

Introduction

This paper considers copyright law and the tort of “hot news” misappropriation with regard to photos taken by paparazzi photographers. The first section of the paper gives background information on the Copyright Act, what is covered under the act, the purpose of the Copyright Act, and the fair use exception. The second part of the paper discusses copyright preemption, examines several cases, and examines the necessary elements to avoid preemption. The third part describes the development of the misappropriation doctrine and how the “hot news” misappropriation doctrine was created. The fourth section analyzes the X17, Inc. v. Mario Lavandeira, which was settled out of court. The final section speculates about how the case would have turned out if the parties had not settled and what facts would have driven the decision.

The Copyright Act

The Copyright Act in 17 U.S.C. § 106¹ grants exclusive rights to the copyright owner to reproduce the copyrighted work in copies or phonorecords, to prepare derivative works based upon the copyrighted work, or to perform or display the copyrighted work publicly.² Further, the House of Representative report for the Copyright Act states that it is conceivable that “[a] single act of infringement may violate all of these rights at once...”³ Under the Copyright Act, for a work to be copyrighted its fixation in tangible form must be “sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of no more than transitory duration.”⁴ The definition of “transmission” is broad enough to include all

¹ Exclusive Rights in Copyrighted Works , 17 U.S.C. § 106 (2006)

² *Id.*

³ HR. Rep. No. 94-1476, pt. 8, at 61.

⁴ *Id.* at 62.

forms and combinations of wires and wireless media including but not limited to radio and television.⁵ Moreover, the definition of a "public" display includes not only those displays "that occur initially at a public place, but also acts that transmit or otherwise communicate a . . . display of the work to the public by means of any device or process."⁶

The Copyright Act §109⁷ states "the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord." The purpose of §109 of the Copyright Act is "is to preserve the traditional privilege of the owner of a copy to display it directly, but to place reasonable restrictions on the ability to display it indirectly in such a way that the copyright owner's market for reproduction and distribution of copies would be affected."⁸

The fair use exception for the Copyright Act is 17 U.S.C. §107 and in pertinent part that the reproduction of a copyrighted work "for purposes such as criticism, [or] comment" is fair use, and does not constitute copyright infringement.⁹ Although other conduct qualifies, the following four standards must be weighed when determining whether such reproduction qualifies as fair use:

(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;

(2) the nature of the copyrighted work;

(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

⁵ *Id.*

⁶ *Id.*

⁷ Limitations on Exclusive Rights: Effect of transfer of particular copy or phonorecord 17 U.S.C. §109 (1976).

⁸ *Id.*

⁹ Limitations on Exclusive Rights: Fair Use 17 U.S.C. §107 (1976).

(4) the effect of the use upon the potential market for or value of the copyrighted work.¹⁰

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.¹¹ Because of "the endless variety of situations and combinations of circumstances that can arise in particular cases," § 107 requires that any examination of fair use be done on a case-by-case basis, in order to allow "the courts [the freedom] to adapt the doctrine to particular situations."¹²

Although both parody and satire are examined under the four-standard analysis under §107, the distinction is significant because the factors are weighed differently.¹³ Parody is a work that incorporates elements of an original in order to comment on or criticize the original.¹⁴ In contrast, a satire "employs the original work 'as a vehicle for commenting on some individual or institution and not on the work itself.'"¹⁵

Further, satires "[uses] a work to make a broader critical point, not necessarily aimed at the work itself" and a satire borrows a familiar work to get its audience's attention and to make fun of something other than the original¹⁶

¹⁰ *Id.*

¹¹ *Id.*

¹² HR. Rep. No. 94-1476, pt. 8, at 66.

¹³ Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 580-581 (1994).

¹⁴ Suntrust Bank v. Houghton Mifflin Co., 268 F.3d 1257, 1268-69 (11th Cir. 2001).

¹⁵ Anupam Chandler & Madhavi Sunder, Everyone's a Superhero: A Cultural Theory of "Mary Sue" Fan Fiction as Fair Use, 95 Cal. L. Rev. 597, 615 (2007) (quoting 2 Paul Goldstein, Goldstein on Copyright, §12.2.1.1(b), 12:31 (3d ed. 2005)).

¹⁶ Joseph P. Liu, Copyright and Breathing Space, 30 Colum. J.L. & Arts 429, 446 (2007); Rebecca Tushnet, Payment in Credit: Copyright Law and Subcultural Creativity, 70 Law & Contemp. Probs. 135, 161 (2007).

Preemption

Preemption is a constitutional doctrine that invalidates a state law because it interferes with some part of a federal statute or constitutional provision. The Preemption doctrine originates in the Supremacy Clause and is most frequently encountered in Commerce Clause settings and a large part comes from the venerable case of Cooley v. Board of Wardens.¹⁷ Federal law provides the exclusive remedy for copyright infringement.¹⁸ Preemption has grown out of the Supremacy Clause and is most frequently invoked when the challenged state law “stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.”¹⁹

A number of state rules of law provide similar copyright-like protection for various objects and the issue of when exclusive rights in intellectual works granted by state law are preempted by the laws and the Constitution of the United States is very important.²⁰

In Goldstein v. California,²¹ the Supreme Court modified the broad approach to federal preemption taken in the earlier duo of Sears, Roebuck & Co. v. Stiffel Co.²² and Compco Co. v. Day-Bright Lighting, Inc.,²³ In Goldstein, a California law made it a criminal offense to reproduce sound recordings for commercial sale, without consent of the owner of the master tape.²⁴ Goldstein challenged his conviction under the statute on the ground that the California law, which created a right of unlimited duration, conflicted with Congress’s power to enact laws.

¹⁷ Cooley v. Board of Wardens, 53 U.S. 299 (1851)

¹⁸ *Id.*

¹⁹ Hines v. Davidowitz, 312 U.S. 52, 67 (1941).

²⁰ Howard B. Abrams, *The Law of Copyright* §6:1 (2009).

