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Garnishing Domain Names: Are They Contracts or Property?

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In the mid-1990s, domain names were seen primarily as addresses in cyberspace—much like telephone numbers or postal addresses to which they were analogized—rather than as assets of value in themselves. It quickly became apparent, however, that domain names could acquire a separate and independent value created by their active participation in the cyber marketplace.

In their functional role domain names are simply a string of alpha-numeric characters that connect visitors to destinations in cyberspace. By simply typing the domain name into the browser search field users effect completion of the link. There is nothing unlawful in monetizing domain names or offering them for sale as long as they are not found to be infringing third-party rights by cybersquatting on virtual space reserved to trademark owners.

A federal court sitting in Virginia before enactment of the now current remedial measures to combat cybersquatting, in *Dorer v. Arel*, 60 F.Supp.2d 558 (E.D. Va. 1999), presciently opined that domain names can be "extremely valuable to Internet entrepreneurs." This would seem to point the way to a holding that domain names were garnishable assets, but this was not the case.

In *Dorer* plaintiff obtained a default judgment against defendant for trademark infringement for using WRITE WORD PUBLICATIONS and the domain name <writeword.com> in the course of its business. It was that domain name plaintiff sought to garnish. However, the court held that while domain names may be "extremely valuable" that did not make them garnishable; that is, they were not convertible to the cash equivalent of their value in the open market. In today's statutory scheme where cybersquatting has been found, the matter is settled by a mandatory injunction transferring the domain name to the trademark owner.

What Are Domain Names?

There are essentially two separate lines of reasoning about domain names: They are either contracts for services or intangible property. *Dorer* reflects the palpable tension between the two views. It found garnishment of domain names a "knotty issue." On the one hand "domain name[s] with significant value on the open market certainly would be an attractive, arguably appropriate target for a judgment creditor seeking to satisfy a judgment from a wayward debtor" but it held that "a domain name that is not a trademark arguably entails only contract, not property rights."

Fortunately, the court was able to duck the "knotty" issue because there was "a more readily available, practical solution to the problem to be found in [Network Solutions Inc.'s] policies." The solution, embodied in both the Uniform Domain Name Dispute Resolution Policy (UDRP) (1999) and the Anticybersquatting Consumer Protection Act (ACPA) (1999), provides simply for the registrar on order of an arbitrator or court to record the name of the new registrant.

The occasion for this article is the filing of a recent decision on garnishment from the Minnesota Court of Appeals, *Sprinkler Warehouse v. Systematic Rain*, A14-1121 (Minn. App. 2-2-2015). The procedures for converting property to its cash equivalent are governed by state laws on garnishment, but federal courts have been instrumental in characterizing domain names. *Sprinkler* reflects the tensional drama noted in *Dorer* but with a happier ending for the creditor. Plaintiff sued for copyright infringement of material published on defendant's website and won a money judgment in a Texas court. Since defendant's assets were located in Minnesota, plaintiff, now judgment creditor, recorded the judgment there and proceeded to apply for an order to garnish <gplawn.com> (clearly a valuable asset).

The Minnesota district court (a trial level court) held that domain names were not property, hence not garnishable. The Court of Appeals held they were, and reversed on the property issue but remanded on the issue of ownership of the domain name since the record was unclear on that.

Evolving History

How domain names should be regarded has an evolving history that incorporates competing views expressed in cases decided under both state law (garnishment statutes) and under the ACPA (in the context of cybersquatting claims). *Dorer* was followed by a Virginia state court decision, *Network Solutions v. Umbro International*, 529 S.E.2d 80, 86-87 (Va. 2000). In this case defendant had obtained a default judgment in federal court in South Carolina that permanently enjoined judgment debtor from further use of the infringing domain name and awarded a money judgment.

As judgment creditor Umbro then applied in Virginia state court for an order to garnish debtor's other domain names to satisfy the money judgment. Umbro named Network Solutions as the registrar of record for the domain names for refusing to change the registrations. Network Solutions opposed the application on the grounds that it held no garnishable property.

In a reversal of what was to happen in Minnesota 15 years later the Virginia circuit court (a trial level court) determined that the judgment debtor's Internet domain name registrations were valuable intangible property subject to garnishment. On appeal, the Supreme Court of Virginia disagreed. Instead of pursuing the asset line of reasoning in *Dorer* the Supreme Court adopted *Dorer's* contract for services reasoning. This was not out of keeping with the economic reality at that time since domain names were given away as part of a package of services. In other words, registrants paid for the services, not the domain name.

Domain names as a cyber-equivalent to real property, however, never let go of their hold on the imagination. In this same time frame another federal court also sitting in Virginia, *Virtual Works v. Volkswagen of Am.*, 238 F.3d 264, 267 (4th Cir. 2001), adjudicating a trademark infringement claim under the ACPA (although not involving garnishment) equated cybersquatting with "the Internet version of a land grab."

The dispute in this case had originated before the passage of the ACPA during the period of the Network Solutions policies noted in *Dorer*. Plaintiff had been in jeopardy of losing <vw.net> by application of those policies. It commenced an action under the newly enacted ACPA to prevent

Network Solutions from transferring the domain name and for vindication that its registration was not unlawful. The district court held that it was unlawful, and the circuit court affirmed.

