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IDEAS AND THE PUBLIC DOMAIN:
REVISITING *INS V. AP* IN THE INTERNET AGE

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The integration of the Internet into all aspects of society has led to the quick and widespread distribution of information in digital form. This digital information can be easily aggregated and redistributed by third parties. Such information aggregators can free ride on the work of others. For example, Google News collects links to news stories from other news outlets. Blogs, Facebook, Twitter and other social media also enable redistribution of news stories and other information. Newspapers, wire services and other news creators and providers have voiced concern that such free riding allows aggregators to benefit from the work of enterprises that create news media without having to pay any of the costs to obtain such news stories. It has been asserted that free riding is unfair and that it can economically injure or destroy such enterprises. These concerns are reminiscent of the 1918 Supreme Court decision in International News Service v. Associated Press, in which a news organization successfully enjoined a competitor from free riding on its efforts to obtain news stories. The underlying basis for the Court's decision was a federal common law action for misappropriation. Although a subsequent Supreme Court decision negated federal common law some states adopted the misappropriation doctrine from International News Service under state unfair competition law. This doctrine has been asserted with limited success but courts continue to hold that the doctrine is viable under appropriate facts. This Article will critically examine the

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International News Service decision and subsequent judicial decisions relying on the misappropriation doctrine. It will argue that International News Service has been misunderstood and misapplied; and, that courts should unequivocally repudiate the doctrine as inconsistent with property law. Additionally, the commonly asserted rationales for the doctrine—preventing free riding and ruinous competition—are not legitimate. Instead, any common law action to protect ideas or information should only succeed, if at all, under existing contract and tort causes of action.

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INTRODUCTION

The integration of the Internet into all aspects of society has led to the quick and widespread distribution of information in digital form. This digital information can be easily, quickly and inexpensively aggregated by third parties, who can then redistribute it.¹ Such information aggregators can free ride on the work of others. For example, to obtain current news anyone with an Internet connection can go directly to Google News,² which collects links to news stories from a significant number of news outlets. Specialized aggregators provide on-line

¹ See generally *Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys.*, 180 F.3d 1072, 1073-74 (9th Cir. 1999) (noting ease with which digital music can be distributed via Internet); Cynthia Counts & Amanda Martin, *Libel in Cyberspace: A Framework for Addressing Liability and Jurisdictional Issues in This New Frontier*, 59 ALB. L. REV. 1083, 1086-87 (1996) (Internet allows anyone to easily and inexpensively distribute information worldwide).

² See <http://news.google.com/> (last visited June 23, 2011). See also *Barclays Capital Inc. v. TheFlyonthewall.com, Inc.*, 650 F.3d 876 (2d Cir. 2011) (dispute involving company that aggregates and disseminates financial news and information of interest to investors via the Internet).

locations for news related to specific subject matter.³ Additionally, numerous blogs collect news stories created by others.⁴ Twitter accounts⁵ are also used to collect and distribute news stories created by a variety of sources. These accounts can be used to redistribute or retweet⁶ the same story via multiple feeds.⁷ Newspapers, wire services and other news creators and providers have voiced concern that such free riding allows news aggregators to benefit from the work of enterprises that create news media without having to pay any of the costs to obtain such news stories.⁸ It has been asserted that such free riding is both unfair and illegal. Moreover, it has been argued that it can economically injure or destroy such enterprises.⁹

Interestingly, such concern by entities that collect and provide news was raised in the distant past long before the Internet existed. In the 1918 Supreme Court decision *International News Service v. Associated Press*¹⁰ a news organization complained that a competitor was free riding on its efforts to obtain news stories. This allowed the competitor to gain the benefit of using news stories

³ See, e.g., GIGALAW.COM DAILY NEWS, <http://gigalaw.com/> (last visited Aug. 1, 2011) (provides Internet and technology law news clips compiled by attorney Doug Isenberg).

⁴ See, e.g., LEGAL NEWS, <http://www.lawprofessor.org/legalresources/legalnews.html> (last visited June 22, 2011) (list of links to various intellectual property related blogs).

⁵ Twitter is an online social networking site available at <http://twitter.com/> (last visited June 22, 2011).

⁶ See PC MAGAZINE ENCYCLOPEDIA for definition of “retweet,” available at http://www.pcmag.com/encyclopedia_term/0%2C2542%2Ct%3Dretweet&i%3D60366%2C00.a.sp (last visited June 22, 2011).

⁷ See, e.g., the author’s Twitter account—SuffolkIPLaw—which retweets news stories related to IP law and is available at <http://twitter.com/#!/SuffolkIPLaw> (last visited June 23, 2011).

⁸ See, e.g., Dan Frosch, *Enforcing Copyrights Online for a Profit*, N.Y. TIMES, May 3, 2011, at B1, available at <http://www.nytimes.com/2011/05/03/business/media/03righthaven.html?pagewanted=all>.

⁹ See, e.g., John C. Abell, *AP To Aggregators: We Will Sue You*, WIRED, Apr. 6, 2011, <http://www.wired.com/epicenter/2009/04/ap-to-aggregato/>. See also *Barclays Capital*, 650 F.3d at 880-81, 887-88 (financial services firms argued defendants free riding on recommendations contained in its research reports could severely limit its ability to continue to fund such research activities); *Associated Press v. All Headline News Corp.*, 608 F. Supp. 2d 454, 457-58 (S.D.N.Y. 2009) (news gathering organization alleged it had lost customers to a competing news organization that engaged in free riding by using news it gathered).

¹⁰ 248 U.S. 215 (1918). See generally L. Gordon Crovitz, *Hot News: Technology Trumps Law - Rapid innovation challenges long-established legal doctrines as well as business models*, WALL ST. J., June 27, 2011, available at <http://online.wsj.com/article/SB10001424052702304569504576405672792064908.html> (background information about case).

without having to incur the substantial costs to obtain such stories.¹¹ The Supreme Court upheld a lower court preliminary injunction prohibiting the competitor from free riding¹² because it believed a consequence of such activity could be ruinous competition that would destroy the incentive for any enterprise to expend the resources to gather news.¹³ The underlying basis for the Court's decision was a federal common law action for misappropriation.¹⁴

A subsequent Supreme Court decision negated federal common law, which effectively eliminated *International News Service* as a binding precedent.¹⁵ Nevertheless, some states adopted the misappropriation doctrine from *International News Service* under state unfair competition law.¹⁶ This misappropriation doctrine has been asserted with limited success in state courts¹⁷ and has appeared in some recent federal district court decisions applying state law.¹⁸ Although federal courts of appeals have reversed these recent district court decisions, they have found the cause of action to be potentially viable, even though unsuccessful in the cases before the court.¹⁹ Additionally, despite the fact that some courts have relied on preemption under copyright law to greatly reduce the scope of a misappropriation action, it has continued to survive.²⁰ Arguably, this is because the *International New Service* case raises some timeless and difficult issues. Namely, how to define property, whether free riding is permissible, and whether ruinous competition is legally actionable.

¹¹ *International News Service*, 248 U.S. at 238-40.

¹² *Id.* at 245-46.

¹³ *Id.* at 240-41.

¹⁴ Nat'l Basketball Ass'n v. Motorola, Inc., 105 F.3d 841, 845 (2d Cir. 1997); Barclays Capital Inc. v. TheFlyonthewall.com, Inc., 700 F. Supp. 2d 310, 331 (S.D.N.Y. 2010), *rev'd on other grounds*, 650 F.3d 876 (2d Cir. 2011).

¹⁵ 700 F. Supp. 2d 310 at 332. *See also Barclays Capital*, 650 F.3d at 894; *Associated Press*, 608 F. Supp. 2d at 459.

¹⁶ 700 F. Supp. 2d at 332. *See also Barclays Capital*, 650 F.3d at 895, 898-99; *Associated Press* 608 F. Supp. 2d at 459.

¹⁷ *See, e.g., Bd. of Trade of the City of Chicago v. Dow Jones & Co.*, 456 N.E.2d 84 (Ill. 1983). *See also Associated Press* 608 F. Supp. 2d at 458-61 (in response to motion to dismiss, court found misappropriation action valid cause of action under N.Y. law).

¹⁸ *See, e.g., Barclays Capital*, 700 F. Supp. 2d at 310 (narrow state misappropriation claim, not applicable to facts of this case, survives preemption by federal copyright law); Nat'l Basketball Ass'n v. Sports Team Analysis & Tracking Sys., 939 F. Supp. 1071 (S.D.N.Y. 1996), *rev'd in part & aff'd in part sub nom*, Nat'l Basketball Ass'n v. Motorola, Inc., 105 F.3d 841 (2d Cir. 1997) (misappropriation claim was a valid cause of action but not satisfied under facts of this case).

¹⁹ *Barclays Capital*, 650 F.3d at 878; *Motorola, Inc.*, 105 F.3d at 843.

²⁰ *See infra* notes 108-10 and accompanying text.

This Article will critically examine the *International News Service* decision and subsequent judicial decisions relying on the misappropriation doctrine. It will argue that the decision has been misinterpreted and misunderstood. Contrary to popular understanding, the Court in *International News Service* did not find that conventional property rights existed in news. The actionable wrongful conduct in the case was based on one party competing in a legally unfair manner.²¹ The finding that the conduct was legally unfair and subject to injunctive relief was based on two questionable rationales. First, the Court seemed disturbed that one party was free riding on the labor and investment of another party.²² Second, the Court was concerned that the free riding could cause ruinous competition that might result in no enterprise having the necessary economic incentive to enter the news gathering business.²³ The difficulty with these rationales is that free riding and ruinous competition are typically acceptable marketplace conduct in a free enterprise economic system. The encouragement of innovative and creative conduct and the resulting societal benefits require allowing free riding at least with regard to using mere ideas and information. Only when the free riding amounts to utilizing a concrete embodiment of the idea or information that qualifies for protection under intellectual property law does such free riding become actionable infringement. Although this may not always be fair, it represents the dominant utilitarian view of property²⁴ as opposed to a labor theory.²⁵ Under this utilitarian view a balance must be struck between extending rights in intellectual property in order to incentivize innovative and creative conduct, and limiting such rights to avoid impinging on marketplace competition.

Ruinous competition is likewise an unfortunate but necessary Darwinian aspect of marketplace competition. Societal changes and development of new technology frequently destroy the economic viability of previously successful business enterprises.²⁶ Attempting to limit such ruinous consequences of competition is problematic because it will typically protect the status quo at the expense of delaying the inevitable introduction of new ideas and technology into the marketplace. In light of this, any misappropriation action based simply on free riding or a potential to cause ruinous competition should be rejected as inconsistent with both existing property law and a competition-based economic system. Existing actions based on various tort doctrines provide adequate legal recourse

²¹ See *infra* note 63 and accompanying text.

