10-1372-cv

IN THE

United States Court of Appeals

FOR THE SECOND CIRCUIT

BARCLAYS CAPITAL INCORPORATED,
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED,
MORGAN STANLEY & COMPANY, INCORPORATED,

Plaintiffs-Appellees,

v.

THEFLYONTHEWALL.COM, INCORPORATED,

Defendant-Appellant.

On Appeal from the United States District Court
for the Southern District of New York

BRIEF *AMICI CURIAE* OF ADVANCE PUBLICATIONS, INC., AGENCE FRANCE-PRESSE, A. H. BELO CORPORATION, THE ASSOCIATED PRESS, BELO CORP., THE E.W. SCRIPPS COMPANY, GANNETT COMPANY, INC., THE MCCLATCHY COMPANY, NEWSPAPER ASSOCIATION OF AMERICA, THE NEW YORK TIMES COMPANY, PHILADELPHIA MEDIA HOLDINGS, LLC, STEPHENS MEDIA LLC, TIME INC., AND THE WASHINGTON POST, NOT IN SUPPORT OF ANY PARTY

Andrew L. Deutsch
Nicholas Aldrich (admission pending)
DLA PIPER LLP (US)
1251 Avenue of the Americas
New York, New York 10020
212-335-4500

Attorneys for Amici Curiae

Jerry S. Birenz, Esq.
SABIN, BERMANT & GOULD
Attorneys for Advance Publications, Inc.
Four Times Square
New York, New York 10036
212-381-7057

Joshua Kaufman, Esq.
VENABLE LLP
Attorneys for Agence France-Presse
575 Seventh Street, NW
Washington, D.C. 20004
202-344-8538

Russell F. Coleman
A. H. BELO CORPORATION
508 Young Street
Dallas, Texas 75202
214-977-6601

Srinandan Kasi
David Tomlin
THE ASSOCIATED PRESS
450 West 33rd Street
New York, New York 10001
212-621-7993

Russell F. Coleman
BELO CORP.
400 S. Record Street
Dallas, Texas 75202
214-977-6601

David M. Giles
THE E.W. SCRIPPS COMPANY
312 Walnut Street
2800 Scripps Center
Cincinnati, Ohio 45202
513-977-3891

Barbara Wall
GANNETT COMPANY, INC.
7950 Jones Branch Drive
McLean, Virginia 22107
703-854-6000

Karole Morgan-Prager
Stephen J. Burns
THE MCCLATCHY COMPANY
2100 Q Street
Sacramento, California 95816
916-321-1926

René P. Milam
NEWSPAPER ASSOCIATION OF AMERICA
4401 Wilson Boulevard, Suite 900
Arlington, Virginia 22203
571-366-1000

Kenneth Richieri
George Freeman
THE NEW YORK TIMES COMPANY
620 Eighth Avenue
New York, New York 10018
212-556-1558

Scott K. Baker
PHILADELPHIA MEDIA HOLDINGS, LLC
400 N. Broad Street
Philadelphia, Pennsylvania 19130
215-854-5969

Mark A. Hinueber
STEPHENS MEDIA, LLC
P.O. Box 70
Las Vegas, Nevada 89106
702-477-3830

Andrew Lachow
TIME INC.
1271 Avenue of the Americas
New York, New York 10020
212-522-8307

Eric N. Lieberman
James A. McLaughlin
Timothy Jucovy
THE WASHINGTON POST
1150 15th Street, N.W.
Washington, D.C. 20071
202-334-7988

CORPORATE DISCLOSURE STATEMENT

Pursuant to Rule 26.1 of the Federal Rules of Appellate Procedure, *amici curiae* individually certify as follows:

Advance Publications, Inc. has no parent corporation, and no publicly held corporation owns 10% or more of its stock.

Agence France-Presse has no parent corporation, and no publicly held corporation owns 10% or more of its stock.

A. H. Belo Corporation has no parent corporation. Wells Fargo & Company, a publicly held corporation, owns 10% or more of its stock.

The Associated Press is a not-for-profit news cooperative. It has no parent corporation and has no publicly held stock, and no publicly held corporation owns 10% or more of any form of interest in The Associated Press.

Belo Corp. has no parent corporation, and no publicly held corporation owns 10% or more of its stock.

The E.W. Scripps Company has no parent corporation, and no publicly held corporation owns 10% or more of its stock.

Gannett Company, Inc. has no parent corporation. J.P. Morgan Chase & Co. owns more than 10% of Gannett Co., Inc. stock.

The McClatchy Company has no parent corporation. Bestinver Gestion owns 10% or more of the stock of The McClatchy Company. Bestinver Gestion is believed to be owned by Grupo Bestinver, which is believed to be owned by Acciona, a publicly traded Spanish company.

Newspaper Association of America is a non-stock corporation with no parent corporation, and no publicly held corporation owns 10% or more of any form of interest in Newspaper Association of America.

The New York Times Company has no parent corporation, and no publicly held corporation owns more than 10% of its stock.

Philadelphia Media Holdings, LLC has no parent corporation, and no publicly held corporation owns more than 10% of its membership interests.

Stephens Media, LLC has two parent corporations: SF Holding Corp. and Stephens Holding Company. No publicly held corporation owns 10% or more of the stock or membership interest of Stephens Media, LLC.

Time Inc.'s ultimate parent entity is Time Warner Inc., a publicly traded corporation. No publicly held corporation owns 10% or more of Time Warner Inc.'s stock.

WP Company LLC d/b/a/ The Washington Post is a wholly-owned subsidiary of The Washington Post Company, a publicly held corporation.

Berkshire Hathaway, a publicly held corporation, owns a 10% or greater ownership interest in The Washington Post Company.