²¹ Goldstein v. California, 412 U.S. 546.565 (1973)

²² Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964)

²³ Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234(1964)

²⁴ Goldstein v. California, 412 U.S. 546 (1973)

Goldstein also challenged his conviction based on the fact that the law conflicted with Congress’s decision to exclude sound recordings from the scope of federal statutory copyright protection.²⁵ Further this duo has defined the constitutional standards for preemption in the intellectual property fields.²⁶ The court in Goldstein, upheld the California law on several grounds. The first is that in relinquishing power to Congress to enact national copyright laws, the states did not relinquish all power to enact their own copyright laws.²⁷ The application of the California law at issue did not “prejudice the interests of other States” because the law would apply only within the State of California.²⁸ Further on its face, the “limited Times” provision of the Constitution applied only to federal statutory copyrights, not to state copyrights.²⁹ Second, the court reasoned that Congress’s decision not to include sound recordings within the scope of federal copyright protection did not amount to an implicit prohibition on the states conferring rights in that subject matter,³⁰ but rather that Congress had “drawn no balance” at all having instead “left the area” of sound recordings “unattended”.³¹

Sears, Roebuck & Co. v. Stiffel Co.³² and Compco Corp. v. Day-Brite Lighting, Inc.³³ both involved unauthorized copying of the plaintiff’s utilitarian articles—Stiffel’s pole lamp and Day-Brite’s fluorescent lighting fixture. Although the plaintiff’s patents on these articles were declared invalid,³⁴ the lower courts held the defendants’ copying of these unpatented industrial designs constituted unfair competition under Illinois law. The Supreme Court reversed both

²⁵ *Id.*

²⁶ *Id.*

²⁷ *Id.*

²⁸ *Id.*

²⁹ *Id.*

³⁰ *Id.* at 561-567

³¹ *Id.* at 570

³² Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 255 (1964)

³³ Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964)

³⁴ *Id.*

decisions. In Compco, the court held that the state law remedy conflicted with the federal policy. . . of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain.”³⁵ In Sears, the Court held that “because of the federal patent laws a State may not, when the article is unpatented and uncopyrighted prohibit the copying of the article itself or award damages for such copying.”³⁶ The Court’s ruling was strong and very clear. A state cannot prevent the copying of an article unprotected by a patent or a copyright under its law of unfair competition.³⁷ However, the decisions were ambiguous about whether the states could extend any kind of protection to the subject matter that is, was, might be, or might have been patentable or copyrightable,³⁸ other than indicating that some protection of a firm’s marks, labels and trade dress was permissible to guard against confusing consumers about the source of goods.³⁹ However a decision in Bonito Boats, Inc. v. Thunder Craft Boats, Inc. could be seen as something of a return of the reasoning of Sears and Compco.⁴⁰

In Section 301 of the 1976 Copyright Act⁴¹, Congress provides a statutory formula that governs most of the cases involving preemption where a state law or judicial doctrine seeks to provide the equivalent of copyright protection for copyrightable subject matter.⁴² Broad preemption was new with the 1976 Copyright Act. One of the principal purposes for the 1976 Copyright Act was to establish a uniform regimen of federal protection for copyrightable works,

³⁵ Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 237 (1964)

³⁶ Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 255 (1964)

³⁷ *Id.*

³⁸ *Id.*

³⁹ Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 238 (1964)

⁴⁰ Howard B. Abrams, *The Law of Copyright* §6:1 (2009). Citing Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141(1989)

⁴¹ Preemption with respect to other laws: 17 U.S.C. § 103 (1976)

⁴² Preemption with Respect to Other Laws, 17 U.S.C. § 301 (1998) and Howard B. Abrams, *The Law of Copyright* §6:1 (2009).

replacing the prior system of having federal protection for published works and state law protection for most unpublished works.⁴³ Further, as part of the uniform federal system, “the intention of section 301 is to preempt and abolish any rights under the common law or statute of a State that are equivalent to copyright and that extend to works coming within the scope of the Federal copyright law.”⁴⁴

At first glance section 301 seems to provide a “straightforward mechanical test for determining whether state law protection of intellectual property rights is preempted under the Copyright Act. However, Professor Abrams states that the language of section 301, if read literally, creates some difficult interpretation problems that are compounded by its confusing and even contradictory legislative intent.⁴⁵

The Copyright Act established a two-part test for preemption.⁴⁶ The first part is if the work in question must come within the subject matter of copyright as defined by the Act. The second part of the test is if the rights granted under state law must be equivalent to any of the exclusive rights within the general scope of copyright.⁴⁷ The “extra element test” for evaluating the equivalency of rights, for purpose of determining whether state law claim is preempted by federal copyright law, requires that if one or more qualitatively different elements are required to constitute the state-created cause of action being asserted, then the right granted under state law

⁴³ Howard B. Abrams, *The Law of Copyright* §6:1 (2009).

⁴⁴ H.R. Rep. No. 1476, 94th Cong., 2d Sess. 130 (1976); S. Rep. No. 473, 94th Cong., 1st Sess. 114 (1975).

⁴⁵ Howard B. Abrams, *The Law of Copyright* §6:1 (2009).

⁴⁶ 17 U.S.C. § 301 (1998)

⁴⁷ Rosciszewski v. Arete Associates, Inc., 1 F.3d 225 (4th Cir. 1993); Daboub v. Gibbons, 42 F.3d 285 (5th Cir. 1995); Acuff-Rose Music Inc. v. Cambell, 754 F. Supp. 1150 (M.D. Tenn. 1991); National Car Rental System, Inc. v. Computer Associates Intern., Inc., 991 F.2d 426 (8th Cir. 1993); Kodadek v. Mtv Network Inc., 152 F.3d 1209 (9th Cir. 1998).

does not lie within the general scope of copyright, and preemption does not occur.⁴⁸ A right that is equivalent to copyright is one that is infringed by the mere act of reproduction, performance, distribution, or display.⁴⁹ If under state law, the act of reproduction, performance, distribution, or 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 preempted.⁵⁰

Therefore, the enforcement of any state cause of action which is equivalent in substance to a federal copyright- infringement claim is precluded.⁵¹ For example, state law claims which rely on the misappropriation branch of unfair competition are preempted by the federal Copyright Act.⁵² Under Preemption, equivalency exists between rights granted under state law and the exclusive rights granted by the Copyright Act, if the right defined by state law may be abridged by an act which in and of itself would infringe one of the exclusive rights.⁵³ In Murray Hill Publ'ns, Inc., v. ABC Commc'ns, Inc.,⁵⁴ the court found that an unjust enrichment claim was equivalent to a copyright infringement claim. On the other hand, 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, there is no preemption, provided that the extra element changes the nature of the action so that it is qualitatively different from a copyright-infringement claim.⁵⁵

⁴⁸ Carson v. Dynege, Inc., 344 F.3d 446 (5th Cir. 2003)

⁴⁹ Blaboa Ins. Co. V. Trans Global Equities, 218 Cal. App. 3d 1327 (3d Dist. 1990)

⁵⁰ *Id.*

⁵¹ Data General Corp. v. Grumman Systems Support Corp., 36 F.3d 1147 (1st Cir. 1994).

⁵² Financial Information Inc., v. Moody's Investors Service, Inc., 808 F.2d 204 (2d Cir. 1986).

⁵³ Murray Hill Publications, Inc. v. ABC Communications, Inc., 264 F.3d 622 (6th Cir. 2001).

⁵⁴ *Id.*

⁵⁵ Rosciszewski v. Arete Associates, Inc., 1 F.3d 225 (4th Cir. 1993).

