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Bright Ideas

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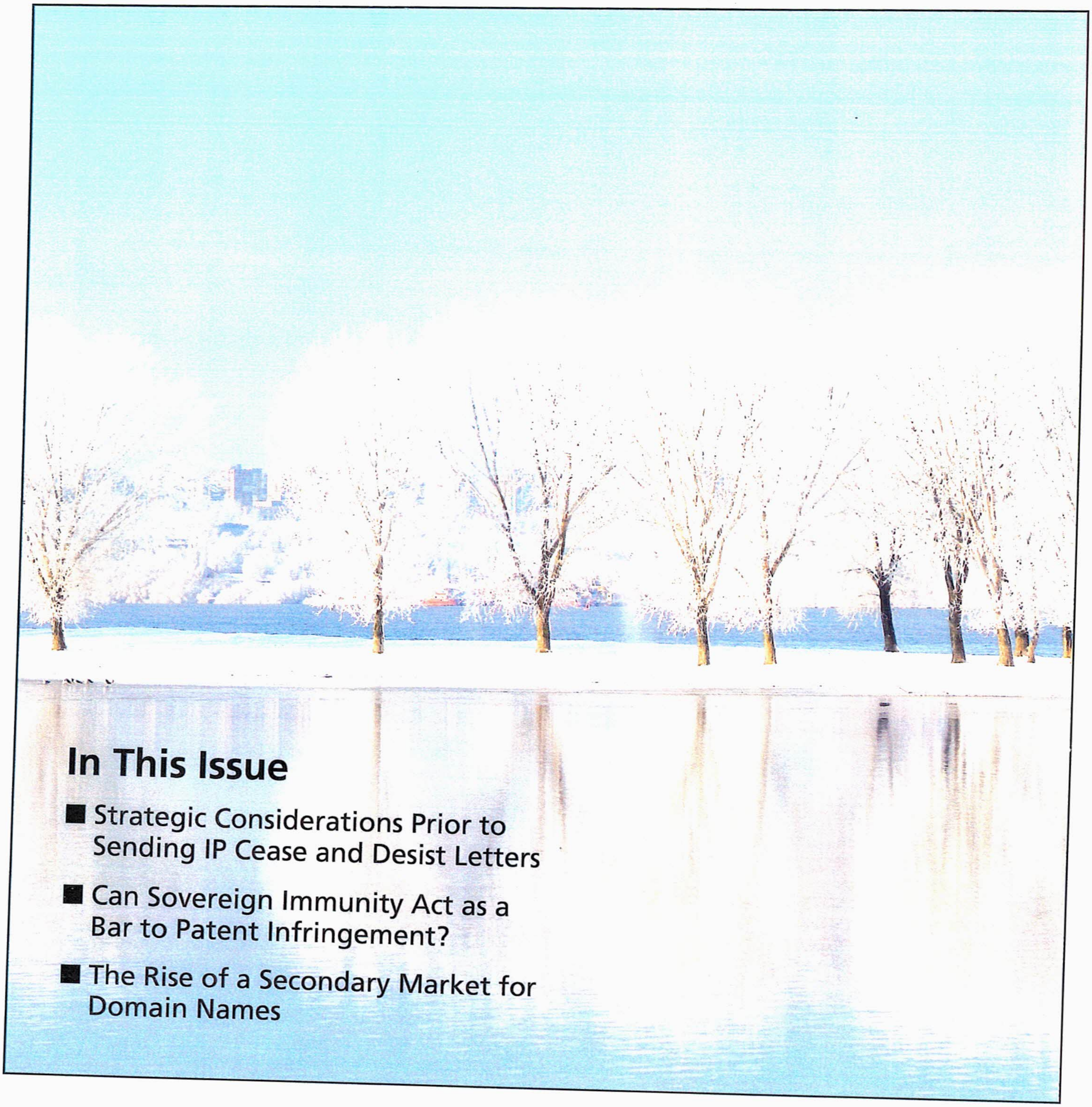

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The Rise of a Secondary Market for Domain Names: A Tale of Competing Interests

By Gerald M. Levine

I. Introduction

The Trademark Act of 1946 defines trademarks and service marks to include "any word, name, symbol, or device, or any combination thereof."[1] Marks composed of lexical and numeric elements (as opposed to images) also can be described as strings of characters. Before the internet there was no commercial use of such strings other than as marks, but the functionality of the internet depends on strings of lexical and numeric characters in the form of domain names that serve as electronic addresses. A domain name is an "alphanumeric designation."[2] These designations are essentially the result of transforming the vocabulary of 0s and 1s into "human-friendly forms."[3] Without this technical legerdemain the internet would be unworkable.