TABLE OF CONTENTS

Page

CORPORATE DISCLOSURE STATEMENT ii

TABLE OF AUTHORITIES vi

INTEREST OF THE *AMICI* 1

Amici's Interest In The "Hot-News" Doctrine And This Appeal 1

Statements Regarding The Interests Of Each Amicus 4

ARGUMENT 8

I. THE "HOT-NEWS" DOCTRINE REMAINS AN IMPORTANT PROTECTION FOR THE PRESS AND SHOULD NOT BE LIMITED IN THIS APPEAL 8

II. THE COURT SHOULD NOT LIMIT THE ELEMENTS OF PROOF THAT MAY BE PRESENTED TO PROVE A "HOT-NEWS" CASE UNDER *INS* AND *MOTOROLA* 13

A. Free-Riding 14

B. Competition 16

C. Harm To Incentive 18

III. THE CONSTITUTIONALITY OF THE "HOT-NEWS" DOCTRINE AS APPLIED TO THE *INS* FACT PATTERN IS NOT IN DISPUTE 22

IV. *eBAY* AND *SALINGER* DO NOT ALTER THE BURDEN OF PROOF FOR AN INJUNCTION IN *INS*-TYPE "HOT-NEWS" CASES 25

V. THE COURT SHOULD REJECT THE "DUTY TO POLICE" IMPOSED BY THE DISTRICT COURT AS PART OF ITS INJUNCTIVE RELIEF 28

CONCLUSION 34

CERTIFICATE OF COMPLIANCE 35

TABLE OF AUTHORITIES

Cases — Page(s)

Associated Press v. All Headline News Corp.,
608 F. Supp. 2d 454 (S.D.N.Y. 2009) 10

Barclays Capital Inc. v. Theflyonthewall.com,
___ F. Supp. 2d ___, 2010 WL 1005160 (S.D.N.Y. Mar. 18, 2010) 29, 30

Bein v. Heath, 47 U.S. 228 (1848) 31

Breakers of Palm Beach, Inc. v. Int'l Beach Hotel Dev., Inc.,
824 F. Supp. 1576 (S.D. Fla. 1993) 32

Campbell v. Acuff-Rose Music, Inc.,
510 U.S. 569 (1994) 21

eBay Inc. v. MercExchange, L.L.C.,
547 U.S. 388 (2006) ..... passim

International News Service v. Associated Press,
248 U.S. 215 (1918) ..... passim

MercExchange, L.L.C. v. eBay, Inc.,
401 F.3d 1323 (Fed. Cir. 2005) 25

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

Omega Importing Corp. v. Petri-Kine Camera Co.,
451 F.2d 1190 (2d Cir. 1971) 27

PenneCom B.V. v. Merrill Lynch & Co., Inc.,
372 F.3d 488 (2d Cir. 2004) 31

Pottstown Daily News Publ'g Co. v. Pottstown Broad. Co.,
192 A.2d 657 (Pa. 1963) 18

Salinger v. Colting,
___ F.3d ___, 94 U.S.P.Q.2d 1577,
2010 WL 1729126 (2d Cir. Apr. 30, 2010) ..... passim

Symantec Corp. v. CD Micro, Inc.,
286 F. Supp. 2d 1265 (D. Or. 2003) 32

Wallpapers Mfrs., Ltd. v. Crown Wallcovering Corp.,
680 F.2d 755 (C.C.P.A. 1982) 31

STATUTES AND RULES

U.S.C.A.2d Cir. R. 29.1 1

OTHER AUTHORITIES

Andrew L. Deutsch, Srinandan Kasi, and Riyad Omar, *Publishers increasingly invoke hot news doctrine*, NATIONAL LAW JOURNAL, May 17, 2010 33

Brief for Interactive Services Association as *Amicus Curiae* Supporting Defendants-Appellant-Cross-Appellees in *National Basketball Ass'n v. Motorola, Inc.*, 105 F.3d 841 (2d Cir. 1997), 1996 WL 33485429 (2d Cir. Sept. 19, 1996) 23

Fair Syndication Consortium, *Fair Syndication Consortium Research Brief: How U.S. Newspaper Content is Reused and Monetized Online* (Nov. 23, 2009), *available at* http://fairsyndication.org/guidelines/USnewspapercontentreusestudy.pdf (last visited June 16, 2010) 32

Federal Communications Commission, Future of Media *Future of Media & Information Needs of Communities in a Digital Age*, http://reboot.fcc.gov/futureofmedia (last visited June 16, 2010) 20

Federal Trade Commission, *How will Journalism Survive the Internet Age?*, http://ftc.gov/opp/workshops/news/index.shtml (last visited June 16, 2010) 20

William M. Landes & Richard A. Posner, THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW (2003) 20

INTEREST OF THE *AMICI*

Amici respectfully submit this brief in support of none of the parties to this appeal.[1] All parties to the appeal have consented to the filing of this brief, and *amici* therefore have not moved for leave to file this brief.

Amici's Interest In The "Hot-News" Doctrine And This Appeal

Amici include many of the largest newspaper publishers in this country, two of the largest news services in the world, major publishers of weekly and monthly news and opinion magazines, and major broadcasting chains.[2] They are a representative cross-section of the American press. Every minute of every day, *amici* deliver fresh news to Americans through print, broadcast, and Internet platforms.

The subject of this appeal is of substantial importance to *amici*: the "hot-news" misappropriation doctrine, which was first established in *International News Service v. Associated Press*, 248 U.S. 215 (1918) ("*INS*"), thereafter adopted into the common law of New York and other

---

[1] Pursuant to Local Rule 29.1 of the United States Court of Appeals for the Second Circuit, *amici* hereby certify that no counsel to any party to the appeal authored this brief in whole or in part; no party or party's counsel contributed money that was intended to fund preparing or submitting this brief; and no non-party, other than *amici* or their members or counsel, has contributed money that was intended to fund preparing or submitting this brief.

[2] *Amicus* NAA is not a publisher, but an industry nonprofit organization that represents the interests of over 2,000 U.S. and Canadian newspapers and their multiplatform businesses.

states, and reformulated for the modern era by this Court in *National Basketball Association v. Motorola, Inc.*, 105 F.3d 841 (2d Cir. 1997) ("*Motorola*").

As discussed in greater detail at Point I below, the doctrine provides limited but vital protection for *amici* and other entities that invest in gathering, editing, and publishing fresh news. *INS* permits a news originator to obtain injunctive relief against an entity that systematically and continuously copies the originator's' published news while it is still timely, and then republishes that news in a product that competes with the originator's own product.

The *INS* doctrine ultimately rests on the public interest. It recognizes that free-riders who have not invested in a journalistic infrastructure can always undersell news originators. Unless generalized free-riding on news originators' efforts is restrained, originators will be unable to recover their costs of newsgathering and publication, the incentive to engage in the news business will be threatened, and the public will ultimately have fewer sources of original news.

