

Fall 2004

## Virtual Property: The Challenges of Regulating Intangible, Exclusionary Property Interests such as Domain Names

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### Recommended Citation

David Nelmark, *Virtual Property: The Challenges of Regulating Intangible, Exclusionary Property Interests such as Domain Names*, 3 Nw. J. TECH. & INTELL. PROP. 1 (2004).  
<https://scholarlycommons.law.northwestern.edu/njtip/vol3/iss1/1>

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N O R T H W E S T E R N  
JOURNAL OF TECHNOLOGY  
AND  
INTELLECTUAL PROPERTY

Virtual Property:  
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Property Interests Such as Domain Names

*David Nelmark*

Fall 2004

VOL. 3, NO. 1

# Virtual Property: The Challenges of Regulating Intangible, Exclusionary Property Interests Such as Domain Names

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## I. INTRODUCTION

¶1 Property has traditionally been classified as either tangible or intellectual.<sup>1</sup> Laws protecting the former prohibit such things as stealing or vandalizing another’s physical possessions, while laws protecting the latter prohibit the copying or misappropriation of another’s thoughts, creativity, and hard work.<sup>2</sup> While it may be difficult to sub-classify something within a category—such as determining whether software should be protected by copyright law or patent law—there is generally no debate over the concept that traditional property law protects the physical computer disk, while some form of intellectual property law is best suited to protect the disk’s underlying contents.

¶2 This article seeks to identify a new class of “virtual property” that defies even this basic categorization. Part I of the article defines virtual property and explains the

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<sup>1</sup> See generally Saul Levmore, *Property’s Uneasy Path and Expanding Future*, 70 U. CHI. L. REV. 181 (2003).

<sup>2</sup> See Lawrence Lessig, *Symposium: Cyberspace and the Law: Intellectual Property and Code*, 11 ST. JOHN’S J.L. & COMM. 635, 638 (1996).

characteristics that make it a poor fit for traditional property categories. Part II discusses the issues that will have to be considered in developing new regulations for virtual property. To shed light on this new type of property and the problems inherent with trying to understand and govern it using existing property molds, Part III of the article takes an in-depth look at the most famous form of virtual property—the Internet domain name. This section constitutes the bulk of the article and is meant to serve as a case study for the broader world of virtual property. An analysis of domain names provides a great deal of insight into the challenges of regulating virtual property for a number of reasons. First and foremost, the value of domain names has resulted in a great deal of discussion about their use. Second, the government and private parties have tried to regulate the use of domain names in a number of different ways, including the use of pre-existing trademark laws, the use of slightly altered trademark laws, and finally with completely new laws designed to deal specifically with domain names. Third, domain names are governed both by legislation and by private agreements between registrars and registrants. Fourth, an analysis of the laws governing domain names reveals a number of unanswered questions involving third parties. Part IV considers some of the issues involved in regulating privately granted virtual property interests.

¶3 By looking to and learning from the domain name experience, scholars and lawmakers will hopefully be able to better cope with the problems and opportunities that future types of virtual property will present.

## II. DEFINING VIRTUAL PROPERTY

¶4 This article defines “virtual property” as any property interest that is both intangible and exclusionary.<sup>3</sup> The first characteristic distinguishes this class of property from traditional (or real) property, while the second distinguishes it from intellectual property.<sup>4</sup> Although technological advancements did not solely create this class, it is technology that is causing the class to expand. Accordingly, understanding the characteristics of the class will be increasingly important as technology continues to advance.

¶5 Virtual property predates the Information Age. One early form of virtual property is the set of screen names handed out by the Screen Actors Guild (“SAG”) to its

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<sup>3</sup> To my knowledge, the term “virtual property” has not yet been used in legal scholarship with a similar definition. It has, however, been used to describe intangible financial assets such as stocks and bonds, Ray August, *International Cyber-Jurisdiction: A Comparative Analysis*, 39 AM. BUS. L.J. 531, 548 (2002); all of the assets of Internet companies, Marjorie Chertok and Warren E. Agin, *Restart.com: Identifying, Securing, and Maximizing the Liquidation Value of Cyber-Assets in Bankruptcy Proceedings*, 8 AM. BANKR. INST. L. REV. 25, 263 (2000); children (as the virtual property of their parents), Wendy Anton Fitzgerald, *Maturity, Difference, and Mystery: Children’s Perspectives and the Law*, 36 ARIZ. L. REV. 11, 102 (1994); property bought and sold within the context of the virtual environments of online, multi-player adventure games, F. Gregory Lastowka and Dan Hunter, *The Laws of the Virtual Worlds*, 92 CAL. L. REV. 1 (2004); and pseudo-property interests. Madhavi Sunder, *Authorship and Autonomy as Rites of Exclusion: The Intellectual Propertization of Free Speech in Hurley v. Irish-American Gay, Lesbian and Bisexual Group of Boston*, 49 STAN. L. REV. 143, 168 (1996) (“[T]he law intervened by granting a virtual property right to Veteran speakers. . .”).

<sup>4</sup> Songs, books and other forms of intellectual property are distinguished from tangible property, like a car, which can only be driven by a single person, or a loaf of bread, which is of no use after it is consumed. The value of intellectual property is maintained, and in many cases increased, as it is used by multiple people. See Lessig, *supra* note 2.

members.<sup>5</sup> The names are obviously intangible, and they are also exclusionary. Rule 15 of SAG’s Rules and Regulations states: “It is the Guild’s objective that no member use a professional name which is the same or resembles so closely as to tend to be confused with the name of any other member.”<sup>6</sup> It was this rule that required former Miss America Vanessa Williams to begin going by Vanessa L. Williams when she began making films.<sup>7</sup> A more recent form of intellectual property is the “keywords” system of America Online (“AOL”) that allows users to type a word in a designated field and be directed by AOL to a particular website.

¶16 The impacts of these practices are somewhat limited because the scope of these virtual property interests are limited. SAG cannot prevent Mr. and Mrs. Roberts from naming their new daughter Julia—it can only prevent a new SAG member from using that name in a film. Likewise, AOL cannot prevent other Internet search engines from selling ad space linked to the same keywords it uses in its system.<sup>8</sup> Other forms of virtual property, such as a vanity phone number like 777-FILM, are exclusionary within a particular region.<sup>9</sup> The most famous form of virtual property, the Internet domain name, is exclusionary throughout the world.

¶17 Virtual property is also distinguishable from intellectual property in that virtual property rights can be granted by an organization or private corporation other than the government.<sup>10</sup> A SAG member’s virtual property interest is enforceable because of the enumerated rights accompanying membership in the organization. A company’s ability to have an AOL keyword pointed to its website is guaranteed by a contract it signs with AOL. These rights are very different than the traditional intellectual property interests granted by governments to promote a particular interest.

¶18 Copyrights and patents are granted by the government to give authors and inventors incentives to create new products, processes, and works of art for the public’s benefit. Similarly, trademarks are granted to give companies incentives to foster goodwill and to prevent consumer confusion as to the source of goods.<sup>11</sup> Yet, for virtual property, there is no “sweat of the brow” involved in creation and thus no real need for the government to

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<sup>5</sup> The British actors’ union, Equity, has a similar system. [THEFREEDICTIONARY.COM at http://encyclopedia.thefreedictionary.com/stage%20name](http://encyclopedia.thefreedictionary.com/stage%20name) (last visited Oct. 10, 2004).

<sup>6</sup> Screen Actors Guild Rules and Regulations *available at* [http://www.sag.org/Content/Public/sag\\_rules.pdf](http://www.sag.org/Content/Public/sag_rules.pdf) (last visited Oct. 10, 2004).

<sup>7</sup> TV GUIDE ONLINE, Dec. 13, 2001, *previously available at* <http://www.tvguide.com/movies/flickchick/article.asp?articleID=62961> (on file with author).

<sup>8</sup> Indeed, a now defunct company called RealNames attempted to implement a very similar system for Microsoft Internet Explorer users. *RealNames Shuts Down*, SEOLOGIC.COM, May 13, 2002, *at* <http://www.seologic.com/search-engines/2002-05-13.php> (last visited Oct. 10, 2004).

<sup>9</sup> Things like orbital patterns and e-tickets could also be considered virtual property in that they are exclusionary (only one satellite can move in a particular orbit and only one person can sit in a particular airline seat), but this article excludes such items from consideration because they involve the reservation of a clearly defined area of physical space. Although not tangible, this space functions similarly to a clearly defined, tangible plot of land.

<sup>10</sup> For example, in the United States, patents and trademarks are granted only by the United States Patent and Trademark Office. Although copyright protection attaches automatically to any original work fixed in a tangible form, an author must register the work with the United States Copyright Office prior to bringing a lawsuit for infringement. 17 U.S.C.A. § 411(a) (West 2001). As explained in this section, virtual property rights have been awarded by private organizations including the Screen Actors Guild and America Online.

<sup>11</sup> Michael Tanner, *Trademarks, Internet Domain Names, and the NSI: How Do We Fix a System That Is Already Broken?*, 3 J. TECH. LAW & POL’Y 2, 24 (1998).

provide incentives for its creation.<sup>12</sup> While there is work required to create the infrastructure necessary to dole out something like a keyword, companies like AOL develop systems of virtual property for their own economic gain. Their economic interests, like the interests of those who purchase the keywords, are enough for them to act without additional incentives.