In their native habitats no one would confuse marks and domain names, but for navigating on the internet, their difference is narrowed to their functionality "as part of an electronic address." This raises the specter of marks and domain names being confused with each other. And herein lies the seed of their owners' competing interests. Mark owners are entitled by law to exclusive use of their marks in commerce, which includes the virtual marketplace, but these rights now must be balanced against those of domain name holders who may have lawfully registered the same characters as domain names.

In their separate dominions, marks and domain names can be valuable property. The conflict occurs when domain name owners (1) have registered strings identical or confusingly similar to marks; (2) lack rights or legitimate interests in them; and (3) have registered and are using them in bad faith. The resolution of such disputes requires a balancing of each party's rights. There is nothing in the law that necessarily prohibits persons from registering strings of lexical or numeric characters identical or confusingly similar to marks, but it is unlawful for investors to acquire domain names for the sole purpose of capitalizing on the goodwill and reputation of corresponding marks.

Soon after the introduction of the internet, and increasingly after investors began realizing that web addresses were potentially valuable assets (sometimes even before mark owners came to the same realization only to find themselves under siege), they went on acquisition sprees for domain names composed of generic terms, which occasionally brings them into conflict with mark owners. As I will explain more fully below, the value of domain names for investors is principally realized in two commercial ways: (1) monetizing through pay-per-click advertising and (2) reselling them.

My focus in this article is on sales of domain names through a secondary market that is now well established and thriving. It is a curious fact, and may come as a surprise, that the emergence and rise of this secondary market for domain names has been facilitated by panelists adjudicating disputes under the Uniform Domain Name Dispute Resolution Policy (UDRP). In what follows, I will examine how panelists appointed to hear cybersquatting complaints created a body of law that has helped the domain name secondary market to thrive.

II. Origins of the Competition

Before the internet, the sole competition for strings of characters employable as marks was other businesses vying to use the same strings for their own products and services. National registries solved this competition by allowing businesses in different channels of commerce to register the same strings (Delta Airlines/Delta Faucets, Apple Computers/Apple Vacations, etc.) but prohibiting competitors in the same industries from using identical or confusingly similar marks on the grounds that they were likely (at best) to create confusion and (at worst) to deceive the public. Marks by which merchants, manufacturers, traders, and service providers are known are intended to be the exclusive names of the first users in commence, who have the legal right to seek to punish infringers.

However, the emergence of an investor class dedicated to acquiring addresses in cyberspace disrupted mark owners' privileged position by mining strings of lexical and numeric characters they thought had value separate from their value as marks (while not excluding the possibility that the strings also may be attractive to brands searching for marks). The domain business has grown from a niche into an industry which, like the real estate market (to which it has been analogized), has developed a range of secondary service providers (databases, brokers, escrow agents, etc.) established to perform due diligence, facilitate sales, mitigate risks, and assure smooth closings and transfers of property.

This secondary market in domain names matured over time to compete with businesses and mark owners in a way that could hardly have been imagined, and to some

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mark owners continues to be bewildering. That there was tension between owners of trademarks and registrants of domain names became evident once the internet began its ascendancy. This reached a point of urgency in 1998 with the publication of a United States Government White Paper analyzing the nature of the problem.[4] The White Paper led the World Intellectual Property Organization (WIPO) to convene panels of representatives from different constituencies and interests for a two-year study of issues arising from the intersection of trademarks and domain names. The consensus reached by these constituencies, together with their reasoning and recommendations, is contained in a Final Report published in 1999.[5]

The Final Report proposed a rights-protection mechanism for marks that the Internet Corporation for Assigned Names and Numbers (ICANN) implemented in the Fall of 1999 as the UDRP. In the same time frame, President Clinton signed into law an amendment to the Lanham Act, the Anticybersquatting Consumer Protection Act (ACPA), which created a statutory remedy for cybersquatting.

