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Fair Use and Bad Faith Are Not Mutually Exclusive According to the Second Circuit

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The "fair use doctrine," articulated in 17 U.S.C. § 107, embodies the idea that persons should be free to use portions of copyrighted works for the purposes of comment, criticism, news reporting, teaching, scholarship, research and other "transformative" uses. In other words, although a person engages in conduct that involves verbatim copying of a copyrighted work, the person is exempt or immune from a charge of copyright infringement because of the socially important nature of the use.

On April 20, 2004, in affirming a district court's denial of a preliminary injunction in a copyright infringement action, the Second Circuit Court of Appeals held that a finding of bad faith on the part of the alleged infringer did not automatically preclude a finding that the alleged infringer's actions satisfied the fair use factors of 17 U.S.C. § 107. *NXIVM Corp. v. The Ross Institute*, -- F.3d --, 2004 WL 837928 (2d Cir. 2004).

In that case, the plaintiffs provided a course manual to each of the paid participants in their "Executive Success" seminars. Each page of the manual contained a copyright notice, and all seminar participants were required to sign non-disclosure agreements, which purported to prohibit the attendees from sharing the manual or techniques taught in the seminar with anyone else. The Ross Institute ran two non-profit websites used to criticize and share information about cults and other groups accused of mind control. Ross also ran a for-profit "cult deprogramming" business, which is how Ross learned about the plaintiffs. Ross obtained a copy of the manual from a former participant and provided it to two mind control experts, who each prepared a report analyzing and critiquing the manual and the plaintiffs. The reports, which Ross posted on his websites, quoted from the course manual as part of their analyses and critiques. At least one of the reports at issue acknowledged that the plaintiffs had "intellectual property rights" in the manual. The plaintiffs sued Ross, the former participant and the two experts for copyright infringement and other causes of action, and moved for a preliminary injunction on the copyright infringement claim.

In opposition to the plaintiffs' motion for preliminary injunction, the defendants asserted that their activities were protected by the fair use doctrine. Fair use analysis has generally looked to four factors: "(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work." 17 U.S.C. § 107. In order to satisfy the analysis, defendants have not needed to show that all or even a majority of the factors weighed in their favor. Rather, all of the factors have been weighed in light of the purposes of the copyright laws.

The core of the appeal, according to the Court, was the proper weighing of the first factor of the fair use analysis. Although it decided that the district court did not properly weigh all of the relevant subfactors, the Court held that the ultimate finding that the defendants would likely succeed in proving fair use was correct and, therefore, the denial of the preliminary injunction was proper. Specifically, the Court found that an "inte-

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Federal Circuit Clarifies Patent Term Extension Law

The Hatch-Waxman's patent term extension provision, part of the Hatch-Waxman Act's carefully negotiated set of compromises, increased the patent protection available to certain pharmaceutical products. The general legislative goal was to preserve incentives for innovation by restoring a portion of the patent term lost through a lengthy premarket regulatory approval process. Accordingly, depending on the length of the regulatory approval process, the Hatch-Waxman Act may extend patent protection for a "product" if FDA approval provided "the first permitted commercial marketing or use of the product."

Not surprisingly, intense litigation has focused on the scope of the term "product," defined as:

> the active ingredient of. . . a new drug, antibiotic drug, or human biological product (as those terms are used in the Federal Food, Drug, and Cosmetic Act) . . . including any salt or ester of the active ingredient, as a single entity or in combination with another active ingredient. 35 U.S.C. § 156(f). Two Federal Circuit decisions recently clarified this area of law.

In *Pfizer Inc. v. Dr. Reddy's Laboratories, Inc.*, 359 F.3d 1351 (Fed. Cir. 2004), the court addressed whether a single patent term extension could apply to two different salts of the same active moiety where the FDA had approved one of the salts for marketing. The case involved two salts of amlodipine, a compound with anti-hypertensive, anti-ischemic properties. Pfizer had obtained approval for the besylate salt, marketed as Norvasc®, but had submitted clinical data for both the besylate and the maleate salts. Pfizer owned a patent covering both salt forms.

Dr. Reddy's subsequently filed a paper NDA seeking approval of the maleate salt, and referencing clinical data Pfizer had provided in its Norvasc® submission. Pfizer argued that its patent term extension respecting the besylate salt should also apply to any product using amlodipine's maleate salt. Dr. Reddy's disagreed, noting that, under 35 U.S.C. § 156(b), patent extension rights only apply to "any use approved for the product" by the FDA, and that the "product" here was the besylate salt.

