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COLUMN

Does misappropriation law still live?

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"I've been ripped off! Surely I can sue for something!"

Intellectual property lawyers frequently encounter indignant clients in this situation: A rival has blatantly piggybacked off their work, but the client didn't obtain patents, there's no apparent copyright infringement, trademarks and trade dress aren't at issue, and there was no trade secret misappropriation or breach of contract--just imitation and free-riding. The client is incensed. Is there really no legal remedy available? What about asserting a "common law misappropriation" claim?

"MISAPPROPRIATION" SURVIVES -- SORT OF

There was a time when asserting a claim for misappropriation or unfair competition might have been a promising path. IP lawyers are familiar with the Supreme Court's decision in International *News Service v. Associated Press*, 248 U.S. 215 (1918) (INS) and its recognition of a tort for appropriating "hot news" that was not subject to copyright. That decision led to the development of a broader misappropriation and unfair competition doctrine, with courts reciting factors, such as "commercial immorality" and "business malpractices," offensive to social ethics. The cases often involved the reproduction of radio broadcasts or recordings believed not to be subject to copyright protection. *See, e.g., Metro. Opera v. Wagner-Nichols R. Corp.*, 199 Misc. 786 (N.Y. Sup. Ct. 1950) aff'd, 279 A.D. 632, 107 N.Y.S.2d 795 (1st Dep't 1951) (unauthorized recording and record sales of opera broadcasts) (Metropolitan Opera).

As the law evolved, misappropriation doctrine was stated broadly, with courts articulating a general principal that "[i]n exceptional cases … the mere taking and competitive use" of a property was actionable even absent a recognized form of IP protection. *Descale & Die., S.A. v. Nemmers*, 190 F. Supp. 381, 386 (E.D. Wis. 1961) (finding no misappropriation for alleged copying of Gregorian chants). Under this authority, one could imagine artfully drafting a complaint for the client here and pleading, "This case of copying is exceptional. Defendant is a scoundrel and a thief, and engaged in unethical conduct by copying our work and free-riding off of our investment."

The 1976 Copyright Act dealt a blow to misappropriation doctrine, however, preempting aspects of the tort to the extent they vindicated rights "equivalent" to copyright. Applying copyright preemption in *National Basketball Ass'n v. Motorola, Inc.*, 105 F.3d 841 (2d Cir. 1997) (NBA), the Second Circuit reversed a district court decision that Motorola's reproduction of uncopyrightable facts extracted from basketball game broadcasts constituted misappropriation. In doing so, the court specifically rejected Metropolitan Opera's broad view of misappropriation and its invocation of commercial morality or ethics, stating that "[s]uch concepts are virtually synonymous for wrongful copying and are in no meaningful fashion distinguishable from infringement of a copyright. The broad misappropriation doctrine relied upon by the district court is, therefore, the equivalent of exclusive rights in copyright law." *Id.* at 851.

Still, a sliver of misappropriation law survived. As the NBA court noted, the Copyright Act's legislative history signaled that Congress did not intend preemption to apply to "hot news," citing INS, "or to data updates from scientific, business, or financial data bases." *Id.* at 850. Generalizing from INS' facts, the court stated that a misappropriation claim survived preemption if the plaintiff generated or collected information at some cost or expense, the information's value was highly time-sensitive and the defendant directly competed with the plaintiff by free-riding on the costly efforts to generate or collect the data, threatening the existence of plaintiff's product or service. *Id.* at 852053. INS was "not about ethics," said the court, but about "property rights in time-

sensitive information." *Id.*

JUST HOW BIG IS THE SLIVER?

In view of Motorola's demanding requirements for a non-preempted misappropriation claim, one might conclude that our hypothetical client may not have a case. But courts are not unanimous in their view of the scope of the Copyright Act preemption. In *Dun & Bradstreet Software v. Grace Consulting*, 307 F.3d 197, 219 (3d Cir. 2002), for example, the Third Circuit held without extended explanation that because customer lists are not copyrightable, copyright preemption did not apply to a claim for misappropriation of the plaintiff's lists. The court made no mention of the requirements enumerated in NBA. Compare *Seng-Tiong Ho v. Taflove*, 648 F.3d 489 n.9 (7th Cir. 2011) (citing Motorola with approval and holding that copyright preemption can apply to uncopyrightable material in a work).

Recent district court decisions illustrate the legal uncertainty. Relying on Dun & Bradstreet, a Pennsylvania district court held that copyright preemptiondid not apply to a claim for un-just enrichment--the functional equivalent of a misap-propriation claim--based on Rite-Aid's unauthorized use of plaintiff's uncopyrightable "Neutraface" typeface in its logo. *Brand Design Co., Inc. v. Rite Aid Corp*. 623 F. Supp. 3d 526 (E.D. Pa. 2022). The court said that copyright preemption did not apply in the Third Circuit precisely because typefaces are not copyrightable. *Id.* at 534. By contrast, in 2023, a New York district court applied the Second Circuit's NBA decision to hold that Shake Shack's use of the same typeface in its branding was not actionable because a claim for misuse was preempted by the Copyright Act. *Shake Shack Enterprises, LLC v. Brand Design Co., Inc.* 22 Civ. 7713 (S.D.N.Y. Dec. 28 2023).

In the Northern District of California, a recent district court decision rejects NBA's requirements. In *hiQ Labs, Inc. v. LinkedIn Corp*. 17-cv-03301 (N.D. Cal. April 19, 2021) (subsequent appellate history not addressing misappropriation), the court favorably cited California state court decisions articulating a broad view of misappropriation law. Under these decisions, a common law misappropriation claim merely requires that the plaintiff have invested substantial time, skill or money in developing its property; the defendant appropriated that property at little or no cost and without authorization; and the plaintiff was thereby injured. Responding to LinkedIn's invocation of Motorola as allowing for only a narrow claim for misappropriation, the court noted that "no California case ... imposes the NBA restrictions."*Id.*

As this review illustrates, the once-expansive misappropriation tort has been substantially narrowed by copyright preemption, but its remnants persist in limited circumstances evaluated differently by courts. The Second Circuit's NBA decision commands significant influence, restricting non-preempted misappropriation to competitive free-riding on time-sensitive information generated through costly efforts. But other circuits have shown more flexibility when non-copyrightable subject matter is involved.

So, what about our client? I would say, "You've probably got no claim, but the law is surprisingly uncertain. Let me take a look. Meanwhile, you really should make sure you've taken advantage of all the traditional forms of IP for which you are eligible."

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