The Final Report, echoing the White Paper, found:

> It has become apparent to all that a considerable amount of tension has unwittingly been created between, on the one hand, addresses on the Internet in a human-friendly form which carry the power of connotation and identification and, on the other hand, the recognized rights of identification in the real world.[6]

This tension, the Final Report continued, "has been exacerbated by a number of predatory and parasitical practices that have been adopted by some to exploit the lack of connection between the purposes for which the DNS was designed and those for which intellectual protection exists."[7] The intention (in the words of the Final Report) was "to find procedures that will avoid the unwitting diminution or frustration of agreed policies and rules for intellectual property protection."[8]

Important to bear in mind, however, is that there is a countervailing policy. WIPO also recognized that mark owners were not the only ones with rights:

> [T]he goal of this WIPO Process is not to create new rights of intellectual property, nor to accord greater protection to intellectual property in cyberspace than that which exists elsewhere. Rather, the goal is to give proper and adequate expression to the existing, multilaterally agreed standards of intellectual property protection in the context of the new, multijurisdictional and vitally important medium of the Internet. . . .[9]

There is nothing in the Final Report that specifically contemplates a secondary market in domain names. This point is underscored in a recent UDRP decision involving a combination of dictionary words "print" and "factory." A three-member Panel noted in denying an application for reverse domain name hijacking that "the domaining business was not an activity which was intended when the Domain Name System was created . . . and trademark holders keep being surprised by speculative business models that are developed around the scarce resource that domain names are."[10] Although it was not intended, there was consensus that ownership of marks did not equate to a superior right to corresponding domain names absent proof of registration and use in bad faith.

In fact, the direction of domain name jurisprudence through dispute resolution under the UDRP has been to delineate and define the conflicting rights, and for marks this delineation has turned out to be more confined than what some owners would have wished for—and then what had existed for hundreds of years before the Internet. This is apparent in a further statement in the Final Report, namely, that the emerging jurisprudence will be "concerned with defining the boundary between unfair and unjustified appropriation of another's intellectual creations or business identifiers."[11]

The situation I am describing mainly affects two types of complainants: owners of marks that are on the weak end of the spectrum and new businesses that are searching for the right mark or that may have already registered a mark but find that investors got there first by registering corresponding domain names that now are unavailable except at a market price. I do not include in my discussion owners of marks postdating the registration of corresponding domain names because they have no actionable claim for cybersquatting under the UDRP or the ACPA.

III. Domain Names as Virtual Real Estate

The way the internet operates drove a wedge between strings of lexical and numeric characters used as marks and alphanumeric strings used as addresses. Domain names were descried by Steve Forbes in a 2007 press release as virtual real estate. It is, he said, analogous to the market in real property: "Internet traffic and domains are the prime real estate of the 21st century."[12]

Mr. Forbes was not the first to recognize this phenomenon. In a case decided in 1999 (the same year ICANN implemented the UDRP), a federal district court presciently observed that "[s]ome domain names . . . are valuable assets as domain names irrespective of any goodwill which might be attached to them." The court continued: "Indeed, there is a lucrative market for certain generic or clever domain names that do not violate a trademark or other right or interest, but are otherwise extremely valuable to Internet entrepreneurs"[13]

I have already mentioned the reason they are valuable, but how have they become so? The answer (I think) lies in the commodification of words and letters. Before the internet, businesses had the luxury of drawing on cultural resources of such depth (dictionaries, thesauruses, and lexicons, among them) that it never appeared likely they would ever be exhausted or "owned." However, what was once a "public domain" of words and letters has become commodified, as investors became increasingly active in vacuuming up every word in general and specialized dictionaries, as well as registering strings of arbitrary characters that also can be used as acronyms. Even the definite article "the" is registered—the.com—although it has never been the subject of a cybersquatting complaint. The WhoIs directory shows that it was registered in 1997 and is held anonymously under a proxy. The result of commodifying words and letters is that investors essentially control the market for new names, particularly for dot com addresses, which remain by far the most desirable extension. This is what the panel meant when it stated that domain names are a "scarce resource."

