REGULATING THE DOMAIN NAME SYSTEM: IS THE ".BIZ" DOMAIN NAME DISTRIBUTION SCHEME AN ILLEGAL LOTTERY?

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By now, any Internet user is familiar with the importance of the domain name registry connected to the site where they are headed. Each registry is entitled to distribute the domain names which precede the registry. The distribution of these domain names and registries, however, has been marred by legal disputes, especially in the area of trademark infringement.

Ms. Wang addresses two main issues in her note: the legal implications of the inconsistent distribution schemes among domain registries and the legal battle over domain names between trademark holders and non–trademark holders. After a thorough history of the varying domain name distribution schemes, the author examines the application of California anti-lottery law and the Federal Trademark Dilution Act to the ".biz" domain name distribution scheme.

Wang argues that with the privatization of domain name distribution, the systems require regulation rather than expanded safe harbor provisions. She concludes that such regulation does not call for the enactment of new Internet-specific laws. Rather, existing state and federal laws appropriately address the concerns over fairness in distribution and continue to provide an adequate balance between concerns of trademark holders and the rest of the Internet community.

I. INTRODUCTION

The commercialization of the Internet has brought about a clash of interests between trademark[1] holders and the rest of the Internet community, as well as a tension between big corporations and small businesses with limited resources. The highly publicized issue of domain name distribution is presenting new and challenging legal questions in all areas of the law, especially in the field of intellectual property.

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1. In this Note, the words "trademark" and "mark" are used interchangeably.

The Internet has been described as an international computer network that connects millions of individual computer networks.[2] Since its birth, the Internet has thrived into a vast electronic web of vital importance for global commercial and social activities. Commercial activities on the Internet have been estimated to proliferate at double the rate of the general economy, and one billion people are expected to have access to the Internet by 2005.[3] As of February 2002, there were thirty-five million Internet domain names registered worldwide.[4]

In an attempt to provide for a stable, fair, and orderly introduction of new domain names, domain name registries tested the water by employing different approaches to launch their registry services.[5] This distribution stage of domain name administration is critical because for all practical purposes, to pin hope solely on after-the-fact litigation and arbitration to resolve domain name disputes would debilitate the system. A fair domain name distribution system that takes into account the interests of both trademark holders and the Internet community at large, as well as the interests of both the wealthy and the poor, will not only bring about a closer concurrence between administrative and judicial efforts, but will also facilitate equal access to the Internet domain name system.

Using the ".biz" domain name distribution scheme as an example, this note argues that employing existing state and federal laws to regulate domain name registries and registrars is a better option than expanding current safe harbors for domain name registries and registrars, or introducing new Internet-specific laws. Such regulation will help address the policy and practical concerns that direct the establishment of sound and fair domain name distribution systems. Part II of this note offers an introductory overview of the domain name system and examines the history of the various domain name distribution schemes, including the ".biz" domain name distribution scheme. Part III analyzes the application of the California anti-lottery law and the Federal Trademark Dilution Act (FTDA) to the ".biz" domain name distribution scheme. Part IV offers a critique of available options for alternative domain name distribution schemes and explores how appropriate application of state and federal laws would address the societal concerns that necessitate the

2. Reno v. ACLU, 521 U.S. 844, 849–50 (1997); MTV Networks v. Curry, 867 F. Supp. 202, 203 n.1 (S.D.N.Y. 1994).

3. *Trademarks, Electronic Commerce, and the Future of the Domain Name Assignment System: Hearings Before the Subcomm. on Telecomm., Trade & Consumer Protection of the House Comm. on Commerce*, 1998 WL 318299 (F.D.C.H.), at *4, 10 (1998), *available at* http://www.inta.org/policy/test_achasser1.shtml (statement of Anne Chasser, Executive Vice President, International Trademark Association).

4. Christine Frey, *Newest Suffixes Help to Increase Net's Population*, L.A. TIMES, Feb. 11, 2002, at 1, *available at* 2002 WL 2452987.

5. Susan Stellin, *Trying to Win a New Name Game; Trademarks Must Vie for Net Addresses*, N.Y. TIMES, June 25, 2001, at C1, *available at* LEXIS, News Library, NYT File (reporting two different domain name distribution schemes for ".biz" and ".info" administered by NeuLevel and Afilias, respectively).

regulation of the domain name distribution process. Finally, part V concludes by emphasizing that state and federal laws can be applied successfully to regulate the domain name distribution process.

