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COPYRIGHT LAW: THE RELEVANCE OF BAD FAITH TO A FAIR USE ANALYSIS

NXIVM Corp. v. Ross Institute, 364 F.3d 471 (2d Cir. 2004)

*Melisa San Martin**

Appellant is a producer of business seminar training programs and provides seminar materials on a web site accessible only to paid subscribers.¹ Appellee runs nonprofit web sites that provide information to the public about controversial groups.² Appellee indirectly obtained a copy of Appellant's manuscript and issued reports on his web site that analyzed and critiqued Appellant's materials.³ Appellant brought suit for copyright infringement under section 106 of the Copyright Act⁴ and alleged that Appellee infringed the company's course materials by posting portions of the materials on the Internet.⁵ Appellant moved for preliminary injunction.⁶ The U.S. District Court for the Northern District of New York denied the preliminary injunction; holding that Appellee's fair use defense

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1. *NXIVM Corp. v. Ross Inst.*, 364 F.3d 471, 475 (2d Cir. 2004).

2. *Id.*

3. *Id.* Appellee learned of Appellant's business seminars in the course of his business as a for-profit "cult-deprogrammer." *Id.* Appellee obtained the Appellant's manuscript from a one-time NXIVM participant Stephanie Franco. *Id.*

4. *Id.* at 476. Section 106 of the Copyright Act states,

Subject to sections 107 . . . the owner of a copyright under this title has the exclusive rights to do and to authorize any of the following: (1) to reproduce the copyrighted work in copies . . . ; (2) to prepare the derivative works based on the copyrighted work; (3) to distribute copies . . . of the copyrighted work to the public. . . .

17 U.S.C. § 106 (2004).

5. *NXIVM Corp.*, 364 F.3d at 476. Appellant challenged NXIVM on two additional grounds. First, trademark disparagement under the Lanham Act, 15 U.S.C. § 1125(a), and second, interference with contractual relations under state law. *Id.*

6. *Id.* Appellants moved for preliminary injunction on the copyright infringement claim and sought an order requiring Appellee to remove the copyrighted material from the web site. *Id.* In a copyright case, a party seeking a preliminary injunction must show irreparable harm in the absence of the injunction, which can be met by proof of a likelihood of success on the merits. *Id.*

was likely to succeed.⁷ Appellant appealed the decision and the U.S. Court of Appeals for the Second Circuit reviewed the district court's denial.⁸ In affirming the district court's opinion, the instant court HELD, that even though the district court did not fully consider the propriety of Appellee's conduct, the fair use doctrine defeats any likelihood of Appellant's success on the merits.⁹

To prevail on a copyright infringement claim, a plaintiff must establish that it owns a valid copyright and a defendant has engaged in unauthorized copying of the copyrighted material.¹⁰ While the law recognizes an original author's exclusive rights to a copyrighted work, section 107 of the Copyright Act limits these rights if a defendant engages in a fair use of the copyrighted work.¹¹ Congress has identified and codified four non-exclusive factors¹² to be considered on a case-by-case basis in determining the applicability of the fair use defense.¹³ The manner in which courts

7. *Id.* The injunction was denied because Appellee defeated Appellant's prima facie showing of infringement by proving that their actions are protected by the fair use doctrine. *Id.* The fair use doctrine is an affirmative defense that provides defendants in a copyright case the opportunity to defeat any likelihood of a plaintiff's success on the merits. *See id.* at 477.

8. *Id.* at 476. The instant court reviewed the district court's denial on an abuse of discretion standard but noted the option of affirming the decision on any ground supported by the record. *Id.*; *see also* *Milanesi v. Rust-Oleum Corp.*, 244 F.3d 104, 110 (2d Cir. 2001) (stating that a "district court abuses its discretion if it bases its ruling on a mistaken application of the law or a clearly erroneous finding of fact").

9. *NXIVM Corp.*, 364 F.3d at 477, 482.

10. *Id.* at 476. (citing *ABKCO Music, Inc. v. Stellar Records, Inc.*, 96 F.3d 60, 64 (2d Cir. 1996)). This constitutes a *prima facie* showing of infringement. *Id.*

11. *See* 17 U.S.C. § 107 (2004); *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 547 (1985). Copyright law does not prevent subsequent users from engaging in fair use of the copyright holder's original work. *Id.* at 548.

12. Section 107 of the Copyright Act states:

Notwithstanding the provisions of section 106 . . . , the fair use of a copyrighted work . . . for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include (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 (2004).