As the number of registered domain names held by investors has increased, the free pool of available words for new and emerging businesses has decreased. Put another way, there has been a steady shrinking of the public domain of words and letters for use in the legacy spaces that corresponds in inverse fashion to the increase in the number of registered domain names.[14]

This is not to criticize investors who have legitimately taken advantage of market conditions. They recognized and seized upon an economic opportunity and by doing so created a vibrant secondary market. Nevertheless, as I have already noted, the emergence and protection of this market for domain names has been facilitated by panelists working to establish a jurisprudence that protects both mark owner and investors.

IV. Facilitating the Secondary Market

The defining of rights in the UDRP process is precisely what WIPO and ICANN contemplated, but it is unlikely they foresaw the direction of the jurisprudence. Since its inception, UDRP Panels have adjudicated over 75,000 disputes, some involving multiple domain names. (These numbers, incidentally, are a tiny fraction of the number of registered domain names in legacy and new top level domains, which exceeded 320 million in the first quarter 2017). However, roughly 90 percent of UDRP decisions can be discounted because respondents have no defensible claim to accused domain names and do not even bother to appear or argue that they do. I do not regard this class of registrants as entrepreneurs (which I reserve for the investor class) but rather as bottom feeders, although there are some who fancy themselves to be acting in good faith when the evidence is clearly against them.

The development of domain name jurisprudence insofar as drawing the boundaries of rights is therefore based on some 10 percent of the adjudicated disputes. Panels began parsing rights in the first year of the UDRP, and they have not stopped. In the first denial (the fifth filed complaint), the respondent acquired the domain names before the complainant rebranded its business with knowledge that the corresponding domain names were unavailable.[15] The respondent-investor had priority, and it prevailed.

This was quickly followed by another dispute in which the mark owner had priority, but the domain name was composed of a dictionary word, "allocation." The panel explained that the difficulty lay in the fact that

> the domain name allocation.com, although descriptive or generic in relation to certain services or goods, may be a valid trademark for others. This difficulty is [com]pounded by the fact that, while "Allocation" may be considered a common word in English speaking countries, this may not be the case in other countries, such as Germany.[16]

The panel found that the registration and offering for sale of allocation.com constituted a legitimate interest of the respondent in the domain name, although it would be "different if it were shown that allocation.com has been chosen with the intent to profit from or otherwise abuse Complainant's trademark rights." The complainant offered no evidence of "intent to profit," and its complaint was, accordingly, denied.

Chief among the principles of domain name jurisprudence for investors are rights or legitimate interests founded on (1) a "first-come, first-served" basis (not necessarily limited to registrations postdating marks' first use in commerce); (2) registration of generic strings used (or potentially usable) in noninfringing ways for their semantic or ordinary meanings; and (3) making bona fide offerings of goods or services (which by consensus includes pay-per-click websites and reselling domain names on the secondary market).

Thus, as a general matter it is not unlawful to have registered successbank.com following its abandonment by a bank known before its merger with another financial institution as "Success National Bank."[17] The complainant's rebranding to SUCCESS BANK notwithstanding, it had no right to a lawfully registered domain name even though the second level domain is identical to its mark. Nor is it unlawful to register a geographic indicator—a cambridge.com for example—where the resolving website is devoted to providing information about Cambridge.[18] Cambridge University may have a 700-year history of marketing its services, but the domain name does not violate its statutory rights.

There was a momentary setback in a dispute over the word "crew"[19] in 2000. The panel majority found that the respondent was "a speculator who registers domain names in the hopes that others will seek to buy or license the domain names from it" and awarded the domain name to the clothier that owned the mark. A vigorous dissent took the position that has become the consensus opinion of panelists that "speculating" in domain names is not abusive per se. This is demonstrated in later cases such as shoeland.com (2009) in which the panel held that "registering such a generic domain name is a business practice that confers upon the practitioner rights or legitimate interests in that domain name."[20]

This delineation of parties' respective rights has been continually reinforced, and it is now well established that mark owners have no right to corresponding domain names unless they can prove cybersquatting, which is increasingly difficult to establish with weak marks. This is reflected in a number of recent UDRP decisions. For example, in *J.D.M. Software B.V. v. Robert Mauro, WDINCO* (decided in the respondent's favor over a strong dissent) the complainant alleged that "JDM" infringed its Benelux Trademark, which, the respondent countered, was a simply desirable string of letters for businesses in many different lines of trade.[21] The complainant argued that

> the use of the disputed domain name to resolve to a website with PPC links and an offer to sell the disputed domain name at what the Complainant characterises as a "clearly disproportionate price" cannot be considered a good faith offering of goods or services under the Policy.