The current appeal arises in an unorthodox setting for a "hot-news" case. Plaintiffs-appellees Barclays Capital, Inc., Merrill Lynch, Pierce, Fenner & Smith Inc., and Morgan Stanley & Co. Inc. (the "**Firms**") do not

openly publish their stock recommendations (the "**Recommendations**"). Defendant-appellant Theflyonthewall.com, Inc. ("**Fly**") is not a traditional news publisher in the mold of *amici*. Accordingly, *amici* do not take a position on whether the *INS* doctrine should apply in this setting, whether this Court should affirm or reverse the particular ruling below, or whether it should vacate, affirm, or modify the district court's injunction (although, as noted below, they do ask that the Court address and reject the post-injunction "duty to police" that the district court imposed on the plaintiffs-appellees).

Although they do not favor either side in this appeal, *amici* have a substantial interest in the opinion that the Court will render. That opinion will likely be given substantial consideration in future "hot-news" litigation that is brought by news originators. *Amici* submit this brief to inform the Court of their interests in, and views about, the "hot-news" doctrine. They ask the Court to frame its opinion so as to avoid overbroad statements that may inadvertently restrict news publishers' established rights under *INS* and *Motorola*.

As explained in the discussion below, *amici* urge the Court to (a) craft its opinion with recognition that the "hot-news" doctrine remains necessary to protect the news industry's incentive to gather and report news, (b) permit

district courts to calibrate the proof requirements for the *Motorola* elements of direct competition, free-riding, and harm to economic incentive, so that the doctrine continues to protect the press, (c) recognize that neither Fly nor the Firms contest the constitutionality of the "hot-news" doctrine as applied to news originator misappropriation claims, (d) hold that while district courts, in order to enter an injunction, may need to consider whether a plaintiff has shown irreparable injury and that monetary damages are inadequate, plaintiffs in an *INS*-type "hot news" case may establish these factors by proving that the *Motorola* elements are satisfied, and (e) reject the "duty to police" imposed by the district court on appellees, and hold that a "hot-news" plaintiff is not required to sue all misappropriators in order to preserve its right to an injunction.

Statements Regarding The Interests Of Each Amicus

Advance Publications, Inc., directly and through its subsidiaries, publishes over 20 magazines with nationwide circulation, daily newspapers in over 20 cities, and weekly business journals in over 40 cities throughout the United States. It also owns, directly or through its subsidiaries, many Internet sites and has interests in cable systems serving over 2.3 million subscribers.

Agence France-Presse is a not-for-profit news agency, based in France, and created by the French Parliament. It gathers, produces and distributes news around the world through its network of 165 bureaus. AFP has news operations in the United States and distributes its world services to various United States organizations and media, including newspapers, television and radio stations, and Internet websites.

A. H. Belo Corporation and its subsidiaries publish several daily newspapers, including *The Dallas Morning News*, Texas' leading newspaper and winner of nine Pulitzer Prizes since 1986. A. H. Belo also operates a diversified group of Web sites.

The Associated Press is a not-for-profit news cooperative. Its members and subscribers include the nation's newspapers, magazines, broadcasters, cable news services, and Internet content providers. It distributes news worldwide through a global network of over 200 bureaus and offices. On any given day, AP's news content can reach more than half of the world's population.

Belo Corp. owns or operates 20 television stations reaching 14% of U.S. television households, two regional cable news channels reaching more than three million households, four local cable news channels, and more than 30 associated Web sites.

The E.W. Scripps Company is a diverse, 131-year-old media enterprise with interests in television stations, newspapers, local news and information Web sites, and licensing and syndication. The company's portfolio includes: 10 TV stations; daily and community newspapers in 13 markets; and the Washington, D.C.-based Scripps Media Center, home of the Scripps Howard News Service**.**

Gannett Co., Inc., is an international news and information company that publishes 81 daily newspapers in the United States, including USA TODAY, and a number of non-daily publications, including USA Weekend. It also owns 23 television stations, and operates over 100 U.S. websites that are integrated with its publishing and broadcast operations.

The McClatchy Company publishes 31 daily newspapers and 46 non-daily newspapers throughout the country, including the *Sacramento Bee*, the *Miami Herald*, the *Kansas City Star* and the *Charlotte Observer*. The newspapers have a combined average circulation of approximately 2,200,000 daily and 2,800,000 Sunday.

The Newspaper Association of America (NAA) is a nonprofit organization representing the interests of more than 2,000 newspapers in the United States and Canada. Its members account for nearly 90 percent of the daily newspaper circulation in the United States and a wide range of non-

daily newspapers. Among key strategic priorities of NAA are the advancement and protection of newspapers' First Amendment and intellectual property interests.

The New York Times Company publishes the *New York Times*, with a daily circulation of close to one million and 1.4 million on Sundays, the *International Herald Tribune*, the *Boston Globe*, 15 other daily newspapers, and operates more than 50 Web sites, including NYTimes.com, Boston.com, and About.com.

Philadelphia Media Holdings, LLC, through its subsidiaries, publishes the two largest daily newspapers in the Philadelphia region, a number of non-daily publications and operates several websites, including philly.com. More than 2.3 million people read *The Philadelphia Inquirer*, *Philadelphia Daily News* or click on philly.com every day.

Stephens Media, LLC is a nationwide newspaper publisher with operations from North Carolina to Hawaii. Its largest newspaper is the *Las Vegas Review-Journal* (NV).

Time Inc. is the largest magazine publisher in the U.S. It publishes over 100 titles, including Time, Fortune, Sports Illustrated, People, Entertainment Weekly, InStyle and Real Simple. Time Inc. publications reach over 100 million adults and its Web sites, which attract more unique

visitors each month than any other publisher, serve close to 2 billion page views each month.

WP Company LLC publishes *The Washington Post*, a leading newspaper and news website.

ARGUMENT

I.