13. *See* *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 577 (1994). The fair use doctrine recognizes that the goals of the Copyright Act are better served by allowing a use of a copyrighted

analyze the first of the four statutory factors — the purpose and character of a defendant's use of a copyrighted work — is a controversial topic in copyright infringement suits.¹⁴ Some argue that the propriety of a defendant's conduct is an integral part of the analysis, while others maintain that this consideration is irrelevant and should have no bearing on the success of a fair use defense.¹⁵

This debate is primarily due to the decision in *Harper & Row Publishers, Inc. v. Nation Enterprises*,¹⁶ in which the Court added a good faith principle to the analysis of the fair use defense's first statutory factor.¹⁷ The *Harper & Row* Court found that defendant's unauthorized, commercial use of verbatim excerpts from plaintiff's unpublished manuscript was not a fair use.¹⁸ In evaluating the first factor, the Court focused its analysis on the commercial motive and the "propriety of the defendant's conduct."¹⁹ In reasoning that "fair use presupposes good faith and fair dealing," the Court determined that because the defendant magazine knowingly exploited a purloined manuscript with the intended purpose of displacing plaintiff's right of first publication, defendant's actions weighed against a finding of fair use.²⁰ Evaluating the remaining statutory factors, the Court ultimately found that the fair use defense did not apply.²¹

After the *Harper & Row* Court incorporated a good faith principle into the first factor analysis, subsequent courts have disagreed about how much weight should be placed on this subfactor.²² While acknowledging the relevance of *Harper & Row*, the *Campbell v. Acuff-Rose Music, Inc.*²³ court based its decision on the proposition that the bad-faith subfactor, although considered, should not be weighed very heavily within the

work, rather than prohibiting it. *Sandoval v. New Line Cinema Corp.*, 973 F. Supp. 409, 412 (1997) (quoting *Robinson v. Random House, Inc.*, 877 F. Supp. 830, 839 (S.D.N.Y. 1995)).

14. See generally *NXIVM Corp.*, 364 F.3d at 477-79.

15. See *id.* at 478.

16. *Harper & Row*, 471 U.S. at 539.

17. See *id.* at 562; see also *NXIVM Corp.*, 364 F.3d at 478.

18. *Harper & Row*, 471 U.S. at 569.

19. See *id.* at 562-63.

20. See *id.* (internal quotation marks omitted).

21. *Id.* at 569. In addition, the Court found the third factor to weigh in favor of plaintiff because defendant's infringing article was structured around the quoted excerpts. *Id.* at 566. Lastly, the Court determined that defendant's magazine adversely affected the market of the original copyrighted manuscripts. *Id.* at 568-69. In reaching its conclusion, the Court ultimately determined that the fourth factor was "undoubtedly the single most important element of fair use." *Id.* at 566.

22. See, e.g., *NXIVM Corp.*, 364 F.3d at 479.

23. 510 U.S. 569 (1994).

analysis of the first fair use factor.²⁴ In *Campbell*, the Supreme Court modified the fair use analysis used in *Harper & Row* and found that petitioner music group's commercial parody of respondent record company's copyrighted song was not a direct copyright infringement.²⁵ In *Campbell*, petitioner was denied permission to use the parody of respondent's original song even though they were willing to afford all credit for the original to respondent.²⁶ The *Campbell* Court determined that being denied permission to use a copyrighted work does not weigh against a finding of fair use.²⁷ In contrast to *Harper & Row*, the *Campbell* Court's analysis focused primarily on the transformative nature of the new work and suggested that good faith is not a central concern in the first factor analysis of the fair use defense.²⁸

One year later the *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*²⁹ court confronted the same uncertainty regarding the first factor of the fair use analysis.³⁰ In *Religious Technology*, Religious Technology Center³¹ brought a copyright infringement action against the defendant for posting a large portion of the Church's copyrighted works on the Internet.³² Defendant published the Church's original works on a noncommercial web site for purposes of criticism.³³ The *Religious Technology* court attempted to evaluate the defendant's conduct, but due to a lack of evidence, was unable to

24. *Id.* at 585 n.18.

25. *See id.* at 594. The *Campbell* Court emphasized the transformative nature of the new work and reasoned that the commercial nature of the work was only one factor to be considered. *Id.* But see *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 449 (1984) (holding that a commercial purpose of defendant's work bears a presumption of unfair use).

26. *See Campbell*, 510 U.S. at 572-73.

27. *Id.* at 585 n.18 (citing *Fisher v. Dees*, 794 F.2d 432, 437 (9th Cir. 1986)).

28. *See id.* at 585 n.18. A secondary work is "transformative" of the original if it "adds something new, with a further purpose or different character" and in doing so, creates a new meaning. *Id.* at 579.

