

The Brave New World of Policing Trademarks

By Patrick M. Fahey and Susan S. Murphy

It's a brave new world for trademark owners. By some accounts, "virtually every typographical error and misspelling of a word is monetized by someone, whether a domain name registrar, a domain investor, [or] an ISP. . . ."¹ Trademark owners spend millions of dollars in promoting their marks and taking all reasonable steps to protect that investment. On any given day, however, hundreds or even thousands of permutations of those marks are popping up in domain names on the Internet, leading customers to websites populated with links to the legitimate mark holder's competitors. By the time the mark owner tracks down who has registered those domains—to the extent that information can be determined—the registrations have changed hands.

"Domain tasting," the practice of registering and monetizing a domain name and dropping that registration if it proves unprofitable, is being fueled by a five-day grace period during which unprofitable domains can be dropped free of charge, and the availability of automated systems that can identify, register, and gauge traffic on the sites in bulk. This practice has proven enormously lucrative for domain name owners, but it has placed some trademark owners on a virtual merry-go-round of abuse.

Mark owners recently have scored a victory in the fight against the ill effects of domain tasting, but not a complete victory. In *Verizon California, Inc. v. Navigation Catalyst Systems, Inc.*,² the United States District Court for the Central District of California concluded that the tasting of domain names that are confusingly similar to a trademark violates the Anticybersquatting Consumer Protection Act. At the same time, however, the court declined to enjoin the use of an automated search and registration process, even where the plaintiffs claimed that such process is "uncontrolled and ineffective" in preventing the registration of infringing domain names.³

The New World of Domain Tasting

It began innocently enough in 2001,

when the entity tasked with coordination of the Internet domain name system, the Internet Corporation for Assigned Names and Numbers (ICANN), implemented the "Add Grace Period" (AGP), a five-day grace period during which

the new owner [of a domain name] can make full use of the chosen domain name, and no one else can use that domain name as the address for a website. However, during the AGP, the new owner can drop the domain name for any reason, without charge. If the new owner does not drop the name by the end of the AGP, it must pay the registration fee for that domain name.⁴

The implementation of the AGP, which was meant to protect registrars and registrants from mistakes and fraud in the registration process, has led to the unintended consequence of domain tasting.⁵

According to the World Intellectual Property Organization (WIPO), domain name tasting is

a practice in which a person or entity (who may be affiliated with a registrar) registers a domain name for a five-day grace period without payment of the registration fee, and parks it on a pay-per-click website monitored for revenue, whereupon the name is dropped or re-registered by a new registrant, thereby starting a new grace period. Only those domain names generating significant traffic are permanently registered.⁶

To some, domain tasting is a legitimate business model. Others view the practice as undesirable—even where the rights of trademark owners are not impacted. These critics point out that tasting limits the availability of domain names for registration and leads to a proliferation of low-quality websites that have no purpose other than to host advertisements.⁷ Particularly troubling to trademark owners is "abusive domain tasting," defined as "a practice whereby a relatively small num-

ber of registrars and individuals register millions of domain names on a daily basis that often include brands and typographical errors of brands en masse and free of charge by exploiting the five-day AGP."⁸

Whether viewed as legitimate or nefarious, the instances of domain tasting have increased exponentially over the course of the past three years.⁹ Several factors are responsible for this. First, the ease with which available domain names can be identified and registered using automated processes, sometimes referred to as "drop-catching," allows for the bulk registration of thousands of domain names at a time.¹⁰ Second, domain tasting has exploded due to the ease with which the tasted domains can be monetized and analyzed for profitability quickly and in bulk.¹¹ Finally, the practice of domain tasting, when done on a large enough scale, has proven to be extraordinarily lucrative.¹²

Unsurprisingly, the most lucrative domain names tend to be those that are the most similar to known trademarks. The amount of money at stake has led to an increase in a particular form of cybersquatting—"typosquatting"—a practice that takes advantage of those Internet users who eschew search engines for direct navigation, or typing a domain name directly into their web browser's address bar.¹³ This practice, which capitalizes on trademark owners' goodwill, is harmful and costly for mark owners because it diverts traffic intended for their websites and confuses consumers.¹⁴ Worse yet, the traditional tools available to combat cybersquatters leave trademark owners ill-equipped to deal with the new world of domain tasting.

The Old World Tools for Combating Cybersquatting Prove Ineffective

Trademark owners seeking to put a stop to the use of domain names that are confusingly similar to their marks have two principal tools at their disposal: the arbitration-based Uniform Domain Name Dispute Resolution Policy (UDRP), and the civil remedy afforded by the Anticybersquatting Consumer Protection Act (ACPA).