THE "HOT-NEWS" DOCTRINE REMAINS AN IMPORTANT PROTECTION FOR THE PRESS AND SHOULD NOT BE LIMITED IN THIS APPEAL

Appellant Fly's brief does not take issue with application of the *INS* doctrine to "the *INS* fact pattern – to protect a news information service against theft by a competing news service while the news was time sensitive." Brief for Defendant-Appellant ("**Fly Br.**") at 32. It is indeed under this traditional *INS* fact pattern that *amici* have sought or may seek the protections of the doctrine. In deciding this appeal, the Court should be aware of the continuing importance of the "hot-news" doctrine to *amici* and the press in general.

INS recognizes that news media are uniquely vulnerable to unfair competition, because their business is gathering, editing, and publishing fresh news to the public. *INS*, 248 U.S. at 238-39. The vulnerability of

news originators has grown exponentially in the Internet era. Today, originators make most news stories available on the Web as soon as they leave the editor's desk. With a simple computer program and a few keystrokes, a free-rider can immediately copy that valuable news content from the Internet. The free-rider can then republish the originator's news while it is still "hot," in a product that competes for public attention and revenue from such sources as advertising, subscriptions, and paid applications.

Amici, except for the AP and NAA, are for-profit businesses that invest in gathering, editing, and publishing fresh news.[3] Each year, they collectively spend hundreds of millions of dollars to pay reporters and editors to cover news of interest, to send journalists to war zones and disaster sites, to build new platforms that speed news delivery to the public via the Internet and other electronic means, and to fight for the right to uncover and report information that affects our lives and relationships to government and other important institutions. Without this substantial constant investment, the continuous stream of news that Americans expect would vanish. To continue bringing the fresh news to the public, *amici* must

[3] The AP, a not-for-profit corporation, may make a incidental profit, which is applied to maintain or expand its business operations.

be able to recover these costs from advertising, subscriptions, single-copy sales, content licensing and other revenues, and make a profit as well.

In contrast, those who free-ride on news originators have no or a very low cost of doing business. Some use readily-available computer programs to "scrape" the news from the websites or newsfeeds of news originators, which is then copied to their own or third-party websites or newsfeeds. Others use low-cost human labor. *See, e.g., Associated Press v. All Headline News Corp.*, 608 F. Supp. 2d 454, 457 (S.D.N.Y. 2009) (plaintiff alleged that defendant AHN hires "'poorly paid individuals' to find news stories on the internet and prepare them for republication" under defendant's name).

Whatever their form or method of operations, free-riders can always resell originators' news for less than the originators, because free-riders do not have to cover the originators' costs of journalism and production, and other risks of business. Free-riders can offer readers free Internet access to news that the originator charges for. Where the originator is a news service or other wholesaler of news, a free-rider can license the same news feed to the same market supplied by the originator, such as Internet portals and other distributors, for lower fees. To advertisers who want to reach news readers, the free-rider can offer space at lower rates than the originator. Left

unrestrained, systematic free-riding prevents originators from recovering their costs of finding, composing, and editing the news, let alone making a profit.

The consequences of unchecked, widespread free-riding on news origination would be devastating to publishers and costly to society. At a minimum, originators will lose their incentive to continue expending resources to gather and deliver timely news to the public. An originator that cannot recover its costs of doing business will eventually go bankrupt (and there have already been a growing number of newspaper bankruptcies and closures). This would mean fewer sources of reliable, professionally-gathered news to inform the public, and a strong disincentive for any company to invest in the news business for the first time. Moreover, newspapers and broadcasters that are economically weakened by free-riding cannot long carry out their primary mission – telling the public the truth about the powerful. They can be easily crushed or ignored by a hostile government funded by tax dollars, or hobbled by lawsuits brought by rich business interests.

The *INS* doctrine provides an important remedy to this problem. It permits a newsgathering business to obtain a time-limited injunction against a free-rider who engages in systematic, continuous and competitive

republication of the plaintiff's news content. The plaintiff must show (but this will often follow naturally from the facts of the case) that without such restraints, incentives to produce original news would be seriously impaired.

Amici urge the Court to keep these considerations in mind in drafting its opinion in this appeal. The Court should also note that the *INS* remedy is by nature limited to a defendant that continuously and "systematically," 248 U.S. at 243, copies and republishes news gathered by another. As a result, the doctrine has no application to a vast category of situations in which individual news stories or content may be communicated without a license. For example, the doctrine does not apply to a publisher that uses the news from one enterprise as a "tip" on which to base a story through its own direct reporting, *see INS*, 248 U.S. at 243; where a publisher employs the traditional journalistic practice of reporting an important news story that is "broken" by a specific newspaper or broadcaster (with appropriate credit to the originator); or where a publisher provides occasional commentary or criticism of the journalism in a particular story.

The Court should also consider that an injunction under *INS* does not permanently prevent the defendant from republishing any particular news item. The doctrine is intended to protect the economic value of fresh news,

which decays over time.[4] Thus, as *INS* states, any injunction should have "specific" terms that "confine the restraint to an extent consistent with the reasonable protection of complainant's newspapers. . . against the competitive use of pirated news." 248 U.S. at 245-46.

However the Court disposes of the injunction below, its opinion should not restrict future trial courts from exercising flexibility in the injunctive phase of a "hot-news" case brought by news originators. Once news originator plaintiffs have established the elements identified in *Motorola*, a court should have the discretion to frame effective injunctions that take the particular facts of a case into account, and provide "reasonable" protection against the "competitive use of pirated news." *INS*, 248 U.S. at 245-46.

II.

THE COURT SHOULD NOT LIMIT THE ELEMENTS OF PROOF THAT MAY BE PRESENTED TO PROVE A "HOT-NEWS" CASE UNDER *INS* AND *MOTOROLA*

At Fly Br. 44-49, Fly contends that the Firms did not show three of the five elements of a New York misappropriation claim identified in *Motorola*:

---

[4] However, with the advent of the Internet, published news stories are often continually updated with ongoing newsgathering and reporting. As a result, the time during which a story remains "fresh" and entitled to *INS* protection may be prolonged with regard to the new information.

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

Motorola, 105 F.3d at 852. In addition, Fly argues that the Court should modify the fifth element of *Motorola* to include consideration of whether a defendant was making "fair use" of the plaintiff's information and producing a "transformative" product. *Id.* at 49-51.

