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Hot News and No Cold Facts:*NBA v. Motorola* and the Protection of Database Contents

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I. Introduction

{1}In *National Basketball Ass'n v. Motorola*,[1] the Second Circuit encountered the problematic issue of copyright preemption. Though the case did not directly involve the protection of database contents, *NBA* is a harbinger of judicial underprotection for the database industry. In holding that state misappropriation doctrine is preempted by the Copyright Act except in a very narrow class of "hot news" cases,[2] *NBA* unduly restricts the common law's ability to prevent tortious behavior between database industry competitors.

{2}This underprotection has fueled a movement toward the legislative protection of database contents, but recent Congressional proposals, in their current form,[3] leap to the opposite extreme and would overprotect database contents. Congressional action to encourage the proprietary development of database products is nevertheless desirable, and this paper will argue in favor of the legislative codification of a misappropriation model similar to the one preempted in *NBA*.

II. Theoretical Background: Balancing Protection and Access

{3}Crafting intellectual property rules is essentially a balancing act. The Constitution mandates that intellectual creations may be protected in order "[t]o promot[e] the [p]rogress of [s]cience and useful [a]rts. . ."[4] But it has long been recognized that the means may conflict with the ends: protection of intellectual creations can inhibit their dissemination. Conversely, failure to protect intellectual creations will substantially reduce the incentive to create, and again the goal of "promoting the progress of science and the useful arts" will be stymied. Thus intellectual property protections strive to strike a careful balance between the creator's right to exclude and the public's right of access--such that the creator will maintain the incentive to produce, while the public will be able to benefit from the creation.

{4}The goal of this paper is to apply this balancing methodology in the context of digital database markets. I will argue that offering a model of rights akin to those offered under the doctrine of misappropriation would be an appropriate method of achieving the proper balance of protection in this emerging market. First, I will consider *NBA*, a recent Second Circuit case that dramatically narrowed the available scope of state misappropriation protections--thereby tipping this delicate balance toward the underprotection of database contents.

III. *NBA v. Motorola* Holds all but "Hot News" Misappropriation Preempted Under the Copyright Act

(A) Doctrinal Background: International News Service v. Associated Press and Preemption

{5}Mere facts are not, and cannot be, protected under the copyright statute.[5] However, in some circumstances commercially valuable facts may give rise to copyright-like rights under the doctrine of misappropriation.[6]

{6}Misappropriation prohibitions owe their origin to the common law, as a species of the broader tort of "unfair competition."[7] Though early cases involving the unfair competition doctrine prevented one competitor from "palming off" his goods as those produced by another,[8] it was extended to the regulation of unfair "misappropriations" of commercial value in *International News Serv. v. Associated Press*.[9] *INS* involved the systematic and unauthorized use of AP-generated news reports by newspapers in direct competition with AP papers. The court held that such use by INS was prohibited irrespective of the fact that the news reports were not protectable by AP as against the public.[10] It reasoned:

> The parties are competitors in this field; and, on fundamental principles, applicable here as elsewhere, when the rights or privileges of one are likely to conflict with those of the other, each party is under a duty so to conduct its own business as not unnecessarily or unfairly to injure that of the other.[11]

{7}This duty is grounded in the plaintiff's proclaimed "right to acquire property by honest labor," and is sufficient to establish liability when a defendant unfairly procures factual material acquired by a competitor, and the defendant uses such material in competition with the defendant.[12]

{8}However, misappropriation protections established by the common law threaten to conflict with the modern Federal copyright system.[13] Section 301 of the Copyright Act of 1976 establishes a two-pronged test for preemption; state laws that create copyright-like rights are preempted if: (1) the material protected comes within the *subject matter* of copyright--that is, if it of a type of work protected by copyright, and (2) the state laws establish rights equivalent to any of the exclusive rights within the *general scope* of the copyright statute--that is, if the right asserted is equivalent to a right protected by copyright.[14]

(B) The Facts: Motorola and STATS Utilize Information Generated by the NBA

{9}The National Basketball Association and NBA Properties, Inc., collectively known as the NBA, stage and market professional basketball games.[15] In addition to the admission revenues and broadcast licensing fees which account for the majority of the NBA's commercial value,[16] the NBA recently established its own information service, "Gamestats," to sell data relating to NBA games and players.[17] The NBA eventually intends to link Gamestats information to a pager product capable of providing real-time information such as updates on game scores. However, as of the time of the trial, Gamestats was not capable of transmitting real-time information to a pager.[18]

{10}Desiring to beat potential competitors to the market and unhappy with the delays caused by Gamestats's limitations, Motorola decided to market a pager product for the dissemination of real-time information about NBA games despite the lack of an agreement with the NBA.[19] Motorola contracted with Sports Team Analysis and Tracking Systems, Inc. (STATS) to perform the information gathering and transmission services. STATS employees gathered the information from radio and television broadcasts and relayed the information via satellite to radio stations, which would in turn transmit the information to the Motorola pagers.[20] In addition to the pager, the information collected by STATS was posted on a website.[21]

(C) The District Court's Doctrine of Partial Preemption

{11}The NBA filed suit against Motorola and STATS, alleging copyright infringement, false advertising under the Lanham Act,[22] and misappropriation, among other infractions.[23] District Judge Preska dismissed the copyright claim on two grounds. First, the underlying NBA games were held unprotectable because such sporting events do not fall within the statutorily defined subject matter of copyright.[24] Second, the NBA's valid copyright in the broadcast of the games was not infringed upon because the information distributed by STATS and Motorola was of an unprotectable factual nature.[25] The Lanham Act charges were also dismissed because use of the NBA name in connection with the pager product was limited.[26] However, Judge Preska found that Motorola and STATS had misappropriated valuable NBA-generated information. Applying the doctrine of "partial preemption,"[27] Judge Preska found that although the subject matter requirement for preemption does not mandate that the work involved actually be accorded copyright protection, it does require that the work be of a *category* capable of protection.[28] Accordingly, as the

underlying NBA games were not of a category protected by the Copyright Act, even though the broadcasts were, the subject matter requirement was not met as to the games.[29] Because one of section 301's two prongs was not met,[30] the misappropriation claim was not preempted under the Copyright Act.[31] Preemption here is "partial" as its requirements are satisfied only in relation to the underlying games, and not to the broadcasts of those games.[32]

{12}Judge Preska then turned to the substantive merits of the misappropriation claim. Under New York common law, he found that the NBA had made a valid misappropriation claim.[33] Judge Preska determined that Motorola and STATS "do not contribute in any manner ... to th[e] value upon which their product relies," and so their service, in effect, deprives the NBA of its right to reap its own just reward.[34] Accordingly, Motorola and STATS were permanently enjoined from making real-time distributions of NBA-generated data via the pager product, the web site, or any other similar means.[35] The injunction, however, was stayed pending appeal to the Second Circuit.[36]

(D) The Second Circuit's Version of the Extra Element Test

{13}Motorola and STATS appealed the injunction, and the NBA appealed the dismissal of its Lanham Act false advertising claim. Judge Winter, writing for the Second Circuit, affirmed dismissal of the claim for false advertising because the misstatements made in advertising the pagers were immaterial.[37]

{14} But the Second Circuit differed with the district court on the preemption issue. Contrary to the district court's decision, the Second Circuit found that the NBA-generated data sold by Motorola and STATS did in fact meet the "subject matter" standard for preemption. Moreover, the court issued a broad interpretation of the "general scope" prong of section 301, and held that only a very narrow class of misappropriation cases can survive preemption. The NBA's misappropriation claim, not meeting the requirements of that narrow class, was preempted by the Federal Copyright Act.

(1) The Subject Matter Prong

{15}The Second Circuit, refusing to separate the inquiry into preemption along the categories of works articulated in the copyright statute, thoroughly criticized the district court's reliance on the doctrine of partial preemption, stating, "although game broadcasts are copyrightable while the underlying games are not, the Copyright Act should not be read to distinguish between the two when analyzing the preemption of a misappropriation claim based on copying or taking from the copyrightable work."[38] Restricting the reach of the preemption provisions contained in the Copyright Act (codified in section 301) to works that are copyrightable in their own right, the court reasoned, would significantly expand states' power to enact copyright-like protections for non-copyrightable works, and "render the preemption intended by Congress unworkable."[39] Further, the congressional intent in enacting the Copyright Act was to limit protection to those works specifically addressed in the Act, but "[p]artial preemption turns that intent on its head by allowing state law to vest exclusive rights in material that Congress intended to be in the public domain and to make unlawful conduct that Congress intended to allow."[40] Thus, in rejecting the district court's analysis, the Second Circuit concluded that a partial preemption doctrine would lead to conflict with the Federal copyright scheme.[41]

{16}Considering the broadcasts and the underlying games together, the court concluded that the facts taken from the NBA games by STATS and Motorola were within the subject matter of copyright.[42] Thus, the first prong of section 301's preemption test was met.