²² See *infra* note 68 and accompanying text.

²³ See *infra* note 69 and accompanying text.

²⁴ See *infra* note 37 and accompanying text.

²⁵ See *infra* note 36 and accompanying text.

²⁶ See *infra* note 158 and accompanying text.

when competitive conduct enters the realm of deception or misrepresentation, or improperly interferes with or restrains competition.²⁷ Finally, contract law allows parties to voluntarily agree to protect ideas or information without affecting the rights of anyone not a party to the contract. Hence, elimination of the misappropriation doctrine leaves sufficient legal protection in place for idea and information creators to receive legal protection without overly interfering with the marketplace.

I

PROPERTY RIGHTS IN INTANGIBLES

The concept of possession and control permeates property law.²⁸ Property rights are established and/or identified via demonstrating possession of the thing sought to be treated as property.²⁹ This makes it difficult to apply traditional property law concepts to ideas, which are elusive things whose source can be difficult to ascertain. Moreover, ideas are difficult to define and hence difficult to control.³⁰ Attaching a property label to ideas is therefore in conflict with the concept of possession. Additionally, from a policy perspective it may be preferable for ideas to be treated as part of the public domain rather than allowing a person or entity to own an idea.

Judicial decisions examining property rights in ideas have considered the above policies and considerations. The California Supreme Court stated:

Generally speaking, ideas are as free as the air and as speech and the senses An idea is usually not regarded as property, because all sentient beings may conceive and evolve ideas throughout the gamut

²⁷ See, e.g., *infra* notes 172 & 179 and accompanying text.

²⁸ See generally Carol M. Rose, *Possession as the Origin of Property*, 52 U. CHI. L. REV. 73 (1985) (possession is origin of property under common law); JOSEPH SINGER, PROPERTY § 1.4.2.1, at 17-18 (3d ed. 2010) (discussing the important role of possession in determining ownership of property). HERBERT HOVENKAMP & SHELDON KURTZ, THE LAW OF PROPERTY § 1.2, at 2 (5th ed. 2001) (first possession of a wild animal creates ownership rights in the animal). *Id.* § 1.3, at 2 (a finder of lost property acquires rights to the property against all but the true owner). *Id.* §§ 4.2-4.3, at 54-56 (under the doctrine of adverse possession the possession of property under certain circumstances may lead to ownership of property which extinguishes the original owner's rights by operation of law).

²⁹ See *Mitchell v. Georgia & A. Ry. Co.*, 36 S.E. 971, 972 Ga. 1900) (“Possession is presumptive evidence of title.”). See also HOVENKAMP & KURTZ, *supra* note 28, at § 1.1, at 1.

³⁰ See generally PAUL GOLDSTEIN, COPYRIGHT, PATENT, TRADEMARK AND RELATED STATE DOCTRINES 18-19 (rev. 5th ed. 2004) (discussing how the intangible nature of information and ideas makes application of conventional property theory difficult).

of their powers of cerebration and because our concept of property implies something which may be owned and possessed to the exclusion of all other persons.³¹

Likewise, Justice Brandeis opined:

An essential element of individual property is the legal right to exclude others from enjoying it. If the property is private, the right of exclusion may be absolute; if the property is affected with a public interest, the right of exclusion is qualified. But the fact that a product of the mind has cost its producer money and labor, and has a value for which others are willing to pay, is not sufficient to ensure to it this legal attribute of property. The general rule of law is, that the noblest of human productions—knowledge, truths ascertained, conceptions, and ideas—become, after voluntary communication to others, free as the air to common use.³²

Nevertheless, ideas can often have significant value and hence create disputes. Assume Able proposes an idea to Company X about how to save money. Company X rejects the idea but Able subsequently discovers that Company X is using the idea. Does Able have a claim for compensation?³³ Assume Betty shares an idea with a television producer for a new reality show that involves a competition between fashion designers. The producer subsequently creates a reality show involving competing fashion designers, but the various details of the show are dissimilar to Betty's proposed show. Does Betty have a claim against the producer?³⁴

Despite the value of many ideas, a threshold issue is whether the law should attach a property label to mere ideas. The determination of whether this label

³¹ *Desny v. Wilder*, 299 P.2d 257, 265 (Cal. 1956) (the law generally does not grant authors property rights in ideas).

³² *International News Service*, 248 U.S. at 250 (Brandeis, J., dissenting).

³³ Such claims are typically referred to as idea submission claims. Joseph Sipur, *Are Ideas Really Free as the Air? Recent Developments in the Law of Ideas*, 51 IDEA 111, 112 (2011).

³⁴ See *Rodriguez v. Heidi Klum Co.*, 2008 U.S. Dist. LEXIS 80805, *6 (S.D.N.Y. Sept. 30, 2008) (plaintiffs, who developed an idea for a reality television show called *American Runway* which involved a competition among fashion designers, sued defendants who subsequently created the highly successful reality show *Project Runway*, which also involved competing fashion designers); *id.* at *14 (dismissing copyright claim and holding that the shows were not substantially similar); *id.* at *22-24. (finding state law misappropriation claim preempted by federal copyright law). See also Sipur, *supra* note 33, at 120-124 (discussing disputes involving other television shows).

should attach is significant because once something is designated property, a bundle of legally enforceable rights attach to it.³⁵ The determination would be easy if it was based on a labor theory.³⁶ However, U.S. law has typically relied on a utilitarian theory for designating property rights.³⁷ This theory is based on a policy determination of whether and when the property label should be attached to something.³⁸ Under federal intellectual property law, both statutory law and judicial decisions have attempted to draw a line between what is and what is not granted property status. In the area of trademark law property rights related to a novel and creative trademark only arise when a trademark is actually used in commerce to identify particular goods.³⁹ Copyright law bestows property rights on the expression of an idea but not on the underlying idea itself.⁴⁰ Likewise, patent

³⁵ See *Moore v. Regents of the Univ. of Cal.*, 793 P.2d 497, 509 (Cal. 1990) (Mosk, J., dissenting) (bundle of rights include right to possession, right to use, right to transfer and right to exclude others from property).

³⁶ See WILLIAM STOEBUCK & DALE WHITMAN, *THE LAW OF PROPERTY* §1.1, at 2 (3rd ed. 2000) (“[Under] labor theory . . . a person has a moral right to the ownership and control of things produced or acquired through his or her labor.”); Stephanie Gore, “*Eureka! But I filed too late. . .*”: *The Harm/Benefit Dichotomy of a First-to-File Patent System*, 1993 U. CHI. L. SCH. ROUNDTABLE 293, 299 (“[L]abor theory stems from the argument that people are entitled to hold, as property, whatever they produce by their own initiative, intelligence, and industry.”).

³⁷ See JESSE DUKEMINIER, ET AL., *PROPERTY* 50 (7th ed. 2010) (utilitarian theory is the dominant legal theory of property today); Abraham Bell & Gideon Parchomovsky, *A Theory of Property*, 90 CORNELL L. REV. 531, 542 (2005) (most scholars rely on utilitarian property theory). See also *International News Service*, 248 U.S. at 76 (Brandeis, J., dissenting) (“[T]he fact that a product of the mind has cost its producer money and labor, and has a value for which others are willing to pay, is not sufficient to ensure to it this legal attribute of property.”).

³⁸ See generally STOEBUCK & WHITMAN, *supra* note 36, at §1.1, at 2 (legal protection of private property promotes “the maximum fulfillment of human needs and aspirations”).

³⁹ *Blue Bell, Inc. v. Farah Manufacturing Co., Inc.*, 508 F.2d 1260, 1265 (5th Cir. 1975) (common law property rights do not arise upon conception of a trademark; a trademark must be used in commerce to identify specific goods for property rights to arise). See also 15 U.S.C. § 1051(a)(1) (an owner of a trademark can seek federal registration of the trademark only after it is used in commerce); *id.* § 1051(b) (federal law allows applications for federal registration to be filed before a trademark is used but such registration is not complete until the mark is actually used in commerce).

⁴⁰ See *Mazer v. Stein*, 347 U.S. 201, 217 (1954) (copyright protects expression of idea rather than idea itself); *Whelan Assocs., Inc. v. Jaslow Dental Lab., Inc.*, 797 F.2d 1222, 1234 (3d Cir. 1986) (“It is axiomatic that copyright does not protect ideas, but only expressions of ideas.”); *Herbert Rosenthal Jewelry Corp. v. Kalpakian*, 446 F.2d 738, 741 (9th Cir. 1971) (copyright protects the form of expression of an idea, but not the idea itself); *Melk v. Pennsylvania Medical Society*, 99 U.S.P.Q. 2d 1624, 1625 (E.D. PA., 2011). See also ROGER SCHECHTER & JOHN THOMAS, *INTELLECTUAL PROPERTY – THE LAW OF COPYRIGHTS, PATENTS AND TRADEMARKS* § 3.3, at 31-36 (2003); 17 U.S.C. § 102(b).

law does not grant property status to mere ideas.⁴¹ Patentable inventions must be useful in the sense that they represent an application of an idea that solves a problem or accomplishes some functional objective.⁴² The determination of precisely where to draw the line between intellectual property that is within the domain of federal patent and copyright law, and intellectual property that is outside of that domain is not always easy to ascertain.⁴³ Nevertheless, it is clear that mere ideas alone are outside the scope of federal intellectual property protection and therefore, at least under federal intellectual property law, mere ideas are not entitled to be labeled as property.

State common law, in contrast to federal intellectual property law, has provided protection for ideas even though such ideas were outside the domain of patent and copyright protection.⁴⁴ Typically, such results reflect notions of equity and fairness and are based on either contract law or unfair competition law.⁴⁵ In an idea submission case, the Supreme Court of Alaska stated:

The law pertaining to the protection of ideas must reconcile the public's interest in access to new ideas with the perceived injustice of

⁴¹ *Jennings v. Brenner*, 255 F. Supp. 410, 412 (D.D.C. 1966) (“[P]atent law does not permit patents on ideas but only on embodiments of ideas.”).

⁴² *Rubber-Tip Pencil Co. v. Howard*, 87 U.S. 498, 507 (1874) (“An idea of itself is not patentable, but a new device by which it may be made practically useful is.”). It is usually stated that patents protect embodiments of ideas but not mere ideas. *See Jennings* 255 F. Supp. at 412. *See generally* *Diamond v. Diehr*, 450 U.S. 175, 185 (1981) (an idea is not patentable); *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980) (“The laws of nature, physical phenomena, and abstract ideas have been held not patentable.”); *In re Fisher*, 421 F.3d 1365, 1371 (Fed. Cir. 2005) (basic scientific discovery useful only for engaging in further research not eligible for patent protection). Although all of these cases refer to utility patents, a design patent, likewise, does not protect mere ideas. A design patent applies to the non-functional ornamental appearance of a product as illustrated by drawings of the product contained in the design patent. *See generally* 35 U.S.C. § 171 (statutory requirements for a design patent). *See also* U.S. PATENT & TRADEMARK OFFICE WEBSITE at <http://www.uspto.gov/patents/resources/types/designapp.jsp#def> (last visited Aug. 1, 2011) (the definition of a design capable of being protected by a design patent).

