBA, 105 F.3d at 845. That case held that the "hot news"
5 misappropriation tort includes the following elements:

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

14 Id. The court explained that the claim was not preempted because it contained extra
15 elements not essential to a copyright infringement claim, including "(i) the
16 time-sensitive value of factual information, (ii) the free-riding by a defendant, and (iii)
17 the threat to the very existence of the product or service provided by the plaintiff." Id.
18 at 853. Unlike copyright, which essentially protects the particular expression of an
19 idea, these elements protect the plaintiff's interest in, among other things, the time-
20 sensitive nature of the information and the investment associated with collecting the
21 time sensitive data, thus ensuring that the information would be made available to the
22 public by profit-seeking entrepreneurs. Id.

23 The Court noted that it was not alone in recognizing the distinction between
24 the rights protected by copyright and those protected under the hot news
25 misappropriation theory. Citing to the legislative history of the 1976 amendments, the
26 NBA court demonstrated that its holding squared precisely with congressional
27 recognition that "it is generally agreed that a 'hot-news' INS-like claim survives
28 preemption." Id. The legislative history to which the court referred is a House Report
that states:

"Misappropriation" is not necessarily synonymous with copyright
infringement, and thus a cause of action labeled as "misappropriation"
is not preempted if it is fact based neither on a right within the general

1 scope of copyright as specified by section 106 nor on a right
 2 equivalent thereto. For example, state law should have the flexibility to
 3 afford a remedy (under traditional principles of equity) against a
 4 consistent pattern of unauthorized appropriation by a competitor of the
 5 facts (i.e., not the literary expression) constituting "hot" news, whether
 6 in the traditional mold of International News Service v. Associated
 7 Press, 248 U.S. 215 (1918), or in the newer form of data updates from
 8 scientific, business, or financial data bases.

9 H.R. No. 94-1476 at 132 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5748.

10 Although NBA's reasoning is persuasive, at least one district court has
 11 rejected it, albeit in conclusory fashion. Citing only a law review article and a student
 12 note, the court in Lowry's Reports, Inc. v. Legg Mason, Inc., 271 F. Supp. 2d 737, 756
 13 (D. Md. 2003), questioned the validity of NBA's "extra" elements.

14 The cost of generating the information, its time-sensitivity, and direct
 15 competition between the parties merely define pre-existing conditions;
 16 the threat to the plaintiff's business merely identifies a consequence of
 17 the act of "free-riding." See Nicholas Khadder, Note, Nat'l Basketball
 18 Ass'n v. Motorola, Inc., 13 Berkeley Tech. L.J. 3, 14-15 (1998).

19 Id. at 756.

20 This out-of-circuit district court opinion is neither controlling nor persuasive.
 21 The Court finds the comment regarding "pre-existing conditions" puzzling because it
 22 suggests that only actions can constitute an "element" of a claim. Such a conclusion
 23 finds no support in the law. For example, the existence of a contract describes a "pre-
 24 existing condition" but a plaintiff suing for breach must prove the contract and its
 25 terms as an essential element of a claim for its breach. Likewise, the existence of an
 26 economic relationship between two parties may describe a pre-existing condition, but
 27 that relationship is essential to a claim of interference with prospective economic
 28 advantage. In short, the Court finds no support in the law for the Lowry's court's
 suggestion that "events" or "actions" can be elements of a claim, but that "conditions"
 cannot. Thus, the Court concludes NBA correctly held that the element of time-
 sensitive information constitutes a meaningful addition to the elements of copyright
 infringement, taking the tort outside the scope of federal preemption. While most
 material subject to copyright has a significant, sometimes indefinite, shelf-life, the

1 value of "hot news" depends entirely on its being timely published – and once
2 disseminated, the "hot news" ceases to be "news" at all, instead taking on possible
3 historical significance, or, in the case of information regarding a trip to the grocery, no
4 significance at all. Lowry's inexplicably ignores these considerations.

5 The Court also notes that Lowry's reached its conclusions without addressing
6 the House Report cited above. The report is a powerful indicator that Congress had
7 no intention that the 1976 amendments would preempt International News-type "hot
8 news" torts, and thus a strong indication that the statute enacted did not in fact do so.

9 In short, Lowry's notwithstanding, the NBA case is extremely persuasive that a
10 state law cause of action for "hot news" should not be preempted.

11 **2. CALIFORNIA EXPRESSLY RECOGNIZES A MISAPPROPRIATION TORT CAPABLE OF**
12 **AVOIDING PREEMPTION**

13 The question thus becomes whether the hot news tort is cognizable under
14 California law, and whether, if recognized, the tort survives preemption.