29. 923 F. Supp. 1231 (N.D. Cal. 1995).

30. *Id.* at 1244-45.

31. Religious Technology Center (RTC) is a nonprofit organization formed by scientologists and is affiliated with the Church of Scientology. *Id.* at 1239.

32. *Id.* at 1239-40. "The Church" refers to the Church of Scientology. *Id.* at 1238-39. Defendant Erlich was a member of the Church and had access to many of its writings and confidential works. *Id.* at 1239. Plaintiffs also alleged that Defendant misappropriated Plaintiffs' trade secrets and that the works were valuable to the Church. *Id.*

33. *Id.* at 1243. Because plaintiffs did not provide evidence that defendant's work was not for purposes of criticism, the *Religious Technology* court assumed that defendant's intended purpose was criticism. *Id.* A use of the original work for the purpose of criticism or comment weighs in favor of a finding of fair use. *Id.*

determine whether his possession of the copyrighted material was lawful.³⁴ Thus, in analyzing the first factor of the fair use defense, the *Religious Technology* court determined that even if the copies were obtained through deceit, this fact should not be dispositive of the entire fair use defense.³⁵ The *Religious Technology* court interpreted the *Harper & Row* opinion to encourage an analysis beyond solely a defendant's bad faith.³⁶ Specifically, the *Religious Technology* Court reasoned that "[n]othing in *Harper & Row* indicates that the defendant's bad faith was itself conclusive of the fair use question, or even of the first factor."³⁷

The instant court inherited the same ambiguity regarding the fair use analysis and, like *Harper & Row*, *Campbell*, and *Religious Technology*, was faced with the challenge of analyzing the fair use defense in light of an individual's bad faith.³⁸ Thus, the instant court was presented with the opportunity to examine the relevance of the propriety of a defendant's conduct and once and for all, establish its relevance to a fair use defense.³⁹ The instant court, in addressing Appellant's motion for preliminary injunction, evaluated Appellee's fair use defense by analyzing each statutory factor.⁴⁰

In evaluating the first factor, the instant court found that Appellee's use of quotations to create the web site transformed Appellant's original manuscript.⁴¹ Moreover, the instant court rejected the notion that Appellee's concurrent commercial business was dispositive for finding against a fair use defense.⁴² The instant court agreed with Appellant, however, that the district court failed to fully consider the "propriety of a defendant's conduct" as an integral part of its analysis.⁴³ The instant court majority reasoned that, to the extent Appellee was aware that access to the manuscript was unauthorized, this consideration weighed in favor of

34. *Religious Tech.*, 923 F. Supp. at 1245.

35. *Id.*

36. *See id.* at 1244 n.14.

37. *Id.*

38. *NXIVM Corp. v. Ross Inst.*, 364 F.3d 471, 475 (2d Cir. 2004). In this appeal, the circuit court focused on determining the weight a defendant's bad faith should be given within first statutory factor of a fair use analysis, in light of the *Harper & Row* opinion. *Id.*

39. *Id.* at 477-78.

40. *See generally id.* at 477-82.

41. *Id.* at 477.

42. *See id.* at 477-78; *see also Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 584-85 (1994) (reasoning that Congress could not have intended a rule that commercial uses are presumptively unfair). Appellant's criticisms of Appellee were posted on a nonprofit web site, but the web site was connected with Appellant's for-profit business as a "cult de-programmer." *NXIVM Corp.*, 364 F.3d at 475.

43. *NXIVM Corp.*, 364 F.3d at 478.

Appellant.⁴⁴ While acknowledging Appellee's bad faith, the instant court ultimately concluded that the first factor favored Appellee because of the transformative nature of the secondary work for purposes of criticism.⁴⁵

In his concurring opinion, Judge Jacobs criticized the majority's emphasis on *Harper & Row*, contending that Appellee's conduct in gaining access to Appellant's original, copyrighted manuscript should have "no bearing on the availability of a fair use defense."⁴⁶ Judge Jacobs asserted that *Harper & Row*'s emphasis on a defendant's bad faith was an additional observation unnecessary to the outcome of the case because the other statutory factors weighed so heavily in plaintiff's favor.⁴⁷

Applying the principle that one factor should not dominate a fair use analysis, the instant court ultimately affirmed the district court's denial of the preliminary injunction.⁴⁸ Regrettably for Appellant, the instant court based its opinion on the notion that all statutory factors must be considered and "the results weighed together, in light of the purposes of copyright" and the fair use defense.⁴⁹

The instant court majority bases its first factor analysis on the *Harper & Row* notion that the "propriety of a defendant's conduct" is an essential subfactor of the fair use analysis.⁵⁰ The instant court rules that an evaluation of defendant's conduct is necessary for a complete fair use analysis.⁵¹ For example, the instant court emphasizes that if Appellee had knowingly accessed Appellant's manuscript in an unauthorized manner when he could have done so legitimately, then Appellee's bad faith would work against him.⁵² Moreover, the instant court finds it significant that Appellee refused to lawfully access the copyrighted materials.⁵³ The court

44. *Id.*

45. *Id.* at 479.