Two decisions in particular have addressed the extent to which state law causes of action survive the preemptive effect of Section 301 (a) of the Copyright Act.⁵⁶ Further, these cases illustrate that state law theories, can in many instances, remain viable means of protecting proprietary content from online piracy.⁵⁷

The Second Circuit in National Basketball Association v. Motorola, Inc. (NBA) held that under certain circumstances, Section 301 does not preempt state law claims for misappropriation of “hot news”.⁵⁸ The NBA brought an action against defendants Motorola Inc., and Sports Team Analysis and Tracking Systems (STATS), which transmitted through satellites to customers the real time statistics and information regarding profession basketball games in progress.⁵⁹ The information was transmitted to customers through a hand held pager known as “SportsTrax” as well as separately through Stat’s content area of America Online.⁶⁰ The District Court granted a permanent injunction barring the unauthorized transmission of such information and statistics.⁶¹ The Second Circuit, on appeal, addressed the defendants’ contention that the misappropriation cause of action was preempted by the Copyright Act. The Second Circuit held such claims are preempted “where the state law claim requires an extra element in addition to the act of reproduction, performance, distribution or display reserved to the copyright holder by the Copyright Act.”⁶² However, the court concluded that certain facts necessary for the NBA to succeed on its “hot news” misappropriation claim were absent from the record before it.⁶³ The court held that the state misappropriation “hot news” tort that does survive preemption is limited

⁵⁶ Kent D. Stuckey and Contributing Authors, *Internet and Online Law*, Iowa Law 6:13, (2009)

⁵⁷ *Id.*

⁵⁸ National Basketball Association v. Motorola, Inc., 105 F. 3d 841 (2d Cir. 1997).

⁵⁹ *Id.*

⁶⁰ *Id.*

⁶¹ *Id.*

⁶² National Basketball Association v. Motorola, Inc., 105 F. 3d 841 (2d Cir. 1997).

⁶³ *Id.*

in scope to cases which satisfy a multi-part standard.⁶⁴ The court set forth a new multi-part standard that lists the elements that a plaintiff must prove to prevail on such a claim.⁶⁵ The five elements that must be established are:

'(i) the plaintiff generates or collects information at some cost or expense; (ii) the value of the information is highly time-sensitive; (iii) the defendant's use of the information constitutes free-riding on the plaintiff's costly efforts to generate or collect it; (iv) the defendant's use of the information is in direct competition with a product or service offered by the plaintiff; (v) the ability of other parties to free-ride on the efforts of the plaintiff would so reduce the incentive to produce the product or service that its existence of quality would be substantially threatened.'⁶⁶

A variety of intellectual property disputes arising in the online context may well be expected to rely on this misappropriation standard set forth in this case and its interaction with Section 301 of the Copyright Act.⁶⁷

Another case addressing the extent to which state law causes of action survive the preemptive effect of Section 301 (a) of the Copyright Act is ProCD v. Zeidenberg.⁶⁸ In ProCD v. Zeidenberg, the court addressed the question of preemption of state law contractual rights in the licensing of non-copyrighted material embodied in a CD-ROM disk containing amassed uncopyrightable telephone directory information.⁶⁹ The court held that enforcement of a computer software shrink-wrap license imposing certain

⁶⁴ Thomas McCarthy, McCarthy on Trademarks and unfair competition 10:62:10. (4th edition)

⁶⁵ National Basketball Association v. Motorola, Inc., 105 F. 3d 841 (2d Cir. 1997).

⁶⁶ *Id.*

⁶⁷ Kent D. Stuckey and Contributing Authors, Internet and Online Law, Iowa Law 6:13, (2009)

⁶⁸ ProCD v. Zeidenberg, 86 F.3d 1447 (7th Cir. 1996)

⁶⁹ *Id.*

restrictions on the use of the CD-ROM by the purchaser was not preempted by Section 301 of the Copyright Act.⁷⁰ The court reasoned that because the rights created by the contract were binding only on the parties, and because such rights were not equivalent to any of the exclusive rights within the general copyright; thus, no preemption.⁷¹ Therefore, the court enforced the terms of the license, resulting in the plaintiff's effective control over the use of uncopyrightable data elements by a purchaser or other person in contractual privity.⁷²

Misappropriation Doctrine

The misappropriation doctrine requires more discussion than most of the terms that are the subject of preemption challenges due to its vague characteristics.⁷³ The term “misappropriation” or “wrongful appropriation” has come to signify a rather unclearly defined business tort.⁷⁴ The difficulty of defining the tort of “misappropriation” is that the term has been used in cases involving other discrete causes of action as a synonym for “taking.”⁷⁵ Further, in trademark infringement cases, where the tort consists of a trademark or other identification being confusingly similar to that of a competitor, the courts have used the term “misappropriation” or “wrongful appropriation” to refer to the infringer's benefit from its competitor's public recognition or goodwill.⁷⁶ Thus, the usages have contributed to the confusion surrounding the misappropriation doctrine and the copyright preemption issue.⁷⁷

⁷⁰ *Id.*

⁷¹ *Id.*, 86 F.3d at 1454-145.

⁷² Kent D. Stuckey and Contributing Authors, Internet and Online Law, Iowa Law 6:13, (2009)

⁷⁴ *Id.*

⁷⁵ Richard Dannay, The Sears-Compco Doctrine Today: Trademarks and Unfair Competition, 67 Trade-Mark Rep. 132, 134 (1977).

⁷⁶ *Id.*

A working definition of Misappropriation is a business tort whose elements include the unauthorized use of another's efforts in creating a marketable property and using them to provide a competitive product or service in the relevant market to "unfairly" save some of the costs of competing.⁷⁸ The costs saved will likely be those costs that are classified as startup or developmental costs.⁷⁹ Any copying of a competitor's products, services, or methods is arguably a per se violation of the misappropriation doctrine as it gives the copier the cost savings of not having to pay for the developmental efforts that the originator already paid.⁸⁰ In Feist Publications, Inc. v. Rural Telephone Service Co. Inc.,⁸¹ the court held that copyright protection extends to the compiler of facts if they invested significant efforts in the development of the compilation of facts. Therefore, under the misappropriation doctrine the courts have had to decide when such copying is "fair" and "unfair".⁸²

The Supreme Court established the doctrine of "hot news" misappropriation in the case International News Service v. Associated Press.⁸³ During World War I, International News Service (INS) and Associated Press (AP) were two competing news companies that had correspondences in the field to gather and report news worldwide.⁸⁴ The regional newspapers would pay a fee to these companies and receive the news bulletins for the use in their own papers.⁸⁵ This service provided broader and timelier coverage to their readership than the papers

⁷⁷ *Id.*

⁷⁸ Howard B. Abrams, *The Law of Copyright* §6:1 (2009)

⁷⁹ Richard Dannay, *The Sears-Compco Doctrine Today: Trademarks and Unfair Competition*, 67 *Trade-Mark Rep.* 132, 134 (1977).