⁴³ Judge Learned Hand, in *Peter Pan Fabrics, Inc. v. Martin Weiner Corp.*, 274 F.2d 487, 489 (2d Cir. 1960), noted the difficulty of drawing the line between the idea and the expression of the idea in copyright law. *See also* Robert A. McFarlane & Robert G. Litts, *Business Methods and Patentable Subject matter Following In Re Bilski: Is “Anything Under the Sun Made by Man” Really Patentable?*, 26 SANTA CLARA COMP. & HIGH TECH. L.J. 35, 36 (2010) (noting that courts have struggled for decades with regard to deciding which inventions are eligible for patent protection).

⁴⁴ *Reeves v. Alyeska Pipeline Serv. Co.*, 926 P.2d 1130, 1135 (Alaska 1996).

⁴⁵ *Id.*

permitting some to exploit commercially the ideas of others. . . . Creating a middle ground between no protection and the legal monopolies created by patent and copyright law, courts have protected ideas under a variety of contract and contract-like theories. These theories protect individuals who spend their time and energy developing ideas that may benefit others. It would be inequitable to prevent these individuals from obtaining legally enforceable compensation from those who voluntarily choose to benefit from the services of the "idea-person."⁴⁶

Some courts have recognized a cause of action for the use of ideas under a contract⁴⁷ or a property theory⁴⁸ only if the idea is both novel⁴⁹ and concrete.⁵⁰ Other courts have recognized a cause of action under contract theory without requiring the idea to be novel and concrete.⁵¹ Finally, a common law cause of action for idea misappropriation has been recognized as both a property⁵² action and a tort action.⁵³

⁴⁶ *Id.* (internal citations omitted).

⁴⁷ *Tate v. Scanlan Int'l, Inc.* 403 N.W.2d 666, 671 (Minn. Ct. App. 1987) (only novel and concrete ideas can be protected via express or implied contract).

⁴⁸ *See, e.g., Sellers v. Am. Broad. Co.*, 668 F.2d 1207, 1210 (11th Cir. 1982) (to succeed in an action for misappropriation of an idea, the idea must be both novel and concrete).

⁴⁹ *Tate*, 403 N.W.2d at 671 ("A novel idea is an original idea, something that is not already known or in use.").

⁵⁰ *Id.* at 672 ("Concreteness of an idea pertains to the requisite developmental stage of an idea when it is presented. An idea is a protectable property interest, if it is sufficiently developed to be ready for immediate use without additional embellishment. If an idea requires extensive investigation, research, and planning before it is ripe for implementation, it is not concrete.") (internal citations omitted).

⁵¹ *See, e.g., Reeves* 926 P.2d at 1141-42 (noting some courts require novel idea for contract claim but other courts do not require idea to be novel for contract claim). *See also Nadel v. Play-By-Play Toys & Novelties, Inc.*, 208 F.3d 368, 375-76 (2nd Cir. 2000) (an idea must be novel to be protected in a misappropriation action but a contract action can apply even if an idea is not novel).

⁵² *See, e.g., Nadel*, 208 F.3d at 378 (misappropriation under New York law is a property action).

⁵³ *See, e.g., Barclays Capital*, 700 F. Supp. 2d at 335 (misappropriation under New York law is tort action).

II

COMMON LAW MISAPPROPRIATION OF AN IDEA OR INFORMATION

A. *The Historical Source of the Misappropriation Doctrine*

The 1918 Supreme Court decision in *International News Service v. Associated Press*⁵⁴ is generally considered to be the source of the misappropriation action.⁵⁵ The meaning of the case however has engendered confusion and disagreement to this day.⁵⁶ On its most basic level the dispute involved two news services—International News Service and Associated Press—who competed in gathering and distributing news to newspapers.⁵⁷ The trial court preliminarily enjoined International News Service from using Associated Press news obtained via bribery and via inducing breach of agreements between the Associated Press and its member newspapers.⁵⁸ However, the trial court refused to preliminarily enjoin International News Service from using Associated Press news obtained from bulletins released to the public and from published newspapers containing Associated Press news items.⁵⁹ The Court of Appeals upheld the lower court’s injunction but remanded with directions to the district court to issue an injunction barring International News Service from using Associated Press news until it ceased to have commercial value as news.⁶⁰ The Supreme Court solely addressed the question of whether International News Service engaged in actionable conduct by taking Associated Press news from publicly available sources and using it as its own news.⁶¹ The Court noted that neither copyright nor conventional property law

⁵⁴ 248 U.S. 215 (1918).

⁵⁵ *Barclays Capital*, 700 F.Supp. 2d at 331. See also *Motorola, Inc.*, 105 F.3d at 845; *Chicago Board of Trade*, 456 N.E.2d at 88; *Mercury Record Productions, Inc. v. Econ. Consultants, Inc.*, 218 N.W. 2d 705, 709 (Wis. 1974).

⁵⁶ See, e.g., Richard A. Epstein, *The Protection of “Hot News”: Putting Balganesh’s “Enduring Myth” about International News Service v. Associated Press in Perspective*, 111 COLUM. L. REV. SIDEBAR 79 (2011) (generally favorable view of Supreme Court decision); Gary Myers, *The Restatement’s Rejection of the Misappropriation Tort: A Victory for the Public Domain*, 47 S.C. L. REV. 673 (1996) (arguing for elimination of misappropriation action relied on by Supreme Court). See also Shyamkrishna Balganesh, *“Hot News”: The Enduring Myth of Property in News*, 111 COLUM. L. REV. 419 (2011); Edmund J. Sease, *Misappropriation is Seventy-Five Years Old; Should We Bury it or Revive it?*, 70 N.D. L. REV. 781 (1994); Douglas G. Baird, *Common Law Intellectual Property and the Legacy of International News Service v. Associated Press*, 50 U. CHI. L. REV. 411 (1983).

⁵⁷ 248 U.S. at 230.

⁵⁸ *Id.* at 231.

⁵⁹ *Id.*

⁶⁰ *Id.* at 232.

⁶¹ *Id.*

protected the news at issue.⁶² Nevertheless, the Court affirmed the preliminary injunction on the basis of International News Service's conduct, which sounded in tort.⁶³

Consistent with the Court's view that news is not granted property status, the opinion labeled the news at issue as "quasi" property, which it defined as creating rights only between International News Service and Associated Press, as opposed to the public in general.⁶⁴ Such a definition unequivocally shows that the news at issue in the case was not viewed as property by the Court.⁶⁵ The use of the phrase "quasi property" was therefore used as a shorthand reference to indicate conventional property rights were not at issue in the case.⁶⁶ The real issue in the case was International News Service's marketplace conduct. Specifically, whether International News Service was competing fairly or unfairly with Associated Press.⁶⁷ The finding of unfair competition appears to be based on two rationales. First, International News Service engaged in free riding: Associated Press spent substantial resources acquiring the news and International News Service appropriated and sold that news as its own without incurring the substantial costs to obtain it.⁶⁸ Second, denying a cause of action would result in ruinous competition because it would become unprofitable for anyone to engage in the newsgathering and distribution business.⁶⁹ This concern has continued to exist. A recent case applying New York common law held that an element of a common law misappropriation action included a finding that "the ability of other parties to free-ride on the efforts of the plaintiff would so reduce the incentive to produce the product or service that its existence or quality would be substantially threatened."⁷⁰

⁶² *Id.* at 234-37.

⁶³ *Id.* at 240.

⁶⁴ *Id.* at 236.

⁶⁵ See Thomas Merrill, *Accession and Original Ownership*, 1 J. LEGAL ANALYSIS 459, 476 (2009) (property rights provide rights against everyone).

⁶⁶ The term "quasi", like the term "constructive", is used to indicate something is being presumed, even though not true, in order to allow a particular legal remedy. See *Halkin v. Hume*, 206 N.Y.S. 702, 702-04 (N.Y. Mun. Ct.1924). See also BLACK'S LAW DICTIONARY 1257 (7th ed. 1999) (definition of quasi); *Id.* at 309 (definition of constructive).

⁶⁷ 248 U.S. at 234-35.

⁶⁸ *Id.* at 239-40.

⁶⁹ *Id.* at 240-41.

⁷⁰ *Motorola, Inc.*, 105 F.3d at 852.

B. An Overview of Contemporary Application of the Misappropriation Doctrine

Misappropriation is often asserted in law suits alleging that a plaintiff's intangible property was taken by a third party without providing payment or obtaining permission.⁷¹ For example, the long running dispute between the Winklevoss brothers and Mark Zuckerberg is largely based on the assertion that Mr. Zuckerberg stole the brothers' idea for Facebook.com.⁷² Misappropriation is also typically referred to in judicial decisions and scholarly writing with regard to disputes over ideas or information. However, the prima facie elements of misappropriation are often not clearly delineated.⁷³ Sometimes it is used to refer to the business tort of passing off.⁷⁴ It may also be used as a synonym for unfair competition⁷⁵ or to refer to breach of an implied contractual relationship involving disclosure of an idea or information. Finally, it may represent a request for equitable relief when no specific cause of action is applicable.⁷⁶

⁷¹ See, e.g., *infra* note 208.

⁷² See generally *Facebook, Inc. v. ConnectU LLC*, 2007 U.S. Dist. LEXIS 91420 at *3 (D. CA. 2007) (“[T]he initial dispute . . . arose from ConnectU’s claim that Mark Zuckerberg, Facebook’s founder, originally agreed to assist ConnectU’s founders [the Winklevoss brothers and Divya Narendra] in developing their website and business, but that he instead misappropriated their intellectual property to establish Facebook.”). See also *ConnectU v. Zuckerberg*, 522 F.3d 82, 86 (1st Cir. 2008) (ConnectU founders alleged Mark Zuckerberg stole their idea, business plan and unfinished computer code). The case was ultimately settled, with Facebook paying cash and Facebook stock worth a total of \$65 million. Jonathan Stemple, *Winklevoss twins end appeal of Facebook settlement*, REUTERS, June 23, 2011, <http://www.reuters.com/article/2011/06/23/us-facebook-winklevoss-idUSTRE75L7NS20110623>.