¶9 Virtual property rights are also different from traditional intellectual property rights because they are much easier to obtain. Unlike a trademark or patent, no thorough examination process is required. There is no originality requirement as is required for obtaining a copyright. Generally, all that is required is knowledge of the registration procedures and the ability to pay the associated fees. The ease with which one obtains virtual property does not, however, prevent the property from obtaining a great deal of cultural and economic value.

¶10 Oscar®-winner Julia Fiona Roberts' use of Julia Roberts in the films *Pretty Woman* and *Erin Brockovich* results in her image coming to mind even when someone encounters a very different and less famous Julia Roberts. Likewise, the ability to direct the public to particular content associated with a domain name is accompanied by the ability to shape the public's perception of the terms contained within the domain name.<sup>13</sup> Additionally, the increased brand recognition and consumer traffic that can result from control of a particular domain name has resulted in names like *business.com* being sold for millions.<sup>14</sup> Because virtual property can be so valuable, it is imperative that governments properly regulate its ownership.

### III. REGULATING VIRTUAL PROPERTY.

¶11 In determining how to best regulate virtual property, lawmakers will have to answer many important questions, including: "Who may own an interest in virtual property," "What rights accompany ownership," and "How long should those rights last?" A quick look at traditional and intellectual property laws demonstrates the many options available to lawmakers as they answer these questions.

¶12 Some types of property, such as illegal drugs, cannot be owned at all. Others cannot be owned by particular classes of people, such as felons' inability to possess firearms. Still other items, like automobiles, can be owned by anyone, but must be properly registered to be used. On the intellectual property front, certain marks, such as those deemed to be "scandalous," are also denied trademark protection.<sup>15</sup> Rights accompanying virtual property ownership could be absolute or far more limited. They could include the right to give the interest away, but not to sell it, as is the limitation on

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<sup>12</sup> One could argue that the government originally gave away domain names in an attempt to create network effects and make the Internet a viable means of communication. Even if this proved to be true, no continued incentive would be necessary.

<sup>13</sup> Anupam Chander, *The New, New Property*, 81 TEX. L. REV. 715, 717 (2003) ("The entity controlling a domain name that represents the natural place on the Internet for people to gather information or build community about any particular subject immediately gains a powerful voice in that community, perhaps even the power to help define that subject.").

<sup>14</sup> Christie L. Branson, *Was \$7.5 Million a Good Deal for Business.com? The Difficulties of Obtaining Trademark Protection and Registration for Generic and Descriptive Domain Names*, 17 SANTA CLARA COMPUTER & HIGH TECH L.J. 285, 286 (2001).

<sup>15</sup> 15 U.S.C.A. § 1052(a) (West 2004).

alienating one's internal organs.<sup>16</sup> One who wishes to sell an interest might also have to part with additional assets or goodwill as in trademark law. Additionally, the terms of protection may vary. Patent protection lasts only twenty years from the date of a patent application.<sup>17</sup> Trademarks get a shorter term of protection, but can be renewed indefinitely. Even within the specific realm of copyright, works get different terms of protection depending on whether they are independently authored or made for hire.

¶13 The manner of distributing domain names on a first-come, first-served basis was an arbitrary decision. At the time, such a decision had little importance because no one anticipated that the Internet would become a major element of global commerce.<sup>18</sup> Now that the potential value of virtual property is clear, other distribution methods such as lotteries and auctions should be considered when the next wave of virtual property is developed.

¶14 The most significant legal issue that will have to be faced in recognizing and regulating virtual property is the potential for conflict with trademark rights. The types of virtual property that have been recognized (stage names, keywords, and domain names) all serve as symbols representing a particular person, entity, or idea. As such, it is natural for these signifiers to come into conflict with trademarks that are used to identify the source of goods and services. As explained in depth in Part III.B. *infra*, trademarks frequently come into conflict with domain names. They are also coming into conflict with advertising processes used by Internet search engines. Search engines “key” certain search terms to particular banner ads in an attempt to increase advertising revenue by presenting advertisements that are relevant to a particular user. These keyed search terms, unlike AOL's keywords system, are not exclusionary because they can be linked to multiple banner ads. It is still useful to consider the conflict of these systems with trademark law, however, in that similar lawsuits could soon be brought against those systems that do meet the definition of virtual property.

¶15 Netscape, now owned by AOL, linked advertisements to the search terms “playboy” and “playmate.” Although these terms have basic definitions, they are also trademarks owned by Playboy Enterprises, Inc. (“Playboy”), which brought a suit in June of 1999 in the Central District of California alleging trademark infringement and seeking to enjoin Netscape's advertising practice.<sup>19</sup> The district court denied the injunction on the grounds that Playboy had not shown a likelihood of confusion or trademark dilution and that the First Amendment and fair use protected Netscape's use of these common English-language words.<sup>20</sup> In September of 2000, the district court granted summary judgment for Netscape on similar grounds.<sup>21</sup>

¶16 In January of 2004, the Ninth Circuit reversed the summary judgment ruling, finding that there was an issue of material fact as to whether Netscape's advertising practice created a likelihood of “initial interest confusion.”<sup>22</sup> The court denied Netscape's

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<sup>16</sup> The National Organ Transplant Act, adopted in 1984, prohibits the interstate sale of organs. 42 U.S.C.A. § 274e(a) (West 2004).

<sup>17</sup> 35 U.S.C.A. § 154(a)(2) (West 2001).

<sup>18</sup> Jessica Litman, *The DNS Wars: Trademarks and the Internet Domain System*, 4 J. SMALL AND EMERGING BUS. L. 149, 151 (2000).

<sup>19</sup> *Playboy Enters. v. Netscape Communications*, 55 F. Supp. 2d 1070 (C.D. Cal. 1999).

<sup>20</sup> *Id.* at 1074-75, 1084-87.

<sup>21</sup> *Playboy Enters. v. Netscape Communications*, 2000 WL 1308815 (C.D. Cal. Sept. 13, 2000).

<sup>22</sup> *Playboy Enters. v. Netscape Communications*, 354 F.3d 1020 (9th Cir. 2004).

fair use defense because a “fair use may not be a confusing use.”<sup>23</sup> It denied Netscape’s nominative use defense because the terms were not being used to describe genuine Playboy products.<sup>24</sup> In March of 2004, a similar lawsuit brought by Pets Warehouse against Google was allowed to proceed.<sup>25</sup> Although no one has yet been successful in a lawsuit against a virtual property interest other than domain names, the ability to withstand summary judgment is giving plaintiffs leverage in settlement negotiations.<sup>26</sup>

¶17 The doctrine of initial interest confusion in the context of the Internet was developed in *Brookfield Communications v. West Coast Entertainment*.<sup>27</sup> The Ninth Circuit found that the use of the plaintiff’s trademark, “MovieBuff,” in the defendant’s website metatags would lead consumers to the defendant’s website even though they were searching for the plaintiff’s products.<sup>28</sup> Playboy’s theory rested on the similar idea that, because users searched for the terms playboy or playmate, the users would assume that the resulting banner ads were links to products of Playboy Enterprises. Even if users quickly realize their error, the purveyors of these ads will have already benefited from Playboy’s goodwill. Although the majority holding in *Playboy* does not address the issue, the concurrence wisely suggests that there would likely be no infringement if the “banner ads were labeled or otherwise identified” as not coming from Playboy.<sup>29</sup>

¶18 In cases where a piece of virtual property has a clear notice disclaiming any relation to a trademarked entity, a trademark holder could still potentially succeed in a lawsuit by filing a claim under the Federal Trademark Dilution Act.<sup>30</sup> The FTDA does not require consumer confusion, but simply a showing that the subsequent use of a famous mark “causes dilution of the distinctive quality of the mark.”<sup>31</sup> Some scholars<sup>32</sup> have noted that the probability of success for an action brought under the FTDA has been reduced by the Supreme Court’s 2003 ruling in *Victor’s Little Secret v. Victoria’s Secret Catalogue*.<sup>33</sup> In that case, the Court settled a dispute between the circuits and held that “actual dilution must be established.”<sup>34</sup> While this holding does make it more difficult to succeed with an FTDA action in the real world, it does not have as much significance in the realm of virtual property. The Court went on to say that “direct evidence of dilution such as consumer surveys will not be necessary if actual dilution can reliably be proved through circumstantial evidence—the obvious case is one where the junior and senior marks are identical.”<sup>35</sup> With domain names and other forms of virtual property, it is not unusual for

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<sup>23</sup> *Id.* at 1029.

<sup>24</sup> *Id.*

<sup>25</sup> *Novak v. Overture Servs.*, 309 F. Supp. 2d 446 (E.D.N.Y. 2004). To learn more about Google’s Adwords service visit <https://adwords.google.com/select/> (last visited Oct. 10, 2004).

<sup>26</sup> Matt Hicks, *Playboy Settles Netscape Search Engine Advertising Case*, EWEEK, Jan. 23, 2004, at <http://www.eweek.com/article2/0,1759,1457492,00.asp> (last visited Oct. 10, 2004).