II. BACKGROUND

A. The Domain Name System and Its Administration

The U.S. government has played a pivotal role in the development and flourishing of the Internet. During the 1960s, the Department of Defense's Advanced Research Project Agency (DARPA) established the "ARPANET" network, and the U.S. government has since funded research on computer networking technology, including the development of a "network of networks" (the Internet) and the Internet Protocol (IP) that allows the networks to intercommunicate.[6] Under the statutory authority of the National Science Foundation (NSF), the Internet's early functions were limited to basic scientific research, engineering, and education activities, but were later expanded to commercial activities during the early 1990s.[7]

1. The Domain Name System

The Internet contains a compilation of web pages that are computer files written in Hypertext Markup Language (HTML) with information including "names, words, messages, pictures, sounds, and links to other [web pages]."[8] The Internet uses domain names to locate and retrieve different web pages and information stored on remote computers.[9] A domain name is a nominal Internet address called a Universal Resource Locator (URL),[10] used by ordinary computer users.[11] It has a corresponding numerical IP address recognized by computers.[12]

The Domain Name System (DNS) is constructed as a hierarchy and a dichotomy.[13] On the one hand, "[the DNS] is divided into top-level domains (TLDs), with each TLD then divided into second-level domains

6. Management of Internet Names and Addresses, 63 Fed. Reg. 31,741, 31,741 (June 10, 1998) [hereinafter White Paper].

7. *See* 42 U.S.C. §§ 1862(a), 1870(c) (2000); White Paper, *supra* note 6, at 31,742.

8. Panavision Int'l, L.P. v. Toeppen, 141 F.3d 1316, 1318 (9th Cir. 1998).

9. *See* Lockheed Martin Corp. v. Network Solutions, Inc., 985 F. Supp. 949, 951 (C.D. Cal. 1997).

10. The term "nominal" is equivalent to the terms "mnemonic" and "alphanumeric." Thomas G. Field, *Making the Most of Commercial Global Domains*, 41 IDEA 101, 102 n.7 (2001).

11. *See* BRYAN PFAFFENBERGER, INTERNET IN PLAIN ENGLISH 136 (2d ed. 1996).

12. A domain name such as "microsoft.com" is essentially a user-friendly substitute for an IP address consisting of four groups of numbers with not more than three integers in each group separated by periods, e.g., 123.45.678.12. A domain name is used to sort Internet addresses, just as zip codes are used to sort mails and area codes are used to sort phone numbers. MTV Networks v. Curry, 867 F. Supp. 202, 203 n.2 (S.D.N.Y. 1994).

13. *See* White Paper, *supra* note 6, at 31,742; PFAFFENBERGER, *supra* note 11, at 137–38.

(SLDs), and so on."[14] On the other hand, while more than 200 TLDs to different nations or countries (ccTLDs), a small set of global or generic top-level domains (gTLDs) do not carry any national identifier.[15] Examples of ccTLDs include country codes such as ".us" for the United States, ".se" for Sweden, and ".ca" for Canada.[16]

The United States has traditionally used six gTLDs: ".com" for companies and corporations, ".edu" for educational institutions, ".gov" for organizations affiliated with the U.S. government, ".mil" for affiliations with the U.S. military, ".net" for internet service facilities, and ".org" for nonprofit organizations.[17] As of the end of 1999, over eighty percent of all domain name registrations were made for the ".com," ".net," and ".org" domains.[18] To relieve crowding in the ".com," ".net," and ".org" domains, seven new gTLDs are being added to the DNS, including ".pro" for licensed professionals such as doctors and lawyers, ".biz" for business or commercial web sites, ".info" for general use, ".name" for personal web sites or human domain names, ".aero" for air-transport companies, ".museum" for museums, and ".coop" for cooperatives such as credit unions.[19]

2. *Administration of the DNS*

While ccTLDs have always been administered by their corresponding government or organizations with governmental acquiescence,[20] the management of major components of the gTLDs has been performed by, or subject to, agreements with agencies of the U.S. government.[21] Under contracts with DARPA, the Internet Assigned Numbers Authority (IANA) coordinated the DNS by assigning blocks of numerical addresses to regional IP registries, which then reallocated the IP addresses to Internet service providers and end-users.[22] The NSF later created the Internet Network Information Center (InterNIC) to provide technical

14. White Paper, *supra* note 6, at 31,742. Different levels of domains are separated by periods (dots), with the top-level domain on the far right, and the second and other lower levels arranged from right to left in order. For example, the domain name "www.fire-department.ventura.ci.ca.us" includes the top-level domain "us," the second-level domain "ca," and the fifth-level domain "fire-department." *See* PFAFFENBERGER, *supra* note 11, at 137–38; Field, *supra* note 10, at 102–03.