⁸⁰ Howard B. Abrams, *The Law of Copyright* §6:1 (2009)

⁸¹ Feist Publications, Inc. v. Rural Telephone Service Co., Inc., 499 U.S. 340 (1991)

⁸² *Id.*

⁸³ International News Service v. Associated Press, 248 U.S. 215, 239 (1918).

⁸⁴ *Id.*

⁸⁵ *Id.*

would have been able to provide without these companies.⁸⁶ The problem developed when INS was barred from transmitting wartime information from Great Britain and the news was a “HOT COMMODITY”.⁸⁷ INS began “lifting” AP’s stories from the bulletin boards and AP affiliated news papers on the east coast.⁸⁸ An INS reporter would take the reported information; write an article in his own words and the new article would be wired to INS-affiliated papers for publication. Sometimes the INS would transmit the AP news reports verbatim. The news reports dispatched by INS were always identified as INS news reports rather than attributing AP as the source of the news reports.⁸⁹ The Associated Press sued on three counts. The first two alleged practices of bribery by INS employees to persuade AP employees to release news before publication.⁹⁰ The third count, involved the “lifting” practices. The trial court enjoined INS from taking news from AP newspapers and bulletin boards.⁹¹ On Appeal, the Second Circuit enjoined INS from this practice as well and held that “news” as distinct from “facts” was property and protected from conversion.⁹² Further, the court held that INS was liable for unfair competition on the grounds that INS improperly claimed credit for AP’s work product as its own.⁹³

The Supreme Court granted relief to AP and the “hot news” misappropriation doctrine was born. In Feist⁹⁴ the court held that the 1909 Act made clear that the statute did not permit the “sweat of the brow” approach and cited International News Service v. Associated Press case as

⁸⁶ *Id.*

⁸⁷ *Id.*

⁸⁸ *Id.*

⁸⁹ *Id.*

⁹⁰ *Id.*

⁹¹ Associated Press v. International News Service, 240 F. 983 (S.D. N.Y. 1917).

⁹² Associated Press v. International News Service, 245 F. 244, 248–49 (1917)

⁹³ *Id.*

⁹⁴ Feist Publications, Inc. v. Rural Telephone Service Co., Inc., 499 U.S. 340, 354 (1991)

the best example. The court stated that INS case flatly rejected the notion that the copyright in an article extended to the factual information it contained.⁹⁵ The Supreme Court opinion vacillated between tort and property law as the basis of liability. The opinion said “but the 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 *public juris*; it is the history of the day.”⁹⁶ Further the court said “we need spend no time, however, upon the general question of property in news matter at common law, or the application of the copyright act, since it seems to this case must turn upon the question of unfair competition in business. . .”⁹⁷

The Court then stated that news could be equitably regarded as property since it had a certain commercial value.⁹⁸ The Court used the analogy that the news was a “stock in trade” of merchants and concluded that news could be regarded as a “quasi property” between the parties but not as to the public at large.⁹⁹ The doctrine of misappropriation was further developed and solely became a matter for state law in Erie R.R. v. Tomkins.¹⁰⁰ The Erie case was a very important case in the constriction of INS. The INS opinion does not make reference to governing state law, because federal courts were not required to do so until the Erie case.¹⁰¹ The Erie decision eliminated “federal common law,” and mandated that, unless the question before a federal court relates to the Constitution or a federal statute, the court must apply the law of the

⁹⁵ *Id.* at 354

⁹⁶ Associated Press v. International News Service, 245 F. 244, 248–49 (1917)

⁹⁷ *Id.*

⁹⁸ Howard B. Abrams, *The Law of Copyright* §6:3 (2009)

⁹⁹ Associated Press v. International News Service, 240 F. 983 (S.D. N.Y. 1917).

¹⁰⁰ Howard B. Abrams, *The Law of Copyright* §6:3 (2009)

¹⁰¹ Michelle L. Spaulding, *The doctrine of Misappropriation* (March 21 1998), <http://cyber.law.harvard.edu/metaschool/fisher/linking/doctrine/index.html>.

state in which it resides.¹⁰² The decision weakens the procedural value of INS because INS was federal common law.¹⁰³ Since there is no federal misappropriation statute, federal courts no longer decide misappropriation cases without relying on a specific body of state law.¹⁰⁴ The very fuzziness of the definition that pervades the INS opinion made it flexible for subsequent courts to control a fairly wide variety of competitive practices.¹⁰⁵

The misappropriation doctrine revolves around prohibiting the copying of a competitor's products or services; it often appears to be a state law substitute for copyright or patent protection.¹⁰⁶ The popularity¹⁰⁷ of the misappropriation doctrine claims could stem from the monopoly protection without the need to satisfy any prerequisite such as originality in copyright law, or nonobviousness, utility and novelty in patent law.¹⁰⁸

Before Feist¹⁰⁹ and section 301 of the Copyright Act of 1976 the misappropriation doctrine had two diverging paths in which the doctrine was narrowed and expanded. There are also several cases post Feist¹¹⁰ and section 301 that have changed the misappropriation doctrine. Analyzing the courts holdings in these cases provides a better understanding of the misappropriation doctrine and its uses. It is important to note that the INS case was a pre-Erie case which was premised on the federal common law so it is not longer binding precedent in its own right.¹¹¹ The Second Circuit was very hostile towards the INS case for many years. One

¹⁰² *Id.*

¹⁰³ *Id.*

¹⁰⁴ *Id.*

¹⁰⁵ Howard B. Abrams, *The Law of Copyright* §6:3 (2009)

¹⁰⁶ *Id.*

¹⁰⁷ *Id.*

¹⁰⁸ *Id.*

¹⁰⁹ Feist Publications, Inc. v. Rural Telephone Service Co., Inc., 499 U.S. 340 (1991)

¹¹⁰ *Id.*

¹¹¹ *Id.*

example of this deliberate resistance to INS was in Cheney Bros. v. Doris Silk Corp.¹¹² In Cheney, there were two competing silk manufacturers and the plaintiff Cheney, requested an injunction barring Dorris from copying patterns used in dress designs during the eight to nine month fashion season.¹¹³ Cheney relied on INS, saying its satiation was similar because the considerable expense involved in designing patterns couldn't be recouped when the defendant copied the patterns with no similar expenditure and sold them for lower prices.¹¹⁴ The court affirmed the District Court's denial of an injunction and held that because of the short season life of the patterns, design patent protection was impractical.¹¹⁵ The court stated that the design patterns would likely lack the requisite originality to qualify and that the design patterns did not qualify for copyright protection because they flunked the conceptual separability test.¹¹⁶ Justice Hand said that, although it seemed unfair to not provide a remedy to Cheney, it was not up to the judicial system to extend a patent or copyright like monopoly in the absence of legislation authorizing it.¹¹⁷

A case that constricts the misappropriation doctrine was in 1997 in National Basketball Association v. Motorola, Inc.¹¹⁸ Motorola sold SportsTrax pagers which transmit detailed information about games in progress to pager owners.¹¹⁹ The NBA sued to enjoin Motorola from transmitting scores or other information about the NBA games in progress, claiming that this was an INS-style "hot news" misappropriation.¹²⁰ An important point argued in the case was that any misappropriation claim was preempted by the federal Copyright Act and the NBA was

¹¹² Cheney Bros. v. Doris Silk Corp., 35 F.2d 279 (2nd Cir. 1929)

¹¹³ *Id.*

¹¹⁴ *Id.*

¹¹⁵ *Id.*

¹¹⁶ *Id.*

¹¹⁷ *Id.*

¹¹⁸ National Basketball Association v. Motorola, Inc., 105 F. 3d 841, 852 (2d Cir. 1997).