(2) The General Scope Prong

{17}Laws that can be violated by an act, which would in itself infringe upon a copyright, satisfy the second prong of the section 301 preemption test.[43] This has been interpreted to mandate that state laws which necessitate an "extra element" for a plaintiff to succeed on the merits--that is, an element in addition to those required to make a successful copyright infringement case--are not preempted by the Copyright Act.[44] However, elements such as intent, which alter the action's scope but not its nature, do not satisfy the extra element test.[45] The action must be "qualitatively" different from a copyright claim.[46]

{18}The Second Circuit finds that only a small species of misappropriation claims survive preemption; the court states, "only a narrow 'hot news' misappropriation claim survives preemption for actions concerning material" that satisfies the subject matter prong of the preemption test.[47] These "hot news" claims, descendant of *INS*, require a showing of five elements, three of which are determined to be "extra": (1) the time-sensitive nature of the factual information, (2) free riding by the defendant, and (3) a threat to the very existence of the product or service offered by the plaintiff.[48]

{19}The Second Circuit determined that the NBA's misappropriation claim did not satisfy the elements of a hot news claim, and was accordingly preempted by the Copyright Act.[49] Though the information gathered and transmitted by Motorola and STATS was (1) found to be time sensitive,[50] the information was (2) gathered and transmitted at their expense such that the use did not constitute free-riding off the NBA's generation of the information,[51] and (3) the pager product did not pose a threat to the existence of any NBA product market, including its prospective "Gamestats" informational pager products.[52] Because the NBA's claim did not state a valid cause of hot news misappropriation, and because hot news misappropriation is the only species of misappropriation claim to survive preemption, the claim was preempted under section 301 of the Copyright Act. The district court's injunction was vacated, and NBA's claim against Motorola and STATS was dismissed.[53]

IV. *NBA*'s Narrowing of Misappropriation Doctrine is Both Unnecessary and Undesirable

{20}The Second Circuit's decision in *NBA v. Motorola* unnecessarily limits the scope of misappropriation doctrine to the prevention of hot news misappropriation--essentially confining *INS* to its facts. A broader doctrine of misappropriation is not prohibited under the Copyright Act. Moreover, at least in relation to the emerging digital database market, a broader doctrine would in fact be desirable.

(A) A Broader Doctrine of Misappropriation is Not Prohibited Under the Copyright Act

{21}Section 301 of the Copyright Act need not be read to preempt all but hot news misappropriation claims. In *NBA*, the Second Circuit's preemption discussion suffers two flaws. First, in interpreting the "subject matter" prong of the preemption test, the court's rejection of the district court's doctrine of partial preemption is based on a questionable statutory interpretation. Second, in discussing the "general scope" prong, the court fails to explain the rationale behind its narrow application of the extra element test.

(1) The NBA Court's Unconvincing Rejection of Partial Preemption

{22}The Second Circuit relied upon an unconvincing interpretation of the Copyright Act to support of its rejection of the district court's "partial preemption" test. The court's statutory argument is weak in three ways. First, it relies in part upon an ambiguous legislative history in making its determination of congressional intent.[54] Second, the court ascribes congressional intent by professing to read a reasonable purpose into the statute--a questionable and highly controversial method of statutory interpretation. Third, the court's contentions as to the effect adoption of partial preemption doctrine would have are unsound.

{23}The legislative history of section 301 is notoriously convoluted.[55] Originally, section 301(b)(3) included a list of types of state laws that were not preempted under 301(a).[56] The list specifically exempted state misappropriation laws from the purview of section 301.[57] However, when the bill came to the House floor, Reresentative Siberling, wary of having the section construed as "enabling legislation" for the States to pass broad misappropriation laws, introduced an amendment deleting the list of examples from section 301(b)(3).[58] When asked to clarify the reason for the amendment, Representative Siberling conceded that the purpose was not to alter existing State misappropriation laws, but rather to "leave state law alone" and to "prevent the citing of" the examples as indicative of Congressional intent.[59] The House amendment was adopted, and the final version of section 310(b)(3) is silent as to the effect of section 301(a) on misappropriation law. Reading this convoluted revisionary process, as the *NBA* court does, to support the finding that all but "hot news" misappropriation claims are preempted by the Copyright Act is largely unjustified.[60]

{24}Moreover, the *NBA* court's method of statutory interpretation is unsound. Besides relying on ambiguous legislative history, the court effectively constructs its own version of legislative intent by attempting to attribute a reasonable purpose to the statute. Though such a methodology has occasionally been championed, [61] statutory interpretation which relies solely on judicial divination of the Congressional purpose latent in a statute has been thoroughly criticized as embodying excessive judicial activism.[62] The Second Circuit, however, employs this controversial methodology to argue that Congress could not have intended to establish a system of partial preemption because such a system would render section 301 unworkable.[63]

{25}As the district court noted, however, "partial preemption . . . is simply an inevitable consequence of adhering to the very distinctions which the Copyright Act requires. . . . [T]he clear terms of the Copyright Act's preemption provision mandate that" NBA games not be considered to fall within the subject matter of copyright.[64] The Second Circuit offers insufficient justification for its departure from the plain language of the section 301 subject matter requirement.[65]

{26}Moreover, at least in relation to misappropriation doctrine, the Second Circuit's fear that adoption of partial preemption would allow "state law to vest exclusive rights in material that Congress intended to be in the public domain," is unfounded.[66] As the Supreme Court stated in *INS*, "[t]he fault in reasoning lies in applying as a test the right of the complainant as against the public, instead of considering the rights of complainant and defendant, competitors in business, as between themselves."[67] In other words, partial preemption doctrine would not allow the states to enact misappropriation laws aimed at constricting the public domain because the public domain is not constricted by misappropriation laws.

{27}Because the *NBA* court's statutory argument relies on an ambiguous legislative history, makes insupportable inferences as to legislative intent, and incorrectly predicts the effect of adopting partial preemption doctrine, its rejection of the district court's analysis of the subject matter prong is unconvincing.

(2) The NBA Court's Implausible Application of the Extra Element Test

{28}Again, in relation to the "general scope" prong, the Second Circuit's application of section 301 is

problematic. First, the court fails to indicate why only hot news misappropriation can survive preemption. Second, the court fails to indicate why three extra elements, rather than one, are required to save a hot news misappropriation claim from preemption. Third, the court places undue reliance on the Seventh Circuit's decision in *ProCD v. Zeidenberg*.[68]

{29}The court begins with the standard proposition that only claims with an "extra element" can survive preemption,[69] and concludes that hot news misappropriation claims are the only species of misappropriation claims that in fact survive preemption.[70] It is thus implicit that only hot news claims have an extra element. But the reasoning the court employs to conclude that hot news claims are the *only* misappropriation claims that may contain an extra element is unclear. The court thus fails to explain its narrowing of the scope of misappropriation doctrine.

{30}This undergirds the second problem with the court's analysis of the general scope prong. In finding that only hot news misappropriation claims survive preemption, the court identifies three extra elements that distinguish such claims from the general scope of copyright.[71] However, the court fails to indicate why these three extra elements, rather than any single one of them (or these in addition to others), are required in order to survive preemption. The elements are somehow sufficient in combination to save hot news misappropriation from preemption. However, the necessity of their combination remains unexplained.

{31}For example, the court includes the element of "time sensitivity" in its list of elements that are deemed "extra." Though *INS* (as well as *NBA*) involved highly time sensitive information, it is unclear why the specifics of the *INS* case should be turned into the mandates of preemption law. The Court in *INS* states that an information collector is entitled to a "reasonable opportunity to obtain just rewards from . . . expenditures."[72] In the newspaper business, this reasonable opportunity may require a day, or maybe only a couple of hours. But in other contexts, for example, digital database markets,[73] a reasonable opportunity to profit from the collection of information may involve a more substantial amount of time. This suggests the question: why should only "hot news" misappropriation survive preemption under section 301? Why, for example, would state misappropriation protection for information that is merely "valuable"--but not "hot"--fail to satisfy the Second Circuit's version of the extra element test?