<sup>27</sup> 174 F.3d1036 (9th Cir. 1999).

<sup>28</sup> *Id.* at 1062.

<sup>29</sup> *Playboy*, 354 F.3d at 1035-36.

<sup>30</sup> 15 U.S.C.A. § 1125(c) (West 2004).

<sup>31</sup> *Id.* at (c)(1).

<sup>32</sup> *See, e.g.*, Anupam Chander, *Illegal Art? The Artists’ Group Superflex Co-Opts Global Trademarks*, at [http://writ.corporate.findlaw.com/scripts/printer\\_friendly.pl?page=/commentary/20040513\\_chander.html](http://writ.corporate.findlaw.com/scripts/printer_friendly.pl?page=/commentary/20040513_chander.html) (last visited Oct. 10, 2004).

<sup>33</sup> *See Moseley v. V Secret Catalogue*, 537 U.S. 418 (2003).

<sup>34</sup> *Id.* at 433.

<sup>35</sup> *Id.* at 434 (emphasis added).



an identical trademark to be used. Thus, there is a strong likelihood that such use could result in liability even when consumer confusion is not present.

¶19 Because domain names and AOL keywords are currently made up of only numbers and letters, it is only word marks that are currently being allegedly infringed. As new types of virtual property are developed, it is possible that other types of trademarks, such as symbols or colors, will also be implicated.

#### IV. THE DOMAIN NAME EXPERIENCE

¶20 The Internet domain name is a strange animal. It comes into existence from nothing, but requires almost no effort to be created. It can be bought and sold, but has only a “registrant,” not an owner.<sup>36</sup> Furthermore, its registrant’s rights—unlike almost every other form of property—often turn on the subjective purpose for acquiring it.<sup>37</sup> Looking at society’s many attempts to tame this wild creature can provide insights into how to deal with the other forms of virtual property that currently exist and those that are yet to be developed.

##### A. *The Evolution of Domain Names*

¶21 Domain names have always been incredibly easy to obtain. In the beginning, registration was free. All someone had to do was submit a written application to InterNic.<sup>38</sup> Unless one of the few people responsible for reviewing applications noticed an obvious trademark violation in the name, InterNic registered the domain name to the applicant.<sup>39</sup> In 1993, Network Solutions contracted with the National Science Foundation to take over the domain name registration system.<sup>40</sup> Two years later Network Solutions began charging fees.<sup>41</sup> Originally, the fee was \$50 per year for a minimum term of two years.<sup>42</sup> Today, domains can now be registered for under \$10<sup>43</sup> and registration can be completed online in a matter of minutes. After approving a credit card and running a now-automated check to make sure the domain is not currently registered to someone

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<sup>36</sup> When someone registers a domain name, he or she agrees to be bound by a “service agreement” with the registrar rather than a “purchase agreement.” See Network Solutions’ Service Agreement, at [http://www.networksolutions.com/en\\_US/legal/static-service-agreement.jhtml](http://www.networksolutions.com/en_US/legal/static-service-agreement.jhtml) (updated Sept. 27, 2004). Interestingly, the service agreement for Network Solutions uses the term “owner” to describe the rightful holder of trademark rights, but only “registrant” to refer to the party in control of a domain name. See *id.* at § 6; Schedule B to Network Solutions Service Agreement, at [http://www.networksolutions.com/en\\_US/legal/static-service-agreement.jhtml](http://www.networksolutions.com/en_US/legal/static-service-agreement.jhtml) (updated Sept. 27, 2004).

<sup>37</sup> As discussed in Part III *infra*, according to the Uniform Domain Name Dispute Resolution Policy (“UDRP”), all domain name registrants must agree to allow the domain name to be revoked upon a finding of a “bad-faith” registration. See UDRP paras. 4(a)(iii), 4(i), at <http://www.icann.org/udrp/udrp-policy-24oct99.htm> (as approved by ICANN on Oct. 24, 1999).

<sup>38</sup> Currently, domain names are assigned by Network Solutions or other accredited registrars.

<sup>39</sup> Joshua Quittner, *Billions Registered: Right Now There Are No Rules to Keep You from Owning a Bitchin’ Corporate Name as Your Own Internet Address*, WIRED, Oct. 1994, at 50, 50-51, available at [http://www.wired.com/wired/archive/2.10/mcdonalds\\_pr.html](http://www.wired.com/wired/archive/2.10/mcdonalds_pr.html) (last visited Oct. 10, 2004).

<sup>40</sup> NSF Cooperative Agreement No. NCR-9218742, at [http://www.cavebear.com/nsf-dns/nsf\\_nsi\\_agreement.html](http://www.cavebear.com/nsf-dns/nsf_nsi_agreement.html) (effective Jan. 1, 1993).

<sup>41</sup> Navin Kaytal, *The Domain Name Registration Bizness: Are We Being “Pulled Over” on the Information Superhighway?*, 24 HASTINGS COMM. & ENT. L.J. 241, 248 (2002).

<sup>42</sup> Oppedahl & Larson v. Network Solutions, 3 F. Supp. 2d 1147, 1153 (D. Colo. 1998).

<sup>43</sup> See <http://www.buydomains.com> (last visited Oct. 10, 2004).

else, the registrar lists the applicant as the official registrant of the domain.<sup>44</sup> The registrant then has the right to develop a website, sit on the domain and do nothing, or sell it to the highest bidder.

¶22 Until 1993, the number of domain name registrations was only 200 to 300 a month, but the registration system quickly expanded, and by 2000 the number of domain names being registered had escalated to an average of 10,000 a day.<sup>45</sup> This was due in large part to the expansion of the Internet and the availability of personal computers, but it also had to do with the inherent value of domain names. People quickly realized that like a prime location for a business in the real world, a great domain name could help drive traffic to a particular website. This concept led to a land rush for domain names where speculators sought to buy up the most valuable names and then resell them at a profit.<sup>46</sup> Some domains were resold for millions.<sup>47</sup>

¶23 At first glance a domain name appears to be *res nullius*.<sup>48</sup> No one controls it until it is registered, and anyone with online access and \$20 to spend can register a domain name and appropriate it for their own use.<sup>49</sup> But, upon further examination, some significant differences arise. A domain name registrant does have a property right in the domain<sup>50</sup> and can do many things with it. Unlike someone who appropriates something that is truly *res nullius*, however, the rights of a domain name registrant are not absolute.

¶24 It is significant that Network Solutions' official "WhoIs" Database lists people as "registrants" rather than "owners."<sup>51</sup> People do not purchase domain names from Network Solutions, but rather lease them—implying that ownership still belongs to someone else. Although these leases can range from one to ninety-nine years, the standard agreement that all registrants must sign states that the registrar can change the terms of the lease at any time as long as thirty days' notice is given. The registrant's only recourse is to cancel the registration without refund.<sup>52</sup> Additionally, the registrar can cancel a domain name registration for nonpayment of a renewal fee and can even sell a third-party the conditional right to purchase the domain name,<sup>53</sup> should the registration ever lapse.<sup>54</sup>

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<sup>44</sup> The Internet Corporation for Assigned Names and Numbers ("ICANN") does theoretically prevent registration of some terms. It also requires registrants to adhere to the UDRP and to assert that they are not infringing on anyone's trademark rights.

<sup>45</sup> Olivia Maria Baratta & Dana L. Hanaman, *A Global Update on the Domain Name System and the Law; Alternative Dispute Resolution for Internet Competition—Oh, the Times They are A-Changin'!*, 8 TUL. J. OF INT'L & COMP. L. 325, 330 (2000).

<sup>46</sup> Litman, *supra* note 189.

<sup>47</sup> Business.com sold for \$7.5 million, loans.com for more than \$3 million, and flu.com for \$1.4 million. Jeffrey J. Look, *Law and Order on the Wild, Wild West (WWW)*, 24 U. ARK. LITTLE ROCK L. REV. 817, 845 (2002).

<sup>48</sup> Carol M. Rose defines *res nullius* as: "things that are not by their nature nonexclusive; they have simply not been appropriated by anyone." *Romans, Roads, and Romantic Creators: Traditions of Public Property in the Information Age*, 66 LAW & CONTEMP. PROBS. 89, 92 (2003), available at <http://www.law.duke.edu/journals/66LPCCarolRose> (last visited Oct. 10, 2004).

<sup>49</sup> This idea of the "romantic" first-come, first-served domain name registration system has significant flaws. See Chander, *supra* note 13, at 720.

<sup>50</sup> The Ninth Circuit recognized such a right in *Kremen v. Network Solutions*, 337 F.3d 1024, 1030-31 (9th Cir. 2003).

<sup>51</sup> See any entry by using the WhoIs Database, at [http://www.networksolutions.com/en\\_US/whois/index.jhtml](http://www.networksolutions.com/en_US/whois/index.jhtml) (last visited Oct. 10, 2004).

<sup>52</sup> UDRP, *supra* note 377, at para. 9.

<sup>53</sup> For information on one such service visit Go Daddy.com, at <http://www.godaddy.com> (last visited

¶25 In addition to the question of “ownership,” a domain name registrant’s rights are limited by the rights of trademark owners. It is this limitation that makes the property interest in a domain name uncertain and creates the third party conflicts that this article later explores.