¹¹⁹ *Id.*

¹²⁰ *Id.*

essentially attempting to use misappropriation to protect uncopyrightable facts.¹²¹ The Second Circuit held that while a narrowly-construed “hot news” misappropriation survives preemption, the NBA failed to show any free-riding behavior or competitive harm from the SportsTrax pagers.¹²² In this case, the court held that the “hot news” misappropriation tort includes the following elements:

“(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 plaintiff; 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.”¹²³

The court explained that the claim was not preempted because it contained extra elements not essential to a copyright infringement claim, including “(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.”¹²⁴

Unlike copyright, which essentially protects the particular expression of an idea, these elements protect the plaintiff's interest in the time-sensitive nature of the information and the

¹²¹ Michelle L. Spaulding, *The doctrine of Misappropriation* (March 21 1998), <http://cyber.law.harvard.edu/metaschool/fisher/linking/doctrine/index.html>.

¹²² *Id.*

¹²³ *Id.* at 845

¹²⁴ *Id.* at 853.

investment associated with collecting the time sensitive data, therefore ensuring that the information would be made available to the public by profit-seeking entrepreneurs.¹²⁵ The Court noted that it was not alone in recognizing the difference between the rights protected by copyright and those protected through the hot news misappropriation theory.¹²⁶ The Court cited to the legislative history of the 1976 Copyright amendments and stated that its holding was consistent with the congressional recognition that “it is generally agreed that a ‘hot news’ INS-like claim survives preemption.”¹²⁷ The Court referred to a House Report¹²⁸ 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 scope of copyright as specified by section 106 nor on a right equivalent thereto. For example, state law should have the flexibility to afford a remedy (under traditional principles of equity) against a consistent pattern of unauthorized appropriation by a competitor of the facts (i.e., not the literary expression) constituting “hot” news, whether in the traditional mold of International News Service v. Associated Press, or in the newer form of data updates from scientific, business, or financial data bases.¹²⁹

¹²⁵ *Id.*

¹²⁶ *Id.*

¹²⁷ *Id.*

¹²⁸ H.R. No. 94-1476 at 132 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5748.

¹²⁹ Associated Press v. International News Service, 240 F. 983 (S.D. N.Y. 1917); H.R. No. 94-1476 at 132 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5748.

Contrary to the cases that narrowed the misappropriation doctrine two New York cases expanded the scope of the doctrine. In Twentieth Century Sporting Club, Inc. v. Transradio Press Service, the plaintiff promoter of boxing matches had an exclusive contract with NBC to broadcast information about the matches in progress to radio stations.¹³⁰ The competitor and defendant placed “spotters” at the matches, who would relay information to produce a competing broadcast.¹³¹ The court held that the practice was unlawful misappropriation because the information relayed by the defendant relied at least in part on the Plaintiff’s broadcast.¹³²

Similarly, the court in Metropolitan Opera Assn. v. Wagner-Nichols Recorder Corp. found that the defendant’s taping of ABC broadcasts from the opera and making records from these tapes interfered with Metropolitan Opera’s exclusive contracts with ABC to broadcast and Columbia Records to make records of music.¹³³

Moreover, a unique example of where the misappropriation doctrine was found between non-competing parties was in Board of Trade of the City of Chicago v. Dow Jones & Co. Inc.¹³⁴ In this case, the Chicago Board of Trade wanted to enter the market of selling futures contracts, and devised an index for contracts based on and copying the Jones Industrial Average.¹³⁵ The Chicago Board of Trade disclaimed any association with Dow Jones and claimed that there was no misappropriation because the futures contracts were of the Chicago Board of Trade’s own

¹³⁰ Twentieth Century Sporting Club, Inc. v. Transradio Press Service, 300 N.Y.S. 159 (N.Y. Sup. Ct. 1937).

¹³¹ *Id.*

¹³² *Id.*

¹³³ Metropolitan Opera Assn. v. Wagner-Nichols Recorder Corp., 101 N.Y.S.2d 483 (1950)

¹³⁴ Board of Trade of the City of Chicago v. Dow Jones & Co. Inc., 98 Ill. 2d 109 (1983).

¹³⁵ *Id.*

making.¹³⁶ Further, the futures index was in no competition with Dow Jones, and the Dow Jones index was used only for reference.¹³⁷

Conversely, Dow Jones argued that the Chicago Board of Trade's use of the Dow Jones index was free-riding on the goodwill built up in the Dow Jones name. The court noted that the law and its underlying policies did not make a clear winner in this case.¹³⁸ In finding for Dow Jones, the court balanced the potential effects of either decision.¹³⁹ It ultimately concluded that while a finding for CBT would only cause Dow Jones to lose potential licensing revenue in the futures contracts market, a ruling for Dow Jones may have a beneficial effect for society because it will spur the creation of new indices that may prove to be better for the futures contract market than the Dow Jones.¹⁴⁰

Another case that expands the misappropriation doctrine is U.S. Sporting Products, Inc. v. Johnny Stewart Game Calls, Inc.¹⁴¹ In this case Johnny Stewart Game Calls Inc., sold tapes of animal sounds to hunters to aid in luring game.¹⁴² Sporting products copied certain sounds from one of the tapes and then arranged them in a different order and sold a competing tape.¹⁴³ The court held that this constituted free-riding on Game Call's efforts and issued a permanent injunction while awarded substantial damages to Johnny Stewart Game Calls.¹⁴⁴

¹³⁶ *Id.*

¹³⁷ *Id.*

¹³⁸ *Id.*

¹³⁹ *Id.*

¹⁴⁰ *Id.*

¹⁴¹ U.S. Sporting Products, Inc. v. Johnny Stewart Game Calls, Inc., 865 S.W. 2d 214 (Texas Ct. App., 10th District 1993).