{32}Though the court notes that there has been hostility to *INS*, and that other courts have made attempts limit *INS* to its facts,[74] it does not examine nor justify the basis for that hostility. It merely states:

{33}INS is not about ethics; it is about the protection of property rights in time-sensitive information so that the information will be made available to the public by profit seeking entrepreneurs. If services like AP were not assured of property rights in the news they pay to collect, they would cease to collect it. The ability of their competitors to appropriate their product at only nominal cost and thereby to disseminate a competing product at a lower price would destroy the incentive to collect news in the first place. The newspaper-reading public would suffer because no one would have an incentive to collect "hot news."[75]

{34}The court, however, fails to realize its argument--that without sufficient protection, information would not be collected and the public would lose a valuable service--applies whether or not the value of the information is "highly time sensitive." More specifically, collections of information, like any other class of product, vary in the duration needed to recoup the investment required to produce the product, and it is unclear why those collections that have an extremely short investment turnaround rate deserve protection, while those with more lengthy turnaround rates do not. The analysis undertaken by the court does not provide a sufficient justification for its restriction of valid misappropriation claims to those dealing with "hot news."

{35}Moreover, the court, having offered an insufficient rationale for its application of the general scope prong, makes an appeal to external support for its conclusion by invoking the Seventh Circuit's decision in *ProCD, Inc. v. Zeidenberg*.[76] However, the ProCD decision not only fails to support the Second Circuit's

position, it in fact undercuts the basis for that position.

{36}*ProCD* involved the copying and distribution of commercially available computer software. The software, marketed by ProCD, Inc., contained a database of information compiled from more than 3,000 telephone directories.[77] This uncopyrightable compilation[78] was sold subject to the terms of a "shrinkwrap license" which prohibited the reproduction and distribution of the information contained in the database.[79] The defendant, Matthew Zeidenberg, ignored the licensing contract and formed a corporation which made the ProCD database available over the Internet for a fee.[80] He argued that the licensing contract was preempted under section 301(a) of the Copyright Act, and so unenforceable.[81] The district court agreed, holding that the rights created by the shrinkwrap license were equivalent to--that is, within the "general scope" of--rights conferred by the Copyright Act.[82]

{37}The Seventh Circuit reversed. It distinguished contractual rights from rights conferred under the Copyright Act by noting that contracts embody rights enforceable only between the contracting parties, whereas copyright confers a "right against the world."[83] In this sense, contracts do not create "exclusive" rights, and so do not come within the general scope of copyright. Thus contractual rights are not preempted under Section 301.[84]

{38}What is important to notice here is that the rationale employed by the Seventh Circuit applies equally in the context of a misappropriation claim. As the *INS* Court stressed, misappropriation doctrine confers rights enforceable only between competitors, not "against the world." The Supreme Court stated:

> Obviously, the question of what is unfair competition in business must be determined with particular reference to the character and circumstances of the business. The question here is not so much the rights of either party as against the public but their rights as between themselves.[85]

{39}As the Court explained, "The fault in reasoning lies in applying as a test the right of the complainant as against the public, instead of considering the rights of the complainant and the defendant, competitors in business, as between themselves."[86]

{40}The right to prevent misappropriations of information requires the special relationship, analogous to a contractual relationship, between parties who compete in business. In the *ProCD* sense, then, the right to prevent competitive use of the information is not an "exclusive" right, as it is grounded in and based upon this relationship. Following the *ProCD* analysis, the competitive relationship suffices as an extra element that distinguishes a misappropriation claim from rights that fall within the general scope of the Copyright Act, and so saves misappropriation doctrine from preemption under section 301. The Second Circuit, though relying on the rationale of *ProCD* to analyze the general scope prong of the preemption test, fails to correctly apply that rationale to the NBA's misappropriation claim.

{41}Because the court does not offer convincing arguments in support of its analysis of either prong of the preemption test under section 301, its conclusion that the Copyright Act mandates preemption of all but "hot news" misappropriation is suspect. Contrary to the Second Circuit's contention, a broader misappropriation doctrine is not foreclosed under the Copyright Act.[87]

(B) A Broader Doctrine of Misappropriation is Desirable in Digital Database Markets

{42}If analysis of *NBA* demonstrates that a broader doctrine of misappropriation is *available*, we are left with the more subtle issue of whether or not a broader doctrine of misappropriation is, as a matter of policy, desirable. This section will argue that it is desirable, at least in relation to developing digital database markets. The argument may be summarized as follows:

{43}Given the unprotectability of "mere facts" in copyright after the Supreme Court's decision in *Feist Publications, Inc. v. Rural Telephone Service Co.*,[88] protection against competitive misappropriations of factual information is needed to maintain an appropriate incentive for the collection and distribution of information that is otherwise not readily available.[89] Misappropriation doctrine could provide the protection needed for such information service industries without sacrificing the distributed information's public domain status. Restricting misappropriation doctrine to the "hot news" variety will leave such uncopyrightable, "cold" facts unprotected--or, as indicated by current congressional attempts at database protection, overprotected. Neither option is more desirable than the maintenance of a healthy misappropriation doctrine along the lines sketched in *INS*.[90]

(1) Feist and the Constitutional Requirement of Originality

{44}Historically, facts have generally been held uncopyrightable.[91] However, some cases had offered protection to "mere facts" on a "sweat of the brow" theory of coyrightability,[92] which recognizes that factual information is useful and often hard to collect, and that without protection there will be little incentive to invest the effort necessary to produce useful databases of factual knowledge.[93] However, after the Supreme Court's ruling in *Feist Publications, Inc. v. Rural Telephone Service, Co.*,[94] a "sweat of the brow" rationale is unavailable under the Copyright Act.

{45}The *Feist* case involved the copying of telephone directory listings.[95] The Supreme Court ruled that, despite any effort expended in the collection of such listings, the listings were "mere facts" which failed to satisfy the statutory requirement of originality.[96] Further, the originality requirement was held to be a Constitutional mandate of the copyright power enabling clause.[97] Though a "thin" copyright protection for the "selection and arrangement" of collections of facts is still available,[98] the *Feist* ruling foreclosed the possibility of any protection of database *contents* through use of the copyright power.[99]

(2) An Overview of Database markets

{46}Nevertheless, the problem that led to the formulation of the sweat of the brow theory still remains: "mere facts" will not be collected and disseminated unless an effective protection from copying is available. The remainder of this article will discuss the desirability of protecting electronic databases under the doctrine of misappropriation. It will be argued that a broader misappropriation doctrine than that condoned in *NBA v. Motorola* would provide an appropriate degree of protection for the digital database industry.

{47}A "database" may be defined broadly as "any organized collection of information."[100] The database industry, largely moving towards the production of electronic databases that "allow users to combine software and information into powerful tools for research, educational, and commercial applications," has become a formidable, multi-billion dollar economic force, and is "growing rapidly."[101]

{48}But the ease of access, use, and distribution that makes the electronic database industry so appealing to consumers is also its Achilles' heel: electronically stored information can be copied and disseminated with an ease unknown in prior mediums.[102] Despite the "thin" copyright in the selection and arrangement of a database, its factual contents are themselves not protected, and can be copied and distributed so long as the contents are at least marginally reselected and rearranged.[103] Some contractual and technological protections are nevertheless available to database producers, but in many database markets, such as the market for CD-ROMs, such protections may not be particularly effective.[104] Given this situation, legal protection more tailored to the specific needs of the database industry seems desirable.[105]

{49}Congress, recognizing the problems faced by the database industry, has made some attempts to craft copyright-like protection for database contents. Its first stab at database protection came in 1996. H.R. 3531 proposed *sui generis* protection for database contents.[106] However, H.R. 3531 was widely criticized for affording too much protection to the database industry-at the expense of the public domain-and was not enacted.

(3) H.R. 2652 Would Overprotect Database Markets

{50}More recently, Representative Coble introduced a bill entitled the "Collections of Information Antipiracy Act."[107] The bill was intended to strike a more palatable balance between the rights of database producers and those of the public. In order to do so, the bill rejects the *sui generis* approach taken in H.R. 3531, and professes to embody a scheme of protection aimed at preventing the misappropriation of commercially available information.[108]

{51}Despite its claims, however, the bill has been criticized as giving too little heed to misappropriation principles.[109] For the reasons discussed above, it is clear that some form of protection is needed in digital database markets, but the strong protections of H.R. 2652 may not be an appropriate response to the problem of database copying. Primarily because it would have overprotected database contents, Congress amended H.R. 2652 soon after its introduction.