The UDRP, implemented by ICANN, is meant to provide a “quick, cost effective dispute resolution procedure” for domain name disputes.¹⁵ The ACPA was enacted “in response to concerns over the proliferation of cybersquatting—the Internet version of a land grab.”¹⁶ Both provide a means by which trademark owners can combat bad-faith use of domain names that are confusingly similar to their marks. Both have proven inefficient, however, in combating domain tasting.

In the light of the use of automated systems to register hundreds of thousands of domain names a day, the sheer scope of the infringement makes any enforcement procedure cost prohibitive, whether it be by arbitration or court action.¹⁷ Moreover, these bulk registrations are often anonymous and, because the domains are tasted for less than five days at a time, the infringing domain names are a moving target.¹⁸ By the time a mark holder can identify an infringing domain and ascertain the registrant’s identity, the mark has often changed hands, leading the mark owner repeatedly back to square one.

The goals of the ACPA seem to contemplate affording protection to the mark owner from this dilemma. At least with respect to *in rem* actions, the act expressly provides that the registrar or registry “not transfer, suspend, or otherwise modify the domain name during the pendency of [an] action. . . .”¹⁹ However, this provision is largely ineffective and even the institution of a lawsuit often is not enough to prevent transfer of an infringing domain. This requirement of the ACPA is often ignored by non-U.S. registrars (presumably on the basis that they are not governed by U.S. law). Moreover, at least one U.S.-based registry has taken the position that it does not have the ability to comply with this aspect of the act.

Accordingly, the identity of the infringer is a moving target, not only while the mark owner struggles to identify a proper defendant, but also after suit has been brought. And the infringement continues through it all. Along with the more nebulous dilutive effect on the rights of the mark owner, these confusingly similar domain names continue to divert traffic from the mark owner’s website to websites populated with links to the mark owner’s competitors, causing incalculable harm to the mark owner’s goodwill.

The decision of the District Court

in *Verizon California, Inc.* has made it easier for trademark owners to take on domain tasters. It appears, however, that the decision will do little to put an end to the practice of domain tasting or the harm being suffered by trademark owners as a result of that practice.

Verizon California, Inc. v. Navigation Catalyst Systems, Inc.

In April 2008, three affiliates of Verizon Communications, Inc. and owners of certain of the Verizon trademarks brought suit in the United States District Court for the Central District of California against an ICANN accredited registrar Basic Fusion, Inc. (Basic Fusion) and its affiliate Navigation Catalyst Systems, Inc. (Navigation Catalyst). Basic Fusion “specializes in ‘bulk registrations,’ providing services to those customers seeking to register large numbers of domain names.” Navigation Catalyst, in addition to being an affiliate of Basic Fusion, is a Basic Fusion customer, using an automated system to identify and register with Basic Fusion hundreds of thousands of domain names.²⁰

Plaintiffs asserted six causes of action against Basic Fusion and Navigation Catalyst. One was a cause of action for cybersquatting in violation of the ACPA. In support of this cause of action, plaintiffs claimed that defendants

- have registered and used over three million domain names using an automated process, “targeting nearly every single famous trademark in existence”
- have registered almost 1,400 domain names that were confusingly similar to the Verizon marks
- have registered thousands more domains that were confusingly similar to other famous marks unrelated to the plaintiffs in this action
- monetized the confusingly similar domain names, that is, defendants “operate websites at each of the Confusingly Similar Domain Names which display . . . links featuring goods or services that are directly competitive with those sold or provided in connection with the distinctive or famous marks,” and each time an Internet user clicks on one of those links, defendants received payments from “one or more advertisers, search engines, or affiliate programs”

- after using the confusingly similar domains to generate revenues, deleted many of them during the AGP in order to receive a full refund of their registration costs²¹

Plaintiffs sought, among other things, preliminary injunctive relief, enjoining defendants from using or registering domain names that were confusingly similar to the plaintiffs’ trademarks and from continuing to use an automated process to register domain names.²² With regard to the use of automated processes to register domain names, the plaintiffs asserted that:

Defendants’ large-scale cybersquatting business is unrestrained and fueled by Defendants’ continued use of an automated process to locate those domain names that generate traffic. Defendants’ automated process, however, is fundamentally flawed. Having registered over 15 thousand domain names that are confusingly similar to famous or distinctive marks, Defendants must be aware that their automated process may occasion infringement liability. Nonetheless, Defendants continue to register domain names confusingly similar to . . . Plaintiffs’ marks and other famous and distinctive marks. Unless a broad injunction issues, Defendants will continue to use their automated process to register confusingly similar domain names and harm Plaintiffs and the public. On the other hand, granting an injunction will only prevent Defendants from profiting its [sic] illegal behavior, which is not a cognizable “hardship” that this court should consider.²³

Defendants did not deny engaging in domain name tasting, but rather claimed that they use the AGP not only to determine which of the domains will generate revenue, but also to screen out those domains that present a “potential trademark conflict.” According to the defendants, because of that screening procedure, “[d]omain names that matched character-strings on a black-list, or identified as trademarks by human screeners, were deleted prior to the expiration of the five day Add Grace Period.”²⁴ Interestingly, in asserting that “potentially infringing

domain names were deleted for compliance purposes, not . . . because they did not generate revenue,” defendants aptly demonstrated the significant revenues that can be derived from the act of domain tasting itself.²⁵ Similarly, defendants did not deny that they “reserved” the domain names at issue, but claimed instead that most of those names were dropped during the AGP, during which the defendants performed their “trademark scrubbing procedures.”²⁶ Defendants stressed, moreover, the recent improvements to their screening procedures both with regard to the plaintiffs’ marks and generally.²⁷

In opposing plaintiffs’ motion for preliminary injunction, defendants asserted, among other things, that plaintiffs were not able to establish a likelihood of success on the merits of their ACPA claim because (1) domain tasting does not constitute “registration” of a domain name within the meaning of the ACPA; and (2) defendants’ “deletion of a tasted domain based on trademark compliance purposes” during the AGP does not constitute bad-faith use of a domain name. Defendants further claimed that plaintiffs’ request to enjoin defendants from using automated registration processes should be denied because, among other reasons, “it would stop Navigation’s entire business.”²⁸

The Court’s Decision

The court rejected defendants’ argument that domain tasting does not constitute “registration” for purposes of the ACPA, noting that “‘reserving’ versus ‘registering’ is a distinction without a difference—either here entitles Defendants to the exclusive control and use of the names at issue, at least for some period of time.” In any event, the court concluded that the defendants’ use of those domain names during the AGP by hosting websites “using the challenged domain names, on which were posted paid advertising links to other websites, in some instances selling products in direct competition with plaintiffs,” satisfied the statutory requirements of the ACPA.²⁹

The court went on to find bad-faith use of the domain names, emphasizing in particular: (1) defendants’ clear intent “to profit from the poor typing abilities of consumers trying to reach the plaintiffs’ sites”; (2) the fact that the websites associated with the domain names contained links to competitors of the Plaintiffs

“potentially diverting consumers who would otherwise have purchased goods or services from Plaintiffs away from Plaintiffs”; and (3) the fact that the defendants had clearly “acquired thousands of domain names that were confusingly similar to any number of famous marks.”³⁰

Importantly, the court concluded that the plaintiffs had established irreparable harm resulting from the defendants’ domain tasting.

Since the filing of the complaint, Defendants have continued to acquire new domain names that are confusingly similar to Plaintiffs’ marks. Even if they are able to identify and cancel all of those names within the Add Grace Period, there is nonetheless a period of several days for each domain name when Defendants use that name to generate revenue by linking to other websites, some of which offer products and services that compete with Plaintiffs’. Determining later just how much Internet traffic was diverted from Plaintiffs’ sites to competing sites through Defendants’ briefly held, and constantly changing, similar domain names, is likely to prove impossible.³¹

Most significantly, the court held that “[t]he use of ‘confusingly similar’ domain names during the Add Grace Period is within the scope of the harms the ACPA was enacted to prevent,” and enjoined defendants from registering or using any domain name confusingly similar to plaintiffs’ marks.³²

The court was not persuaded, however, of a need to enjoin the defendants from continuing to use an automated process to register domain names in bulk. First, the court noted that the plaintiffs had not established how an injunction barring the defendants from registering domain names that are confusingly similar to plaintiffs’ marks would adequately protect their rights. The court was persuaded, however, by defendants’ claim that such an injunction would essentially put the defendants out of business, which the court concluded was “not justified on the record currently before the court.” Finally, the court noted that the plaintiffs had not demonstrated that the defendants’ automated registration process could not ever be “conducted

in a permissible fashion.”³³ Accordingly, the court denied plaintiffs’ request for an injunction with regard to defendants’ ongoing use of automated registration processes.