15. White Paper, *supra* note 6, at 31,742.

16. *See, e.g.*, PFAFFENBERGER, *supra* note 11, at 425. For a discussion on the ".us" Internet domain, see Peter B. Maggs, *The '.us' Internet Domain*, 50 AM. J. COMP. L. 297 (2002).

17. PFAFFENBERGER, *supra* note 11, at 425.

18. Diane Cabell, *Trademark Disputes Online—ICANN's New Uniform Dispute Resolution Policy* (Nov. 18, 1999), *at* http://www.mama-tech.com/udrp.html.

19. Kathleen Kiley, *A Lot of Fuss over Three Letters*, N.Y. TIMES, Jan. 21, 2001, at 14CN1, *available at* LEXIS, News Library, NYT File.

20. Improvement of Technical Management of Internet Names and Addresses, 63 Fed. Reg. 8826, 8826 (Feb. 20, 1998) [hereinafter Green Paper].

21. White Paper, *supra* note 6, at 31,741–42.

22. *Id.* at 31,742.

oversight of architectural development on the Internet.[23] Under a cooperative contract with the NSF, the actual responsibility for the registration of key gTLDs including ".com," ".org," and ".net" and the maintenance of the Internet registration database was delegated to Network Solutions, Inc. (NSI), a Virginia-based company.[24] NSI operated the "A" root server, which contains central root databases and replicates changes to the other root servers so that Internet messages can be routed to their correct destinations.[25] NSI was the sole registry of global commercial domains until the agreement expired in 1998.[26]

Under the NSI-monopolized Internet, the DNS became increasingly insufficient for the growth and importance of the Internet. In 1996 a number of Internet and trademark organizations formed the Internet Ad Hoc Committee (IAHC).[27] The IAHC reviewed the DNS policies and procedures and issued a Memorandum of Understanding on the Generic Top Level Domain Space of the Internet Domain Name System (gTLD-MoU),[28] which advocated a shared registry and the creation of new gTLDs.[29]

In 1997, President Clinton issued a Directive on Electronic Commerce outlining the policy objectives of facilitating a global and transparent environment for electronic commerce.[30] With an aim toward promoting the growth and success of the Internet, President Clinton directed the executive department and agencies to refrain from imposing unnecessary regulations and procedures, to encourage industry self-regulation, and to support private sector efforts to develop technology and practices.[31]

In 1998 the National Telecommunications and Information Administration (NTIA), an agency of the Department of Commerce (DoC), issued a rulemaking proposal entitled *Improvement of Technical Management of Internet Names and Addresses*, otherwise known as the Green Paper, seeking public comments on policy issues relating to the DNS.[32] Without setting forth any definite plan, the Green Paper called for the

23. Kenneth Sutherlin Dueker, *Trademark Law Lost in Cyberspace: Trademark Protection for Internet Addresses*, 9 HARV. J.L. & TECH. 483, 497 (1996).

24. White Paper, *supra* note 6, at 31,742; ICANN, *Registrar Accreditation: History of the SRS*, *at* http://www.icann.org/registrars/accreditation-history.htm (last modified Dec. 6, 1999).

25. The root server system consists of thirteen file servers containing authoritative databases listing all TLDs, something similar to a directory with a list of all Internet addresses and their corresponding domain names. White Paper, *supra* note 6, at 31,742.

26. *Id.*; *Special Award Conditions, NCR-9218742, Amendment No. 11* (Oct. 7, 1998), *available at* http://www.ntia.doc.gov/ntiahome/domainname/proposals/docnsi100698.htm.

27. The IAHC included the Internet Society (ISOC), Internet Assigned Numbers Authority (INTA), and the International Trademark Association (INTA). Eric T. Fingerhut & P.L. Skip Singleton, Jr., *We're Entering a New Domain*, LEGAL TIMES, Oct. 6, 1997, at 6–8.

28. Fingerhut & Singleton, *supra* note 27, at 6–8; Memorandum of Understanding on the Generic Top Level Domain Space of the Internet Domain Name System (Feb. 28, 1997), *available at* http://www.gtld-mou.org/gTLD-MoU.html [hereinafter gTLD-MoU].

29. gTLD-MoU, *supra* note 28.

30. *See* Presidential Directive: Electronic Commerce, 1997 WL 367091 (July 1, 1997).

31. *Id.* at *2.