{52}In this section, we will begin with an examination of the bill's original text; analyzing the policy concerns that led Congress to amend H.R. 2652 makes it easier to evaluate the desirability of the bill's present version. Then we will consider H.R. 2652's amended version, and argue that though the amendments have made the bill more palatable than the original version, they do not succeed in making H.R. 2652 a true misappropriation statute. Because it extends the scope of the traditional misappropriation doctrine, even the amended bill remains overprotective of database contents.

{53}Nevertheless, some protection is still needed in database markets. As subsequent sections will argue, Congress would be wise to further revise H.R. 2652 so as to make it more closely mirror an *INS*-like misappropriation prohibition.

a. The Bill's Original Text

{54}Although H.R. 2652 was originally condemned for regulating extractions for both commercial *and* noncommercial purposes, such concerns were somewhat unfounded. Nevertheless, two elements of the bill's original version served to dramatically distinguish it from traditional misappropriation doctrine. First, the bill did not require competitive use of database contents, but instead focused on harm to the database owner. Second, there was no duration built into the protections it offered.

{55}Entitling database producers to prevent noncommercial extractions of information may give them more control over use of their data than is desirable, and H.R. 2652, on its face, seemed to regulate extractions for other than commercial purposes. Section 1201 of the bill extended liability to "[a]ny person who extracts . . . all or a substantial part of a collection of information."[110] Thus, it would seem that extraction for any purpose is prohibited unless an exception applies. However, the further requirement that the extraction "harm the [database owner's] actual or potential market"[111] substantially curtails the scope of the extraction right as extractions for noncommercial purposes would be unlikely to inflict such harm.

{56}However, extractions for noncommercial purposes may, in rare instances, threaten to damage a database

owner's market; such as extraction of database contents for incorporation in a critical commentary on the producer's database product. In these instances, the bill's exceptions, as carved out by section 1202, seem broad enough to protect noncommercial removals. Section 1202(a), for example, which permits the removal of an insubstantial portion of a database, would protect many noncommercial extractions. And even in those cases where substantial portions of the database are removed, exceptions for verification purposes and news reporting purposes would likely apply.[112] Given these exceptions, the chances that a noncommercial extraction would lead to liability were slim under the original text of H.R. 2652--though the possibility was nevertheless existent.

{57}Moreover, there is reason to believe that the extraction of information could never "harm the actual or potential market for a database product."[113] This is because one of information's distinctive properties is that it is not depleted by sharing--the extraction of information by another does not deprive the database owner of possession.[114] Thus, the only way to harm the database producer's market is arguably through *use* of the information, and section 1201 maintains the "use in commerce" requirement of traditional misappropriation law.[115]

{58}On the other hand, the bill's failure to require *competitive use* of the database contents is a significant break with traditional misappropriation doctrine. The "duty" in the common law tort of misappropriation originates from each parties status as a competitor.[116] Extending this duty to indirect harms may threaten innovations. Incorporation of database contents into new markets may harm the original database product's market, but it also would promote innovative uses of the database contents. Unless the database owner has entered, or at least has made significant preparations to enter, such secondary markets, entitling the owner to prohibit use in such markets is unwise as well as unprecedented.[117]

{59}The second major distinction between the original text of H.R. 2652 and traditional misappropriation doctrine is somewhat alarming. The bill's failure to impose a durational limit on protection would have offered database producers greater incentives than required for the efficient production of databases. So long as the database product continued to be "used in commerce," protection would persist.[118] Thus, as in trademark law, the database owner, rather than the legal system, would be the master of the term of protection.[119]

{60}In contrast, *INS* was grounded in the "right to acquire property by honest labor"[120] and the right to a "reasonable opportunity to obtain *just* returns for . . . expenditures."[121] This implies a limited term of protection--one sufficient to "justly" reward the laborer. Unlike H.R. 2652's original text, *INS* did not mandate perpetual protection. As the Court stated:

{61}It is to be observed that the view we adopt does not result in giving to the complainant the right to monopolize [the information] . . ., but only postpones participation by complainant's competitor . . ., and only to the extent necessary to prevent that competitor from reaping the fruits of the complainant's efforts and expenditure, to the partial exclusion of the complainant, and in violation of the maxim 'sic utere tou'.[122]

{62}That there is an "extent" to protection further implies a limited term of protection. Thus the rationale offered by the Supreme Court in *INS*, as applied in the context of database protection, suggests that the labor of collecting a database should be protected no longer than is necessary to "justly" reward the collector.[123]

{63}Perhaps H.R. 2652's lack of a durational limit was due to the fact that different products will require different terms for the generation of a reasonable return on the producer's investment. But such a discrepancy is no justification for an abdication of any term limit. Moreover, the problem applies equally in the copyright and patent contexts, but Congress nevertheless found it wise to limit copyright and patent terms. It would be more reasonable to impose *some* durational limit on database protection. If practical, it would be even better to impose a term tailored to the particular database product, allowing the producer to achieve a reasonable

return on his investment and no more.[124] In any case, granting perpetual protection to a database product inflicts undue costs on the public domain.

{64}Thus, the original text of H.R. 2652 would have overprotected database contents by extending traditional misappropriation law in two ways. First, though protection against noncommercial extractions does not seriously impede user rights, the bill threatened to inhibit innovative and transformative uses of database contents in offering database products protection from use by non-competitors. Second, the bill's lack of durational provisions would have offered database producers greater protection than required at the expense of the public domain.

b. The Amended Version of H.R. 2652

{65}It became clear that a more balanced approach to database protection than offered under the original text of H.R. 2652 was desirable. Fairly soon after its introduction, Congress responded to the controversy surrounding the bill by amending H.R. 2652 to offer more limited rights in database contents. This revised version of the bill was then passed by the House.[125] For a time, it was included as an amendment to the recently enacted Digital Millennium Copyright Act (H.R. 2281), but was dropped by the Conference Committee, with the intention that it be reintroduced in 1999.[126] Let us now turn to an examination of the current version of H.R. 2652, to see whether the amendments have convincingly responded to the criticisms directed at the original test of H.R. 2652.

{66}Two revisions stand out most prominently. First, the amended version of H.R. 2652 attempts to clarify the scope of protection it offers by specifically defining the "potential markets" that are protected under the bill.[127] Second, and more importantly, the bill now contains a fifteen year term limit on protection, which begins running at the time a substantial investment is made in the database product.[128] These revisions to H.R. 2652 serve to narrow the scope of protection afforded to database contents under the bill, which ameliorates some of the problems discussed above. However, the revisions fail to confine H.R. 2652 to a scope commensurate with the protections provided by traditional misappropriation doctrine.

{67}The amended bill narrows the definition of "potential market" to those markets that the database owner "has current and demonstrable plans to exploit or that [are] commonly exploited by persons offering similar products or services incorporating collections of information."[129] But the "potential market" definition by no means alleviates all regarding the scope of H.R. 2652. A more detailed and precise definition of "potential markets" would help clarify the intended scope.

{68}Both the Department of Justice and the Department of Commerce have expressed dissatisfaction with the bill's attempt to define potential markets.[130] As the Department of Commerce states:

{69}While the Administration appreciates the efforts of the House Judiciary Committee to define "potential" markets as used in [the bill], we remain concerned that this definition may be broader than market definitions used in other areas of the law, that the definition could be subject to manipulation by private entities, and that potentially the definition too easily exposes legitimate business practices to substantial liability . . . Congress should carefully consider how encompassing "potential markets" may affect entrepreneurs who develop new products and services that add significant value and do not compete directly with the original.[131]

{70}The additional definition serves to restrict the scope of the original version of H.R. 2652, but its application in the context of actual disputes is still far from clear.

{71}Further, a more precise and restricted definition of "potential market" would help alleviate some of the problems with H.R. 2652's original version. As noted above, the bill's failure to include a requirement of

competitive use threatened to permit database owners to exert control over use of database contents in remote markets. A narrowed definition of potential markets would help address this concern, as liability for use would not extend further than the confines of the database's narrowly redefined potential market. Thus, something of a "backdoor" competitive use requirement would be created. It is difficult to imagine a harmful, commercial, third-party use of database contents in the database owner's actual market that is not competitive. This would also be the case in narrowly defined potential markets. Thus, the concern regarding the lack of a competitive use requirement--that H.R. 2652 would chill innovative uses of database contents by entitling a database owner to prevent indirectly competitive uses of the database--would no longer be quite so pressing.