⁷³ Sease, *supra* note 56, at 781 (“The [misappropriation] doctrine is so elusive that lower courts have had difficulty in even stating its elements.”). See generally Lisa Pearson, *Navigating the Bramble Bush in Idea Submission Cases*, 4 J. MARSHALL REV. INTELL. PROP. L. 36, 36-37 (2004) (noting state law protection for ideas is often unclear and inconsistent).

⁷⁴ *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 27 n. 1 (2003) (“Passing off (or palming off, as it is some called) occurs when a producer misrepresents his own goods or services as someone else’s.”)

⁷⁵ *Fairway Constructors, Inc. v. Ahern*, 970 P.2d 954, 956 (Ariz. Ct. App. 1998) (unfair competition “encompasses several tort theories, such as trademark infringement, false advertising, ‘palming off,’ and misappropriation”). See also *Indus. Indem. Co. v. Apple Computer*, 79 Cal. App. 4th 817, 831 (1999) (unfair competition includes passing off and trademark infringement). But see *A-Mark Financial Corp. v. CIGNA Property & Casualty Comp.*, 34 Cal. App. 4th 1179, 1188 (1995) (unfair competition usually refers to passing off).

⁷⁶ See, e.g., *International News Service*, 248 U.S. at 215; *Board of Trade of Chicago v. Dow Jones & Co., Inc.*, 439 N.E.2d 526 (Ill. App. Ct. 1982), *aff’d* 456 N.E.2d 84 (Ill. 1983). See also *Pierce O’Donnell & William Lockard, You Have No Idea*, 23 LOS ANGELES LAWYER 32, 34 (2000) (courts use idea protection law on a result-oriented basis to achieve justice).

In *Sellers v. ABC*,⁷⁷ the Court noted that a common law action existed for “misappropriation of an idea or theory if (1) the idea is novel; (2) the idea is in a concrete form; and (3) the defendant makes use of the idea.”⁷⁸ In *Mercury Records Products v. Economic Consultants*,⁷⁹ the Court stated that “[t]he elements of the misappropriation cause of action . . . are: (1) time, labor, and money expended in the creation of the thing misappropriated; (2) competition; and (3) commercial damage to the plaintiff.”⁸⁰ The Court in *Jaggon v. Rebel Rock Entertainment, Inc.*⁸¹ held that an action for misappropriation of an idea requires showing that (1) the idea was novel; (2) the idea was disclosed to the defendant in confidence; and (3) the defendant adopted and used the idea. Finally, in *NBA v. Motorola*,⁸² the Court held that a plaintiff could bring an action for misappropriation of time-sensitive information if: (1) the plaintiff incurs costs or expenses in generating or collecting the information; (2) the information has time-sensitive value; (3) defendant’s use of the information amounts to free riding on the plaintiff’s efforts to obtain the information; (4) the parties are in direct competition with regard to a particular product or service; and (5) the defendant’s free riding on plaintiff’s efforts would threaten the future production of the product or service by substantially reducing the incentive to engage in the business activity.⁸³

Despite judicial recognition that common law misappropriation actions exist to protect ideas and information,⁸⁴ such actions are generally unsuccessful.⁸⁵

⁷⁷ *Sellers*, 668 F.2d at 1210.

⁷⁸ *Id.* at 1210.

⁷⁹ 218 N.W.2d 705 (Wis. 1974).

⁸⁰ *Id.* at 709.

⁸¹ 2010 U.S. Dist. LEXIS 90685, at *7 (S.D. Fl. Aug. 31, 2010).

⁸² 105 F.3d 841 (2d Cir. 1997).

⁸³ *Id.* at 852.

⁸⁴ *Associated Press*, 608 F. Supp. 2d at 459; *see also* *Confold Pacific, Inc. v. Polaris Indus., Inc.*, 433 F.3d 952, 960 (7th Cir. 2006) (noting misappropriation claim probably still exists under Minnesota law); *Jaggon v. Rebel Rock Entertainment, Inc.*, 09-61144, 2010 U.S. Dist. LEXIS 90685, at *7 (S.D. Fl. 2010) (action for misappropriation of idea recognized under Florida law when idea novel, idea disclosed in confidence and idea used adopted/used by defendant); *Vent v. Mars Snackfood US, LLC*, 350 F. App’x. 533, 534 (2d Cir. 2009) (action for misappropriation of idea recognized under New Jersey law when idea novel, idea disclosed in confidence and idea used adopted/used by defendant); *Riordan v. H.J. Heinz Co.*, No. 08-1122, 2009 U.S. Dist. LEXIS 70713, at *14-15 (W.D. Pa. Dec. 8, 2009) (Pennsylvania law recognizes tort action for misappropriation of an idea when idea is novel, concrete and misappropriated by third party); *Kleck v. Bausch & Lomb, Inc.*, 145 F. Supp. 2d 819, 826 (W.D. Tex. 2000) (action for misappropriation of intellectual property can brought under Texas law for taking an idea if the idea is novel, disclosed in confidence to defendant and idea adopted/used by defendant).

⁸⁵ *See generally* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 38, cmt. c (1995).

Additionally, although the comments in the Restatement (third) of Unfair Competition suggest that the ongoing viability of a misappropriation action is questionable in light of its general lack of success and preemption by federal copyright law,⁸⁶ misappropriation actions continue to be brought by plaintiffs and have succeeded in a limited number of cases.⁸⁷

C. Continued Viability of Actions for Misappropriation of an Idea or Information

The misappropriation doctrine was recently asserted in *Barclays Capital v. TheFlyonthewall.com*,⁸⁸ which involved a modern scenario analogous to the facts in *International News Service*. In *Barclays Capital*, the defendant, an online subscription news service operating under the name TheFlyonthewall.com, aggregated and distributed a variety of information to financial investors via the Internet.⁸⁹ The information at issue was contained in equity research reports disseminated by plaintiffs, who are major financial institutions.⁹⁰ The plaintiffs widely disseminated electronic copies of these reports.⁹¹ However, the plaintiffs engaged in substantial efforts to restrict access to the reports to select clients and licensees.⁹² Additionally, the plaintiffs relied on modern technological measures to curtail unauthorized dissemination of the reports.⁹³ Despite such efforts, authorized parties released the reports, which were then redistributed by unauthorized third parties such as the defendant.⁹⁴

Defendant news service provided both copies of portions of the plaintiffs' equity research reports⁹⁵ and information extracted from those research reports in the form of recommendations contained in the reports.⁹⁶ The district court found that the defendant engaged in copyright infringement by copying portions of the

⁸⁶ *Id.* But see *Confold Pacific*, 433 F.3d at 960. (*International News Service* type of misappropriation claim not preempted); *Jaggon*, 2010 U.S. LEXIS 90685, at *7-8 (misappropriation of idea claim not preempted by federal copyright law).

⁸⁷ Interestingly it is enough of a concern that some commercial general liability policies include coverage for "misappropriation of advertising ideas or style of doing business." *Alea London Ltd. v. American Home Servs., Inc.*, 638 F.3d 768, 771 (11th Cir. 2011).

⁸⁸ 700 F.Supp. 2d 310 (S.D.N.Y. 2010). See generally Crovitz, *supra* note 10 (discussion of *International News Service* case and *TheFlyonthewall.com* case).

⁸⁹ *Barclays Capital*, 700 F.Supp. 2d at 313.

⁹⁰ *Id.* at 315-16.

⁹¹ *Id.* at 317-19.

⁹² *Id.* at 319-22.

⁹³ *Id.* at 320.

⁹⁴ *Id.* at 321.

⁹⁵ *Id.* at 328.

⁹⁶ *Id.* at 331.

reports⁹⁷ and issued a permanent injunction against similar future conduct.⁹⁸ However, the information extracted from the reports by the defendant in the form of recommendations was outside the domain of copyright protection, which typically does not protect ideas, facts or mere information. Nevertheless, the district court determined that the recommendations in the reports required the plaintiffs to expend substantial resources to produce them⁹⁹ and that the recommendations were very time sensitive.¹⁰⁰ The district court also determined that the plaintiffs and the defendant were in direct competition with regard to distribution of investment information.¹⁰¹ Finally, the district court found that the defendant's free riding¹⁰² would likely threaten the plaintiffs' ability to engage in their business activities.¹⁰³ In light of this, the district court held that the defendant had engaged in misappropriation of information.¹⁰⁴ The district court then enjoined the defendant from using the information for a limited time period in order to allow the plaintiffs to obtain an economic return on their investment in generating the information.¹⁰⁵

Although on appeal the Second Circuit reversed the lower court's conclusion that defendant was liable for misappropriation under state common law,¹⁰⁶ the Court appeared reluctant to totally eliminate the misappropriation doctrine. Although it narrowed the scope of the doctrine by holding that it was preempted by federal copyright law under the facts in this case,¹⁰⁷ the Court opined that the doctrine still existed and could apply under the appropriate facts.¹⁰⁸ This result is consistent with other judicial decisions that have generally concluded that some form of a state misappropriation action survives preemption¹⁰⁹ in light of the legislative history of the Copyright Act.¹¹⁰

⁹⁷ *Id.* at 328.

⁹⁸ *Id.* at 331.

⁹⁹ *Id.* at 335.

¹⁰⁰ *Id.* at 335-36.

¹⁰¹ *Id.* at 339-42.

¹⁰² *Id.* at 336-39.

¹⁰³ *Id.* at 341-43.

¹⁰⁴ *Id.* at 343.

¹⁰⁵ *Id.* at 347 (district court denied a motion to stay the injunction pending an appeal).

¹⁰⁶ *Id.* at 349.

¹⁰⁷ *Id.*

¹⁰⁸ *Id.* at 355-356. *See also Motorola, Inc.*, 105 F.3d 841, 850 (2d Cir. 1997) ("crucial question [in case], therefore, is the *breadth* of the 'hot-news' [misappropriation] claim that survives preemption.").

¹⁰⁹ *See, e.g., Agora Financial, LLC v. Samler*, 725 F. Supp. 2d 491, 496, 501 (D. Md. 2010) (misappropriation action equivalent to action in *International News Service* case not preempted

One of the few cases where the misappropriation action was successfully utilized under state law is the *Board of Trade v. Dow Jones*.¹¹¹ This case involved the Chicago Board of Trade, an exchange for trading commodity futures contracts.¹¹² The Board sought government approval to trade stock index futures contracts¹¹³ based on the Dow Jones stock index,¹¹⁴ which is a widely available numerical average of thirty industrial stocks that represented the stock market as a whole.¹¹⁵ The Board did not plan to use the Dow Jones name on the contracts. Additionally, the information used to compute the index was public knowledge disseminated by Dow Jones.¹¹⁶ However, Dow Jones objected to having their index associated with a stock index futures contract because they believed it could damage their image or reputation.¹¹⁷ The Board brought a declaratory judgment action seeking permission to sell the contract based on the Dow Jones index.¹¹⁸ The trial court determined that Dow Jones had a property right in its index but that the Board could use the index for its futures contract provided that each contract included a disclaimer indicating that Dow Jones was neither associated with nor sponsored the contracts.¹¹⁹ The Illinois Supreme Court,¹²⁰ reversing the trial court,

by copyright); *Jaggon*, 2010 U.S. Dist. LEXIS 90685, at *7-9 (copyright law does not preempt misappropriation action under Florida law); *Associated Press*, 608 F. Supp. 2d at 461 (misappropriation action under New York law not preempted by copyright law). *See also* *Montz. v. Pilgrim Films & Television, Inc.*, No. 08-56954, 2011 U.S. App. LEXIS 9099, at *11-17 (9th Cir. Dec. 16, 2010) (copyright, under California law, does not preempt an implied contract action for taking an idea).