However, neither pay-per-click links nor the "clearly disproportionate price" are factors in determining bad faith where the registration is lawful. The panel held that "the evidence shows [JDM as having] a very wide range of potential associations and is in fact in use by numerous businesses other than the Complainant."

The consensus view is set forth in the newly released (May 2017) WIPO Overview 3.0, which the *J.D.M.* panel noted "fairly summarizes the weight of UDRP panel decisions" on this issue:

> [T]he use of a domain name to host a parked page comprising PPC links does not represent a *bona fide* offering where such links compete with or capitalize on the reputation and goodwill of the complainant's mark or otherwise mislead Internet users. [22]

However, where the links do not "compete with or capitalize on the reputation and goodwill of the complainant's mark," the registration is not unlawful.

Trademark owners have adjusted to this. While the number of registered domain names has increased exponentially, the number of UDRP complaints has remained steady over the last decade at around 5,000 per year. Where the disputed domain name consists of dictionary words, generic terms, descriptive phrases, or random letters, and the complainant contacts the respondent to negotiate purchasing the domain name, the respondent has every right to capitalize on the inherent value of the lexical string regardless of whether the domain name is identical or confusingly similar to the complainant's mark.

The final point to be made is that the value of domain assets is market driven. Since dictionary words (alone or with qualifying words), descriptive phrases, and many combinations of random letters useful as acronyms are already unavailable for the dot com space, new businesses are compelled to buy domain names from investors and bid through auction websites. As noted, claims of outlandish, exorbitant, and unreasonably high prices are not a factor in proving bad faith, as several other recent cases make abundantly clear.

For example, for countryhome.com the panel held that the price "show[s] a reasonable business response to an inquiry about purchasing a business asset."[23] For babyboom.com the panel held that "[i]n the absence of any evidence from the Complainant that the Respondent had registered the disputed domain name with reference to the Complainant, the Respondent was fully entitled to respond to the unsolicited approach from the Complainant by asking whatever price it wanted for the disputed domain name."[24] And for coldfront.com, the panel held that "[i]f the Respondent has legitimate interests in the domain name, it has the right to sell that domain name for whatever price it deems appropriate regardless of the value that appraisers may ascribe to the domain name."[25]

V. Conclusion

When competitors vie for the same commodity, it becomes increasingly scarce.[26] Counter-intuitive though it may sound, and for the reasons I have explained, the cultural resources from which names were once mined has become exhausted. Where there is opportunity to create demand (by buying up addresses and controlling supply), there is bound to develop a business niche, which for the internet is filled by investors of different ranks.

The hard lesson for businesses is that investors have competing rights. When it comes to advising clients, the best counsel can do is urge them not to register marks before acquiring corresponding domain names. For businesses with newly minted marks with no corresponding domain names, there is no legal remedy except to pay the pipers who had the prescience to register desirable names and are holding them for resale at (sometimes) "exorbitant," "excessive," and "unreasonable" prices.[27]