{72}As for the second major revision to the text of H.R. 2652, by imposing a durational limit on protection, the amendments have alleviated what was characterized as the most troubling aspect of H.R. 2652. However, the fifteen year term may still overprotect many databases. There are two potential problems with protection of database contents for a fifteen year term.

{73}First, the rationale for such a lengthy term is not explicit. Following the earlier discussion of intellectual property law theory, protection should persist no longer than necessary to provide the potential producer of an intellectual creation with an incentive sufficient to make such production worthwhile.[132] Accordingly, protection of database contents should extend no further than is required to give sufficient incentives for their collection. It would seem to follow that before database producers are entitled to fifteen years of protection, they should demonstrate that database collection has, generally, an investment turnaround rate roughly equivalent to fifteen years. If studies of the database industry demonstrate that this is the case, then a fifteen year term is appropriate. But the legislative history of the amendments make no mention of such empirical evidence. Thus, the basis for the fifteen year term--a term which should be tailored to the market conditions in the database industry--should be made explicit.

{74}Moreover, there has been no justification for the decision to choose a fixed term that applies throughout the database industry. Two possible types of durational limits were examined above: fixed term limits (such as the fifteen year term adopted by the amendments) and unfixed terms that extend only so long as necessary to allow the database proprietor a reasonable return on the investment required to produce the database. Though the second methodology would entail greater administrative costs, such costs may be less than the costs attendant to a fixed term that underprotects or overprotects the database product. Again the rationale for the bill's fixed term is not clear.

{75}Finally, the amended version of H.R. 2652 may have a more fundamental problem. The U.S. Department of Justice (DOJ) argues that the bill may in fact be unconstitutional. Because of its lengthy term, its broad scope, its ambiguous language, and its failure to include concrete "fair use" exceptions to protection, the DOJ has opined that the bill may exceed Congressional power to regulate under the Commerce Clause, or may constitute an impermissible restriction of First Amendment rights.[133] The DOJ's concerns are another reason to tailor the bill to more closely fit the traditional confines of misappropriation law.

{76}But despite these concerns, it is important to recognize that the amended version of the bill is significantly more palatable than was its original text. Though the revisionary process should continue, and further investigation of the dynamics of database markets should be conducted, the amendments have helped H.R. 2652 resemble a true, *INS*-based, misappropriation statute. As argued below, an *INS*-based statute protecting database contents is generally desirable.[134] These amendments increase the chances that H.R. 2652 will become just such a law. Nevertheless, the amended version of H.R. 2652 remains overprotective of database contents, and amounts to merely a step in the right direction.

(4) A Broader Misappropriation Doctrine Would Facilitate Determination of the Efficient Degree of Database Protection

{77}Why is tailoring H.R. 2652 to more closely resemble misappropriation doctrine a step in the right direction? This section will argue that misappropriation rules would adequately protect database contents without unduly sacrificing the public's right to access factual information.

{78}If the goal of intellectual property protections is to strike an efficient balance between private incentives to produce and the public right to utilize, then the correct quantum of protection can only be determined by specific reference to the particular markets in which such protections function. Elementary economic theory dictates that free markets should not be interfered with unless high transaction costs lead to market failure. [135] Common sense dictates that it is difficult to assess the transaction costs present in undeveloped markets.

{79}Though some of the problems specific to electronic database markets are well known,[136] the digital database market is still in its infancy. It is known, for example, that the ease of copying in the electronic environment generates a free-rider problem.[137] However, the scope and effect of the free-rider problem is presently unknown. Factors that affect digital database markets, but are presently unknown include: (a) the *extent* the free rider problem threatens the creation of various database products; (b) the ability of present technological protections to thwart free riders; (c) the ability of future technological protections to thwart free riders; and (d) the extent of contract law's ability to thwart free riders. These factors are unknown because the database market is still rapidly developing. Moreover, it is thriving. Imposing a broad regulatory scheme on such an emerging market is like prescribing valium for a headache. Until there is an apparent, documented, and widespread market failure, regulation of the scope that H.R. 2652 would impose is unwarranted. In other words, it might be the case that the value of such broad regulation is less than the value of no regulation at all. Given present knowledge about database markets, a more narrow and adaptable regulatory system is preferable.[138]

{80}The common law doctrine of misappropriation could provide such a system. Misappropriation doctrine can be utilized to specifically address the problems faced by database producers because it is applied only in the context of specific cases.[139] It allows judges to examine and adjust the incentives faced by present members of the database industry, and to prevent free riding *only* when it is in the interests of the public.[140] This careful consideration of the rights of each party will help ensure a rational scheme of regulation. Moreover, as has always been the case with the common law, inquiry into the specific circumstances of the "case or controversy" will contribute to the accumulation of knowledge about the relevant issues, and aid later lawmakers in their perception of the problems faced by the database industry.

{81}This argument can also be stated in more econo-centric terms: the administrative costs of a fact specific inquiry into particular parties' practices are probably *less than* the market-inhibiting costs of an inefficient rule that applies industry wide.[141]

{82}Once we get a "feel" for the dynamics of the database market, this situation may be reversed. When and if it is, *then* broader regulation may be appropriate.

{83}*NBA v. Motorola* undermines the viability of such a case-by-case approach by unnecessarily restricting the doctrine of misappropriation developed in *INS*. In *NBA*, there were good reasons for the Second Circuit to conclude that Motorola did not misappropriate the NBA's information.

{84} First and foremost, Motorola and STATS did not compete with the NBA. The NBA had yet to enter the pager-product market, and it is unclear whether they planned to any time soon.[142] Potential markets do often deserve protection, but refusing to allow a business to exert control over such a remote market would

not threaten to undermine its incentive to produce the primary product.[143] Second, the pager-product, far from hurting the NBA's primary market, most likely enhanced its value by increasing consumer accessibility. Third, transaction costs attendant to the licensing of the information were high. Motorola attempted and failed in negotiating a license with the NBA, and was frustrated with the slower NBA timetable.[144] Fourth, any "author's rights"-type justification for entitling the NBA to control use of the information it generates seems inappropriate as the NBA is a corporation, and so, by definition, any works it authors are "for hire" under the Copyright Act.[145] Fifth, consumers benefitted from use of the NBA-generated information by Motorola and STATS, as their product was available in the market before any similar product was offered by the NBA.[146]

{85}But the Second Circuit, despite its largely justifiable conclusion that Motorola and STATS can continue to use the NBA-generated information, chose an unfortunate route to achieve that result. Misappropriation doctrine is so severely restricted in *NBA* that it will not continue to be available to combat uses of information that are inefficient, such as commercial misappropriations of database contents. Other circuits would be wise not to follow *NBA*'s lead.

(5) Congressional Codification of an *INS*-Based Form of Database Protection is Desirable

{86}Given the *NBA* decision and hostility to traditional misappropriation doctrine in other courts, common law misappropriation protections likely will not be available to database producers. Without protection from commercial misappropriations, database products will not be produced at an optimal level. Though the current version of H.R. 2652 should not be enacted because it would overprotect database products, Congressional enactment of a true misappropriation statute would be desirable for a number of reasons.[147]

{87}First, Congressional action, though not required for the continuing viability of a healthy misappropriation doctrine,[148] would provide a decisive solution to the copyright preemption problem. Database producers would not face this potential hurdle in seeking to protect their products.

{88}Second, though the Second Circuit does not mention the issue, another "species" of preemption may be relevant to analysis of misappropriation doctrine. The Supremacy Clause of the Constitution mandates that state laws which "clash" with the "objectives" of a Federal law be preempted by the Federal law.[149] Though it may be contended that such "Federal purpose" preemption was exhausted by and did not survive the enactment of section 301, the Supremacy Clause has nevertheless been held to preempt state laws since the effective date of section 301.[150]

{89}Thus, conceivably, there could be situations where a state law claim that falls within the subject matter of copyright, but escapes preemption under section 301 due to the presence of an extra element, is preempted anyway under the Supremacy Clause. As applied to misappropriation doctrine, it could accordingly be argued that because misappropriation doctrine would often protect facts, and because the Copyright Act commits facts to the public domain, enforcement of misappropriation doctrine would in many cases conflict with the Federal purpose of reserving facts to the public domain.

{90}As with the copyright preemption problem, Congressional codification of misappropriation doctrine would make the Federal purpose preemption issue moot. Even though the Supremacy Clause was not an issue in *NBA*, a Federal misappropriation statute would ensure that the specter of this additional, Constitutional hurdle to launching a misappropriation case would not have a chilling effect on database collection.