### *B. The Conflict Between Virtual Property Rights in Domain Names and Trademarks*

#### 1. The Application of Traditional Trademark Laws

¶26 As the domain name registration boom began, registrants sought not only the valuable generic names like business.com, but also famous names including the trademarks of well known businesses. A name like mcdonalds.com was valuable for two reasons. First, many of the billions McDonalds® has served might be interested in seeing if the company has an Internet presence. Many of these people might type mcdonalds.com into their web browser looking for the cyber-equivalent of the Golden Arches. This increased traffic can help the registrant of the domain name sell products or services that have no relation to the fast food giant, or it can create independent advertising revenue. The second reason the domain name is valuable is that McDonalds Corporation might want to purchase the domain name to use it for its own website or to prevent it from being associated with a competitor or unseemly online content.

¶27 Many of the domain names initially registered derived all, or at least most, of their value from their incorporation of a company name or other trademark. Accordingly, the holders of these marks sought to prevent the registration of domain names containing these marks. Unfortunately for the trademark holders, traditional infringement actions were not successful against domain name registrants because the trademark owners could not prove the domain names were being “used in commerce,” or because they could not demonstrate a likelihood of confusion.<sup>55</sup> The fortunes of these trademark holders changed dramatically, however, after those entrepreneurs profiting from the domain name systems became known as “cybersquatters.”

#### 2. The History of the Term “Cybersquatter”

¶28 “Cybersquatting” is a loaded term. Its use tips the scales against domain name registrants in their battle with copyright holders before the debate even begins.<sup>56</sup> Thus it is important to consider the origin of the term and how its definition has evolved.

¶29 The Merriam-Webster Online Dictionary defines a “squatter” as “one that settles on property without right or title or payment of rent.”<sup>57</sup> Although the term “cyber-squatter”

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Oct. 10, 2004).

<sup>54</sup> Two registrars have recently announced plans to auction expired domain names rather than returning them to the pool of names available for first-come, first-served registration. ICANN, Advisory: Registrar Expired Name Market Developments, at <http://www.icann.org/announcements/announcement-21sep04-1.htm> (Sept. 21, 2004). Although nothing requires these registrars to share the proceeds with the registrant whose “lease” expired, each plans to do so. *Id.* This brings up an additional question akin to those discussed in Part III.C *infra*. If a domain name had multiple registrants prior to its auction, who among these registrants is entitled to share in the proceeds?

<sup>55</sup> Allon Lifshitz, *Cybersquatting*, 38 HARV. J. ON LEGIS. 529, 531-32 (2001).

<sup>56</sup> This is the same principle that led software and record producers to engage in a massive campaign to label Internet music downloaders as pirates. See Sam Williams, *Profits from Piracy*, SALON.COM (Sept. 26, 2002), at [http://www.salon.com/tech/feature/2002/09/26/piracy\\_unlimited/index.html](http://www.salon.com/tech/feature/2002/09/26/piracy_unlimited/index.html).

had previously been used in another context,<sup>58</sup> the first use of the term in reference to a domain name registrant tracked this traditional definition of a squatter. In June of 1996, a Newsday piece that was widely syndicated<sup>59</sup> used the term to refer to those domain name registrants who were being “evicted” for refusing to pay registration or renewal fees for their domains.

¶30 The first use of the term “cybersquatter” with its modern meaning—someone who registers a domain in the hopes of profiting from goodwill associated with a trademarked term in the name—occurred in a Los Angeles Times article titled “Cyber Squatters Give Carl’s Jr., Others Net Loss.”<sup>60</sup> This article is cited in the first judicial opinion to refer to a cybersquatter.<sup>61</sup> Most of the initial cases litigated involving domain names did not involve the registration of a domain name for the primary purpose of capitalizing on another’s goodwill.<sup>62</sup> But in 1996, the Northern District of Illinois heard the case brought by Intermatic against Dennis Toeppen. At the time of trial, Toeppen had registered more than 240 domain names, most of which contained the names of famous companies.<sup>63</sup> This activity incurred the ire of the district judge, who granted an injunction preventing Toeppen from using the domain names at issue in the case.<sup>64</sup> The judge called Toeppen a cybersquatter and defined the term as an individual who “attempt[s] to profit from the Internet by reserving and later reselling or licensing domain names back to the companies that spent millions of dollars developing the goodwill of the trademark.”<sup>65</sup> The term has since appeared in seventy-eight other opinions.<sup>66</sup>

¶31 Toeppen was not being “evicted” because of a failure to make timely registration payments to Network Solutions. In fact, through his registration fees, he had invested more money in the domain name than Intermatic.<sup>67</sup> Thus he can only be deemed a squatter if one makes the assumption that he never had any rights to register the domain name in the first place. This assumption often follows from the general idea that a

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<sup>57</sup> Search for term “squatter” at <http://www.m-w.com> on Oct. 10, 2004.

<sup>58</sup> The first reference to a “cyber-squatter” was in 1995 in a Los Angeles Times article on Internet discussion groups for children’s television shows. Jaclyn Easton, *When Baby Talk Isn’t Enough*, LOS ANGELES TIMES, Aug. 6, 1995, available at 1995 WL 9814624. It used the term to describe those who hated the Barney television program, but participated in a usenet designed for fans. *Id.* These Barney-haters were squatting since the usenet was not designed for them. *Id.*

<sup>59</sup> Matthew McAllester, *Internet to Toss Out 25,000 Addresses*, DENVER POST, June 23, 1996, available at 1996 WL 6697001.

<sup>60</sup> Greg Miller, *Cyber Squatters Give Carl’s Jr., Others Net Loss*, LOS ANGELES TIMES, July 12, 1996, available at 1996 WL 11004750.

<sup>61</sup> *Intermatic, Inc. v. Toeppen*, 947 F. Supp. 1227 (N.D. Ill. 1996).

<sup>62</sup> In the earliest opinion using the term “domain name,” the defendant registered mtv.com while he was an employee of MTV and asserted that the company had disclaimed any interest in the domain. *MTV Networks v. Curry*, 867 F. Supp. 202, 203-04 (S.D.N.Y. 1994). In many of the other early cases the disputes involved two companies whose names were both similar to the domain name at issue. *See, e.g., ActMedia, Inc. v. Active Media Int’l, Inc.*, No. 96C3448, 1996 WL 466527 (N.D. Ill. 1996).

<sup>63</sup> *Intermatic*, 947 F. Supp. at 1230. For more information on the early exploits of Dennis Toeppen see *Panavision Int’l. L.P. v. Toeppen*, 938 F. Supp. 616 (C.D. Cal. 1996); 945 F. Supp. 1296 (C.D. Cal. 1996); *affirmed by* 141 F.3d 1316 (9th Cir. 1998).

<sup>64</sup> *Id.* at 1241.

<sup>65</sup> *Id.* at 1233.

<sup>66</sup> Based on a search conducted on April 23, 2004, for the terms “cybersquatter” or “cyber squatter” in all state and federal cases. The search yielded the Intermatic case in 1994, 4 cases in 1997, 3 in 1998, 6 in 1999, 16 in 2000, 22 in 2001, 15 in 2002, 9 in 2003, and 3 in 2004.

<sup>67</sup> *Intermatic*, 947 F. Supp. at 1231-32.

trademark owner owns all rights to its particular trademark. This idea, however, does not track the general practice of how trademarks are awarded and used in the United States.

### 3. The Expansion of Trademark Rights

¶32 The registration of a trademark through the United States Patent and Trademark Office (“USPTO”) gives a person or business the exclusive rights to use that mark in conjunction with a particular category of goods. Although the proprietor of a new business can choose any name for this business, this right is limited by the pre-existing rights of trademark owners who can bring legal action to stop the infringement of their mark. The act of choosing and registering a domain name is similar to the act of choosing a new business name, but the rights of trademark holders are actually far superior in the domain name arena. This is ironic given that the trademark system is only supposed to relate to the world of commerce, and domain names do not necessarily have a commercial component.<sup>68</sup> To stop an infringement in the non-domain name context, a trademark holder generally has to show that the allegedly infringing use results in consumer confusion.<sup>69</sup> When a mark is being used on a different class of products than those offered by the trademark owner, such confusion is usually not found unless the mark is particularly fanciful or the alleged infringer copies a package design or engages in other misleading behavior.<sup>70</sup> Unless someone puts competing goods on a website or does something to indicate that the better-known company sponsors or endorses the site, the likelihood of consumer confusion resulting solely from a domain name is very small.

¶33 In part because traditional trademark actions were not successful in the fight against cybersquatters,<sup>71</sup> Congress passed the Federal Trademark Dilution Act (“FTDA”). The FTDA provides for an action against anyone using the mark of a “famous” company based on the theory that the use of such a famous mark necessarily rides on the coattails of the goodwill associated with the mark and lessens the ability of the mark to distinguish the original trademark owner’s goods. FTDA actions were similarly unsuccessful against cybersquatters for the most part, as most trademark holders could not prove their marks had the requisite degree of fame to acquire protection. This led to the passing of the Anti-Cybersquatting Protection Act (“ACPA”).<sup>72</sup>

¶34 The ACPA was passed on November 29, 1999, to, as its name suggests, specifically target the activities of cybersquatters. A plaintiff bringing a claim under the ACPA must show that the defendant had a “bad faith intent to profit from that mark, including a personal name which is protected as a mark under this section.”<sup>73</sup> One factor considered as a sign of bad faith is the registration of a domain name *without* the intent of

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<sup>68</sup> For example, a mark cannot even be registered as a federal trademark if it is not “used in commerce.” 15 U.S.C.A. § 1051(a)(1) (West 2004).