46. *Id.* at 483 (Jacobs, J., concurring) (stating that the fair use defense should be analyzed according to the central objectives of copyright law and further reasoned that such goals would not be advanced if dependent on a defendant's morality).

47. *Id.* (Jacobs, J., concurring). In *Harper & Row*, defendant copied the "heart" of plaintiff's original work and, in doing so, quashed plaintiff's commercial right of first publication and adversely affected plaintiff's market. *Id.* (Jacobs, J., concurring).

48. *NXIVM Corp.*, 364 F.3d at 482.

49. *Id.* (quoting *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 (1994)).

50. *Id.* at 478 (citing *Wright v. Warner Books, Inc.*, 953 F.2d 731, 740 (2d Cir. 1991)).

51. *Id.*

52. *Id.*

53. See *NXIVM Corp.*, 364 F.3d at 478. The instant court also notes that evidence of a violation of an enforceable contractual duty would be significant to a bad faith analysis. See *id.* at 478 n.1.

specifically notes that Appellee could have paid a fee to enroll in Appellant's seminar.⁵⁴

While abiding by the *Harper & Row* decision, the instant court interprets its holding narrowly.⁵⁵ For example, the instant court finds the *Harper & Row* decision applicable in situations where a defendant both exercised bad faith and failed to make a transformative use of the copyrighted work.⁵⁶ The instant court distinguishes *Harper & Row* because in that case, not only did defendant have a bad faith intent to preempt the plaintiff's first publication rights, but defendant also failed to make any transformative use of plaintiff's unpublished manuscripts.⁵⁷ In the instant case, however, Appellee's use of the copyrighted manuscripts was both critical and transformative.⁵⁸ Moreover, unlike in *Harper & Row*, further evaluation of the statutory factors weighed in favor of Appellee.⁵⁹ Thus, the instant court interpreted the *Harper & Row* opinion to require a more complete analysis of the first factor than merely the propriety of a defendant's conduct.⁶⁰

Judge Jacobs's concurring opinion solidifies the notion that a proper fair use analysis should be conducted in light of each statutory factor and not solely on the defendant's conduct.⁶¹ The concurrence minimizes the relevance of *Harper & Row*'s bad faith analysis and instead finds support in *Campbell*'s discussion on whether the new work is transformative of the original.⁶² Judge Jacobs observes that Appellee's use of the original work was transformative and thus did not affect Appellant's share of the market.⁶³

54. *Id.*

55. *Id.* Compare *Folsom v. Marsh*, 9 F. Cas. 342, 349 (C.C.D. Mass. 1841) (holding that good faith does not bar a finding of infringement), with *Atari Games Corp. v. Nintendo of Am. Inc.*, 975 F.2d 832, 843 (Fed. Cir. 1992) (holding that an individual must possess an authorized copy of the original work to invoke the fair use defense).

56. *NXIVM Corp.*, 364 F.3d at 478 (citing *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 562 (1985)).

57. *Id.* at 479.

58. *Id.*

59. See generally *id.* at 480-82.

60. See *id.* at 479; *Harper & Row*, 471 U.S. at 562; see also *Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc.*, 923 F. Supp. 1231, 1244 n. 14 (N.D. Cal. 1995) (supporting the proposition that *Harper & Row* does not indicate that a defendant's bad faith is dispositive of the fair use analysis).

61. *NXIVM Corp.*, 364 F.3d at 485-86. (Jacobs, J., concurring).

62. *Id.* at 485 (Jacobs, J., concurring).

63. *Id.* at 483 (Jacobs, J., concurring).