{91}Third, in relation to the specific problems facing the database industry, Congressional codification of misappropriation doctrine would provide the legal clarity needed to assure database producers that their

collections will be protected in the marketplace, while at the same time avoiding an undue restriction on facts available in the public domain. Congress could specify either a more limited term of protection from misappropriations than offered under H.R. 2652, or advise the courts on factors to be considered in crafting a term.[151]

{92}Fourth, Congressional protection of database contents would provide a national approach to database protection. Given the widespread nature of digital networks, a more standardized approach is preferable to a "battle of the Circuits"-that is, so long as the national approach strikes an appropriate balance between the rights of the database industry and the rights of the public.

{93}Fifth, and perhaps most important, a single, national approach would be consistent with the goal of eventually reaching an International accord for the protection of database contents. Whatever methodology the United States presently adopts will influence and help structure the form of future International agreements, and would give the United States a head start in determining the form of prospective International database protections.

{94}Thus, Congressional codification of misappropriation doctrine is desirable because it would foreclose possible preemption problems akin to those faced in *NBA*, clarify the law for both consumers and producers of databases, and provide a unified national-and potentially International-approach to database protection.

V. Conclusion

{95}This paper began by noting the theoretical goal of Intellectual Property law: to allocate an efficient degree of protection to intellectual creations. The two primary claims that have been made are (1) the *NBA* court unwisely and unnecessarily tips this balance toward under protection of database contents by so narrowing the scope of misappropriation doctrine that it unavailable to collections of "cold" facts, and (2) both versions of H.R. 2652, which itself is in part a response to the courts' failure to protect valuable database contents, tip this balance toward overprotection by extending the scope of traditional misappropriation protections. However, as was argued above, Congressional action aimed at the protection of database contents would be desirable. It will be the task of the 106th Congress to see that H.R. 2652 is further amended so as to strike an appropriate balance between innovation and access -the competing interests that intellectual property rules have always been designed to serve.

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[**] **NOTE:** All endnote citations in this article follow the conventions appropriate to the edition of THE BLUEBOOK: A UNIFORM SYSTEM OF CITATION that was in effect at the time of publication. When citing to this article, please use the format required by the Seventeenth Edition of THE BLUEBOOK, provided below for your convenience.

David Djavaherian, Comment, Hot News and No Cold Facts: *NBA v. Motorola* and the Protection of Database Contents, 5 RICH. J.L. & TECH. 8, (Winter, 1998), *at* http://www.richmond.edu/~jolt/v5i2/djava.html.

[1] National Basketball Ass'n v. Motorola, Inc., 105 F.3d 841 (2d Cir. 1997) [hereinafter NBA]

[2] *See id*. at 852.

[3] *See infra* part III(B)(2) and (3).

[4] U.S. CONST. art. I, § 8, cl. 8.

[5] *See* Feist Publications, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 344-51 (1991) (explaining that the enabling clause in the Constitution limits copyright power to protection of original works). For a discussion of *Feist*, see *infra* part III(B)(1).

[6] *See* National Basketball Ass'n v. Sports Team Analysis and Tracking Sys., Inc., 939 F. Supp. 1071, 1099-1101 (S.D.N.Y. 1996), *aff'd in part, vacated in part sub nom*. National Basketball Ass'n v. Motorola, Inc., 105 F.3d 841 (2nd Cir. 1997) [hereinafter *STATS*].

[7] *See id*. at 1098-99 (outlining the history of the unfair competition doctrine).

[8] *See id*. at 1098 (citing Metropolitan Opera Ass'n, Inc. v. Wagner-Nichols Recorder Corp., 101 N.Y.S.2d 483, 489 (1950)).

[9] 248 U.S. 215 (1918) hereinafter *INS*. The *INS* decision preceded Erie R.R. Co. v. Tompkins, 304 U.S. 64 (1938), and was decided as a matter of federal common law. After *Erie*, the misappropriation doctrine was adopted in most of the state courts. *See* Edmund J. Sease, *Misappropriation Is Seventy-Five Years Old; Should We Bury It Or Revive It?*, 70 N.D. L. REV. 781, 786, 793 (1994).

[10] *See INS*, 248 U.S. at 235-36.

[11] *Id*.

[12] *See id*. at 236-37. For a theoretical and historical review of *INS*, *see generally* Douglas G. Baird, *Common Law Intellectual Property and the Legacy of International News Service v. Associated Press*, 50 U. CHI. L. REV. 411 (1983).

[13] Mostly because of this potential conflict, *INS* has long been criticized, and many courts have limited its reach. *See, e.g.*, Cheney Bros. v. Doris Silk Corp., 35 F.2d 279, 280 (2d Cir. 1929); Restatement (Third) of Unfair Competition § 38 cmt. c, rep. notes (1995).

[14] "[A]ll legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103 . . . are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State." 17 U.S.C. § 301(a) (1994); *see also NBA*, 105 F.3d 841, 848 (2nd Cir. 1997); *STATS*, 939 F. Supp. 1071, 1095 (S.D.N.Y. 1996); Mayer v. Josiah Wedgewood & Sons, Ltd., 601 F. Supp. 1523, 1531-36 (S.D.N.Y. 1985).

[15] *See STATS*, 939 F. Supp. at 1076.

[16] *See id*. at 1077.

[17] *See id*. at 1079-80.

[18] *See id*. at 1080.

[19] *See id*. at 1084. The information transmitted to the pagers was subject to a delay of two or three minutes.

[20] *See NBA*, 105 F.3d at 844.

[21] *See STATS*, 939 F. Supp. at 1084.

[22]15 U.S.C. § 1051 (1994).

[23] *See STATS*, 939 F.Supp. at 1074-75.

[24] *See id*. at 1088-93.

[25] *See id*. at 1093-94; *see generally* Feist Publications, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 345-51 (1991) (holding that copyright protection is unavailable for mere facts because facts do not satisfy Constitutional originality requirement). For more information on *Feist* and the unprotectability of facts under copyright laws, see *infra* part III(B)(1).

[26] *See STATS*, 939 F. Supp. at 1107-12.

[27] *See id*. at 1098, n.24.; *see also NBA*, 105 F.3d 841, 848-50 (2d Cir. 1997).

[28] *See STATS*, 939 F.Supp. at 1097-98. For example, a potentially protectable work could fail to receive protection due to insufficient originality, or, under the 1909 Act, for failure to comply with required formalities. *Id*. Such a work would nevertheless fall within the "subject matter" of copyright because of its categorical copyright*ability*. *Id*.

[29] *See id*. at 1097; *see also* 17 U.S.C.A. § 101 (West 1998) (protecting a "fixed" broadcast if it is simultaneously recorded).

[30] *See supra* note 10 and accompanying text.

[31] *See STATS*, 939 F.Supp. at 1098.

[32] *See id*. at 1098 n.24.

[33] *See id*. at 1098.

[34] *Id*. at 1105-07.

[35] *See id*. at 1114-15; *NBA*, 105 F.3d 841, 843-44 (2d Cir. 1997).

[36] *See NBA*, 105 F.3d at 844.

[37]. *See id*. at 843.

[38] *Id*. at 848-49.

[39] *Id*. at 849.

[40] *Id*.

[41] *See id*.

[42] *See id*. at 848-50.

[43] *See id*. at 850 (quoting Computer Assoc. Int'l., Inc. v. Altai, Inc., 982 F.2d 693, 716 (2d Cir. 1992)).

[44] *See id*.; *see also Computer Assoc*., 982 F.2d. at 716; Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 1.01(B) at 1-15 (1997).

[45] *See* Mayer v. Josiah Wedgewood & Sons, Ltd., 601 F. Supp 1523, 1535-36 (S.D.N.Y. 1985).

[46] *See id*.

[47] *NBA*, 105 F.3d at 852.

[48] *See id*. at 852-53. Two of the elements essential to a hot news claim are, by implication, "non-extra": (4) the plaintiff generates or collects the information at some cost or expense, and (5) the defendant's use of the information is in direct competition with the product or service offered by the plaintiff. *See id*.

[49] *See id*. at 853-54.

[50] *See id*. at 853 (explaining that the "information transmitted . . . is not precisely contemporaneous, but it is nevertheless time-sensitive").

[51] *See id*. at 853-54.