¹¹⁰ *See* H.R. Rep. No. 94-1476 (1976) at 132, *reprinted in* 1976 U.S.C.C.A.N. at 5748 (“[m]isappropriation’ is not necessarily synonymous with copyright infringement, and thus a cause of action labeled as ‘misappropriation’ is not preempted if it is in fact based neither on a right within the general scope of copyright . . . 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* . . . or in the newer form of data updates from scientific, business, or financial data bases.”), *quoted in* 105 F.3d 841, 850 (2d Cir. 1997).

¹¹¹ 439 N.E.2d at 526.

¹¹² 439 N.E.2d at 528; *Chicago Board of Trade*, 456 N.E.2d at 85 (“A futures contract is a contract traded on a commodities exchange which binds the parties to a particular transaction at a specified future date.”).

¹¹³ *Chicago Board of Trade*, 456 N.E.2d at 84 (“A stock index futures contract is a futures contract based upon the value of a particular stock market index.”).

¹¹⁴ 439 N.E.2d at 529.

¹¹⁵ *Id.* at 528-29.

¹¹⁶ *Id.* at 529.

¹¹⁷ *Id.*

¹¹⁸ *Id.* at 530.

¹¹⁹ *Id.*

held that the sale of stock index futures contracts based on the Dow Jones index would be a misappropriation of Dow Jones intangible assets under Illinois common law. The Court reached this conclusion despite the lack of competition between the parties,¹²¹ the public dissemination of virtually all information about the index by Dow Jones, and the fact that the Board would not use the Dow Jones name on any contracts. Additionally, in contrast to *Barclays Capital*, the Court did not discuss copyright preemption. Ultimately, the Court's decision gave Dow Jones a property right in publicly disseminated information.¹²²

III

CRITICAL REVIEW OF THE MISAPPROPRIATION DOCTRINE

As previously discussed, although some federal judicial decisions have concluded that copyright law has preempted broad application of the state common law misappropriation doctrine, courts have generally concluded that some narrow cause of action survives¹²³ in light of the legislative history of the Copyright Act.¹²⁴ Although such judicial findings of preemption have significantly minimized successful assertion of the misappropriation doctrine in some jurisdictions, the doctrine should be eliminated for more fundamental reasons. Putting aside the preemption issue,¹²⁵ a misappropriation action based on *International News Service* is inconsistent with the fundamental concepts underlying property law.¹²⁶ Moreover, classic justifications for the doctrine, which include preventing free riding and ruinous competition, are simply inappropriate. Such justifications are

¹²⁰ *Chicago Board of Trade*, 456 N.E.2d at 84.

¹²¹ *Id.* at 90.

¹²² *Id.* at 93 (Simon, J., dissenting) (“Dow Jones has no more than an inchoate interest in the Board of Trade’s use of its index, but the majority’s opinion converts that interest into a property right.”).

¹²³ *Id.* at 84-85. See also *supra* note 109 and accompanying text.

¹²⁴ See *supra* note 110.

¹²⁵ A detailed discussion of the preemptive effect of the Copyright Act under 17 U.S.C. § 301 (2006) is beyond the scope of this Article. For a discussion of the preemption issue, see *Agora Financial*, 725 F. Supp. 2d at 494-502; see also *Montz*, 2011 U.S. App. LEXIS 9099, at *10-17 (discussion of preemption); *Jaggon*, 2010 U.S. Dist. LEXIS 90685, at *7-9 (overview of preemption).

¹²⁶ Although I am an advocate of strong property rights for both tangible and intangible property, such rights must be balanced against competing policies. See Andrew Beckerman-Rodau, *Are Ideas Within the Traditional Definition of Property: A Jurisprudential Analysis*, 47 ARK. L. REV. 603 (1994); see also Andrew Beckerman-Rodau, *Patents are Property: A Fundamental but Important Concept*, 4 J. BUS. & TECH. L. 87 (2009).

contrary to the legal goal of promoting marketplace competition¹²⁷ and an impediment to rapid integration of technology and other changes into society.

A. The Problem with the Property Rationale

The *International News Service* decision emphasizes that it is the competitive conduct of one of the parties—International News Service in that case—that is the source of liability. Additionally, as discussed above, the Court did not find that International News Service took property belonging to the Associated Press.¹²⁸ In light of this, the decision in *International News Service* is difficult to rationalize. The Court in that case made it clear that no one has property rights in news that is freely available to the public. The Court then proceeded to enjoin International News Service from using such publicly available news, which anyone should be free to use. The result is that International News Services' otherwise legal conduct was treated as unlawful.¹²⁹ This inconsistency may be the source of the decision being viewed, incorrectly, as finding a property right in the news and for creating a misappropriation doctrine based on unfairly using the property of a third party.¹³⁰

It is generally accepted that property rights do not arise in factual information, abstract ideas or newsworthy events.¹³¹ This is a policy-based determination premised, at least in part, on avoiding interference with the free flow of information that is necessary for a democratic society to flourish.¹³² Hence, applying the misappropriation doctrine to a news aggregator, for example, which merely collects and utilizes publicly available information should not by itself be

¹²⁷ See *International News Service*, 248 U.S. at 257-59 (Brandeis, J., dissenting). See also *Motorola, Inc.*, 105 F.3d 841, 845 (2d Cir. 1997) (free riding by competitor is element of misappropriation action).

¹²⁸ *International News Service*, 248 U.S. at 234-35 (decision turns on business conduct of parties not on property right in news).

¹²⁹ See generally *id.* at 258 (Brandeis, J., dissenting) (“[T]aking and gainful use of a product of another which, for reasons of public policy, the law has refused to endow with the attributes of property, does not become unlawful because the product happens to have been taken from a rival and is used in competition with him.”).

¹³⁰ See generally Balganesch, *supra* note 56, at 422-26 (arguing misappropriation doctrine has been incorrectly used to argue for property rights in news).

¹³¹ See generally *International News Service*, 248 U.S. at 250 (Brandeis, J., dissenting) (“The general rule of law is, that the noblest of human productions – knowledge, truths ascertained, conceptions, and ideas – become after voluntary communication to others, free as the air to common use.”).

¹³² See generally *United States v. Carrier*, 672 F.2d 300, 305 (2d Cir. 1983) (holding free dissemination of ideas essential element of democracy).

actionable.¹³³ The non-property status of publicly available facts and information makes them free for anyone to use without identifying their source. Holding someone liable for using such information is an extreme example of bootstrapping; refusal to apply a legal property designation to something in the public domain means it is free for anyone to use. It should not be actionable conduct to misappropriate or use something that is free for anyone to use, and failure to provide attribution of the source of such public information should be irrelevant because the source or creator of the information is not permitted to assert property rights in the information.

Property rights in general are never absolute.¹³⁴ Such rights are typically granted based on a utilitarian theory¹³⁵—rather than a labor theory¹³⁶—which balances competing interests. Although assigning property rights to the result of productive activity is generally desirable because it facilitates a marketplace economy by providing economic incentives to engage in such activity, important countervailing concerns militate against granting such rights for pure information. First, control of information and ideas is abhorrent to a free society.¹³⁷ And thus, despite substantial efforts to generate, collect, control or disseminate information and ideas, the granting of any property rights in such information should be outweighed by the potential for such rights to negatively impact a free society.¹³⁸ This concept is strongly embedded in intellectual property law.¹³⁹ In the seminal case of *Feist Publications v. Rural Telephone*, Justice O'Connor stated:

¹³³ Of course, if the aggregator copies, for example, news stories verbatim that violates copyright law because the form of expression is being copied. Copyright law protects the form of expression even though it does not protect the underlying idea or information that is communicated. *See, e.g., supra* note 34. *See also* 17 U.S.C. § 102(b).

¹³⁴ *See* *United States v. 16.92 Acres of Land*, 670 F.2d 1369, 1373 (7th Cir. 1982) (finding it “axiomatic that property rights are not absolute”). *See also* *United States v. Taylor*, 8 F.3d 1074, 1077 (6th Cir. 1993) (real property owner does not have absolute right to bar government from entering the property).

¹³⁵ *See supra* note 37.

¹³⁶ *See supra* note 36.

¹³⁷ *See generally* *Konigsberg v. State Bar of Cal.*, 366 U.S. 36, 63 (1961) (Black, J., dissenting) (“[a] primary purpose of the First Amendment was to insure that all ideas would be allowed to enter the ‘competition of the market.’”); *Detroit Free Press v. Ashcroft*, 303 F.3d 681, 683 (6th Cir. 2002) (“Democracies die behind closed doors.”).

¹³⁸ *But see* *Agora Financial*, 725 F. Supp. at 495 (noting that premise of misappropriation doctrine was to protect the labor required to discover, gather and produce intellectual property).

¹³⁹ *See supra* notes 40-42 and accompanying text.

The primary objective of copyright is not to reward the labor of authors, but "[t]o promote the Progress of Science and useful Arts." To this end, copyright assures authors the right to their original expression, but encourages others to build freely upon the ideas and information conveyed by a work. This principle, known as the idea/expression or fact/expression dichotomy, applies to all works of authorship. As applied to a factual compilation, assuming the absence of original written expression, only the compiler's selection and arrangement may be protected; the raw facts may be copied at will. This result is neither unfair nor unfortunate. It is the means by which copyright advances the progress of science and art.¹⁴⁰

Moreover, the Supreme Court has held that abstract ideas and discoveries of new, naturally occurring minerals or plants and laws of nature, no matter how useful and important, are not eligible for patent law protection.¹⁴¹

Second, allowing property rights to attach to information and ideas placed in the public domain is contrary to the basic concept of common law property rights. Property rights typically require the owner to maintain control over property by demonstrating possession.¹⁴² Failure to maintain such control can result in the loss of property rights via operation of law.¹⁴³ Placing ideas or information into the public domain clearly amounts to surrendering virtually all control over such ideas and information. Hence, it would be inconsistent with the fundamental concept of property law to allow someone to claim property rights in something he or she voluntarily relinquishes all control over. It is for these reasons, among others, that statutory bodies of intellectual property law specifically allow¹⁴⁴—and in some

¹⁴⁰ *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 349-50 (1991) (internal citations omitted). *See also id.* at 352-53 (expressly rejecting copyright protection under the "sweat of the brow" theory, which was based on the labor or efforts expended by someone to compile information).