15 Lavandeira contends Balboa Insurance Co. v. Trans Global Equities, 218 Cal.
16 App. 3d 1327 (Ct. App. 1990) answers both questions, citing it both for the proposition
17 that California does not recognize a hot news tort (Reply at 4), and that the tort is
18 preempted (Mot. at 4). Lavandeira is incorrect. Although the Balboa Insurance court
19 cited International News in its opinion, the case had nothing to do with "hot news."
20 Rather, the case involved a claimed misappropriation of the contents of a computer
21 program, which do not derive their value from their time-sensitive nature. In
22 assessing the claimed software misappropriation, the court cited to the generic
23 elements of a misappropriation claim: (1) that the plaintiff has invested substantial
24 time and money in development of its property; (2) the defendant has appropriated
25 the property at little or no cost; and (3) the plaintiff has been injured by defendant's
26 conduct, id. (citing Scott, Computer Law § 5.30, at 5-28 (1980)), and concluded that,
27 because these elements were, in a broad sense, duplicative of a claim for copyright
28 infringement, the tort claim was preempted. Balboa Ins. Co., 218 Cal. App. 3d at

1 1342. Even so, the court indicated the result could be different if the facts included
 2 "an extra element such as breach of fiduciary duty, breach of confidentiality or
 3 improper revelation of a trade secret." Id. at 1353. With those words, the court left
 4 open the possibility that, in an appropriate case, a claim of misappropriation might not
 5 be preempted. Thus, contrary to Lavandeira's suggestion (Reply at 5-6), the
 6 omission of any discussion of the "hot news" tort should not be read to indicate a
 7 rejection of the tort itself or that California courts would hold the tort preempted.¹
 8 Accordingly, the Court rejects Lavandeira's argument that Balboa Insurance
 9 precludes X17's claim.²

10 Even more, Balboa Insurance strongly indicates that California courts would
 11 uphold the "hot news" tort. The case affirms that California law recognizes the
 12 misappropriation tort in the broad sense, of which the "hot news" tort is a subset, and
 13 acknowledges that it survives preemption when accompanied by additional elements
 14 distinguishing it from a copyright infringement cause of action. This squares entirely
 15 with the reasoning of the Second Circuit's NBA case, and thus the Court concludes
 16 that California would recognize the "hot news" species of the misappropriation tort as
 17 a cognizable theory of recovery.³

18
 19 ¹ For similar reasons, the Court is unpersuaded by Lavandeira's claim that the Fifth Circuit in
 20 Alcatel USA found the "hot news" tort preempted. (Reply at 2.) To the contrary, Alcatel USA
 21 did not address the distinguishing elements of the tort identified by the Second Circuit in NBA;
 22 rather, it merely stated that under Texas law, misappropriation claims required the same
 23 elements as the Balboa Insurance court's formulation of California law. Alcatel USA, 166 F.3d
 24 at 788. In effect, then, Alcatel USA did not address the "hot news" species of the tort at all, as
 25 should be evident by the fact that its only reference to the NBA case was to cite it for the general
 26 proposition that claims containing an element additional to copyright claims are not preempted.
 27 Id. at 787 & n.45.

28 ² Equally unavailing is Lavandeira's citation to Kodadek v. MTV Networks, 152 F.3d 1209 (9th
 Cir. 1998), which is merely a garden-variety unfair competition case and in no way involved the
 hot news tort.

³ Other district courts in California are in accord, though with varying depths of analysis that
 belie X17's contention that they "found" that the misappropriation tort survives copyright
 preemption in California. (Opp. at 7.) Indeed, two of the cases X17 cites merely refer
 parenthetically to NBA's hot news holding, and instead cite it mainly for the familiar proposition
 (continued...)

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3. X17'S ALLEGATIONS STATE A CLAIM UNDER HOT NEWS TORT

Having determined that the hot news tort is cognizable in California, the question becomes whether X17 has stated the claim. Lavandeira contends that the tort should be strictly construed, and that other cases endorsing the tort are distinguishable because they involved: (1) "raw data" or "purely factual information" as opposed to photographs and (2) material that could not be protected under the Copyright Laws. (Mot. at 6-7.) Again, the Court disagrees. First, the tort is conceptually broad enough to include photographs, particularly because the Supreme Court has referred to photographs as conveying "information" (albeit in the context of Fourth Amendment jurisprudence). Dow Chem. Co. v. United States, 476 U.S. 227, 238 (1986) (aerial surveillance photography captures and conveys "information"); see also Kylo v. United States, 533 U.S. 27, 34 (2001) (thermal image device captures and conveys "information"). Indeed, nothing in either International News or NBA suggests that the medium of the information is important. Second, the suggestion that the material at issue must be "uncopyrightable" seems merely to import Lavandeira's continuing misconception of the two requirements of copyright preemption – the lack of either of which will suffice to save a state cause of action – into the discussion of the hot news tort's substantive requirement. In short, this Court does not read International News or NBA to require that the material at issue be immune from copyright protection, and Lavandeira offers no argument why they would. To the contrary, the extensive preemption discussion in NBA presupposes that the hot news tort would cover copyrightable material; if it did not, the tort would

(...continued)

that "[i]f a state cause of action entails 'extra elements' beyond the basic elements of copyright, and protects rights that are 'qualitatively different' from those protected by copyright, it survives preemption." Nat'l Conference of Bar Examiners v. Saccuzzo, No. 03CV0737BTM, 2003 WL 21467772, *10 (S.D. Cal. June 10, 2003); Educ. Testing Serv. v. Simon, 95 F. Supp. 2d 1081, 1091 (C.D. Cal. 1999). Only slightly more persuasive is Pollstar v. Gigmania, Ltd., 170 F. Supp. 2d 974 (E.D. Cal. 2000), which, without extensive explanation, upheld a hot news claim against a motion to dismiss. Id. at 979-80.