Amici take no position on whether the proof presented below established these free-riding, competition, and harm to incentive elements of *Motorola*. However, they request that the Court's opinion not restrict future courts from calibrating proof requirements for these elements to the particular circumstances of news piracy. *Amici* also believe that "fair use" considerations, beyond those already implicit in the *Motorola* elements, should not be incorporated into the *INS* doctrine.

A. Free-Riding

Under *Motorola*, "free-riding" refers to appropriation by the defendant of "the plaintiff's costly efforts to generate or collect" information without paying for it in some manner. 105 F.3d at 852. This "enabl[es] the

defendant to produce a directly competitive product for less money because it has lower costs." *Id.* at 854. The defendants in *Motorola* were STATS, Inc., a statistical service with employees who watched NBA broadcasts, entered observed basketball statistical facts into computers, and assembled them into a data feed, and Motorola, which transmitted this feed to novelty pagers called SportsTrax. They were found not to be free-riding, because they were not drawing their game statistics from any product created by the NBA that "collect[ed] . . .strictly factual information about the games." *Id.* at 853.

However, this Court noted that the NBA was in the early stages of developing its own statistical service about NBA games, called Gamestats. *Id.* It found that if the defendants were to collect facts from Gamestats and transmit them, "that would constitute free-riding and might well cause Gamestats to be unprofitable because it had to bear costs to collect facts that SportsTrax did not." *Id.* at 854.

The test for "free-riding" under *INS*-type facts is not, therefore, whether the defendant's business is limited to its copying of a plaintiff's informational product. *Cf.* Fly Br. at 45. If this were so, then Motorola – which derived only an infinitesimal portion of its revenues from sales of the novelty SportsTrax pager – would not have been a free-rider even if it had

knowingly copied from the NBA's Gamestats system. Nor can the test be the proportion of the defendant's product that is copied from the plaintiff's published news. If this were the case, then (as a hypothetical example), a defendant news service could license news from AP and then copy without authorization from Reuters. *Motorola* makes clear that free-riding in the news context depends on whether defendants "expend their own resources" to collect the information that they disseminate to the public. 105 F.3d at 854.

On *INS*-type facts, courts should be entitled to find free-riding where the plaintiff generates a news product from its own investments, while the defendant draws the news for its competitive news product primarily by appropriating from the publications of the plaintiff and others.

B. Competition

The competition element of *Motorola* does not focus on whether the plaintiff and defendant are direct business competitors in the common sense. Rather, the relevant inquiry is whether "the defendant's use of the information is in direct competition with *a product or service* offered by the plaintiff." 105 F.3d at 852 (emphasis added). Returning to the facts of *Motorola*, the NBA, STATS, and Motorola were all clearly primarily engaged in different businesses. However, the Court made clear that if the

NBA began to send its collected Gamestats facts to pagers, "SportsTrax will of course directly compete" with the Gamestats product. *Id.* at 853.

Sports pagers obviously compete with other sports pagers. But not every case will present such clear congruence. *Amici* believe that the courts should continue to interpret the element of competition flexibly. This is especially important for those in the news business. One of the greatest concerns among news originators is inexpensive technology that allows easy aggregation of news. Aggregation can take many forms, including the indexing of fresh news content from one or more websites, by engines of various kinds. News stories are traditionally written to compress the key facts of a story into the opening paragraph. The output of indexing engines can reproduce the headlines, opening paragraph or sentences from originator news stories, and thereby convey the essence of the original news item. Even where an aggregator website or news application contains a hyperlink to the news item on the originator's website, the risk remains that readers will find that reading the aggregator's output keeps them sufficiently informed of the latest news. As a result, they may never click through to the originator's website. If a significant number of readers find the news reproduced by the aggregator to be an acceptable substitute for reading the original story, courts should conclude that the two products compete in the

INS/Motorola sense even though the two parties are not in identical businesses.

Competition can also be proven at other levels of commerce. For example, advertisers who want to reach a news-reading audience may choose to spend their dollars on a free-rider's websites rather than on originator websites. Free-riders, with a low cost of doing business, can charge lower advertising rates and still make a profit. *See Pottstown Daily News Publ'g Co. v. Pottstown Broad. Co.*, 192 A.2d 657, 663 (Pa. 1963) ("[N]ewspapers, radio and television stations compete with each other for advertising. . . . the presentation of news by all three media is a service designed to attract advertisers."). Finally, a plaintiff that is a news service or otherwise "wholesales" news would compete with other businesses that seek to license a news feed to the same market of distributors serviced by the plaintiff.

Accordingly, the Court's opinion in this case should not restrict courts in future *INS*-type "hot-news" cases brought by news originators from considering a broad range of proof for the competition element of *Motorola.*

C. Harm To Incentive

Fly argues that the harm to incentive element of *Motorola* was not proven by the Firms, but instead presumed by the district court. It contends

that this presumption is no longer permitted under the Supreme Court's decision in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), which was recently applied to a copyright injunction by this Court in *Salinger v. Colting*, ___ F.3d ___, 94 U.S.P.Q.2d 1577, 2010 WL 1729126 (2d Cir. Apr. 30, 2010). Fly Br. at 48-49, 51-54.

Amici take no position on whether the Firms adequately proved that Fly's activities satisfied the harm to incentive element. *Amici* discuss below the effect of *eBay* and *Salinger* on injunctive relief. However, they ask that the Court's opinion not foreclose district courts from concluding that harm to incentive follows naturally from generalized free-riding on a news originator's investments in journalism.

As Judge Winter said in *Motorola, INS* is about economic behavior, not ethics. 105 F.3d at 853. *INS* does not focus on an individual defendant's misappropriation, which may not in itself endanger the plaintiff's incentive to create a news product. Rather, it looks to the effect on incentive if everyone were allowed to systematically take or republish the plaintiff's news as the defendant is doing.

Courts from *INS* onwards have recognized a truism: because a free-rider does not incur the costs of collecting and producing the news, it can always charge a price lower than the originator must charge in order to

recover the costs of production. *INS*, 248 U.S. at 240-41; *Motorola*, 105 F.3d at 853. Courts have drawn the equally indisputable conclusion that where widespread undercutting misappropriation would make the news business "profitless or . . .the cost [would be] prohibitive in comparison with the return," *INS*, 248 U.S. at 241, existing originators will cease to collect the news, and no one new will enter the field. *Id.*; *Motorola*, 105 F.3d at 853, 854. The end result would be to deprive the public of the newspapers and other news sources it has come to rely on. *Id.* at 853. Economists specializing in intellectual property issues agree with this analysis. *See* William M. Landes & Richard A. Posner, THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW 104-08 (2003).