Endnotes

1. 15 U.S.C. § 1127, Construction and Definitions.
2. *Id.* ("The term 'domain name' means any alphanumeric designation which is registered with or assigned by any domain name registrar, domain name registry, or other domain name registration authority as part of an electronic address on the Internet.").
3. *The Management of Internet Names and Addresses: Intellectual Property Issues, Final Report of the World Intellectual Property Organization Internet Domain Name Process* (Apr. 30, 1999), ¶ 22. The report is hereinafter referred to as the WIPO Final Report. It is available on the Internet at http://www.wipo.int/amc/en/processes/process1/report/finalreport.html.
4. Statement of Policy on the Management of Internet Names and Addresses, U.S. Department of Commerce, National Telecommunications and Information Administration (June 5, 1998) (White Paper). The Policy is available on the Internet at http://www.ntia.doc.gov/federal-register-notice/1998/statement-policy-management-internet-names-and-addressesere.
5. WIPO Final Report, *supra* note 3.
6. *Id.* ¶ 22.
7. *Id.* ¶ 23.
8. *Id.* ¶ 34.
9. *Id.*
10. *Aurelon B.V. v. AbdulBasit Makrani*, D2017-1679 (WIPO Oct. 30, 2017).
11. *Id.* ¶ 13.
12. Further, "[t]his market has matured, and individuals, brands, investors and organizations who do not grasp their importance or value are missing out on numerous levels." Reported in circleid.com at http://www.circleid.com/posts/792113_steve_forbes_domain_name_economics/.
13. *Dorer v Arel*, 60 F. Supp. 2d 558 (E.D. Va. 1999).
14. *See* 848 F.3d 292, 121 U.S.P.Q.2d 1586 (4th Cir., 2017). The evidence in that case indicated that "99% of all registrar searches today result in a 'domain taken' page." The Court noted further that "Verisign's own data shows that out of approximately two billion requests it receives each month to register a .com name, fewer than three million—less than one percent—actually are registered."
15. *Telaxis Communications Corp. v. William E. Minkle*, D2000-0005 (WIPO Mar. 5, 2000) (telaxis.com and telaxis.net).
16. *Allocation Network GmbH v. Steve Gregory*, D2000-0016 (WIPO Mar. 24, 2000).
17. *Success Bank v. ZootGraphics c/o Ira Zoot*, FA0904001259918 (Forum June 29, 2009) (Rebranding to SUCCESS BANK without due diligence of the corresponding domain name).
18. *The Chancellor, Masters and Scholars of the University of Cambridge v. Kirkland Holdings LLC*, D2015-1278 (WIPO Oct. 5, 2015) (cambridge.com. The three-member Panel criticized Complainant's counsel for "exceed[ing] the bounds of advocate's hyperbole."
19. *J. Crew International, Inc. v. crew.com*, D2000-0054 (WIPO Apr. 20, 2000) (crew.com).
20. *Shoe Land Group, supra; X6D Limited v. Telepathy, Inc.*, D2010-1519 (WIPO Nov. 16, 2010) ("Due to the commercial value of descriptive or generic domain names it has become a business model to register and sell such domain names to the highest potential bidder.").
21. D2017-1182 (WIPO Aug. 23, 2017).
22. Paragraph 2.9 and for acronyms 2.10.2. The current version of the Overview is available at http://www.wipo.int/amc/en/domains/search/overview3.0/.
23. Decisions too numerous to cite, but representative examples from the first year of the UDRP include *Meredith Corp. v. CityHome, Inc.*, D2000-0223 (WIPO May 18, 2000) ("The fact that Respondent is seeking substantial money for what it believes to be a valuable asset is not tantamount to bad faith.").
24. *Wirecard AG v. Telepathy Inc., Development Services*, D2015-0703 (WIPO June 22, 2015).
25. *Personally Cool Inc. v. Name Administration Inc. (BVI)*, FA 1474325 (Forum Jan. 17, 2013) (coldfront.com).
26. *See Shoe Mart Factory Outlet, Inc. v. DomainHouse.com, Inc. c/o Domain Administrator*, FA0504000462916 (Forum June 10, 2005) ("With all due respect to my brother Panelists, I must dissent. As an overall matter, I believe the UDRP was designed to regulate a scarce resource (domain names) rather than to provide a mechanism to protect registered trademarks"); *Micah Hargress v. Paramount Internet*, FA1509001638609 (Forum Nov. 13, 2015) (hargress.com. "Respondent is in the business of registering valuable non-infringing generic domain names and surnames because Respondent knew that they are inherently scarce, attractive, and useful to many parties and it is a fully acceptable practice in the domain name industry, consistent with UDRP guidelines and established precedents.").
27. *See Shesafe Pty Ltd v. DomainMarket.com*, D2017-1330 (WIPO Aug. 22, 2017) (shesafe.com). Before Respondent received the complaint it was offering shesafe.com for around $10,000 dollars. Following its dismissal, the value of the domain name escalated into the stratosphere as graphically described in a post on DomainGang: "Since the decision, Mike Mann has jacked up the price **tenfold**, seeking now **no less than $94,888 dollars!**" (bolding in original).