1 obviously avoid preemption pursuant to 17 U.S.C. § 301(b)(1), which specifies that
2 nothing in the Copyright Act "limits any rights or remedies under the common law or
3 statutes of any State with respect to . . . subject matter that does not come within the
4 subject matter of copyright." Clearly, then, hot news may be subject to copyright.

5 Moreover, Lavandeira cites no contemporary support (or controlling authority)
6 for his premise that the "hot news" tort need be strictly construed. Instead, Defendant
7 relies on a 1929 case which, though made impressive by the reputation of its author,
8 expresses skepticism that seems directed at a broad reading of the generic
9 misappropriation tort, and that has been adequately addressed by the limited
10 construction promulgated in NBA. Cheney Bros. v. Doris Silk Corp., 35 F.2d 279, 280
11 (2d Cir. 1929) (Hand., J.). In short, the NBA case acknowledged the skepticism at the
12 generic cause of action, 105 F.3d at 852 n.7, and addressed it by identifying the
13 elements of the International News case that must be present today in order for a
14 International News-style hot news tort arising under state law to survive preemption.
15 So long as those elements are present, then, no further narrowing is required. Cf.
16 Restatement (Third) of Unfair Competition § 38 cmt. c (1995) (noting that the aspects
17 of the International News fact pattern that "present the most compelling case for
18 protection against appropriation" were that AP had been deprived of its "lead-time
19 advantage" on the West Coast and thus "faced a direct threat to its primary market by
20 a competitor who had incurred none of the development costs associated with
21 collecting the news"). Moreover, to the extent Cheney Bros. was concerned that
22 International News style actions conflicted with the congressional scheme espoused
23 in the Copyright Act, such concern should be more than alleviated by the House
24 Report cited above, which could not have more clearly indicated that the 1976
25 amendments were not enacted with the purpose of eliminating the "hot news" tort
26 through federal preemption.

27 In light of the foregoing, the X17's pleading is reasonably clear. It alleges that:
28 (1) it expends substantial costs and resources to gather, obtain, and create the

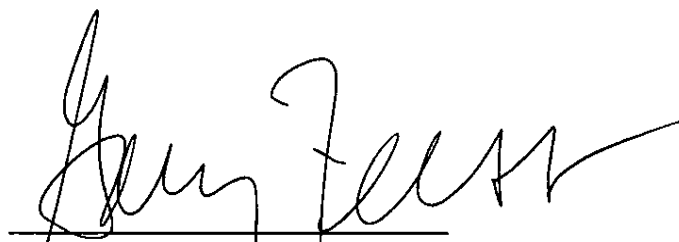
1 photographs Lavandeira has disseminated; (2) the photographs are time-sensitive; (3)
 2 the parties are direct competitors; (4) Lavandeira is earning revenue by free-riding on
 3 the substantial hard work of X17; (5) if the activities continue, they will remove X17's
 4 incentive to gather the photographs and threaten the continued existence of X17's
 5 business; and (6) Lavandeira's activities have substantially harmed X17. (First
 6 Amended Complaint ¶¶ 77-81.) Whether or not X17 can prove its case is a matter
 7 that the Court does not address in this ruling. The Court concludes only that X17 has
 8 adequately pled the three elements required to state a claim for California's
 9 misappropriation tort, Balboa Ins. Co., 218 Cal. App. 3d at 1342, and the additional
 10 three elements identified by the Second Circuit that place the claim within the hot
 11 news subset, NBA, 105 F.3d at 845. X17 thus adequately states the hot news claim
 12 (notwithstanding any irony in the suggestion that Ms. Spears' travails qualify as
 13 newsworthy).

14 **IV.**
 15 **CONCLUSION**

16 Accordingly, Lavandeira's motion to dismiss is **DENIED**. The hearing on this
 17 matter, previously scheduled for Monday, February 12, 2007, is **VACATED**. Fed. R.
 18 Civ. P. 78; Local Rule 7-15.

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 20 **IT IS SO ORDERED.**

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 23 DATED: February 9, 2007

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 26 Judge Gary Allen Feess
 27 United States District Court
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UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

X17, Inc.,

Plaintiff,

v.

MARIO LAVANDEIRA, dba Perez
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Defendant.

Case No. CV 06-7608 GAF (JCx)

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I.
INTRODUCTION AND BACKGROUND

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