The district court, ruling in favor of Dr. Reddy's, held that the "active ingredient," and therefore the "product" covered by patent term extension, was the specific compound approved by the FDA (the besylate salt). Since § 156(f)'s definition of "product" only encompasses the "active ingredient . . . and any salt or ester of the active ingredient," the court determined that Pfizer's patent term extension could not encompass the maleate salt (since the maleate salt is not a salt or ester of amlodipine besylate).

The Federal Circuit reversed. In an opinion by Judge Newman, the court held that the term "active ingredient" meant "active moiety" - here, amlodipine - and not the specific compound approved for marketing by the FDA. Thus, Pfizer's patent term extension should cover the maleate salt, which is a salt of the "active ingredient." This approach, the Federal Circuit held, comported with the FDA's interpretation of the term "active ingredient," as well as the statutory intent to avoid "the potential loophole of a change in the salt of the active ingredient." The holding means that an active moiety, and all salts and esters of that active moiety, may be considered a single "product" for purposes of patent term extensions, regardless of which compound gets approval from the FDA.

In *Arnold Partnership v. Dudas*, 362 F.3d 1338 (Fed. Cir. 2004), the court addressed whether patented combinations of previously marketed active ingredients were eligible for patent term extension. The decision involved the combination product of hydrocodone and ibuprofen. Each component of this pain-reliever product, marketed by Abbot Labs as Vicoprofen®, had been available previously, but the combination had not. At issue was whether a patent on the combination product would be eligible for a patent term extension.

As discussed earlier, patent term extension covering an FDA-approved product has only been available for the first commercial marketing of the "product." Based on the Hatch-Waxman Act's definition of "product" as the "active ingredient . . . as a single entity or in combination with another active ingredient," the PTO had refused to grant a patent term extension. The PTO reasoned that each active ingredient of the combination was a single "product" under the statutory definition, and that each "product" had been commercially available previously. Arnold Partnership, on the other hand, argued for a definition of "product" corresponding to the combination drug product approved by the FDA.

The district court held in favor of the PTO, and the Federal Circuit affirmed. As in *Dr. Reddy's*, the Federal Circuit held that the definition of "product," for purposes of patent term extension, does not necessarily coincide with the particular product approved by the FDA. The Federal Circuit noted this disjunction and suggested that this might be an issue for Congress to address. The Federal Circuit's holding effectively provides patented combination therapies a lower level of protection than patented single ingredient therapies. Given that combination therapies constitute a substantial category of drug development activities, this decision will have a significant impact on the pharmaceutical industry.

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Cybergripers are people who register domain names using the trademarks of others, with or without adding a disparaging term such as "sucks" or "bites", e.g., **yourtrademarksucks.com**. The corresponding Web sites may be parody sites, or more often than not, forums for complaints about the applicable trademark owner.

The courts have increasingly been siding with cybergripers when trademark owners protest. The cybergriper is said to have a First Amendment right to own the domain name because it uses the site to communicate a noncommercial message; there is no commercial activity on the gripesite to support the trademark owner's claim of dilution and trademark infringement. Accordingly, individuals and businesses have increasingly been attempting to protect themselves by registering offensive domain names based on their marks.

Trademark owners have three ways to attempt to stop cybergripers: 1) file a federal law suit under the Federal Trademark Dilution Act ("FTDA"); 2) file a federal lawsuit under the Anticybersquatting Consumer Protection Act ("ACPA"); or 3) bring a proceeding under the Uniform Domain-Name Dispute-Resolution Policy ("UDRP").

Under the FTDA, a trademark owner must prove that: 1) its mark is both distinctive and famous; 2) the cybergriper is using the owner's mark commercially; 3) such use began after the mark became famous; and 4) the cybergriper's use of the mark has diminished its ability to distinguish the trademark owner's goods and services from those of others. The FTDA expressly excludes bringing action against the "noncommercial use of a mark."

Two of the most well-known cases under the FTDA were decided in 1997 and 1998 in favor of the trademark owners: *Planned Parenthood Federation of America v. Bucci* and *JewsforJesus v. Brodsky*. In both cases, defendant cybergripers unsuccessfully argued that their use of plaintiffs' marks was free speech protected by the First Amendment. Key to both cases was the defendants' commercial use of plaintiffs' marks. In *Planned Parenthood*, defendant registered the identical trademark *www.plannedparenthood.com*, as a domain name. The Court determined that defendant's sale on its web site of an antiabortion book and its attempt to harm plaintiff commercially were enough to satisfy the commercial use requirement of the FTDA. In the other case, the sale of items and links to other commercial sites supported the Court's determination that defendant's registration of the *www.jewsforjesus.org* domain name, also incorporating the famous trademark of another, was unlawful under the FTDA.