32. Green Paper, *supra* note 20, at 8826.

management of Internet names and addresses to be privatized in a manner that would encourage free competition and global participation in Internet management.[33] In response to public comments, a revised DNS policy statement, *Management of Internet Names and Addresses*, known as the White Paper, proposed the creation of a private, nonprofit corporation to establish the actual DNS policies and procedures.[34] According to the proposal, the new corporation would take over the DNS administration, institute various reforms, and coordinate key Internet functions such as managing IP addresses and root servers, increasing the number of top-level domains, and establishing the qualifications for domain name registries.[35]

Shortly thereafter, the DoC handed over the authority to manage the DNS to the Internet Corporation for Assigned Names and Numbers (ICANN), a private nonprofit California corporation.[36] Although it has been argued that the U.S. government's use of ICANN violates the Administrative Procedures Act and the nondelegation doctrine of the U.S. Constitution,[37] ICANN has since been overseeing the Internet infrastructure and establishing domain name policies.[38]

ICANN has selected companies to perform as TLD name registries to compete with NSI.[39] For each new gTLD, the selected registry operates the domain name registration process through ICANN-accredited registrars to reach the Internet public.[40] Accredited registrars are independent companies worldwide that accept domain name registrations directly from the registrant public and report the registrations to the registry.[41] The registry enters into contracts with the registrars, receives domain name system information from the registrars, inserts that information into a centralized database, and ultimately propagates the infor-

33. *See id.*

34. *See* White Paper, *supra* note 6, at 31,743–51.

35. *See id.*

36. *See* Memorandum of Understanding Between the Department of Commerce and the Internet Corporation for Assigned Names and Numbers (Nov. 25, 1998), *available at* http://www.icann.org/general/icann-mou-25nov98.htm [hereinafter MoU]. Under the MoU, the DoC and ICANN agreed to jointly develop and test the mechanisms and procedures to be in place in the new, privatized DNS. The term of the agreement was later extended to September 30, 2002 by amendments to the ICANN/DOC MoU. Amendment 2 to MoU (Sept. 7, 2000), *available at* http://www.icann.org/general/amend2-jpamou-07sep00.htm; Amendment 4 to MoU (Sept. 2001), *available at* http://www.ntia.doc.gov/ntiahome/domainname/agreements/amend4_92801.htm.

37. A. Michael Froomkin, *Wrong Turn in Cyberspace: Using ICANN to Route Around the APA and the Constitution*, 50 DUKE L.J. 17, 20 (2000).

38. *See id.*

39. The first five companies named were America Online, CORE, Oleane, Melbourne IT, and Register.com. *See* John Simons, *Monopoly on Web Addresses Is Broken as Network Solutions Gets Five Rivals*, WALL ST. J., Apr. 22, 1999, at B10, *available at* 1999 WL-WSJ#5449608.

40. JEROME GILSON ET AL., TRADEMARK PROTECTION AND PRACTICE §§ 30.03, .05 (2002); VeriSign Global Registry Servs., *Glossary of Terms*, *available at* http://www.verisign-grs.com/glossary [hereinafter *Glossary of Terms*] (last visited Aug. 21, 2002). There are currently over 150 accredited registrars. ICANN, *List of Accredited and Accreditation-Qualified Registrars*, *available at* http://www.icann.org/registrars/accredited-list.html (last modified Aug. 12, 2002).

41. GILSON ET AL., *supra* note 40, §§ 30.03, .05; *Glossary of Terms*, *supra* note 40.

mation over the Internet so that domain names can be reached via web browsers.[42] Among the seven new gTLDs, ICANN granted NeuLevel, Inc. the right to conduct the registry for the ".biz" domain and authorized a consortium of eighteen companies collectively known as Afilias to operate as the ".info" registry.[43]

B. The Law Governing Domain Name Disputes

1. Current Issues in Domain Name Disputes

The disparity between the DNS and trademark law causes numerous issues to arise in domain name distribution and indicates that domain names, as "a new form of intellectual property," should be managed in a way fundamentally different from that of trademarks.[44] Like a street address or telephone number, each domain name serves the function of locating a distinct web site on the Internet, and the current DNS requires that each second-level domain name in any given gTLD be unique.[45] This uniqueness requirement is fundamentally inconsistent with the coexistence of identical trademarks.[46] While trademark law permits multiple parties to use the same mark for different products or services, or within different geographical areas, the gTLDs uniqueness requirement applies globally and in all markets.[47]

One major domain name dispute issue involves cybersquatting or cyberpiracy.[48] In the hope of profiting from their sale or rental to the

42. GILSON ET AL., *supra* note 40, §§ 30.03, .05; *Glossary of Terms*, *supra* note 40.

43. Stellin, *supra* note 5.

44. *See* Field, *supra* note 10, at 103 (reviewing how domain names pose issues regarding dilution, genericism territoriality, and governance).