¹⁴¹ *Chakrabarty*, 447 U.S. at 309. *See also* *Bilski et al. v. Kappos*, 130 S. Ct. 3218 (2010).

¹⁴² *See generally* JOSEPH SINGER, INTRODUCTION TO PROPERTY § 2.1 at 24 (2d ed. 2005) (possessor of property presumed to be true owner of the property); HOVENKAMP & KURTZ, *supra* note 28, at § 1.1 at 1 (possession very important factor in determining property ownership).

¹⁴³ For example, a non-owner can acquire property rights in another person's property by maintaining exclusive possession of the property for a statutorily prescribed period under the doctrine of adverse possession. STOEBUCK & WHITMAN, *supra* note 35, at § 11.7 at 853-60.

¹⁴⁴ An inventor does not lose his or her right to file a U.S. patent application as a consequence of publicly disclosing the invention provided the application is filed within one year of placing the invention in the public domain. 35 U.S.C. § 102(b) (1999). Works protected by copyright law likewise do not forfeit copyright protection due to public disclosure. Copyright law provides that the copyright owner has the option, but is not required, to place a copyright

circumstances require¹⁴⁵—the release of certain information into the public domain without the resultant loss of all property rights in the information. Such legislative enactments reflect careful balances of the competing interests and are subject to legislative revision in light of changes in society and technology. Therefore, creating such rights in intangibles should be left to the legislative branch, rather than by the courts pursuant to common law property rights.¹⁴⁶

B. Free Riding

Preventing a commercial enterprise from free riding on the investment of time and money made by a competitor is a rationale asserted by *International News Service*¹⁴⁷ and some subsequent cases analyzing the misappropriation doctrine.¹⁴⁸ Legally prohibiting free riding is facially appealing because it comports with notions of fairness. However, by itself, it is generally an illegitimate legal rationale for rendering commercial conduct illegal. An economic system based on free competition will always have a certain degree of free riding. A company that introduces a new, successful product will inevitably engender competitors. For example, assume that I am the first person to successfully sell bottled water, and that others understandably begin selling water as well. In response, I might open my retail store 24 hours a day to increase sales. If my strategy is shown to work, it is likely some competitors will adopt the same approach.¹⁴⁹ Similarly, if I sell a new product which turns out to have significant market penetration, it is likely that competing companies will develop and sell similar products once it is shown a lucrative market for that class of products exists. If I introduce a new style or

notice on publicly distributed copies of the work. 17 U.S.C. § 401(a) (2010). Placing the notice on the work informs the public of the copyright and maximizes the availability of damages. *Id.* § 401(d).

¹⁴⁵ Under U.S. Patent law an inventor must disclose how to make and use his or her invention in a utility patent application. *See* 35 U.S.C. § 112(a) (1999). Most utility patent applications are made publicly available eighteen months after filing and issued patents are made publicly available upon issuance. *Id.* §122(b)(1)(A).

¹⁴⁶ *See generally International News Service*, 248 U.S. at 264-67 (Brandeis, J., dissenting) (legislature better equipped than courts to engage in fact finding, examining public policy issues, trying to avoid unintended consequences, and crafting appropriate laws to protect the news).

¹⁴⁷ *International News Service*, 248 U.S. at 239-40.

¹⁴⁸ *See, e.g., Motorola, Inc.*, 105 F.3d 841, 852 (2d Cir. 1997) (free riding element of state common law misappropriation action).

¹⁴⁹ Competitors can generally copy the ideas of others without legal recourse because ideas are typically not protected by intellectual property law. *See generally supra* notes 40-42 and accompanying text (noting that neither patent nor copyright law protect mere ideas).

design of clothing that is successful others will copy and market similar designs.¹⁵⁰ Generic and lower priced versions of products frequently compete in the marketplace with well-known or established brands.¹⁵¹ If I open a restaurant adjacent to a newly opened luxury mall I may free ride on the increase in consumer traffic generated by the mall. Typically, all of these activities, without more, are considered legitimate competition.¹⁵²

Developing a new business method or introducing a new product is neither easy nor inexpensive to accomplish. Consequently, it can be significantly less costly to create and sell products once someone else has determined a market exists or via marketing/advertising has created a new market.¹⁵³ Such free riding is simply an aspect of competition that is often desirable for a variety of reasons. Allowing a first market entrant to block any of the above free riding by competitors may tend to preserve the status quo in the marketplace. This can have the undesirable effect of stifling innovation and creativity. Competition leads to competitors attempting to gain market share by utilizing efficiencies to lower production costs, by providing better customer service than competitors and by creating strong consumer-recognized brands.¹⁵⁴ It also encourages competitors to improve existing

¹⁵⁰ This type of free riding has been one of the underlying rationales for proponents of pending federal legislation to protect fashion design. See J.L. Jackson, *Some Designers Say Their Work Deserves Copyright Protection; Others Say It Would Harm the Industry*, ABA JOURNAL, July 1, 2011, available at http://www.abajournal.com/magazine/article/the_genuine_article/.

¹⁵¹ See generally Ruth La Ferla, *Faster Fashion, Cheaper Chic*, N.Y. TIMES, May 10, 2007, available at http://www.nytimes.com/2007/05/10/fashion/10FOREVER.html?pagewanted=1&8dpc&_r=1 (discussion of allegations that clothing chain Forever 21 competes by copying clothing designs created by others).

¹⁵² Additionally, free riding is both commonplace and acceptable—at least to some extent—in artistic endeavors, see, e.g., Lindsay Warren Bowen, Jr., *Givings and the Next Copyright Deferment*, 77 FORDHAM L. REV. 809, 825 (2008) (“Many judges and scholars agree that all writers and artists build on the works of others to some extent, and that this is a permissible appropriation of ideas and expressions from the public domain.”). Music is generally categorized into types such as rock, jazz, blues, etc. If I were the first person to develop rap music, others would be free to copy that style of music since general categories or types of music is beyond the scope of copyright law. The same applies to literature and innovation. Patent law effectively recognizes and encourages free riding by permitting inventors to obtain patents on improvements of preexisting inventions invented by another party. 35 U.S.C. § 101 (1999).

¹⁵³ See *Cheney Bros. v. Doris Silk Corp.*, 35 F.2d 279, 279-80 (2d Cir. 1929) (plaintiff, who produced new silk patterns every season of which only about 20% were successful, asserted that defendant engaged in free riding by only copying patterns that were successful and gained an economic advantage by avoiding the cost of producing unsuccessful designs).

¹⁵⁴ Trademark law can be utilized to protect branding efforts because almost anything that creates an association between a particular product and a provider of that product is potentially

products in order to capture a larger market share and perhaps charge a premium price for at least a limited time period.¹⁵⁵ Moreover, maintaining the status quo can interfere with the integration of technology into the marketplace. In contrast, free riding forces market participants to embrace new technology in order to maintain an edge on competitors in the quest to provide better products and services while minimizing costs.

C. *Ruinous Competition*

The avoidance of ruinous competition, another rationale asserted in *International News Service*,¹⁵⁶ would seem to be an admirable goal; however, it is inconsistent with normal economic development and integration of technology into society. It is an unfortunate fact of business that many enterprises will fail due to marketplace competition.¹⁵⁷ Attempting to insulate a business from such market forces via an action for misappropriation asserted against a competitor interferes with the natural evolution of enterprises in the marketplace.

Additionally, concerns about ruinous competition are often based on erroneous beliefs or reflect an underestimation of the ability of enterprises to adapt to changes. For example, in *International News Service* the Court appeared to believe that allowing a news service to free ride on the news gathering activities of a competitor would result in no enterprise engaging in such activities.¹⁵⁸ The Court asserted that it would be too costly to compete and make a profit in light of free riding by competitors.¹⁵⁹ This is not a new argument. In *Ghen v. Rich*¹⁶⁰ the Court opted to adopt the prevailing custom in the whaling industry. The custom provided

registrable as a trademark under federal trademark law. See 15 U.S.C. § 1127 (definition of trademark). In *Qualitex Co. v. Jacobson Prods. Co.*, the Supreme Court held that the color of a product could be registered as a trademark. 514 U.S. 159, 161-62 (1995). The court further noted that the U.S. Patent and Trademark Office has registered shapes, sounds and scents as trademarks. *Id.* at 162.

¹⁵⁵ See *supra* note 153.

¹⁵⁶ 248 U.S. at 240-41. Some subsequent lower court decisions have made ruinous competition an element of a state common law misappropriation action. See, e.g., *Barclays Capital*, 650 F.3d at 896. . . (“The adoption of new technology that injures or destroys present business models is commonplace.”); *Motorola, Inc.*, 105 F.3d at 852 (“[E]lements central to an *INS* claim . . . [include] the ability of other parties to free-ride on the efforts of the plaintiff would so reduce the incentive to produce the product or service that its existence or quality would be substantially threatened.”).

¹⁵⁷ See, e.g., *Barclays Capital*, 650 F.3d at 896.

¹⁵⁸ See *International News Service*, 248 U.S. at 240-41.

¹⁵⁹ *Id.*

¹⁶⁰ 8 F. 159 (D. Ma. 1881).

that harpooning a whale made it your property even if the whale became submerged and floated away.¹⁶¹ If someone found the whale washed up on a remote beach the finder did not acquire ownership of the whale. The Court feared that failure to adopt this custom as the common law would have a significant negative effect on the local economy.¹⁶² The ruinous competition argument has also been asserted today in response to news aggregators who rely on the Internet to engage in a modern version of what occurred in *International News Service*.¹⁶³ Such aggregators can easily and quickly access news stories on-line, extract the relevant news and then redistribute it for minimal cost. Newspapers and other news entities that expend substantial money and effort initially collecting the news argue that they are unable to operate profitably due to such free riding by aggregators.¹⁶⁴ Even if such an argument is true, typically all existing business enterprises are subject to marketplace changes due to technology advances and numerous other factors. Businesses must either develop new business strategies to survive or they will be replaced by new enterprises. Such new strategies may include utilizing technology to counteract the consequences of free riding by competitors, providing new value-added services¹⁶⁵ or abandoning an existing business model.¹⁶⁶

¹⁶¹ *Id.* at 159.