The Implications for Trademark Owners

The court’s order on plaintiffs’ motion for preliminary injunction can be viewed both as a victory and as a defeat for trademark owners in their fight against infringing domain tasting.

In recognizing that the tasting of confusingly similar domains constitutes bad-faith registration and use in violation of the ACPA, and recognizing the harm to trademark owners in having confusingly similar domains monetized (even for short periods), the court gave mark owners a significant victory over domain tasters. Moreover, the court made clear that it is not enough for a domain taster to divest itself of confusingly similar domains during the AGP. Rather, domain tasters who “reserve” confusingly similar domains (even if they are never registered) are subject to liability.

However, in refusing to enjoin the defendants from using an automated process to identify and register domain names in bulk, the court has left trademark owners with an imperfect remedy. It seems evident from the facts of this case that—at least with respect to the defendants’ system—automated processes are ineffective in preventing the registration of confusingly similar domain names. Moreover, as is clear from this case, by the time a mark owner is able to bring suit against a domain taster, many, if not most, of the infringing domain registrations will have changed hands. The mark owner will therefore continue to suffer harm from the monetization of those domains and faces a seemingly everlasting struggle against infringement, even after establishing a likelihood of success on the merits of its claims.

Conclusion

As the number of domain names being tasted increases, so does the level of difficulty for trademark owners to police and protect their marks. Although it appears that the courts are willing to find that domain tasting falls within the scope of conduct the ACPA is meant to prevent, as a practical matter, trademark owners remain on the domain tasting merry-go-round, chasing infringing domains from

one place to the next with no clear end in sight.³⁴ ●

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Endnotes

1. Defendants' Memorandum of Points and Authorities in Opposition to Motion for Preliminary Injunction [hereinafter Defendants' Opposition] 17, *Verizon Cal., Inc. v. Navigation Catalyst Sys., Inc.*, No. CV 08 2463 (C.D. Cal.).

2. *Verizon Cal., Inc.*, No. CV 08 2463 (C.D. Cal. June 30, 2008), available at <http://docs.justia.com/cases/federal/district-courts/california/cacdce/2:2008cv02463/413394/32/0.pdf>.

3. Plaintiffs' Memorandum of Points and Authorities in Support of Motion for Preliminary Injunction [hereinafter Plaintiffs' Motion] 21 n.7, *Verizon Cal., Inc.*, No. CV 08 2463 (C.D. Cal.).

4. *Verizon Cal., Inc.*, No. CV 08 2463, at 4 (C.D. Cal. June 30, 2008) (order granting in part and denying in part motion for preliminary injunction).

5. Press Release, Coalition Against Domain Name Abuse, CADNA Responds to ICANN Tasting Survey (Sept. 24, 2007), available at <http://www.cadna.org/en/newsroom/press-releases/tasting-survey>.

6. Press Release, World Intellectual Prop. Org., Cybersquatting Remains on the Rise with Further Risk to Trademarks from New Registration Practices (March 12, 2007) [hereinafter WIPO Press Release], available at http://www.wipo.int/pressroom/en/articles/2007/article_0014.html. The related practice of domain kiting is "the tasting practice of repeatedly adding and dropping the same domain every few days in order to avoid the registration fee, while monetizing the traffic by loading the page with recycled pay-per-click (PPC) advertising links." White Paper, Coalition Against Domain Name Abuse, Drop-Catching: A Study on the Fate of Expiring Domains and How the Add Grace Period Is Leveraged to Avert Domain Name Investment Risk 3 (Jan. 2008) [hereinafter Drop-Catching], available at <http://www.cadna.org/en/newsroom/updates/drop-catching-study>.

7. Jeremy Kirk, *ICANN Considers Plan to Stop "Domain Tasting,"* N.Y. TIMES,

Jan. 30, 2008.

8. Drop-Catching, *supra* note 6, at 3.

9. WIPO Press Release, *supra* note 6; Kirk, *ICANN Considers Plan*, *supra* note 6; Anick Jesdanum, *Entrepreneurs Profit From Free Web Names*, USA TODAY, Feb. 19, 2007; Leslie Walker & Brian Krebs, *The Web's Million-Dollar Typos*, WASHINGTON POST, April 30, 2006.

10. Press Release, Coalition Against Domain Name Abuse, CADNA Releases Study on Drop-Catching (Jan. 30, 2008), available at www.cadna.org/en/newsroom/updates/drop-catching-study.