<sup>69</sup> See 15 U.S.C.A. § 1114(1) (West 2004).

<sup>70</sup> See Allan Lee, *Internet Domain Names and the Lanham Act’s Infringement Provisions*, 12 J. CONTEMP. LEGAL ISSUES 502, 503, 505 (1998). When an alleged infringer copies a package design or engages in other potentially misleading behavior, the infringer may also be subject to an unfair competition action under 15 U.S.C. § 1125 or similar state statutes.

<sup>71</sup> Colby B. Springer, Note, *Master of the Domain (Name): A History of Domain Name Litigation and the Emergence of the Anticybersquatting Consumer Protection Act and Uniform Dispute Resolution Policy*, 17 SANTA CLARA COMPUTER & HIGH TECH. L. J. 315, 329 (2001).

<sup>72</sup> 15 U.S.C.A. § 1125(d) (West 2004).

<sup>73</sup> 15 U.S.C.A. § 1125(d)(1)(A)(i) (West 2004).

using it to sell goods and services.<sup>74</sup> This provision turns traditional trademark infringement actions law—which *requires* the use of the allegedly infringing mark on goods or services—on its head.<sup>75</sup>

¶35 The creation of the ACPA led to substantially more uncertainty in the security of rights to a domain name. With a truly famous mark, such as one actionable under the FTDA, or a truly fanciful mark that could have created confusion and resulted in a traditional trademark infringement action, the registrant or subsequent purchaser of a domain name probably has at least some idea that he or she might be stepping on someone’s toes. Under the ACPA, however, it is the actions of the domain name registrant<sup>76</sup> that are paramount and not the characteristics of the mark itself. Because the standards of behavior are judged against such vague terms as “bad faith,”<sup>77</sup> it becomes difficult to know whether the title in a domain is secure, or whether one (or more) trademark holder can suddenly seize the domain name.

¶36 The process of seizing a domain name became significantly easier with the 1999 revision of the Uniform Domain-Name Dispute-Resolution Policy (“UDRP”).<sup>78</sup> The UDRP, which all domain name registrants must agree to, requires each registrant to submit to binding arbitration in cases where (1) a complainant asserts that the domain name is identical or confusingly similar to a mark in which the complainant has rights, (2) the registrant has no rights or legitimate interests in the domain name, and (3) the domain name has been registered and is being used in bad faith.<sup>79</sup> A complainant can bring an action by submitting a pre-determined fee, currently around \$1500, to one of several authorized arbitration centers.<sup>80</sup> No damages are available from UDRP proceedings, but a panel can order the transfer of a domain to a successful complainant.<sup>81</sup>

¶37 The fact that the defendant in a UDRP proceeding bears the burden of proving “rights or legitimate interests” in a domain name makes it easy to assume that some sort of trademark rights are required for one to legitimately register a domain name in the first place. This is not the case. Anyone can register a domain with a good faith intent to sell their own products using that domain, as long as their primary intent is not to sell the domain name for a profit or to try to capitalize on the confusion of consumers who are trying to reach another site.<sup>82</sup> UDRP panels have not often addressed this particular issue as most defendants in UDRP proceedings are classic cybersquatters with dozens or even hundreds of domain names registered. In theory, the UDRP recognizes the possibility of

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<sup>74</sup> 15 U.S.C.A. § 1125(d)(1)(B)(i)(VI) (West 2004).

<sup>75</sup> 15 U.S.C.A. § 1114(1) (West 2004).

<sup>76</sup> Although the term “registrant” is commonly used to refer to the person who initially registers a domain, in the legal sense, it is the person listed in the official domain name registry who has the power to control the domain.

<sup>77</sup> 15 U.S.C.A. § 1125(d)(1)(A)(i), (d)(1)(B)(i)-(ii) (West 2004).

<sup>78</sup> The original registration agreement was created in July 1995, but it lacked many of the features of the current UDRP. See generally Adam Waxer, *The Domain Name Fiasco: The Legal Battle Between the Current Domain Name Registration System and Traditional Trademark Law*, available at [http://www.hofstra.edu/PDF/law\\_cyberlaw\\_waxer.PDF](http://www.hofstra.edu/PDF/law_cyberlaw_waxer.PDF) (1999) (last visited Oct. 26, 2004).

<sup>79</sup> UDRP, *supra* note 37, at para. 4.

<sup>80</sup> A list of the current authorized centers is available at <http://www.icann.org/udrp/approved-providers.htm> (last visited Nov. 12, 2004).

<sup>81</sup> UDRP, *supra* note 37, at para. 4(i).

<sup>82</sup> This makes domain names distinguishable from another type of virtual property, vanity phone numbers, where a company was permitted to use a number that it knew would attract confused customers. *Holiday Inns v. 800 Reservation*, 86 F.3d 619, 625 (6th Cir. 1996).



the innocent registrant by listing “preparations to use the mark for bona fide offering of goods and services” as a factor in making a determination of good faith.<sup>83</sup> However, such a finding is rarely, if ever, issued by a UDRP panel.

¶38 The eviction of notorious cybersquatters, such as Toeppen, Dan Parisi, or John Zaccarini, seems justifiable from a moral perspective. These individuals register hundreds of names specifically because the names are associated with famous companies. When it is these other companies that create the goodwill and fame that make a domain name valuable, a cybersquatter should not be allowed to profit from it. The situation is very different, however, when the domain name has independent value. Speculation has been a longstanding American tradition.<sup>84</sup> Entrepreneurs should not be punished simply because they choose to operate in the virtual world rather than the tangible one. Furthermore, trademark owners should not necessarily have more rights in the virtual world than in the real one. With these ideas in mind, the next section of the article begins to consider the appropriateness of the remedies made available to trademark owners under the ACPA and the UDRP.

#### 4. The Flaws With the New Remedies

¶39 Although the evil triumvirate of Toeppen, Parisi, and Zaccarini get most of the press, there are thousands of “domain name speculators” throughout the world. Even some major corporations have gotten in on the act. On Aug. 16, 1995, Proctor & Gamble registered the domain name beautiful.com. The company clearly hopes to profit from selling the domain as it has previously listed it for a selling price of \$3 million and currently provides no website corresponding to the domain. These actions could be deemed to violate the ACPA because P&G owns no independent trademark rights in the term and because there have been 1149 federally registered trademarks containing the term “beautiful.” Four hundred eighty-eight of these trademarks are live, and four of them contain solely the word “beautiful.”<sup>85</sup> This does not begin to take into account the number of people who might have developed common law trademark rights in the term.

¶40 In the real world, setting aside truly famous and fanciful marks for a moment, nothing prevents someone from choosing a popular trademarked name and then using it in commerce on a different class of goods or services. Why is it then, that our legal system presumes that just because someone has rights to use a name in a particular field of industry, that this gives them exclusive rights to a domain name? Furthermore, the ACPA condemns the practice of registering a domain name for the primary intent of selling it to a trademark holder “or any third party.”<sup>86</sup> Anyone foolish enough to propose a similar real world law that said someone could not develop goodwill in a small business if her intent was to ultimately sell the business would be laughed at. Yet, in the context of domain names, someone can be labeled a cybersquatter simply because they think they *might* ultimately sell a domain name, even if they are currently developing it for their own purposes and they would otherwise have had the right to keep the name. This exact

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<sup>83</sup> UDRP, *supra* note 37, at para. 4(c)(i).

<sup>84</sup> Norman Williams & Anya Yates, *Is this Legal Realism?*, 20 VT. L. REV. 737, 739 (1996).

<sup>85</sup> Information based on the author’s search on April 24, 2004 of the Patent and Trademark Office website at <http://www.uspto.gov>. The three live marks are for margarine, magazines and perfume/body powders.

<sup>86</sup> 15 U.S.C.A. § 1125(d)(1)(B)(i)(VI) (West 2004).

scenario occurred in *Virtual Works v. Volkswagen*.<sup>87</sup> Virtual Works had registered vw.net with the idea of using it for its website, but also with the idea that they might someday sell the domain to Volkswagen.<sup>88</sup> Although Virtual Works did contact Volkswagen and threaten to sell the domain to the highest bidder, Virtual Works had already used the domain name for two years as part of its ISP business.<sup>89</sup>

¶41 While the traditional trademark actions are sufficient to protect consumers from confusion and prevent unfair competition, the ACPA and the UDRP grant far too expansive rights to trademark holders.<sup>90</sup> Even if one thinks that a rights holder should be entitled to stop an alleged cybersquatter from using a domain name, the remedy of the UDRP is still inappropriate. In the real world, a trademark owner who is successful in an action for trademark infringement can obtain monetary damages and an injunction to stop the infringing activity.<sup>91</sup> If a trademark holder is successful in a UDRP proceeding, however, he can not only stop the registrant from using the domain name, he can actually get the domain name transferred to his control.<sup>92</sup> This procedure is somewhat suspect, at least in cases where there are multiple parties that could make legitimate claims to the rights to use a domain name. An order transferring the domain gives the successful claimant the right to exclude anyone else from using the domain name—regardless of the claimant’s real world location or its proposed purpose in using the domain.<sup>93</sup>

¶42 Just as there was an original land rush for registering domain names, the remedy of transferring ownership may lead to a second land rush in bringing UDRP claims. This second wave poses even more problems than the first.<sup>94</sup> Initially, those who won the registration race were those with technological savvy. The monetary hurdle of the registration itself was either minimal or non-existent. To take advantage of the new “low-cost” UDRP proceeding, a potential domain name claimant needs access to more than \$1000 in arbitration fees and the legal savvy to initiate the action.