¹⁶² *Id.* at 162 (“Unless [the custom] . . . is sustained, this branch of industry must necessarily cease, for no person would engage in it if the fruits of his labor could be appropriated by any chance finder.”).

¹⁶³ See Frosch, *supra* note 8. See generally Brian Westley, *How a Narrow Application of “Hot News” Misappropriation Can Save Journalism*, 60 AM. U. L. REV. 691, 729-30 (2011) (arguing that free riding is imperiling traditional daily newspapers).

¹⁶⁴ See Frosch, *supra* note 8. See also *Associated Press*, 608 F. Supp. 2d at 457-58.

¹⁶⁵ The Westlaw and LEXISNEXIS on-line legal database services exemplify the provision of useful value-added services: Both databases primarily charge for access to data even though much of the data is currently available on-line for free from other websites; however, both services continue to thrive because they offer value-added services in the form of efficient search engines and various other aggregation services that allow users to find relevant information more quickly and easily than on free access websites.

¹⁶⁶ For example, the Western Union Company started as a telegraph company in the 1800s and for a long time their primary business was delivering telegrams, but they ultimately abandoned that business model and today primarily engage in the transfer of money around the world. See WESTERN UNION HISTORY, <http://corporate.westernunion.com/history.html> (last visited Aug. 15, 2011); Robert Siegel, *Western Union Sends its Last Telegram*, NPR, Feb. 2, 2006, available at <http://www.npr.org/templates/story/story.php?storyId=5186113> (Western Union’s telegram business eliminated by other technology such as telephone, fax, email and instant messaging).

Frequently, assertions that the activities of competitors, or others, will ruin a business enterprise reflect an attempt to maintain the status quo in the face of significant market disruptions. It is such disruptions, often the result of advancing technology, that are the real cause of the economic destruction of a business because the status quo may no longer represent a viable business model. This is exemplified by the music industry, whose existing business model has been economically devastated by the advent of technology that enables almost anyone to inexpensively copy and widely distribute music in digital form.¹⁶⁷ Conventional print media, such as newspapers, have also been heavily impacted by the migration of news and other information to the Internet.¹⁶⁸ Likewise, wide adoption of smart phones means more consumers are accessing and reading news in digital form on a smart phone or other device in lieu of print media.¹⁶⁹ Nevertheless, business enterprises of some type will continue to make both music and news media available. How such enterprises are structured and what revenue sources they will rely on will undoubtedly change in unexpected ways.¹⁷⁰

Consequently, justifying a misappropriation action based on a property rationale or the prevention of free riding or ruinous competition is problematic. Such an action will merely interfere with and delay the inevitable marketplace changes that result from changes in society and introduction of rapidly changing technology.

¹⁶⁷ See Eric Pfanner, *Music Industry Counts the Cost of Piracy*, N.Y. TIMES, Jan. 21, 2010, available at <http://www.nytimes.com/2010/01/22/business/global/22music.html>. See generally OECD REPORT ON DIGITAL MUSIC: OPPORTUNITIES AND CHALLENGES (Dec. 13, 2005), available at http://www.oecd.org/document/46/0,3746,en_2649_34223_34994926_1_1_1_1,00.html (delivery of music via Internet is disruptive technology for music industry). See also Jared Welsh, *Pay What You Like - No, Really: Why Copyright Law Should Make Digital Music Free for Noncommercial Uses*, 58 EMORY L.J. 1495, 1512-13 (2009) (discussing technological advances that have negatively affected the music industry).

¹⁶⁸ See, e.g., *The Decline of the Newspaper Business*, THE MOTLEY FOOL BLOG, Aug. 3, 2011, <http://www.fool.co.uk/news/investing/2011/08/03/the-decline-of-the-newspaper-business.aspx>. See also *How Newspapers are Faring*, THE ECONOMIST, July 7, 2011, available at <http://www.economist.com/node/18904190>.

¹⁶⁹ See generally IDC *Estimates 50% Growth in Worldwide Smartphone Market in 2011*, MOBILE MARKETING WATCH, Mar. 29, 2011, <http://www.mobilemarketingwatch.com/idc-estimates-50-growth-in-worldwide-smartphone-market-in-2011-14227/> (noting substantial growth in sales of smartphones).

¹⁷⁰ See generally David Ratner, *Music 2.0 – The Future of Delivering Music Digitally*, 4 U. DENV. SPORTS & ENT. LAW J. 136 (2008) (music industry must transform its business model to remain viable); Henry Perritt, *New Architectures for Music: Law Should Get Out of the Way*, 29 HASTINGS COMM. & ENT. L.J. 259 (2007) (discussing new business models for music industry).

IV RELIANCE ON EXISTING TORT AND CONTRACT THEORIES

Despite the positive aspects of free competition, some limits must exist to create an orderly marketplace. Elimination of a misappropriation action does not leave competitors powerless. Certain types of activities that restrain trade may run afoul of antitrust law.¹⁷¹ Moreover, a property theory—via an infringement action—can be relied on to bar interference with unauthorized use of intellectual assets that are designated property. These would include assets protected via patent law,¹⁷² copyright law,¹⁷³ trade secrets law¹⁷⁴ and trademark law.¹⁷⁵ Other statutory and common law actions focus on marketplace conduct that is generally deemed objectionable. Such actions, which come under the generic umbrella of unfair competition,¹⁷⁶ are ultimately based on an underlying tort theory and include a constellation of actions such as injuring consumers or competitors via passing off,¹⁷⁷ deception, misrepresentation or false advertising.¹⁷⁸ All of these actions reflect an underlying policy of societal disapproval of misleading or deceptive marketplace conduct, or a breach of trust among parties. Finally, parties should be free to enter private contractual agreements as deemed necessary provided they do not restrain trade via collusion or unreasonably interfere with competition.

¹⁷¹ 15 U.S.C. §§ 1-2 (2004) (Federal antitrust law under the Sherman Act prohibits agreements that restrain interstate commerce and conduct that improperly monopolizes interstate commerce).

¹⁷² 35 U.S.C. §§ 1-376 (1999).

¹⁷³ 17 U.S.C. §§ 101-1332 (2010).

¹⁷⁴ UNIFORM TRADE SECRETS ACT §§ 1-12 (1985), *available at* <http://www.law.upenn.edu/bll/archives/ulc/fnact99/1980s/utsa85.htm> (enacted by 45 states and the District of Columbia, Puerto Rico, and U.S. Virgin Islands).

¹⁷⁵ 15 U.S.C. §§ 1051-1141 (2002).

¹⁷⁶ Unfair competition is defined as “dishonest or fraudulent rivalry in trade and commerce.” BLACK’S LAW DICTIONARY 1529 (7th Ed. 1999). *See also* PAUL GOLDSTEIN & R. ANTHONY REESE, COPYRIGHT, PATENT, TRADEMARK AND RELATED STATE DOCTRINES 65 (6th ed. 2008) (“[S]tate unfair competition law embraces a continuum of deceptive conduct.”).

¹⁷⁷ *See, e.g., Dastar*, 539 U.S. at 27 n.1.

¹⁷⁸ *See, e.g.,* 15 U.S.C. § 1125(a) (federal unfair competition action); *Dallas Aerospace, Inc. v. CIS Air Corp.*, 352 F.3d 775, 778 (2d Cir. 2003) (Under New York law “the elements of negligent misrepresentation are: (1) carelessness in imparting words; (2) upon which others were expected to rely; (3) and upon which they did act or failed to act; (4) to their damage. . . . [and] that (5) the declarant must express the words directly, with knowledge or notice that they will be acted upon, to one to whom the declarant is bound by some relation or duty of care.”).

Nevertheless, reliance on contract-based theories to protect information and ideas has received inconsistent and confusing judicial treatment.¹⁷⁹

Judicial decisions deciding idea protection cases under contract law theories can generally be divided into two broad categories. One group of decisions adopts a freedom of contract rationale. This reflects a belief that the contracting parties are in the best position to determine whether to enter the agreement,¹⁸⁰ and that courts should not second-guess the informed decisions made by the agreeing parties. The second group of decisions relies on a property rationale. This reflects a belief that a contractual agreement that purports to sell or transfer an interest in something not legally recognized as property is essentially lacking in consideration.¹⁸¹ And therefore, the agreement should not be enforceable under conventional contract law principles.¹⁸²

In *Tate v. Scanlan International, Inc.*,¹⁸³ an operating room nurse thought up a simple medical device that could be used to minimize breakage of a particular type of suture material used in surgery.¹⁸⁴ She disclosed her idea on a confidential basis to a company that designed and sold surgical supplies upon the mutual understanding that she would be compensated if the company utilized her idea.¹⁸⁵ The idea was eventually profitably marketed and sold but a dispute arose as to the amount of payment owed to the nurse. The trial court jury awarded the nurse substantial damages based on a contract theory.¹⁸⁶ On appeal the Court upheld the damage award based on a breach of contract. However, the Court held that an idea could only be the subject of a contract, or other legal protection, if it was both novel and concrete.¹⁸⁷ The novel requirement is satisfied if the idea originates with

¹⁷⁹ See generally *supra* note 20. See also David M. McGovern, *What is Your Pitch?: Idea Protection is Nothing but Curveballs*, 15 LOY. L.A. ENT. L.J. 475 (1995) (discussing differing judicial approaches to common law protection of ideas under contract and other theories).

¹⁸⁰ See generally *Reeves*, 926 P.2d at 1142 (contracting parties should be free to decide whether to contract for idea without regard to whether idea novel or original).

¹⁸¹ *Wrench LLC v. Taco Bell Corp.*, 256 F.3d 446, 461 (6th Cir. 2001).

¹⁸² See generally GOLDSTEIN & REESE *supra* note 176, at 57 (idea submitters generally lose disputes when court invokes property rationale).

¹⁸³ 403 N.W.2d 666 (Minn. Ct. App. 1987).

¹⁸⁴ *Id.* at 669.

¹⁸⁵ *Id.*

¹⁸⁶ *Id.* at 670 (\$520,313 for past and future damages).

¹⁸⁷ *Id.* at 671. Likewise, in *Sellers*, 668 F.2d at 1210, the court stated that under New York law, recovery for misappropriation of an idea was only permissible if the idea was both novel and concrete. See also *Smith v. Recrion Corp.*, 541 P.2d 663, 669 (Nev. 1975) (stating abstract ideas must be both novel and concrete to be legally protectable).

the idea creator and is not generally known to the public.¹⁸⁸ The concrete requirement is met if the idea is sufficiently complete so that it can be used without the need for significant development before it can be implemented.¹⁸⁹ Requiring novelty and concreteness amounts to a rejection of the a freedom of contract rationale in favor of a reliance on reliance on an underlying property.¹⁹⁰ This arguably makes sense under a property theory because property rights can be asserted against the public generally.¹⁹¹ Hence, a vague undeveloped idea that is generally known to members of the public cannot be an individual's property. However, contract actions only affect the rights of the contracting parties who have voluntarily entered into a binding legal relationship.¹⁹² The rights of anyone not a party to the contract are unaffected. Injecting a property rationale into such relationships is therefore inconsistent with the underlying freedom of contract rationale that is strongly embedded in contract theory.