¹⁴² *Id.*

¹⁴³ *Id.*

¹⁴⁴ *Id.*

The overall result of these sharply differential lines of adjudication is that the law of misappropriation is broad field and litigants with divergent interests can often find in this body of law something to suit their purposes.¹⁴⁵

“The ‘hot news’ tort is a particularly hardy species of the common law tort of unfair competition through misappropriation that—at least in some jurisdictions—has managed to survive even after the 1976 amendments to the Copyright Act preempted most misappropriation claims.”¹⁴⁶ The INS case was a pre-Erie case which was premised on the federal common law, it is not longer binding precedent in its own right.¹⁴⁷

The Copyright Act of 1976 substituted a uniform federal system of copyright law for the former dual system of state and federal protection.¹⁴⁸ Only federal law may protect copyrightable work regardless of when the work was created.¹⁴⁹ While the immediate effect of the copyright law is to secure a fair return for an author’s creative labor, the ultimate aim is to stimulate artistic creativity for the general public good.¹⁵⁰ Therefore, copyright policy is meant to balance protection, which seeks to ensure a fair return to authors and inventors and thereby to establish incentives for development, with dissemination, which seeks to foster learning, progress, and development.¹⁵¹ Under the Copyright Act of 1976, copyright protection is provided for original works of authorship fixed in any tangible medium of expression.¹⁵² Thus, in order for a work to be copyrightable, it must be fixed in tangible form, it must be an original

¹⁴⁵ Michelle L. Spaulding, The doctrine of Misappropriation (March 21 1998), <http://cyber.law.harvard.edu/metaschool/fisher/linking/doctrine/index.html>.

¹⁴⁶ X17 v. Lavandeira, 563 F.Supp.2d 1102, 1104 (D.C. 2007).

¹⁴⁷ *Id.*

¹⁴⁸ Lisa A. Zakolski, Am. Jur. 2d Copyright and Literary Property Summary (2009)

¹⁴⁹ *Id.*

¹⁵⁰ Twentieth Century Music Corp. v. Aiken, 422 U.S. 151 (1975); Video Pipeline, Inc. v. Buena Vista Home Entertainment, Inc., 342 F.3d 191 (3d Cir. 2003).

¹⁵¹ Lisa A. Zakolski, Am. Jur. 2d Copyright and Literary Property 2 (2009) citing Gates Rubber Co. v. Bando Chemical Industries Inc., 9 F.3d 823 (10th Cir. 1993).

¹⁵² Subject Matter of Copyright 17 U.S.C. §102 (a) (1976).

work of authorship, and it must come within the subject matter of copyright.¹⁵³ The Copyright Act enumerates only eight categories of acts which are copyrightable, but makes it clear that these categories are not exclusive.

The Paparazzi and Hot News Misappropriation

In 2006, celebrity gossip blogger Mario Lavandeira, also known as Perez Hilton (“Perez”), was the target of a lawsuit filed by X17, Inc. (“X17”). X17, a Los Angeles Photo agency, claimed that Perez violated its copyrights by posting the agency’s photos on Perez’s gossip blog at PerezHitlon.com, without its permission and without crediting it.¹⁵⁴ Perez’s blog provides a series of blog entries that features celebrity gossip written by Perez, and which attracts millions of users each day; thus, generating a huge amount advertising revenue. X17 maintains a similar celebrity gossip blog at X17online.com.¹⁵⁵ X17 claimed that perezhilton.com has maintained its popularity by posting more than 80 virtually identical reproductions of X17’s copyrighted photographs.¹⁵⁶ Perez argued that his website did not violate X17’s copyrights because he doodled on the photos making vulgar writings or drawings. X17 sued Perez on two claims, which include copyright infringement and “hot news” misappropriation.¹⁵⁷

In the Federal California District Court, Perez attempted to dismiss the “hot news” misappropriation claim based on the fact that the photographs cannot constitute “hot news”

¹⁵³ Baltimore Orioles, Inc. v. Major League Baseball Players Ass’n, 805 F.2d 663 (7th Cir. 1986).

¹⁵⁴ X17 Inc. v. Mario Lavandeira, 563 F.Supp.2d 1102 (C.D. Cal. 2007)

¹⁵⁵ *Id.*

¹⁵⁶ *Id.*

¹⁵⁷ *Id.*

because the tort is limited to written words and data and that the state claim was preempted.¹⁵⁸

The court disagreed and held that

“the hot news claim, which the Court concludes encompasses photographs as well as words and data, is a subset of the common law tort of misappropriation, which California recognizes. Moreover, the Court is persuaded by authority from the Second Circuit, which is entirely consistent with California case law and explains why the hot news subset survives Copyright Act preemption.”¹⁵⁹

The district court then went through the history of the “hot news” misappropriation tort and determined that the 1997 NBA decision correctly held that the element of time-sensitive information constituted a meaningful addition to the elements of copyright infringement. Therefore, the court determined that a state law cause of action for “hot news” misappropriation should not be preempted.¹⁶⁰

Further, the court held that X17’s allegations state a valid claim under the “hot news” tort in California because the tort is conceptually broad enough to include photographs because the Supreme Court has referred to photographs as conveying information.¹⁶¹ The District Court reasoned that nothing in either International News Service or NBA suggests that the medium of the information is vital.¹⁶²

¹⁵⁸ *Id.*

¹⁵⁹ *Id.* at 1103.

¹⁶⁰ *Id.*

¹⁶¹ *Id.* at 1108 and Dow Chem. Co. v. United States, 476, U.S. 227, 238; Kyllo v. United States, 533 U.S. 27, 34.

¹⁶² X17 Inc. v. Mario Lavandeira, 563 F.Supp.2d 1102 (C.D. Cal. 2007)

The court did not determine if X17 could prove its case, but denied Perez's motion to dismiss for failure to state a claim because California expressly recognizes a misappropriation tort capable of avoiding preemption.¹⁶³

In March 2007, X17 Inc. was denied a preliminary injunction barring Perez from copying, reproducing, displaying, or distributing its photographic works.¹⁶⁴ In December 2007, Perez filed a motion for summary judgment arguing that X17 Inc., was not the owner of the copyrights to the photos and had not registered the copyrights prior to filing the lawsuit.¹⁶⁵ The court never ruled on this motion.

In January 2008, the parties reached a settlement agreement and on April 21, 2008, the court dismissed the case without prejudice.¹⁶⁶ The terms of the settlement agreement are not disclosed.

What would have happened?

For the purpose of the hypothetical disposition of the case, it is assumed that X17 Inc. has valid copyrights on all the photos.

There are significant consequences to intellectual property law associated with declaring either party victorious in the present dispute. If Perez prevails, the line between fair use and copyright infringement would be no clearer, and enforcing copyrights online would become even more difficult. If X17 has a superior claim, the ability to transform photos under the fair use exception to the Copyright Act would be eliminated. In this case, X17 must prevail because Perez's reproduction of the photos accompanied with small doodles, does not meet the criteria for fair use protection.