¶43 Although a domain name can only point to one website at a time, there is no reason that the spoils of the domain name have to go to the victor of the UDRP proceeding. ICANN could hold the domain name and let anyone with “rights” to the name submit a claim. ICANN could then award the domain to the entity with the strongest interests,<sup>95</sup> it could auction it off, or it could have a random lottery. The proceeds from the sale, or the fees associated with submitting a claim or buying a lottery ticket, could be used to offset the administrative costs of this system.

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<sup>87</sup> 238 F.3d 264, 266 (4th Cir. 2001).

<sup>88</sup> *Id.* at 266.

<sup>89</sup> *Id.* at 266-67.

<sup>90</sup> Note that the privilege to bring these proceedings is not even reserved for registered trademark holders as those with common law rights in a name can also prevail. See WIPO Administrative Panel Decision for Gordon Sumner, p/k/a Sting v. Michael Urvan (July 20, 2000), available at <http://www.worldlii.org/int/cases/GENDND/2000/732.html> (last visited Oct. 26, 2004).

<sup>91</sup> 15 U.S.C.A. §§ 1116-17 (West 2004).

<sup>92</sup> UDRP, *supra* note 37, at para. 4(i).

<sup>93</sup> The recipient of a transferred domain name receives all of the rights that the original registrant had. Thus, while additional parties could bring a subsequent UDRP or ACPA claim, the evidence the new registrant used to win the domain in its UDRP proceeding should be sufficient to withstand any later challenges to its rightful ownership.

<sup>94</sup> For a general discussion on the social problems inherent to a first possession property regime see Chander, *supra* note 13.

<sup>95</sup> This would be a tricky analysis to be sure, but it is akin to the question federal courts have to decide in determining what state or country’s law should apply to an action.



¶44 Another option would be to leave the .com domain name registrants alone and introduce a new top level domain specifically for registered trademark holders, say “.rtm.” To even more closely track the trademark registration system, the second level domains used could correspond to the specific classes of goods and services recognized by the USPTO.<sup>96</sup> Companies would register delta.transportation.rtm or delta.fixtures.rtm. The domain names could be awarded at the same time as the trademark registration. However, even this would not entirely prevent overlap. United Van Lines and United Airlines would both have rights to united.transportation.rtm. Another common suggestion is to require companies to use their country-code top level domains like .ca or .us, but this idea suffers from a similar problem in that there could be multiple entities with rights to a domain name with the same country.<sup>97</sup>

¶45 Each of the above systems is subject to the potential attack that it is unfair to whoever does not “win” the domain in the first method, or all companies in the case of the second, because of the average Internet user’s tendency to just type in companyname.com into her Internet browser. While this concern is alleviated by the advent of efficient search engines like Google, it is still worth considering.

¶46 Any .com domain names which are removed from their original registrants could instead be kept out of the stream of commerce by ICANN. Companies would be forced to register deltafaucets.com or deltaairlines.com, but anyone who can make a legitimate claim to the name Delta would be added to a basic directory page on delta.com. This method decreases consumer confusion, increases the ease with which Internet users can find trademark holders online and does not require substantial change to the current domain name registration system.

### C. *The Impact of the New Domain Name Regulations on Third Parties*

¶47 Although the ACPA and the UDRP have problems, there is no indication that these laws will cease to exist.<sup>98</sup> Accordingly, it is important to consider the impacts that these systems have on third parties involved in domain name transactions. Third parties are likely to be impacted by these laws because the ability of a trademark holder to wrest a domain name away from a registrant makes the property interest of a registrant tenuous at best.<sup>99</sup>

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<sup>96</sup> See, e.g., Neal J Friedman & Kevin Siebert, *The Name is Not Always the Same*, 20 SEATTLE U. L. REV. 631, 662 (1997).

<sup>97</sup> Navin Kaytal argues that this problem could be dealt with by assigning numbers to the domain name just prior to the country code, i.e. Ibm1.ca. *Trademark Infringement and Domain Names*, 16 MICHIGAN COMPUTER LAWYER 3, 16 (1998), available at <http://www.michbar.org/computer/pdfs/winter99.pdf>. This would not make these domains any easier to find however. Someone would likely use a search engine to find the number of the website he was searching for. Once this occurs, Ibm1.ca is no more valuable than ibmcomputers.net since the search engine is equally likely to find both domains.

<sup>98</sup> There have been many proposals to revise specific procedural aspects of the UDRP. See, e.g., A. Michael Froomkin, *ICANN’s “Uniform Domain Name Dispute Resolution Policy”—Causes and (Partial) Cures*, 67 BROOK. L. REV. 605, 688-711 (2002).

<sup>99</sup> This goes against a general theory of property law: promoting stability. Lynda L Butler, *The Pathology of Property Norms: Living Within Nature’s Boundaries*, 73 S. CAL. L. REV. 927, 935-36 (2000). (“[P]roperty law needs to promote certainty and stability in order to encourage investment and use, reduce transaction costs, facilitate the administration of property regimes and the resolution of property conflicts, and clarify the deterrents and incentives faced by property owners.”)

¶48 If the original registrant of a domain name is forced to give up the domain, her loss is generally limited to only the cost of registration, which can currently be less than \$10 a year through some registrars.<sup>100</sup> When the owner has purchased the domain name from someone else who had previously registered the domain name, however, the purchase price for the domain may have been in the thousands or even millions. Thus it is a matter of significant concern as to whether the buyer has a right to restitution from the seller for the cost of the domain.

¶49 Under the U.C.C. § 2-312, a seller conveys an implied warranty that the title to the item sold is valid. Additionally, the “bedrock U.S. commercial law principle [is] that a thief can never convey good title to stolen property and that stolen property remains stolen, regardless of how often it is bought and sold.”<sup>101</sup> Thus a buyer who purchases a stolen car from a thief who had no valid title to the vehicle could, at least in theory, recover the purchase price from the thief in the event that the original owner of the car discovered the item and reclaimed it. This raises two important threshold questions: Is someone who registers a domain name containing a trademark a “thief?” Does the answer depend on whether he is acting in good faith or is a cybersquatter?

¶50 The answers to both of these questions should be “no.” One cannot steal something that has no owner. Because a previously unregistered domain name is available to anyone who submits an application and pays a fee (the registrars conduct no trademark searches in authorizing the registration), it is not currently anyone’s property. Although there are exceptions<sup>102</sup>, domain names are rarely stolen from their rightful owners. Rather, a court or a WIPO panel orders the transfer of a domain name because a plaintiff or complainant has trademark rights in a term in the domain name and the current owner does not have such rights.<sup>103</sup>

¶51 One could make the argument that in the case of a cybersquatter the domain name was obtained by fraud. This is because a cybersquatter violates either clause 2(b) or (c) of the UDRP which require a registrant to state that “to your knowledge, the registration of the domain name will not infringe upon or otherwise violate the rights of any third party” and “you are not registering the domain name for an unlawful purpose.”<sup>104</sup> In the real world, someone who obtains title to property via fraud or deceit generally obtains what is called “voidable title.”<sup>105</sup> The title is voidable because it can be reclaimed by the original lawful owner, but it is not void.<sup>106</sup> The person who obtained the item via fraud has rights against the world, except the original owner, and he can sell the title to a good faith purchaser.<sup>107</sup>

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<sup>100</sup> It is possible, of course, that the registrant made additional investments in building a website or developing a brand associated with the domain.

<sup>101</sup> Marilyn E. Phelan, *Scope of Due Diligence Investigation in Obtaining Title to Valuable Artwork*, 23 SEATTLE U. L. REV., 631, 728 (2000).

<sup>102</sup> In the famous case involving the domain name *sex.com*, the original registrant lost control over the domain when a con artist sent a forged letter to the registrar who subsequently transferred the domain. *Kremen v. Network Solutions*, 337 F.3d 1024, 1026-27 (9th Cir. 2003).

<sup>103</sup> Such transfers are consistent with the UDRP as discussed *infra*.

<sup>104</sup> UDRP, *supra* note 37.

<sup>105</sup> *Met-Al, Inc. v. Hansen Storage Co.*, 828 F. Supp. 1369, 1378-79 (E.D. Wis. 1993) (discussing U.C.C. § 2-403).