[52] *See id*. The court found three distinct NBA-generated informational products: (i) generating information by hosting professional basketball games; (ii) transmitting the live, full descriptions of those games (e.g. broadcasting the games); and (iii) collecting and retransmitting strictly factual information about the games. *See id*. at 853. It found no "competitive effect whatsoever" in relation to the first two products, and that the market would reward the "superior" product in relation to the third, rather than prevent the NBA from entering that market at all. *See id*. at 853-54.

[53] *See id*. at 855.

[54] *See id*. at 849-50.

[55] *See* Nimmer & Nimmer, *supra* note 44, at § 1.01(B)(1)(f)(i)-(ii) (arguing that legislative intent in regards to preemption of misappropriation was ambiguous); Jane C. Ginsburg, *Copyright, Common Law, and Sui Generis Protection of Databases in the United States and Abroad*, 66 U. CIN. L. REV. 151, 162 (1997). Regarding the development of the final version of the bill, *see generally* Fetter, *Copyright Revision and the Preemption of State "Misappropriation" Law: A Study in Judicial and Congressional Interaction*, 27 COPYRIGHT L. SYMP. (ASCAP) 1, 34-38 (1982).

[56] *See* S. 22, 94th Cong., 2d Sess. (1975).

[57] *See id*. (explaining "Nothing in this title annuls or limits any rights or remedies under the common law or statutes of any State with respect to . . . activities violating legal or equitable rights that are not equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106, *including rights against misappropriation not equivalent to any of such exclusive rights*. . . .") (emphasis added).

[58] *See* 122 Cong. Rec. 32,015 (1976).

[59] *Id*.

[60] *See* Mayer v. Josiah Wedgewood & Sons, Ltd., 601 F. Supp. 1523, 1533-34 (S.D.N.Y. 1985) (explaining that "no inference as to Congress's intent may be drawn from the fact that the illustrative list was dropped from the statute"); *see also* Nimmer & Nimmer, *supra* note 44, at § 101(B)(1)(f)(i).

[61] *See, e.g.*, Richard A. Posner, *Statutory Interpretation--in the Classroom and in the Courtroom*, 50 U. CHI. L. REV. 800, 817-22(1983) (stating, "I suggest that the task for the judge called upon to interpret a statute is best described as one of imaginative reconstruction.").

[62] *See, e.g.*, Chisom v. Roemer, 501 U.S. 380, 405 (1991) (Scalia, J., dissenting) (advocating adherence to a plain meaning approach to statutory interpretation); Frank H. Easterbrook, *Text, History, and Structure in Statutory Interpretation*, 17 HARV. J.L. & PUB. POL'Y 61, 68-70 (1994) (explaining that "[w]hen the text has no answer, a court should not put one there on the basis of legislative reports or moral philosophy--or economics.... Process and error costs are much higher when" judges use complex methodologies to interpret unclear statutes).

[63] *See NBA*, 105 F.3d at 849.

[64] *STATS*, 939F. Supp. at 1098 n. 24.

[65] The debate over the "subject matter" prong of the preemption test has been heated, and the Second Circuit's position is not unprecedented. *Compare* Mayer v. Josiah Wedgewood & Sons, Ltd., 601 F. Supp. 1523, 1532 n. 16 (1985) ("state laws that protects ideas, as distinct from their expression, are without the subject matter of copyright and therefore not preempted under § 301"); Bromhall v. Rorvik, 478 F. Supp. 361, 367 (E.D. Pa. 1979) (ideas not in subject matter of copyright) *with* ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1453 (7th Cir. 1996); Baltimore Orioles, Inc. v. Major League Baseball Players Association, 805 F.2d 663, 676 (7th Cir. 1986); Paul Goldstein, Copyright at § 15.2.3 (1998); Nimmer & Nimmer, *supra* note 44, at § 1.01(B). There may or may not be good reasons to define the subject matter prong along the lines advocated by the Second Circuit. The above argument merely points out that the Second Circuit has not itself offered a convincing argument for its position.

[66] *NBA*, 105 F.3d at 849.

[67] *INS*, 248 U.S. 215, 239 (1918).

[68] 86 F.3d 1447 (7th Cir. 1996).

[69] *See, e.g.*, Nimmer & Nimmer, *supra* note 44, at § 1.01(B); Computer Assoc. Int'l, Inc. v. Altai, Inc., 982 F.2d 693, 716 (2d Cir. 1992).

[70] *See NBA*, 105 F.3d at 850, 852.

[71] The three extra elements identified by the court are: (1) the time-sensitive nature of the factual information, (2) free riding by the defendant, and (3) a threat to the very existence of the product or service offered by the plaintiff. *See supra* part II(D)(2).

[72] *INS*, 248 U.S. at 241.

[73] *See infra* part III(B) for a discussion of misappropriation doctrine as applied in the context of digital database markets.

[74] *See NBA*, 105 F.3d 841, 852 n.7(2d. Cir. 1997); *see also supra* note 9 and accompanying text.

[75] *NBA*, 105 F.3d at 853.

[76] 86 F.3d 1447 (7th Cir. 1996) [hereinafter "*ProCD*"]. *See NBA*, 105 F.3d at 849-50.

[77] *See ProCD,* 86 F.3d at 1449.

[78] The compilation was uncopyrightable because it was factual. *See supra* part III(B)(1).

[79] *See ProCD*, 86 F.3d at 1449-50.

[80] *See id*. at 1450.

[81] *See id*. at 1453.

[82] *See id*.

[83] *Id*. at 1454; *see also NBA*, 105 F.3d 841, 850 (2d. Cir. 1997).

[84] *See ProCD*, 86 F.3d at 1454-55. For "prudential" reasons, the court refrains from holding that *all* contracts survive preemption, but its analysis suggests no foreseeable instance in which a contract would not survive a preemption challenge. *See id*. at 1455.

[85] *INS*, 248 U.S. 215, 236 (1918).

[86] *Id*. at 239.

[87] The court does not discuss the possibility of preemption of misappropriation laws under the Supremacy Clause of the United States Constitution. On this issue, *see infra* part III(B)(5).

[88] 499 U.S. 340 (1991).

[89] As the Department of Commerce states, "A change in the law is desirable to protect commercial database developers from commercial misappropriation of their database products where other legal protections and remedies are inadequate." Letter from Andrew J. Pincus, General Counsel of the U.S. Dept. of Commerce, to Sen. Leahy (Aug. 4, 1998) (available at <http://www.acm.org/usacm/copyright/doj-s2291.html>) (discussing the Collections of Information Antipiracy Act).

[90] 248 U.S. 215 (1918).

[91] *Feist Publications*, 499 U.S. at 351-54 (explaining that most courts construed the 1909 Copyright Act to prohibit protection of facts).

[92] *See*, *Feist Publications*, 499 U.S. at 351-54 (most courts denied protection to facts, but some courts "misconstrued" the scope of Copyright protection); Leon v. Pacific Telephone & Telegraph, 91 F.2d 484 at 486 (9th Cir. 1937); Jeweler's Circular Publ'g Co. v. Keystone Publ'g Co., 281 F. 83, at 88-92 (2d. Cir. 1922). *See also* Pamela Samuelson, *Letter in Response to the Tyson/Sherry Report*, at part I (visited Jan. 18, 1999) <http://www.arl.org/info/frn/copy/psamlet/html> (arguing that the aberration lay in the "sweat of the brow" cases, not in Feist).

[93] *See* J.H. Reichman & Pamela Samuelson, *Intellectual Property Rights in Data?*, 50 VAND. L. REV. 51, 54-55, 72-73 (1997).

[94] 499 U.S. 340 (1991).

[95] *See id*. at 342-44.

[96] *See id*. at 345.

[97] *See* U.S. Const. art. 1, cl. 8; *Feist Publications*, 499 U.S. at 347-48.

[98] *See Feist Publications*, 499 U.S. at 348-51.

[99] *See* Samuelson, *supra* note 92, at part I (noting that contract, trademark, and unfair competition claims may still be available to database producers). In introducing the proposed database legislation discussed *infra* part III(B), Rep. Coble noted that *Feist* "marked a tougher attitude toward claims of copyright in data bases" and led to industry concern over free riders. Howard Coble, *The Introduction of the Collections on Information Antipiracy Act*, remarks before congress on H.R. 2652, 105th Cong. (as introduced on Oct. 9, 1997).

[100] Laura D'Andrea Tyson & Edward F. Sherry,*Statutory Protection for Databases; Economic & Public Policy Issues*, at part 2 <http://www.house.gov/judiciary/41118.html>.