The real property metaphor was then taken up by the U.S. Court of Appeals for the Ninth Circuit in an influential California case, *Kremen v. Cohen*, 337 F.3d 1024, 1030 (9th Cir. 2003), which had to decide whether an unauthorized transfer of a domain name was an actionable conversion. Quoting the court, the factual circumstances were "bizarre." The registrar (Network Solutions once again at the center of the lawsuit) transferred Gary Kremen's <sex.com> to a company controlled by Stephen Cohen (a convicted felon—"he was doing time for impersonating a bankruptcy lawyer") after receiving a letter from the company purporting to own the domain name. NSI transferred the domain name without advising Kremen or investigating whether Cohen was authorized to take control of it.

Although Kremen prevailed in the district court against Cohen—by then a "fugitive from justice"—he was unsuccessful against NSI. The district court held that "the tort of conversion does not apply [to intangible property]."

The Ninth Circuit disagreed. Domain names are like real property. It held that "[r]egistering a domain name is like staking a claim to a plot of land at the title office. It informs others that *the domain name is the registrant's and no one else's*" (emphasis added). It held further that, "some domain names may constitute intellectual property, as visitors to the website begin to associate the domain name with the entity whose website is connected to that domain name."

Domain Names as Plots of Land

Charging language with metaphor so explicitly to connect domain names and real property as the courts did in *Virtual Works* and *Kremen* liberated the discourse by reorienting how domain names were to be regarded in their economic role. Domain names were more than contracts for services or postal addresses; they were like "plots of land."

Under the right circumstances they could also be intellectual property. In fact, the Kremen court expressly held that Kremen had an "intangible property right in his domain name, and a jury could find that Network Solutions 'wrongful[ly] dispos[ed] of' that right to his detriment by handing the domain name over to Cohen." If one can own a domain name in the same way that one can own real property—the rights of both are registered—then its value can be quantified through third-party interest in acquiring it.

This view was further advanced in a 2004 bankruptcy case, *In re Koenig*, 2004 WL 3244582 (Bkrtcy. M.D. La.). The Louisiana bankruptcy court expressly relied on *Kremen* in holding that "a domain name *and the contractual right to use that name are property rights* under Louisiana law" (emphasis added). The bankruptcy estate allegedly assigned <smartdiscipline.com> and the corresponding service mark to a family member for little or no consideration.

The court held the assignment was void as a matter of law and decreed that the domain name which included the "contractual right to use that name" be turned over to the trustee. Although it was not a garnishment case the court's endorsement of *Kremen* was a further erosion of the contracts-for-services concept and a corresponding strengthening of the view of domain names as assets. If domain names are not tied to contracts that service them there is no "knotty problem" (the Dorer dilemma) and their transfer can simply be effected by transferring their ownership on the books of the registrar.

The next steps after *Kremen* also came in California cases. A state court in 2009 rejected an application to turn over a domain name, *Palacio Del Mar Homeowners Ass'n v. McMahon*, 174

Cal.App.4th 1386, 1391 (Cal.Rptr.3d 445 (2009) and in the following year a Ninth Circuit decision, *Office Depot v. Zuccarini*, 621 F.Supp.2d 773, 778 (N.D. Cal. 2007), aff'd 596 F.3d 696 (9th Cir. 2010) ruled domain names are garnishable. *Palacio Del Mar* involved a straightforward money judgment. Plaintiff applied for an order, but the court held that "domain names do not constitute property subject to a turnover order because they cannot be taken into custody." The distinction here is between a "turnover order" and garnishment.

The plaintiff in *Office Depot* also had a money judgment, but it arose out of a cybersquatting claim. Debtor, notorious in the annals of such claims, owned numerous domain names. Plaintiff applied for the appointment of a receiver to take possession of defendant's domain names to satisfy its money judgment against him (it had already been denied a turnover order). The court held, first, that the domain names were garnishable on authority of *Kremen*. It also held that "[D]omain name[s] [are] subject to receivership in the district of [the] domain name registrar."

In reaching this conclusion the court in *Office Depot* had to explain why its decision was not inconsistent with California law as determined in *Palacio Del Mar*. It reasoned that the state court "based its holding on a reading of California Civil Procedure Code §699.040, which provides that, with respect to a turnover order, property must be levied upon by taking it into custody. However, the court left open the question whether domain names constitute intangible property generally, and it cited *Kremen* with approval. Moreover, the 'taking it into custody' language in §699.040 does not appear in §708.620, which governs the appointment of receivers." Accordingly, the court concluded "that *Kremen* is still an accurate statement of California law, and that domain names are intangible property subject to a writ of execution."

Conclusion

It is obvious that domain names play two different roles in the Internet ecology. In their functional role they are like telephone numbers. If they are simply and no more than contracts for services enabling Internet connections, they would not be garnishable. But if they are property, they are garnishable. The role that elevates them to property results from their range of economic activity in that ecology.

While this separation of function and value was quickly recognized (as presciently noted in *Dorer*) it necessitated a reorientation to fully understand that the contracts that serviced domain names are not tied irrevocably to the original registrant but are alienable. Virginia notwithstanding, recognizing domain names as property means they will be treated as any other assets owned by judgment debtors.

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