This analysis remains valid today. Collecting and publishing the news is often already a low-margin business under economic pressure, as shown by the many newspapers and broadcasters that have had to shrink staffs, close bureaus, and reduce coverage. The perils to journalism have been discussed in various studies, reports, and hearings.[5] Uncontrolled

[5] *See, e.g.*, Federal Trade Commission, *How will Journalism Survive the Internet Age?*, http://ftc.gov/opp/workshops/news/index.shtml (last visited June 16, 2010); Federal Communications Commission, Future of Media *Future of Media & Information Needs of Communities in a Digital Age*, http://reboot.fcc.gov/futureofmedia (last visited June 16, 2010).

misappropriation, through aggregation and otherwise, could be the fatal blow to many established news outlets.

The Court's opinion should therefore allow courts in future "hot-news" cases to follow the logic of *INS* and *Motorola*. News originator plaintiffs should not be required to show that a particular defendant's acts have already seriously harmed its incentive to collect the news. Rather, the courts should be able to conclude that if everyone were permitted to systematically appropriate originator news product as the defendant is doing, this would be a substantial deterrent to profit-seeking companies entering or remaining in the news business. *Motorola*, 105 F.3d at 853-54.

Fly also argues that the Court should import "fair use" considerations into the determination of whether there is a harm to incentive. Fly Br. at 49-51. *Amici* do not believe that this additional analytic step is necessary. To the extent relevant, matters considered in fair use are already given appropriate weight in the *Motorola* elements. For example, as shown above, whether the defendant's product usurps the market for plaintiff's product is subsumed in the fourth *Motorola* element, direct competition.

Amici expressly disagree with Fly that the "transformative use" consideration of fair use, *see Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 574 (1994), plays any role in an *INS*-type "hot-news" claim. No case

has ever held that a misappropriation is excused because the defendant added its own commentary or even reporting to the systematic and continuous taking of the plaintiff's news. To allow such considerations into the *INS* doctrine would eviscerate the protection that the doctrine provides to the news media's economic incentives.

III.

THE CONSTITUTIONALITY OF THE "HOT-NEWS" DOCTRINE AS APPLIED TO THE *INS* FACT PATTERN IS NOT IN DISPUTE

On this appeal, Fly asserts that the *INS* doctrine, as applied to the particular facts of this case, "contravenes both the policies of the federal copyright statute and the First Amendment." Fly Br. at 28. However, Fly does *not* contend that when a case presents a traditional *INS*-type fact pattern – that is, when a news publisher sues a free-riding competitor that copies and republishes the plaintiff's news, and proves the five elements of the tort identified in *Motorola* – that cause of action is barred by either the Copyright Clause to the Constitution or the First Amendment. Indeed, Fly acknowledges that there is no incompatibility between the Constitution and a "hot-news" case brought on *INS*-type facts.

Fly states that the *INS* doctrine creates "limited property rights in news so that the 'incentive' to collect news is not destroyed and the 'newspaper-reading public' does not suffer." Fly Br. at 36. Further, this

"incentive theory" "seeks to advance public interests [and] is consistent with the First Amendment and the economic policies that underlie the copyright law." *Id.* Fly also cites extensively from an *amicus* brief authored by the dean of the First Amendment bar, Floyd Abrams, in support of the successful defendants-appellants in *Motorola*. This brief stated that "The incentive theory behind INS is consistent with the First Amendment (as well as copyright law)." Fly Br. at 37, *quoting* Brief for Interactive Services Association as *Amicus Curiae* Supporting Defendants-Appellant-Cross-Appellees in *National Basketball Ass'n v. Motorola, Inc.*, 105 F.3d 841 (2d Cir. 1997), 1996 WL 33485429, at *27 (2d Cir. Sept. 19, 1996).

Amici take no position as to whether either the First Amendment or the Copyright Clause limit application of the "hot-news" doctrine in fact patterns that depart from those of *INS.* Nor do they express a view as to whether under the specific facts of this case, the injunction entered below is constitutionally sound. However, *amici* agree that where a publisher makes a "hot-news" claim on traditional *INS*-type facts, and proves the elements of the tort stated in *Motorola*, an injunction entered to restrain such unfair competition is compatible both with the First Amendment and the Copyright Clause.

In the district court, the Firms maintained that Fly waived its First Amendment defense. Nonetheless, they also argued that the injunction entered on the facts below does not impermissibly curtail either Fly's or the public's First Amendment rights. Appellees' Memorandum of Law in Opposition to the Emergency Motion of Theflyonthewall.com for a Stay of Permanent Injunction Pending Appeal (May 14, 2010) at 12-15. Presumably, on this appeal, the Firms will maintain this position, and will also argue that the judgment of liability and injunctive relief entered below is compatible with the Copyright Clause.

Accordingly, all of the parties to this appeal agree that an injunction entered in a traditional "hot-news" case, on *INS*-type facts, and upon proof of the *Motorola* factors, is constitutionally sound. Because this issue is not contested on the appeal, if the Court chooses to substantively address the constitutional argument, *amici* request the following:

(a) If the Court determines that the judgment of liability and/or injunction entered on the facts of this case was constitutional, the Court should also state that the *INS* doctrine, and injunctions entered upon proof of the *Motorola* elements, are constitutional when applied to the *INS*-type fact pattern.

(b) If the Court determines that the judgment of liability and/or injunction entered on the facts of this case violated the Constitution, the Court should limit its ruling to the facts of this appeal, and note that the parties have conceded that the *INS* doctrine and injunctions entered upon proof of the *Motorola* elements are constitutional when applied to an *INS*-type fact pattern.