<sup>106</sup> *Id.*

<sup>107</sup> U.C.C. § 2-403(1) (amended 1989), 1A U.L.A. 254 (Supp. 2004).

¶52 Under the traditional distinctions of void title and voidable title, because the original registrant of a domain name is not a thief, the subsequent purchaser of that domain name is likely not entitled to any action for restitution. The analogy of real-world cases of voidable title to domain name disputes breaks down, however. In the real world, although the person who obtained the item via fraud can have the title voided by the original owner, the owner's rights of reclamation end when the item is transferred to the good faith purchaser.<sup>108</sup> With a domain name, unless the good faith purchaser has "independent rights or legitimate interests" in the name, as defined by the UDRP, he is still at risk of having the domain name taken away by someone with rights in the name.<sup>109</sup> So, although it appears that the third-party purchaser does not have restitution rights from the registrant, we must ask whether she *should* have rights to restitution.

¶53 One argument against giving such a cause of action to a buyer of a domain name is that the buyer can run a trademark search to determine whether anyone owns the rights in a particular term. Such a search can be conducted for free on the USPTO website. There are two problems with this argument. First, a search may not reveal trademarks that are not identical to the domain name but are "confusingly similar." Second, UDRP proceedings can be brought by someone who has not registered a trademark as long as he has other "rights" in the domain.<sup>110</sup>

¶54 Despite this inability to clearly determine the other potential claimants to a domain name, a right of restitution should still not lie with the purchaser of a domain name. The ability of a trademark holder to win a UDRP dispute depends more on the qualities of the current registrant than it does on the domain name itself. Accordingly, it would be very difficult for the seller of a domain name to predict whether the buyer could ultimately lose the domain. The buyer is in the better position to assess this risk and he can use it as a factor in determining the offer he wishes to make on the domain. Furthermore, if a buyer were concerned about such a risk, nothing prevents the parties from entering into a contract provision providing for restitution in a particular case.

¶55 Assuming that the original registrant cannot be forced to give restitution to a third party purchaser, aren't we just encouraging cybersquatters to stay in business, but just sell the domain names quickly before they get caught? Although the UDRP does not give a trademark holder a right to go after anyone but the current registrant, the ACPA provides a cause of action against anyone who "has a bad faith intent to profit from that mark" and who "registers, traffics in, or uses" a domain name that is identical or confusingly similar to a distinctive mark or which is identical, confusingly similar, or dilutive of a famous mark.<sup>111</sup> Nothing in the ACPA limits this cause of action to be against those who currently hold the domain name. So, as long as someone meets the bad faith requirements of the law, he is subject to damages.

¶56 These damages are the same as those for general trademark infringement actions, and they can be substantial. In the case of an infringement of a registered mark, the damages include the defendant's profits, any damages sustained by the plaintiff, the costs of the action, and, in exceptional cases, attorneys' fees.<sup>112</sup> Thus, if the defendant

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<sup>108</sup> The original owner could still seek restitution from the person who defrauded them.

<sup>109</sup> UDRP, *supra* note 37, at para. 4(c).

<sup>110</sup> *Id.* at para. 4(a).

<sup>111</sup> 15 U.S.C. § 1125(d) (West 2000).

<sup>112</sup> 15 U.S.C. § 1117(a) (West 2000).

registered a domain name in bad faith and then sold it at a profit to a third party, the trademark holder would be entitled, at a minimum, to the proceeds from that transaction.<sup>113</sup> Additionally, the plaintiff can elect to receive statutory damages instead of actual damages and profits.<sup>114</sup> This is significant because if a defendant has not yet sold the domain name, she has no profits, and it is often difficult for the plaintiff to prove damages. Statutory damages are determined by the court and range from \$1000 to \$100,000 per domain name.<sup>115</sup>

¶57 This potential liability should certainly cut down on cybersquatting, but it raises a potentially serious legal quandary. When Zaccarini registers “electronicboutique.com” it is clear that he is trading on the goodwill of Electronics Boutique and the intent of consumers to visit the official website of “electronicsboutique.com.” But what happens when someone registers a less unique trademark? Should she be liable to any and all entities that hold trademarks and can claim rights in the domain name?<sup>116</sup>

¶58 These questions are created by the unique nature of domain names. They consist solely of a series of letters or numbers followed by an essentially meaningless extension like .com or .net. Until users go to the website and examine its content, there is little or no indication of what the domain name refers to. Additionally, in many cybersquatting cases, there is not even a website attached to the domain name. This is very different than a traditional trademark action where the court can consider the nature of the goods the mark is affixed to. In traditional trademark cases, a court can better assess the likelihood of consumer confusion by considering the look of the mark itself, including such factors as lettering style, graphics, colors, shape, etc. These many criteria would make it difficult for a mark in the real world to infringe on multiple other trademarks at the same time, unless of course those marks were already infringing on one another.

¶59 Although the ACPA requires that the mark infringed upon be “distinctive” or “famous,”<sup>117</sup> this is not enough of a description to determine who can sue under the act and how many potential claimants a cybersquatter is liable to. Nor does it determine whose claims take priority if multiple trademark holders bring suit against a particular domain name. The best solution to this problem would be to limit actions under the ACPA to cases where the mark infringed is either so famous, as defined by the FTDA, or so arbitrary and fanciful that any use of the mark in commerce by another entity would constitute infringement. This would not only resolve the questions asked above, it would also resolve something that seems fundamentally unfair about the ACPA. If companies

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<sup>113</sup> Because the statute entitles recovery of defendant’s “profits,” the costs of obtaining the domain name would have to be subtracted from the proceeds of the sale. When the cybersquatter is the original registrant, these costs are minimal. If the cybersquatter were an intermediary, however, he may have paid a substantial amount to acquire the domain name before reselling it.

<sup>114</sup> 15 U.S.C. § 1117(c).

<sup>115</sup> At least one court has awarded the maximum statutory damages possible, although it was against John Zaccarini, who had done nearly everything possible to earn the ire of the judge. *Elecs. Boutique Holdings Corp. v. Zaccarini*, No. CIV.A.00-4055, 2000 WL 1622760, at \*1 (E.D. Pa. 2000).

<sup>116</sup> A news release posted on madonna.com during the dispute asserted that there were 275 worldwide trademarks using the word “madonna” and 87 active websites with “madonna” in their web address.” Craig Francis, *Madonna bids to win domain name game*, CNN.COM, Sept. 14, 2000, available at <http://archives.cnn.com/2000/WORLD/europe/09/13/switzerland.madonna/>. A November 23, 2004, search of the Patent and Trademark Office website at <http://www.uspto.gov> revealed 64 registered United States trademarks containing the word “madonna.”

<sup>117</sup> 15 U.S.C.A. § 1125(d)(1)(A)(ii) (West 2004).

A and B could each have registered the name without violation, why should one or both of them be able to sue a third party for being more cybersavvy and registering the name first? Since A and B coexist, they would be unlikely to be able to stop C from developing and using the mark in the real world, unless there were extenuating circumstances (such as similar products being sold or a counterfeiting of trade dress) that lead to consumer confusion. The rights of A and B should not suddenly and automatically be expanded to be able to exclude any and all other potential users of the mark simply because of a move into the virtual world.

¶160 Since the ACPA provides a cause of action against not just the current registrant of a domain, but anyone who registered, used or trafficked in that domain, courts will also have to address how many links in the chain an ACPA plaintiff can go after. In other words, if D registers a domain in bad faith and then sells it to E, who buys the domain in bad faith and then sells it to F, should a trademark holder be allowed to go after D, E, and F? The answer is probably yes. If we assume cybersquatting is bad and we accept the ACPA as a valid way to reduce it, we should not allow cybersquatters to evade liability simply by serving as middlemen.

¶161 The next questions to consider involve transactions with those good faith registrants who have valid rights in a domain. First, what happens when a good faith registrant buys a domain name from a bad faith cybersquatter? Although we assume this new registrant would not ordinarily be liable under the ACPA and could not be forced to give up the domain name under the UDRP, should the situation change because the domain is “tainted” due to its one time possession by a cybersquatter? The answer is no. Since these domain names are not “stolen property” as described above, the good faith registrant should not be punished for obtaining the name on the aftermarket. The UDRP does prevent a bad faith registrant from benefiting from a sale or gift to a good faith registrant once she knows her own days with the domain are numbered.<sup>118</sup> The filing of a UDRP complaint freezes the ability of the registrant to transfer the domain to a third party.<sup>119</sup> Accordingly, after Madonna Ciccone filed her action against Dan Parisi, he was unable to transfer Madonna.com to the Madonna Rehabilitation Hospital, even though Madonna would not have been able to strip the domain from the hospital if the transfer had gone through prior to the filing of the action.<sup>120</sup>

¶162 Last, we must look at what, if anything, should happen to a good faith registrant of a domain name<sup>121</sup> who sells or transfers the domain name to a bad faith registrant. It is clear that a trademark owner cannot force a registrant to give up a domain name if the registrant has a valid interest in the name.<sup>122</sup> It is unclear, however, whether a trademark owner has a cause of action against the registrant if he later sells or gives a domain name away to a third party who does not have any rights in the trademarked term. It seems as if such a cause of action should not exist because, as a valid owner of the domain, the registrant should have the full bundle of rights accompanying such ownership. This

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<sup>118</sup> UDRP, *supra* note 377, at para. 8.