Accordingly, most gripesites today do not register as domain names trademark owners' marks alone for commercial purposes. However, a subsequent decision, *Bally Total Fitness Holding Corp. v. Faber*, identified circumstances under which cybergriping could escape judicial censure. In that case, the defendant's *ballysucks* Web-page was found to be noncommercial use of plaintiff's trademark and therefore protected under the First Amendment. The highlight of the Court's opinion was its comment that "no reasonably prudent Internet user would believe that 'Ballysucks.com' is the official Bally site or is sponsored by Bally." In addition, the Court noted that "'sucks' has entered the vernacular as a word loaded with criticism."

The ACPA provides to an owner of a trademark that is not necessarily famous the opportunity to sue a person who registers, traffics in or uses a domain name that is identical or confusingly similar to the owner's, if the owner can show that the defendant had a bad-faith intent to profit from the mark. Thus, unlike the FTDA, actual commercial use by the cybergriper is not required.

In the 2000 case of *Northland Ins. Companies v. Blaylock*, a disgruntled customer previously insured by Northland registered the identical trademark *www.northlandinsurance.com* domain as a gripesite. The court held that the defendant did not have a "'bad faith intent to profit since, unlike in typical cybersquatting cases, the defendant did not seek financial gain through and offer to sell the domain name. The court was also reluctant, absent extraordinary circumstances, to chill free speech by granting a preliminary injunction."

Since *Northland*, there have been several other cases decided in favor of cybergripers. In *Lucent Technologies, Inc. v. Lucentsucks.com*, the Court stated that "defendant [cybergriper] argues persuasively that the average consumer would not confuse *lucentsucks.com* with a Web site sponsored by plaintiff." In the 2003 case of *Taubman Co. v. Webfeats*, the Court stated that "Mishkoff's use of Taubman's mark in the domain name 'taubmansucks.com' is purely an exhibition of Free Speech, and the Lanham Act is not evoked...Mishkoff is 'free to shout Taubman Sucks! from the rooftops...'."

In 2004, the Sixth Circuit Court of Appeals ruled for the cybergriper in *Lucas Nursery and Landscaping, Inc. v. Grosse*, holding:

> [p]erhaps ***most important*** to our conclusion are Grosse's actions, which seem to have been undertaken in the spirit of informing fellow consumers about the practices of a landscaping company that she believed had performed inferior work on her yard. One of the ACPA's main objectives is the protection of consumers from slick internet peddlers who trade on the names and reputations of established brands. The practice of informing fellow consumers of one's experience with a particular service provider is surely not inconsistent with this ideal.

A trademark owner's final and most efficient option is a UDRP proceeding, in which it must, after establishing its own right

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Fair Use and Bad Faith

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gral part of the analysis under the first factor" was the "propriety of the defendant's conduct" or the defendant's bad faith, which the district court failed to consider. The defendant's alleged bad faith was the acquisition, distribution and/or use of the manual in violation of the non-disclosure agreement and the copyright notice. However, the Court further found that the reports, which quoted liberally from the manual, were for purposes of social criticism, commentary and/or scholarship and were, therefore, "transformative." Transformative uses, particularly those involving criticism, have generally satisfied the first fair use factor.

Surprisingly, this was the first appellate decision to squarely address the role of bad faith in the fair use analysis. In holding that bad faith is but one of many factors in the fair use analysis, the court insured that the exception would not swallow the rule. Indeed, as Judge Jacobs so aptly noted in his concurrence, "[b]ad faith is a slippery concept in the copyright context. It (i) is difficult to define, (ii) may be impossible to detect, and (iii) given weight, may lead to the suppression of transformative works that are valuable to the expansion of public knowledge." Any other decision would impact the already delicate balance between the protections afforded by the Copyright Act and those afforded by the First Amendment.

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to the mark, prove that the registrant: 1) registered a domain name identical or confusingly similar to the owner's mark; 2) has no rights or legitimate interest in the domain name; and 3) registered and is using the domain in bad faith. These hurdles are similar to those in an FTDA and ACPA action with one salient difference: First Amendment considerations are not involved.

The decisions have typically depended on a panel deciding the case. Some used an objective test, "where the mark was incorporated into a domain name, regardless of whether additional words or letters were added, the domain and the mark were held to be confusingly similar." While others used a subjective standard, "would a user confronted with the domain name at issue likely be confused as to the source or sponsorship." Adding the "sucks" suffix makes it very difficult to believe any confusion would be likely. Having a gripesite to express your opinion may be considered a legitimate interest.

For the minimal yearly cost of a domain name, trademark owners should consider preempting potential gripesites by registering derogatory variations of its name and mark before anyone else does.

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