IV.

eBAY AND *SALINGER* DO NOT ALTER THE BURDEN OF PROOF FOR AN INJUNCTION IN *INS*-TYPE "HOT-NEWS" CASES

Fly argues that, under *eBay* and *Salinger*, "hot-news" plaintiffs are required to show that they suffered actual harm from the defendant's activities, and that monetary damages are inadequate, before an injunction will issue. Fly Br. at 51-54. This may be true, but these decisions do not change the burden of proof for a plaintiff in an *INS*-type "hot-news" case. Such a plaintiff will almost always satisfy these equitable factors by establishing the fifth element of *Motorola*, harm to incentive.

eBay considered and reversed a permanent injunction in a patent case, which was entered under the Federal Circuit's general rule "that courts will issue permanent injunctions against patent infringement absent exceptional circumstances." *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005). The Supreme Court concluded that in patent cases, the

equitable discretion of the district courts to enter or deny permanent injunctions "must be exercised consistent with traditional principles of equity." 547 U.S. at 394. These require, *inter alia*, that a plaintiff demonstrate "(1) that it has suffered an irreparable injury [and] (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury." *Id.* at 391. However, the Court made no determination of what level of proof was needed to demonstrate these elements, but simply remanded for reconsideration in light of the traditional equitable framework. *Id.* at 394.

Four concurring Justices expressed the view that many patents were now being acquired for the purposes of obtaining licensing fees rather than practicing the patent in the manufacture and sale of goods. 547 U.S. at 396 (Breyer, J., concurring). They noted that these firms could use an injunction "as a bargaining tool to charge exorbitant fees," and that in such cases, legal damages may be sufficient and an injunction would be contrary to the public interest. *Id.* at 396-97.

In *Salinger*, a panel of this Court extended *eBay* to injunctions in copyright cases and suggested, without holding, that equitable factors must be considered before *any* injunction is issued by a federal court. 94 U.S.P.Q.2d at 1586 n. 7. However, *Salinger* went no further than *eBay* in

deciding what kind of proof would satisfy the burdens of showing irreparable injury or no adequate remedy at law. It simply stated that "[p]laintiffs must show that, on the facts of their case, the failure to issue an injunction would actually cause irreparable harm." *Id.* at 1586.

eBay and *Salinger* may well require a district court to explicitly consider equitable factors before entering an injunction in an *INS*-type "hot-news" case. However, they do not change the kind of proof that a news originator plaintiff must offer to obtain injunctive relief. An *INS* claim does not lie in the first place unless the plaintiff establishes the fifth element of *Motorola,* namely, that unless enjoined, generalized misappropriation of the type engaged in by plaintiff would substantially threaten the quality or existence of the plaintiff's product. Such threatened injury (which includes the loss of customers and advertisers to the free-rider) is irreparable by its nature and not readily calculable in monetary terms. *See Omega Importing Corp. v. Petri-Kine Camera Co.*, 451 F.2d 1190, 1195 (2d Cir. 1971) (trademark). For a court to reach this conclusion on the facts of a specific *INS*-type "hot-news" case would satisfy *eBay* and *Salinger*'s requirement of a particularized inquiry into irreparable injury.

In *INS*-type "hot-news" cases, money damages will rarely, if ever, be an adequate remedy. The misappropriator defendant (who may well be

judgment-proof at the time of trial) can undersell the originator by whatever margin it chooses, and still make a profit. The defendant's revenues (even if they could be recovered in a lawsuit) will be far less than the plaintiff's losses.

Finally, "hot-news" injunctions on INS-type facts present none of the concerns expressed in the *eBay* concurrence about patent injunctions being used to extort higher licensing fees. "Hot-news" plaintiffs typically do not seek money from defendants; they seek an end to the defendants' interference with their ability to earn a profit. Moreover, patent injunctions often disable a defendant from offering a competing product, while a "hot-news" injunction leaves the defendant free to report the same news as the plaintiff, as long as it gathers that news through its own investments in journalism.

V.

THE COURT SHOULD REJECT THE "DUTY TO POLICE" IMPOSED BY THE DISTRICT COURT AS PART OF ITS INJUNCTIVE RELIEF

Amici take no position on whether the district court correctly entered an injunction, or whether the length or terms of the injunction were proper, with one exception. For the first time in "hot-news" jurisprudence – indeed, to *amici*'s knowledge, in any case involving intellectual property rights – the

district court imposed an equitable duty on plaintiffs to enforce its legal rights not only against a particular accused infringer, but *all* infringers.

No precedent exists for imposing what can be termed an equitable "duty to police" on misappropriation plaintiffs. Unless repudiated by this Court, this aspect of the ruling below will have mischievous application in *INS*-type "hot-news" cases. However this Court disposes of the injunction, its opinion should make clear that "hot-news" plaintiffs do not have an obligation to sue all those who free-ride on their investments.

The trial evidence showed that appellant Fly was not the only company receiving leaks of the Firms' Recommendations and republishing them for profit. As the district court found, "there is a crowded marketplace with small internet companies and major news organizations reporting the Firms' Recommendations before the market opens." *Barclays Capital Inc. v. Theflyonthewall.com*, ___ F. Supp. 2d ___, 2010 WL 1005160, at *13 (S.D.N.Y. Mar. 18, 2010). The court identified seven other Internet companies "that provide services similar to that of Fly, and whom Fly regards as its competitors." *Id.* The Firms, however, decided to sue Fly only, concluding that "Fly's misappropriation of their Recommendations was the most systematic and egregious of any of the unauthorized redistributors active in the market at the time." *Id.*

The district court found that the existence of these other companies was not an excuse for Fly's "hot-news" misappropriation, but "highly relevant to the fashioning of equitable relief." *Id.* at *22. After finding Fly liable, the district court entered an injunction barring Fly from disseminating the Firms' Recommendations for a specified period of time after their release. In a section of its opinion captioned "One-Year Reevaluation," the district court noted that the republication of the Firms' Recommendations "has become a widespread phenomenon." *Id.* at *32. It concluded that it would be "unjust" for Fly to be restrained from unauthorized publishing of Recommendations if others doing the same thing were free to continue their own publication, because Fly would be "disadvantaged relative to its competitors." *Id.* It thus decreed that:

> [O]ne year from the issuance of this injunction, Fly may apply to modify or vacate the injunction in the event that it can demonstrate that the Firms have not taken reasonable steps to restrain the systematic, unauthorized misappropriation of their Recommendations, for instance, through the initiation of litigation against any parties with whom negotiation proves unsuccessful.