<sup>119</sup> *Id.*

<sup>120</sup> While Madonna could have filed a UDRP proceeding against the hospital, its prior use of the term “Madonna” would have given it sufficient rights in the term to prevail in the proceeding.

<sup>121</sup> In this context, a good faith registrant refers to one who has some rights in the name and accordingly would not be forced to give it up in a UDRP proceeding.

<sup>122</sup> Look, *supra* note 477, at 853 (“If a defendant domain name registrant can show that it had a legitimate interest in registering the domain name, there is no violation of either the ACPA or UDRP.”).

would traditionally include the right to sell or otherwise dispose of the property. The ACPA and UDRP appear to adopt such a philosophy as they do not allow for actions against good faith registrants even if they subsequently sell a domain.<sup>123</sup>

¶63 The situation is different, however, when a good faith registrant is selling the domain to someone that they know is a bad faith registrant. Such a situation is akin to a traditional contributory trademark infringement action which requires the existence of (1) a direct infringement, (2) the fact that the defendant “enabled” the infringement, and (3) the fact that the defendant had actual knowledge of the impending infringement or was willfully blind to it.<sup>124</sup> In the context of domain names, the satisfaction of the first requirement necessarily satisfies the second. Since it is the domain name itself that it is infringing, it clearly enables the infringement. Even so, the finding of a direct infringement would be unusual. As previously discussed, cybersquatters were rarely found to be traditional infringers which led to the passing of the ACPA.

¶64 So, should Congress amend the ACPA to include an action for “contributory cybersquatting?” It would make sense as long as the third factor of actual knowledge continued to be strictly enforced. In most cases a domain name seller will not know what the buyer plans to do with the domain. Accordingly, a good faith registrant should not be punished simply because she later decides that it is more lucrative to sell the domain than to develop it herself. It does, however, make sense to do something to prevent such a transaction when the seller knows that the domain will be used improperly or is willfully blind to the fact—such as someone who is selling a domain name to Dennis Toeppen and knows of his exploits but does not ask why he is buying the domain.

¶65 Although trademark holders’ interests are protected by the fact that they can go after the subsequent bad-faith purchasers of a domain, there is no societal benefit in allowing a cottage industry to develop where people simply acquire domain names in which they have rights for the sole purpose of transferring the domains to unwitting buyers without rights.

¶66 This Part of the article has thus far considered the interests of legitimate and illegitimate domain name registrants, as well as legitimate and illegitimate downstream purchasers of domain names. It has also considered the interests of trademark owners. There are, however, two additional classes of third parties that must be considered in analyzing domain name regulations. The first additional class that should be considered is those persons or groups who have a legitimate claim to a domain name, but who lack the financial resources or technological knowledge to register a name or to inject themselves into the dispute about a name that has already been registered. The focus on the rights of trademark owners in domain name disputes has resulted in overlooking the rights of these underprivileged groups.<sup>125</sup> While it would be fair and just to try to accommodate the interests of this class, doing so requires grappling with two

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<sup>123</sup> This assumes that the act of selling the domain, in light of other evidence, is not sufficient to find that this person did indeed act in bad faith. Such a case to consider would be if the new Arizona Sting professional lacrosse team brought an action against Michael Urvan who registered sting.com and then subsequently sold it to musician Gordon Sumner who is professionally known as Sting. The evidence that allowed Urvan to win in the UDRP proceeding against Sumner may or may not be sufficient to render him a good faith registrant in light of the subsequent fact that he actually sold the domain.

<sup>124</sup> See, e.g., *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1151 (7th Cir. 1992).

<sup>125</sup> Chander, *supra* note 13.

fundamental problems. The first is that it is impossible to determine how much time will pass before a member of this group can make an appropriate claim. If the ability to wrest a domain name away from another owner exists indefinitely, then any system designed to accommodate this group will add even more uncertainty into the rights of domain name ownership.

¶167 The second problem is that it may be difficult to determine who within a “rightful class of owners” should be awarded ownership. If, for example, a domain name consisted of the nickname for an impoverished neighborhood in the Deep South, one would have to determine which resident or residents of that neighborhood should be able to assume control of the site. These problems are not pointed out in an effort to discourage recognition of those without a voice. Rather, they are pointed out as a challenge to other scholars in the hope that an equitable, yet efficient manner of dispersal for virtual property may yet be developed.

¶168 The second major group of third parties impacted by domain name transactions is comprised of the end users who rely on domain names to effectively navigate the Internet. Trademark owners have successfully made the argument that users will be confused if they enter a trademarked name into their web browser and are directed to a site which is not owned by the trademark holder. This argument is valid if two conditions are met. First, the trademark must be owned by only one party. A user who types in delta.com and expects to get the airline may be as confused by a website for Delta Faucets as they are with a website having nothing to do with the term “delta.” Second, the user must not be familiar with the site. Those seeking the website of the residence of the President of the United States will likely be confused, and perhaps offended, if they type in whitehouse.com which is linked to an adult website. Those who frequently visit whitehouse.com and are aware of its contents will likely be confused, and perhaps offended, if they are greeted with a hearty welcome from George W. Bush.<sup>126</sup> Accordingly, the reliance interests of Internet users should be considered before an established domain name is transferred to a new owner.

## V. REGULATING PRIVATELY GRANTED VIRTUAL PROPERTY

¶169 The registration of domain names is essentially controlled by two entities, Network Solutions, Inc. (NSI) and the Internet Corporation for Assigned Names and Numbers (ICANN). These organizations received their monopolies over the domain name registration system by contracting with the U.S. Department of Commerce. Accordingly, the government has been able to maintain some control over the systems. For example, in late 1998, the Department of Commerce was able to revise its contract with NSI to allow the creation of additional registrars and promote competition in the pricing of registrations.<sup>127</sup> When we move from the world of domain names back to the broader realm of virtual property, we must consider the fact that virtual property interests are often being assigned by wholly private entities. Thus the feasibility (and appropriateness) of government regulation of these entities may be very different.

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<sup>126</sup> Such a possibility could occur in the near future as Dan Parisi has decided to sell whitehouse.com, which draws more than 2 million visitors each month. *Pornographer to sell Whitehouse.com*, CNN.COM, Feb. 11, 2004, *previously available at* <http://www.cnn.com/2004/TECH/Internet/02/10/whitehouse.com.ap>.

<sup>127</sup> Kaytal, *supra* note 411, at 255.

Questions about government regulation of private virtual property regimes should be considered now before a truly problematic situation develops.

¶70 In pointing out the flaws with a property regime of first possession, Anupam Chander posits the “silly” alternative of the “Nelson Mandela rule” where all the world’s property would belong to Mandela, and his associates would dole it out according to his wishes.<sup>128</sup> While such an alternative is hypothetical when it relates to “all the world’s property,”<sup>129</sup> it is not so far fetched as it relates to a particular regime of virtual property.

¶71 It is quite possible that the next major medium of communication will be created by a private entity. For all we know, two Stanford information systems majors are currently creating a replacement for the Internet which would allow for instantaneous no-cost transmission of 3-D holographic images. If these students developed a private infrastructure for this Holonet they could selectively determine which companies and individuals they allowed to participate. This brings up not only trademark concerns such as determining which Delta company gets holo.delta.1 and which gets holo.delta.2 as its signifier, but also antitrust and free speech concerns. What if the new signifiers were based on industry classifications and a company paid for the exclusive right to use an entire class? What if these entrepreneurs were staunch Republicans who refused to grant any virtual property interests to Democrats or vice versa? If such an unregulated private system became a default method of communication, the results could be disastrous.

## VI. CONCLUSION

¶72 Whenever society is presented with a new type of technology, the law struggles to keep up. This situation is compounded when, as in the case of domain names, the technology creates not just a new thing, but a whole new class of property. As this article’s analysis of domain names indicates, attempts to govern new property with old laws lead to a number of interesting cases, but they also result in uncertainty as to what conduct is prohibited and which enforcement techniques are appropriate. This uncertainty often leads to the hasty development of *sui generis* laws which better fit the new property, but which often address a very specific act, like cybersquatting, without considering the broader implications of the law. If and when a fair system of regulation finally develops, the technology involved is likely already outdated.

¶73 Therein lies the benefit of thinking about domain names, stage names, and keywords as a new class of virtual property—rather than as a series of isolated technological advances. From the scholar’s perspective, looking at a larger class allows for the observance of trends and common problems to be solved. It provides for clearer predictions of upcoming challenges. Additionally, from the lawmaker’s perspective, thinking about the regulations for a class makes it easier to see beyond the lobbying efforts of groups with interests in a specific item of property.

¶74 It is impossible to know precisely what the next wave of virtual property will look like or how it will operate. While it will undoubtedly have some, and perhaps many, differences from the existing embodiments of virtual property, if we have learned to critique and regulate virtual property as a class, these differences will not require us to

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<sup>128</sup> Chander, *supra* note 13 at, 738-39.

<sup>129</sup> *Id.*



start over from square one. Although hindsight is said to be 20/20, it is foresight that is necessary for the efficient and fair regulation of new property interests.