¹⁶³ *Id.*

¹⁶⁴ *X17, Inc. v. Lavandeira*, No. CV06-7608-VBF(JCX), 2007 WL 790061 (C.D.Cal. March 08, 2007).

¹⁶⁵ *Id.*

¹⁶⁶ *Id.*

X17's first claimed that Perez violated its copyrights on the photos by displaying them on his website without its permission or properly attributing them. Under §102 of the Copyright Act, original photographic works are covered, but it is clear from the language of the statute that protecting an author's original work "in any tangible medium of expression, now known or later developed" that congress foresaw the potential problems that technological advances, posed to copyright holders.¹⁶⁷ The internet is a great example of a technological advancement that has caused numerous problems to copyright holders.

The broad language of §102 is exposed to varying interpretations.¹⁶⁸ For example, does the Internet qualify as a "tangible medium of expression?"¹⁶⁹ Under the Copyright Act, the internet is not the "medium of expression" but, the internet is the instrumentality that allows the work to be "perceived, reproduced, or otherwise communicated."¹⁷⁰ Here, the work itself, the "tangible" photo originally taken by X17 photographers remains the "medium of expression" within the meaning of 17 U.S.C. §102.¹⁷¹

Under 17 U.S.C. §106, the applicable clauses to the present dispute are (1), (2), and (5).¹⁷² Here, at first glance clause (1) might seem to be violated by Perez because he is reproducing X17's photos on his own website. Nevertheless, Congress's inclusion of clause (5) indicates that they intended a distinction between "reproduction" and "display". As discussed above, for a work to be "reproduced," its fixation in tangible form must be "sufficiently permanent or stable to permit it to be perceived, reproduce, or otherwise communicated for a period of no more than

¹⁶⁷ H.R. Rep. No. 94-1476, at 51 (1990); *Suntrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257, 1261 (11th Cir. 2001); 17 U.S.C. §102.

¹⁶⁸ *Id.*

¹⁶⁹ Subject Matter of Copyright 17 U.S.C. §102 (a) (1976) (emphasis added).

¹⁷⁰ H.R. Rep. No. 94-1476, at 51 (1990);

¹⁷¹ *Id.*

¹⁷² Exclusive rights in copyrighted works, 17 U.S.C. §106 (1976).

transitory duration.”¹⁷³ Thus, the showing of the photos on a screen or tube would not be a violation of clause (1), but it might come within the scope of clause (5). Although the photos are not found to be a reproduction under §106 (1) because the photos are shown in an intangible form on Perez’s website, Perez’s display of the photos may still amount to copyright infringement under §106 (5).¹⁷⁴ Clause (5) grants the copyright owner the exclusive right of public display.¹⁷⁵ Under §106 (5) “display” of a copyrighted work “includes the projection of an image on a screen or other surface by any method and the transmission of an image by electronic means.”¹⁷⁶ As stated above, transmission is broadly defined; thus, the transmission of an image on a computer screen fits exactly within this classification. As defined above, “display” also applies because the photos were displayed through the internet to the public. Therefore, given the definitions the showing of a copyrighted photo such as X17’s on a publicly accessible internet website violates §106 (5) of the Act.

Although there is the argument that Perez’s doodles on the photos bring it outside the scope of §106 (5), it is likely to be found a violation because Perez makes such minimal alterations to the photos in the form of doodles on the original photos. Thus, Perez arguably will still be found in violation of this section. However, even if Perez’s use is not found in violation of §106 (5), the minimal alterations made by Perez to X17’s photos qualify the altered photos as an infringing derivative work under §106 (2). Because Perez slightly alters the photos by doodling on top of the original photo, the photos “still incorporate a portion of the copyrighted work in some form. . .” which could be seen has a violation.¹⁷⁷

¹⁷³ HR. Rep. No. 94-1476 Note 8 at 62.

¹⁷⁴ Exclusive rights in copyrighted works, 17 U.S.C. §106 (1976).

¹⁷⁵ *Id.*

¹⁷⁶ H.R. Rep. No. 94-1476, note 8 at 64.

¹⁷⁷ *Id.*

Under the Copyright Act §109 (b) takes into account the possible implications of new technology when publicly displaying a copy of an original work.¹⁷⁸ Section 109(b) stands for the belief "that the lawful owner of a copy of a work should be able to put his copy on public display without the consent of the copyright owner."¹⁷⁹ However, this is the generally accepted view with respect to direct displays to the public, "as in a gallery or display case, or indirectly, as through an opaque projector."¹⁸⁰ All such displays assume that the viewer is in the same location as the copy being displayed.¹⁸¹ Thus, "the public display of an image of a copyrighted work would not be exempted from copyright control . . . if the image were transmitted by any method (by closed circuit or open circuit television, for example, or by a computer system) from one place to members of the public located elsewhere."¹⁸² Similar to §106 (5), § 109 (b) refers to the exact copies of original works. Perez does not display X17's photos on his website in exactly their original form; therefore, a violation of this section would fail.

Perez argues that he did not violate any copyrights because of the Copyright Act's fair use exception contained in 17 U.S.C. § 107. As previously stated, the distinction between parody and satire suggests that defending satire as fair use is more difficult than defending parody as fair use. "A satire merely uses the original to 'avoid the drudgery in working up something fresh' and does not challenge readers to reassess the original," the incorporation of the original in a satire requires a higher degree of justification than that required of parody.¹⁸³ "Both parody and satire require the addition of creative labor to change a work into a caricature, but parody is more likely

¹⁷⁸ Limitations on exclusive rights, 17 U.S.C. §109 (1976)..

¹⁷⁹ *Id.*

¹⁸⁰ H.R. Rep. No. 94-1476, *supra* note 8, at 80.

¹⁸¹ *Id.*

¹⁸² *Id.*

¹⁸³ Rebecca Tushnet, Payment in Credit: Copyright Law and Subcultural Creativity, 70 *Law & Contemp. Probs.* 135, 161 (2007).

to succeed on a fair use defense than satire is because the parody has a better reason to copy from the original." ¹⁸⁴ Perez argues that displaying the photos on his own blog is fair use because of the doodles on the original photo that achieve a comical end by poking fun at celebrities. But these slight alterations only involve Perez inserting a mark or word on top of the original photo. Further, Perez cannot argue that his little modifications aim to comment on or criticize the original photos because the object of the criticism or commentary is the celebrity themselves. Perez's inclusion of X17's original photo on his website does not constitute a new work that comments on such photos, thus, Perez is unable to claim that his work is fair use as a parody. Perez's use of X17's original photo results in a work that simply "stands on its own two feet," allowing Perez to avoid the burden of creating something unique.¹⁸⁵ Thus, because Perez used X17's original photos to comment on a different subject, Perez can only argue that his use of the original works was to achieve a satiric ending.