Furthermore, Judge Jacobs concludes that fair use is a codified right, not a doctrine that is earned by “good works and clean morals.”⁶⁴ Consequently, Judge Jacobs finds merit in the *Campbell* court’s proposition that the fair use defense exists to further the goals of copyright: the creation and progress of new transformative works.⁶⁵ Importantly, Judge Jacobs determines that copyright is not about “virtue” and its goals are not advanced if bad faith constitutes copyright infringement.⁶⁶

While the majority is not as critical of the *Harper & Row* analysis as Judge Jacobs, it certainly finds merit in the *Religious Technology* analysis.⁶⁷ In *Religious Technology*, the court considered plaintiff’s argument that defendant’s copies were made from unauthorized copies, but reasoned that because there was no evidence that defendant took credit for plaintiff’s work or profited from the web site postings, the first factor weighed in favor of defendant.⁶⁸ Similarly to the defendant in *Religious Technology*, Appellee did not attempt to take credit for Appellant’s training materials, nor did he intend to profit from such postings.⁶⁹ The instant court follows the *Religious Technology* reasoning which did not

64. *Id.* at 485 (Jacobs, J., concurring).

65. *Id.* (Jacobs, J., concurring) (quoting *Campbell v. Acuff-Rose Music, Inc.* 510 U.S. 569, 575 (1994)). Judge Jacobs also emphasized that bad faith is a difficult concept to define and relying on such a consideration may hinder the goals of copyright because an otherwise transformative work may not be published if the mental state of the defendant is not certain. *Id.* (Jacobs, J., concurring). Moreover, Judge Jacobs emphasized that the two crucial inquiries in a fair use analysis include whether the secondary work is transformative of the original and if the infringing work would diminish or prejudice the sale of the original owner’s materials. *Id.* at 486 (Jacobs, J., concurring). In the instant case, the two crucial inquiries both weighed in Appellee’s favor. *Id.* at 486 (Jacobs, J., concurring). Not only was Appellee’s web-site transformative of Appellant’s original training manuscripts, the web site’s criticisms did not substitute for Appellant’s seminar or training itself. *NXIVM Corp.*, 364 F.3d at 485 (Jacobs, J., concurring). Judge Jacobs reasoned that because these inquiries are not dependent on whether a defendant’s access to the original is authorized, such an inquiry as to a defendant’s mental state is unnecessary. *Id.* (Jacobs, J., concurring).

66. *NXIVM Corp.*, 364 F.3d at 485 (Jacobs, J., concurring).

67. *Id.* at 479 (quoting *Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc.*, 923 F. Supp. 1231, 1244 n.14 (1995)) (stating that the bad faith of a defendant is not dispositive of a fair use defense).

68. *See Religious Tech.*, 923 F. Supp. at 1244-45 (finding a lack of evidence indicating that defendant obtained his copies through deceit and confirming that there was no evidence that defendant admitted to not possessing any legal copies).

69. *NXIVM Corp.*, 364 F.3d at 475; *see Religious Tech.*, 923 F. Supp. at 1244-45 (finding that defendant was not personally profiting from his work, nor was he attempting to take any credit away from plaintiff).

dismiss the *Harper & Row* “good faith” analysis, but limited its significance in the first factor analysis.⁷⁰

The instant court majority, similarly to the concurrence, also finds support in the *Campbell* proposition that a defendant’s good or bad faith is not overly significant.⁷¹ In *Campbell*, the Court reasoned that being denied permission to use the copyrighted work could not be offered as evidence to prove that defendants believed that their use was unfair.⁷² Finding support in *Campbell*, the instant court ultimately determined that a defendant’s faith is not to be weighed very heavily within the first factor.⁷³ Despite this reasoning, however, the instant court was determined to adhere to the *Harper & Row* assumption that “fair use presupposes good faith and fair dealing.”⁷⁴

While the instant court majority attempted to reexamine the Supreme Court’s holding in *Harper & Row*, it did so hesitantly.⁷⁵ Despite finding that a court should consider a defendant’s conduct in a fair use analysis, the instant court did not clarify the significance, if any, the *Harper & Row* decision should have in future cases.⁷⁶ Unless the U.S. Supreme Court clarifies the relevance of a defendant’s bad faith in a fair use analysis, the process of weighing a defendant’s mental state with the other statutory factors will not only remain a cumbersome and inconsistent task, but may lose its importance all together.⁷⁷

70. See *NXIVM Corp.*, 364 F.3d at 479.

71. See *id.* at 479 n.2 (citing *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 585 n.18 (1994)).

72. *Campbell*, 510 U.S. at 585.

73. *NXIVM Corp.*, 364 F.3d at 479 n.2. The instant court found merit in the *Campbell* reasoning but chose to follow the *Harper & Row* court. *Id.*

74. *Id.* at 479; see also *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 562 (1985).

75. *NXIVM Corp.*, 364 F.3d at 479 n.2. The instant court recognized that a finding of bad faith is not central to a fair use analysis, but stated that it would await a more precise description from the U.S. Supreme Court. *Id.*

76. *Id.*

77. See generally *id.* at 484-86 (Jacobs, J., concurring).