[101] *Id*.

[102] *See id*. (Explaining that "it is now significantly easier for a user to copy large parts of an electronic database"); Reichman & Samuelson, *supra* note 93, at 67 (stating that "second comers can easily and cheaply copy or manipulate the contents of [electronic] databases and disseminate the resulting products to large numbers of people."); *cf*. 17 U.S.C. § 106(6) (1994) (extending copyright protection to transmission of digital sound recordings but not other types of sound recordings).

[103] *See* Reichman & Samuelson, *supra* note 93, at 67.

[104] *See id*. at 67, 137 (stating that "[C]ontract law has significant limitations when mass-marketed information products are sold to persons not in privity with the makers.").

[105] *See id*. at 137 (stating "[T]he need for some legal regime to avert market failure seems relatively clear. . .").

[106] H.R. 3531, 104th Cong. (1996). The main text of the bill at section 4 reads as follows:

> (a) No person shall, without the authorization of the database owner
>
> (1) extract, use or reuse all or a substantial part, qualitatively or quantitatively, of the contents of a database . . . in a manner that conflicts with the database owner's normal exploitation of the database or adversely affects the actual or potential market for the database;
>
> (2) engage . . . in the repeated or systematic extraction, use or reuse, of insubstantial parts . . . of the contents of a database . . . in a manner that cumulatively conflicts with the database owner's normal exploitation of the database or adversely affects the actual or potential market for the database; or
>
> (3) procure, direct or commission any act prohibited by subsections (i) or (ii).

[107] H.R. 2652, 105th Cong. (as introduced on Oct. 9, 1997). The main text of the bill reads as follows:

> Prohibition against misappropriation: Any person who extracts, or uses in commerce, all or a substantial part of a collection of information gathered, organized, or maintained by another person through the investment of substantial monetary or other resources, so as to harm the other person's actual or potential market for a product or service that incorporates that collection of information and is offered by that other person in commerce, shall be liable to that person for the remedies set forth in section 1206.

Id. at § 1201. The bill also provides for a number of use specific exemptions. *See id*. at § 1202.

[108] *See id*. at § 1 (explaining that the purpose of the bill is "to prevent the misappropriation of collections of information"); *see also* Coble, supra note 100 ("This bill differs dramatically from H.R. 3531 . . . . H.R. 3531 proposed to enact a new form of *sui generis* copyright protection for data bases. This bill is a minimalist approach grounded in unfair competition principles as a complement to copyright . . . .").

[109] *See, e.g*. Jonathan Band, Testimony on Behalf of the Online Banking Association on the Collections of Information Antipiracy Act, H.R. 2652 Before the Subcomm. on Courts and Intellectual Property of the House Comm. on the Judiciary, 105th Cong. (1998); Samuelson, *supra* note 92, at part V; Dr. Barbara Simons, Letter from Dr. Barbara Simons, U.S. Public Policy Chair, Association for Computing Machinery, to Rep. Howard Coble, Chairman, House Judiciary Subcommittee on Courts and Intellectual Property (visited Jan. 1999) <http://www1.acm.org:82/usacm/copyright/usacm-letter-hr2652.html>.

[110] H.R. 2652, *supra* note 108, at § 1202.

[111] *Id*.

[112] *See id*. at §§ 1203(c) (stating, "Nothing in this chapter shall restrict any person from extracting information . . . for the sole purpose of verifying the accuracy of information . . . ."), 1202(e) (stating, "Nothing in this chapter shall restrict any person from extracting . . . information for the sole purpose of news reporting.").

[113] H.R. 2652, 105th Cong. § 1201 (1997).

[114] *See, e.g*., John Perry Barlow, *The Economy of Ideas*, Wired 2.03 (last modified Mar. 1994) <http://www.wired.com:80/wired/archive/2.03/economy.ideas.html>.

[115] *See* H.R. 2652, 105th Cong. § 1201 (1997).

[116] *See INS*, 248 U.S. 215, 235-40 (1918).

[117] *See infra* Part III(B)(4) for an argument that use of NBA-generated information by Motorola and STATS was not a misappropriation for precisely this reason.

[118] *See* H.R. 2652, 105th Cong. § 1201 (1997).

[119] In introducing H.R. 2652, Representative Coble noted, "This new Federal protection is modeled in part on the Lanham Act. . . ." Coble, *supra* note 100.

[120] *INS*, 248 U.S. at 236.

[121] *Id*. at 241 (emphasis added).

[122] *Id*.

[123] We might define a "just" term more modernly as one which ensures a sufficient incentive to perform collection of the database - that is, one which enables a reasonable return on the database owner's investment.

[124] *See supra* Part III(A)(2) for criticism of the *NBA* court's approach to investment turnaround time in database markets.

[125] *See* H.R. 2652, 105th Cong. (1998) (passed by the House May 19, 1998).

[126] *See USACM Review of Pending Legislation*, (visited Jan. 1999) <http://www.acm.org/usacm/copyright>.

[127] *See* H.R. 2652, 105th Cong. § 1201(3) (1998) ("(3) Potential Market: The term `potential market' means any market that a person claiming protection under section 1202 has current and demonstrable plans to exploit or that is commonly exploited by persons offering similar products or services incorporating collections of information.").

[128] *See id*. at § 1208(c) ("Additional Limitation: No criminal or civil action shall be maintained under this chapter for the extraction or use of all or a substantial part of a collection of information that occurs more than 15 years after the investment of resources that qualified the portion of the collection of information for protection under this chapter that is extracted or used.").

[129] *Id*. at § 1201(3).

[130] *See* Pincus, *supra* note 89; *see also* William Michael Treanor, Deputy Assistant Attorney, U.S. Department of Justice, *Memorandum for William P. Marshall, Associate White House Counsel* (visited Jan. 1999) <http://www.acm.org/usacm/copyright/doj-hr2652-memo.html>.

[131] Pincus, *supra* note 89.

[132] *See supra* Part I.

[133] *See* Treanor, *supra* note 131.

[134] *See infra* Part III(B)(5).

[135] *See generally* Ronald Coase, *The Problem of Social Cost*, 3 J.L. & ECON. 1 (1960).

[136] *See supra* Part III(B)(2) and accompanying text, including notes.

[137] See, e.g., Tyson & Sherry, supra note 101.

[138] *Cf*. Pincus, *supra* note 89 (stating that "The administration believes that, given our limited understanding of the future digital environment and the evolving markets for information, it would be desirable for the bill to include a provision for an interagency review of the law's impact at periodic intervals following implementation of the law.")

[139] *See STATS*, 939 F. Supp. 1071, 1098 (S.D.N.Y. 1996) (explaining that unfair competition is dependent more on the facts as set forth than on technical requirements).

[140] That is, when it will not undermine the incentives of the database producer to invest in the database product.

[141] Recognizing these concerns, the Department of Commerce has suggested that H.R. 2652 be drafted to include a "periodic interagency review" provision. *See* Pincus, *supra* note 89. But periodic review may be insufficient - an inefficient and over broad regulatory scheme may have profound dilatory effects on the digital database market before an interagency review process can be completed.

[142] *See STATS*, 939 F. Supp. at 1080.

[143] *Cf. NBA*, 105 F.3d 841, 853-54 (2d. Cir. 1997) (finding that the pager product did not pose a threat to the existence of any NBA product market).

[144] *See STATS*, 939 F. Supp. at 1084-85.

[145] *See* 17 U.S.C. §§ 101, 201(b) (1998 supplement).

[146] Contrary to its contention in court, as of November 1998, the NBA still had not put any pager product on the market. *See STATS*, 939 F. Supp. at 1079-80 (the NBA intended to use Gamestats to produce or license a pager product in time for the 1996-97 basketball season).

[147] The form and content of such a statute has been suggested by at least one legal scholar. *See* Wendy Gordon, *On Owning Information: Intellectual Property and the Restitutionary Impulse*, 78 VAND. L. REV. 149, 221-266 (1992).

[148] *See infra* part III(A).

[149] *See* U.S. Const., art. I, § 8; Sears, Roebuck, & Co. v. Stiffel, 376 U.S. 225, 230-32 (1964); Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964).

[150] *See, e.g.*, Vault Corp. v. Quaid Software Ltd., 847 F.2d 255, 269-270 (5th Cir. 1988).

[151] As to the second possibility, Congress could, for example, define the rate of return on a database investment that is reasonable and assist in defining the process by which actual returns are calculated.

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