11. *Id.*; WIPO Press Release, *supra* note 6; Walker & Krebs, *supra* note 9; White Paper, Coalition Against Domain Name Abuse, Tasting Solutions: An Evaluation and Analysis of Proposed Solutions to Address the Domain Name Tasting Crisis [hereinafter Tasting Solutions] 4–5 (Nov. 1, 2007), available at <http://www.cadna.org/en/newsroom/updates/tasting-solutions>.

12. Walker & Krebs, *supra* note 9; Tasting Solutions, *supra* note 11, at 5; see also generally Jeremy Kirk, *Dell Suit Reveals Lucrative Trade in Domain Names*, PC WORLD, Feb. 6, 2008.

13. Drop-Catching, *supra* note 6, at 3; Tasting Solutions, *supra* note 11, at 4; Brian Krebs, *New Policy Aims to Curb Web Site Name Abuse*, WASHINGTON POST, Jan. 30, 2008; Brad Stone, *Coins in the New Realm*, N.Y. TIMES, Feb. 1, 2008.

14. Coalition Against Domain Name Abuse, *The Real Cost of Cybersquatting*, available at <http://www.cadna.org/en/resources/real-cost-of-cybersquatting> (last visited Sept. 9, 2008).

15. WIPO Press Release, *supra* note 6. The UDRP prohibits the bad-faith use and registration of a domain name that is identical or confusingly similar to a trademark or service mark in which the complainant has rights by one who has no rights or legitimate interests in respect of the domain name. Uniform Dispute Resolution Policy, ¶ 4a, available at <http://www.icann.org/en/udrp/udrp-policy-24oct99.htm> (last visited Sept. 14, 2008).

16. *Lucas Nursery & Landscaping, Inc. v. Grosse*, 359 F.3d 806, 808 (6th Cir. 2004) (internal quotation marks omitted). Under the ACPA, a mark owner has a means of redress against one who, with a bad-faith intent to profit from the mark, registers, traffics in, or uses a domain name that is either identical or confusingly

similar to a distinctive mark, or is identical or confusingly similar to or dilutive of a famous mark. 15 U.S.C. § 1125(d)(1) (A).

17. See Jesdanum, *supra* note 9; Kirk, *ICANN Considers Plan*, *supra* note 7.

18. WIPO Press Release, *supra* note 6; Drop-Catching, *supra* note 6, at 3.

19. 15 U.S.C. § 1125(d)(2)(D)(i)(II).

20. *Verizon Cal., Inc.*, No. CV 08 2463, at 3–4.

21. Complaint for Cybersquatting; Trademark Infringement; False Designation of Origin; Dilution; and Unfair Competition at ¶¶ 45–47, 53, 55–56, 59–60, *Verizon Cal., Inc.*, No. CV 08 2463 (C.D. Cal.).

22. [Proposed] Order Granting Motion for Preliminary Injunction at 2, *Verizon Cal., Inc.*, No. CV 08 2463 (C.D. Cal.).

23. Plaintiffs' Motion, *supra* note 3, at 19–20.

24. Defendants' Opposition, *supra* note 1, at 6; Affidavit of Seth Jacoby in Support of Defendant's Opposition to Motion for Preliminary Injunction [hereinafter Jacoby Affidavit] at ¶¶ 4 & 6, *Verizon Cal., Inc.*, No. CV 08 2463 (C.D. Cal.).

25. *Id.* at 6–7; Jacoby Affidavit, *supra* note 24, at ¶ 13.

26. *Verizon Cal., Inc.*, No. CV 08 2463, at 4–5; see also Defendants' Opposition, *supra* note 1, at 2.

27. Defendants' Opposition, *supra* note 1, at 10–13.

28. *Id.* at 21–24.

29. *Verizon Cal., Inc.*, No. CV 08 2463, at 10.

30. *Id.* at 12–13.

31. *Id.* at 14–15.

32. *Id.* at 15–16.

33. *Id.* at 16.

34. ICANN has recently voted to make the registration fee (currently \$0.20) non-refundable. It is unclear what effect this measure will have in curbing domain tasting. While some have opined that the imposition of this fee will render domain tasting unprofitable, at least one trademark owners' advocacy group has expressed skepticism that the fee will have any effect on the practice. See Krebs, *supra* note 13; Press Release, Coalition Against Domain Name Abuse, ICANN's Tasting Solution a Partial Success (June 27, 2008), available at <http://www.cadna.org/en/newsroom/press-releases/icann-tasting-solution>.