A trend exists in modern idea-submission cases for courts to minimize reliance on an underlying property theory in favor of a freedom of contract theory. In *Nadel v. Play-By-Play*,¹⁹³ an independent toy designer developed a concept for a plush monkey that made noise and spun around when placed on a flat surface.¹⁹⁴ The designer asserted that he disclosed a prototype of the toy to the defendant toy company pursuant to industry custom that required the defendant to pay him for the concept if it was used by the toy company.¹⁹⁵ The defendant rejected the design but subsequently came out with a toy based on the concept.¹⁹⁶ In reversing the trial court's dismissal of the action the Court held that a different standard of novelty applied to a property-based action and a contract-based action.¹⁹⁷ A property action requires the conventional novelty standard: the idea is not known

¹⁸⁸ *Tate*, 403 N.W.2d at 671. See also *Riordan*, 2009 U.S. Dist. LEXIS 114165, at *30-31 (idea novel if it is innovative, inventive and new).

¹⁸⁹ *Tate*, 403 N.W.2d at 672.

¹⁹⁰ See generally *Nadel*, 208 F.3d at 378 (misappropriation of property claim cannot apply to idea known to public because such idea is not property). See also *Wrench*, 256 F.3d at 460 (generally ideas must be both novel and concrete to be protected as property).

¹⁹¹ *Wrench*, 256 F.3d at 461.

¹⁹² *Id.*

¹⁹³ 208 F.3d 368 (2d Cir. 2000).

¹⁹⁴ *Id.* at 371-72.

¹⁹⁵ *Id.* at 372.

¹⁹⁶ *Id.* at 372-73.

¹⁹⁷ *Id.* at 380. But see *Lapine v. Seinfeld*, 918 N.Y.S.2d 313, 321 (N.Y. Sup. Ct. 2011) (holding that federal court in *Nadel* incorrectly held that the less stringent novel-to-buyer standard applies to an implied-in-fact contract for an idea).

to the public.¹⁹⁸ However, under a contract theory, the novelty standard only requires that the idea was novel to the defendant at the time of contracting without regard to whether it was generally known to the public or to competitors.¹⁹⁹ This approach, followed by some courts,²⁰⁰ reflects a freedom of contract rationale that recognizes that a party should be free to contract to buy an idea based on its determination of value. Additionally, it recognizes that enterprises involved in a business or industry are typically best situated to determine the value of an idea and to reach appropriate contract terms. Nevertheless, the *Nadel* court allowed for a limit on the freedom of contract with regard to ideas. It preserved the right of a court to find an idea so lacking in novelty that it can be assumed it is not novel to the buyer and therefore insufficient as a matter of law to support a contract claim.²⁰¹ Although I think it is unlikely that a court would apply this limit, it allows a court the ability to find a contract for an idea unenforceable in egregious situations where enforcing the contract would be inequitable and unfair. This can be analogized to the doctrine of unconscionability in contract law, which serves a similar purpose for contracts generally.²⁰²

An alternate view of contracts for the purchase of ideas or information is to consider them service contracts.²⁰³ This approach eliminates the focus on whether

¹⁹⁸ *Nadel*, 208 F.3d at 378.

¹⁹⁹ *Id.* at 380.

²⁰⁰ *See, e.g., Reeves*, 926 P.2d at 1140 (novelty not required for implied in fact contract claim for an idea). *But see Wrench*, 256 F.3d at 461 (“[M]any courts do require novelty in an action based upon an implied contract theory on the ground that there can be no consideration for an implied promise to pay if the idea does not constitute ‘property.’”).

²⁰¹ *Nadel*, 208 F.3d at 378-79.

²⁰² In *Widener v. Widener*, the court stated that a contract was unenforceable due to unconscionability if the court determines the contract is both procedurally and substantively unconscionable:

Procedural unconscionability involves fraud, coercion, duress, undue influence, inadequate disclosure, and misrepresentation in the formation of the contract. . . .

Substantive unconscionability involves harsh, one-sided, and oppressive terms of a contract. . . . However, the inequality of the bargain must be ‘so manifest as to shock the judgment of a person of common sense, and . . . the terms . . . so oppressive that no reasonable person would make them on the one hand, and no honest and fair person would accept them on the other.’

No. COA02-1242, 2003 N.C. App. LEXIS 1556, at *8-9 (N.C. Ct. App. Aug. 5, 2003) (quoting *Brenner v. School House, Ltd.*, 274 S.E.2d 206, 210 (N.C. 1981)). *See also* UNIFORM COMMERCIAL CODE § 2-302 (1) (court can find as a matter of law that contract unconscionable and therefore unenforceable).

²⁰³ *See generally Reeves*, 926 P.2d at 1137 n.7 (in an idea dispute the court noted that consideration for contract was asserted to be services provided so that it was not necessary to determine if idea lacking novelty was contractual consideration).

the idea or information sought to be sold or conveyed is absolutely novel, novel to the buyer or concrete. It also lets business entities decide what and how they want to contract for something. For example, an enterprise could agree to pay for the service of providing an idea or information without regard to whether it is novel or concrete.²⁰⁴ Or, the parties could contractually require that the idea or information that is the subject matter of the contract must be novel or concrete.²⁰⁵

Even though reliance on a service contract rationale typically eliminates factual findings related to concreteness or novelty, significant hurdles still exist for a contractual theory to prevail. It must still be shown that the parties mutually agreed to enter a contract for the transfer of an idea or information.²⁰⁶ If a written contract is at issue, normal contract interpretation rules can be utilized. Of course, such disputes do not commonly involve written contracts and therefore parties frequently assert an implied-in-fact contract theory.²⁰⁷ Nevertheless, any contractual theory including an implied-in-fact theory²⁰⁸ requires establishing that the parties intended to enter into an enforceable agreement.²⁰⁹ Industry custom can be a decisive factor, such as in the *Nadel* decision,²¹⁰ when asserting an implied-in-

²⁰⁴ *Id.* at 1142 (“If parties voluntarily choose to bargain for an individual’s services in disclosing or developing a non-novel or unoriginal idea, they have the power to do so.”).

²⁰⁵ *See generally* *Stanley v. Columbia Broad. Sys., Inc.*, 221 P.2d 73, 85-86 (Cal. 1950) (en banc) (Traynor, J., dissenting) (parties should be free to contract for disclosure of an idea without regard to whether it is novel or something in the public domain and such disclosure can be valid contractual consideration).

²⁰⁶ In *Nadel* the Court stated that mere disclosure of an idea or information does not create an implied-in-fact contract; the necessary elements to create a contract must be present. 208 F.3d at 376-77 n.5.. *See also* *Reeves*, 926 P.2d at 1140 (contract not implied merely by disclosure of idea).

²⁰⁷ *See, e.g., Nadel*, 208 F.3d at 371 (toy designer alleged that toy company used designer’s toy idea without paying compensation for it contrary to industry custom); *Reeves*, 926 P.2d at 1133 (plaintiff alleged that defendant company appropriated his idea of building a visitor center at a popular location adjacent the Trans-Alaska Pipeline); *Recrion Corp.*, 541 P.2d at 664 (plaintiff alleged that Stardust Hotel in Las Vegas used his idea of building and operating a recreational vehicle park as part of the hotel).

²⁰⁸ In contrast to an express contract where promises are expressly made either orally or in writing, under an implied-in-fact contract the promises are implied based on the conduct of the parties. *See Stanley*, 221 P.2d at 85 (Cal. 1950). *See also Confold Pacific*, 433 F.3d at 958 (implied-in-fact contract is a type of express contract where behavior of the parties takes the place of express statements); *Reeves*, 926 P.2d at 1140 (implied-in-fact contract created when surrounding facts and circumstances imply parties intended to enter contractual agreement).

²⁰⁹ *Reeves*, 926 P.2d at 1140 (both express and implied-in-fact contracts require finding that parties intended to enter contract).

²¹⁰ 208 F.3d at 371-72:

fact contract theory. However, this is not unique to contracts for ideas or information. Industry custom is applicable, when relevant, to understanding and interpreting contracts generally.²¹¹

CONCLUSION

The *International News Service* decision, despite being overruled by a subsequent Supreme Court decision²¹² and narrowed in scope by the preemptive effect of copyright law,²¹³ has continued to survive as a state-based misappropriation action.²¹⁴ This is a consequence of the decision being both misunderstood and misapplied. Any common law cause of action for misappropriating an idea or information based on a property rationale should not prevail. Nor should preventing free riding or ruinous competition provide a rationale for such actions. Courts should unequivocally repudiate the misappropriation doctrine in an effort to provide clarity in the law.²¹⁵ This clarity is important in the current climate, where ideas are increasingly more valuable²¹⁶ and new technological innovations continually emerge. Instead, any common law action to protect ideas or information should only succeed, if at all, under existing contract and tort causes of action.

To facilitate the exchange of ideas, the standard custom and practice in the toy industry calls for companies to treat the submission of an idea as confidential. If the company subsequently uses the disclosed idea, industry custom provides that the company shall compensate the inventor, unless, of course, the disclosed idea was already known to the company.

²¹¹ See generally UNIFORM COMMERCIAL CODE § 2-202 (a) (trade usage may be used to explain or to supplement express written contract terms).

²¹² See *supra* note 15.

²¹³ See *supra* note 18 and accompanying text.

²¹⁴ See, e.g., *supra* notes 16-18.

²¹⁵ See generally Shubba Ghosh, et al., INTELLECTUAL PROPERTY – PRIVATE RIGHTS, THE PUBLIC INTEREST, AND THE REGULATION OF CREATIVE ACTIVITY 764-765 (2d ed. 2011) (courts have struggled with the application of misappropriation doctrine); Pearson, *supra* note 73 (noting a lack of uniformity in idea submission disputes due to the multitude of different theories and differing state interpretations of such theories combined with the factual complexity of such cases); Mary LaFrance, *Something Borrowed, Something New: The Changing Role of Novelty in Idea Protection Law*, 34 SETON HALL L. REV. 485, 485 (2004) (“[S]tates vary considerably in the scope of, and prerequisites for, legal protection granted to ideas”).

²¹⁶ Arthur Miller, *Common Law Protection for Products of the Mind: An “Idea” Whose Time Has Come*, 119 HARV. L. REV. 705, 711-14 (2006).