Perez's argument for satiric fair use requires that the first factor be weighed more heavily than the others depending on the circumstances involved, but all the factors remain interrelated and should not be treated in isolation.¹⁸⁶ The first factor of §107 "determines whether and to what extent the new work is 'transformative.'"¹⁸⁷ The case law suggests that to be transformative the use must ordinarily add new material or commentary that reflects critically on

¹⁸⁴ *Id.* and Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 580-81 (1994).

¹⁸⁵ Campbell, 510 U.S. at 580-581.

¹⁸⁶ *Id.* at 578.

¹⁸⁷ Perfect 10, Inc. v. Amazon.com, Inc., 487 F.3d 701, 720 (9th Cir.2007) (quoting Campbell, 510 U.S. at 579); see also 17 U.S.C. §107(1).

the original.¹⁸⁸ Perez’s use of X17’s photos lacks considerable transformative value because as a satire it incorporates a significant amount of the original photo. But if Perez’s use of the photos manages to serve a different purpose than that served by X17’s use, the first factor will weigh heavily in favor of fair use.¹⁸⁹ To meet the different function requirement the new work cannot simply supersede the object of the original creation, but must add something new, with a further purpose or different character, altering the first with new expression, meaning, or message.¹⁹⁰

In this case, because Perez’s use of X17’s photos accomplishes the same goals as X17’s goals on their website, Perez’s use can be seen as “superseding the objects of the original creation”.¹⁹¹ Thus, the first factor weighs against Perez’s argument for fair use.

The second factor of §107 establishes a hierarchy of copyright protection in which original, creative works are given greater protection than derivative works.¹⁹² [T]hough the satire need not be only of the copied work and may . . . also be a parody of modern society, the copied work must be, at least in part, an object of the parody, otherwise there would be no need to conjure up the original work. . . . By requiring that the copied work be an object of the parody, we merely insist that the audience be aware that underlying the parody there is an original and separate expression, attributable to a different artist.¹⁹³ Here, Perez’s use is solely satiric, and does not indicate that he intends to use X17’s original photos to target anything other than the celebrity in the photos. Therefore, Perez’s fair use argument is weakened further.

¹⁸⁸ Rebecca Tushnet, Payment in Credit: Copyright Law and Subcultural Creativity, 70 Law & Contemp. Probs. 135, 161 (2007).

¹⁸⁹ Berlin v. E.C. Publ'ns, Inc., 329 F.2d 541, 545 (2d Cir. 1964).

¹⁹⁰ Campbell, 510 U.S. at 579.

¹⁹¹ *Id.*

¹⁹² Suntrust Bank, 268 F.3d at 1271.

¹⁹³ Dr. Seuss Enters., L.P. v. Penguin Books USA, Inc., 109 F.3d 1394, 1401 (9th Cir. 1997) (quoting Rogers v. Koons, 960 F.2d 301, 310 (2d Cir. 1992)).

The next factor weighed is §107 (3) which is the reasonableness of the amount and substantiality of the portion used in relation to the copyrighted work as a whole.¹⁹⁴ When examining the third factor, the focus turns to the parodist's justification for the particular copying done.¹⁹⁵ Because Perez's work can only be viewed as a satire and because the new work does not comment on the original work through its incorporation of the original work Perez has to prove more justification for the borrowing. Perez cannot justify his borrowing and fails this factor with respect to his fair use defense.

The final factor that is weighed is the effect of the use upon the potential market for or value of the copyrighted work.¹⁹⁶ In this case, access to both Perez's website and X17's website is free. The revenue is generated primarily through space sold as advertising on the website. X17 also sells its photos to celebrity gossip magazines such as "People". When the photos are leaked or displayed on Perez's site the value decreases to the magazines. Thus, the money that X17 receives is significantly less because of the lower market value than if the photos have never been seen before. Therefore, this proves that both sources are catering to the same target audience and reaching the same markets. One factor that would significantly weigh in favor of X17 is if magazines have dropped prices that they are willing to pay for photos due to the photos being displayed on Perez's website. This would prove a decrease in value of the copyrighted work. Because Perez's use constitutes a satire, the economic effect on X17's original use is more significant and thus accorded more weight when the two works "fulfill the same demand" meaning appeal to the same audience.¹⁹⁷

¹⁹⁴ Exclusive Rights in Copyrighted Works , 17 U.S.C. § 107 (2006)

¹⁹⁵ Campbell, 510 U.S. at 580-581.

¹⁹⁶ Exclusive Rights in Copyrighted Works , 17 U.S.C. § 107 (2006)

¹⁹⁷ Fisher v. Dees, 704 F.2d 432, 438 (9th Cir. 1986).

Considering Perez's satire operates not only in the same target market as X27's original photo, but also to the original photos' economic detriment, the factor evaluating the use's potential economic effect on the value of the original should weigh against fair use protection. To further weaken Perez's fair use claim it would be helpful to know that X17's site was losing traffic due to Perez's site which was tied to the amount of money that advertisers are willing to pay.

Considering the four factored analysis in the present dispute the only reasonable outcome is to find that Perez is not entitled to the fair use exception.

As previously stated there are five elements that must be established in order to succeed on a "hot news" misappropriation claim.¹⁹⁸ All the elements in the present case are in favor of finding Perez liable for the tort of "hot news" misappropriation. Here, X17's states that it expended substantial costs and resources to gather, obtain, and create the photographs that Perez has posted on his site. Thus, X17 gathered the photos which constitute information at a cost to them. Second, the photographs are time-sensitive because the value in the photos is derived primarily from this breaking news about the celebrity. The photos are almost worthless once the news has become common knowledge. The third element is met because the parties are in direct competition with each other and reach the same target audience. The audience for X17 and Perez is the general public that is interested in learning about the latest celebrity gossip. Moreover, even if Perez argues that they are not in direct competition with each other, the Board of Trade of the City of Chicago v. Dow Jones & Co. Inc. case proves that the misappropriation doctrine can still be used if the parties are not in direct competition.¹⁹⁹

¹⁹⁸ National Basketball Association v. Motorola, Inc., 105 F. 3d 841, 852 (2d Cir. 1997).

¹⁹⁹ Board of Trade of the City of Chicago v. Dow Jones & Co. Inc., 98 Ill. 2d 109 (1983).

Further, Perez earned revenue by free-riding on the substantial hard work of X17 to compile the photographs. Perez did not have to expend any “start up costs” in sending out photographers to take pictures or to purchase pictures. Thus, if the activities continue, they will remove X17's incentive to gather the photographs and threaten the continued existence of X17's business. Finally, Perez's activities have substantially harmed X17 business because they have lost the opportunity to be the first to sell or distribute the breaking news about celebrities. All the factors weigh in favor of finding Perez liable for the tort of “hot news” misappropriation.