Id.

The district court cited no precedent for this ruling and, to the knowledge of *amici*, none exists. No basis for it can be found anywhere in *INS* or *Motorola*. Support is equally absent in equity caselaw. Where a

defendant is liable for misappropriation, and a continuing injunction is necessary to protect the plaintiff's commercial advantage in publishing time-sensitive news, that defendant has no right to invoke the equitable powers of a court.[6] The "clean hands" doctrine bars a court from extending equitable relief to "one who has acted fraudulently, or who by deceit or any unfair means has gained an advantage." *PenneCom B.V. v. Merrill Lynch & Co., Inc.*, 372 F.3d 488, 493 (2d Cir. 2004) (quoting *Bein v. Heath*, 47 U.S. 228, 247 (1848).)

Moreover, there is nothing "unjust" in the victim of a tort suing one tortfeasor, but not another. It has long been established that copyright and trademark owners may exercise economic good judgment, by suing important infringers but not wasting legal fees on pursuing insignificant or transitory ones. Failing to sue one infringer does not prejudice a rightsholder's case against the next infringer. *See, e.g., Wallpapers Mfrs., Ltd. v. Crown Wallcovering Corp.*, 680 F.2d 755, 766 (C.C.P.A. 1982) ("[A]n owner is not required to act immediately against every possibly infringing use to avoid a holding of abandonment. Such a requirement would unnecessarily clutter the courts." (citation omitted)); *Breakers of*

---

[6] *Amici* do not intend to express any opinion as to whether Fly should be held liable for misappropriation, or whether the other elements of the injunction below were proper.

Palm Beach, Inc. v. Int'l Beach Hotel Dev., Inc., 824 F. Supp. 1576, 1584 (S.D. Fla. 1993) (same); *Symantec Corp. v. CD Micro, Inc.*, 286 F. Supp. 2d 1265, 1273 (D. Or. 2003) (defendant argued that its infringement was implicitly authorized because plaintiff "has not taken steps against other infringers of which it has knowledge. It cites no authority for this argument and I am aware of none.").

A "duty to police" would be particularly burdensome and unworkable to *amici* and other news organizations. Today's publishers are under unprecedented stress due to changes in the publishing world and a difficult economy. Unauthorized aggregation of published news content (both automated and human-controlled) is widespread and continuous.[7] Publishers cannot "police" all these forms of misappropriation as a practical matter. A duty to sue all misappropriators would require organizations to spend their limited resources on litigation, often against judgment-proof defendants, just to preserve their right to sue the small number of violators that present the greatest economic risk to the publishers. This would

---

[7] One study found near-exact copies of news articles or shorter excerpts of news articles on 75,000 unlicensed websites over a 30-day period. *See* Fair Syndication Consortium, *Fair Syndication Consortium Research Brief: How U.S. Newspaper Content is Reused and Monetized Online* (Nov. 23, 2009), *available at* http://fairsyndication.org/guidelines/USnewspapercontentreusestudy.pdf (last visited June 16, 2010).

effectively eliminate the *INS* doctrine as a protection for the news organizations it was designed to help. *See* Andrew L. Deutsch, Srinandan Kasi, and Riyad Omar, *Publishers increasingly invoke hot news doctrine*, NATIONAL LAW JOURNAL, May 17, 2010, at 27.

Amici therefore request that the Court's opinion explicitly state that (1) "hot-news" plaintiffs are not required, before suing one defendant, to take steps to restrain others who may also misappropriate their news, and (2) a grant of injunctive relief in favor of a successful "hot-news" plaintiff may not contain a condition requiring that in order to preserve the injunction, the plaintiff must sue or otherwise enforce its rights against other misappropriators.

CONCLUSION

For the reasons stated above, *amici* respectfully request that the Court's determination of this appeal preserve the existing rights of news originators to obtain relief against misappropriation under the common law, as interpreted in *INS* and *Motorola*.

Dated: New York, New York
June 21, 2010

Respectfully submitted,

By:_____
Andrew L. Deutsch
Nicholas Aldrich (admission pending)
DLA PIPER LLP (US)
1251 Avenue of the Americas
New York, NY 10020
(212) 335-4500

CERTIFICATE OF COMPLIANCE

This brief complies with the type-volume limitation of Fed. R. App. P. 29(d) and 32(a)(7)(B), because this brief contains 6,950 words, excluding the parts of the brief exempted by Fed. R. App. P. 32(a)(7)(B)(iii). The word count was measured by the word-processing program used to prepare the brief, Microsoft Word 2003.

This brief complies with the typeface requirement of Fed. R. App. P. 32(a)(5) and the typestyle requirements of Fed. R. App. P. 32(a)(6) because it has been prepared in a proportionally spaced typeface using Microsoft Word 2003 in 14 point Times New Roman font.

Dated: New York, New York
June 21, 2010

_____
Andrew L. Deutsch

Prepared by PrintingHouse Press, Ltd. 10 East 39th Street, New York, NY 10016
Tel No: (212) 719-0990 Fax No: (212) 398-9253

STATE OF NEW YORK)
COUNTY OF NEW YORK) SS

Paul Budhu, Being duly sworn, deposes and says that deponent is not party to the action, and is over 18 years of age.

That on 6/21/2010 deponent caused to be served 2 copy(s) of the within

Brief Amici Curiae of Advance Publications, Inc., et al. Not in Support of Any Party

upon the attorneys at the address below, and by the following method:

By Hand and ECF

Benjamin Ely Marks
Weil, Gotschal & Manges LLP
767 Fifth Avenue, Suite 3426C
New York, NY 10153
Phone: 212-735-4566

By Hand and ECF

Glenn F. Ostrager
Ostrager, Chong, Flaherty & Broitman, P.C.
570 Lexington Avnue, 17th Floor
New York, NY 10022
Phone: 212-681-0600

Sworn to me this
Monday, June 21, 2010

KATHLEEN BATTIATO
Notary Public, State of New York
No. 01BA6219964
Qualified in Queens County
Commission Expires 4/05/2014

Case Name: Barclays Capital Incorporated v. Theflyonthewall.com, Inc._(3)

Docket/Case No (Index): 10-1372-cv