45. "Each web page has a corresponding domain address, which is an identifier somewhat analogous to a telephone number or street address." Brookfield Communications, Inc. v. W. Coast Entm't Corp., 174 F.3d 1036, 1044 (9th Cir. 1999). To eliminate the uniqueness requirement and allow everyone who wants a given domain name to have it, some commentators have proposed to create link pages or gateways listing companies that share the same domain name. Jennifer R. Durpre, *A Solution to the Problem? Trademark Infringement and Dilution by Domain Names: Bring the Cyberworld in Line with the "Real" World,* 87 TRADEMARK REP. 613 (1997); Michael A. Sartori, *A Proposal for the Registration of Domain Names*, 87 TRADEMARK REP. 638, 653 (1997). These proposals, however, have not been adopted.

46. *See Internet Domain Name Trademark Protection: Hearing Before the Subcomm. on Courts & Intellectual Prop. of the House Comm. on the Judiciary*, 105th Cong. 152 (1997) [hereinafter *Trademark Protection Hearings*] (statement of John Wood, Senior Internet Consultant, Prince PLC); J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION §§ 25:72, :73 (2002).

47. *See* MCCARTHY, *supra* note 46, chs. 24, 26, 29.

48. Cybersquatting and cyberpiracy are synonymous in referring to the same type of unfair practice in cyberspace. MCCARTHY, *supra* note 46, § 25:77. The World Intellectual Property Organization (WIPO) proposed an international definition of cybersquatter as being the "abusive registration of a domain name." *Final Report of the WIPO Internet Domain Name Process*, *The Management of Internet Names and Addresses: Intellectual Property Issues* ¶¶ 170–177 (Apr. 30, 1999), *available at* http://www.icann.org/wipo/FinalReport_3.html [hereinafter WIPO's Final Report]. The Anti-Cybersquatting Consumer Protection Act of 1999 outlaws the act of registering, with the bad-faith intent to profit, a domain name that is confusingly similar to a mark or dilutive of a famous mark. 15 U.S.C. § 1125(d) (2000).

original trademark holders, cybersquatters register company names or trademarks as domain names, in many cases without making any serious use of the web site.[49] Individuals or companies also register domain names based on competitors' trademarks to deprive the trademark holders of their use, or to profit from the recognition associated with those trademarks, rather than to extort the original trademark holders.[50] Moreover, by directing or misdirecting consumers to the unintended web site, a cybersquatter is able to promote a business entirely unrelated to the registered domain name.[51]

Although equity may clearly favor trademark holders in the above scenarios, other more difficult situations involve multiple parties who have legitimate claims to a domain name. For example, multiple parties may have registered identical or similar trademarks for different products or in different countries, or multiple parties may have used, but not registered, identical or similar names to identify their businesses and products.[52] More importantly, non–trademark holders may be entitled to register ordinary English words that happen to be trademarks owned by other parties because no one can monopolize ordinary English words in their generic sense.[53]

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49. MCCARTHY, *supra* note 46, § 25:77; *see, e.g.,* Panavision Int'l, L.P. v. Toeppen, 141 F.3d 1316 (9th Cir. 1998) (involving a cybersquatter named Dennis Toeppen, who registered the domain name "panavision.com" and offered to sell it to Panavision International for $13,000); Intermatic, Inc. v. Toeppen, 947 F. Supp. 1227, 1239 (N.D. Ill. 1996) (involving the same Toeppen, who registered the domain name "intermatic.com" and intended to eventually sell it back to Intermatic or to some other party).

50. GILSON ET AL., *supra* note 40, § 7A.06; *see, e.g.*, Green Prods. v. Indep. Corn Byproducts, 992 F. Supp. 1070, 1078 (N.D. Iowa 1997) (finding that the defendant, who registered the domain name "greenproducts.com," which was identical to its competitor's trademark, and used it to set up a web site disparaging the competitor's products, eliminated the domain name's use by the trademark's owner and might have resulted in a diversion of business to the defendant, even though the defendant had no intent of selling the domain name to anyone).

51. "Web users often assume, as a rule of thumb, that the domain name of a particular company will be the company name followed by '.com.'" Brookfield Communications, Inc. v. W. Coast Entm't Corp., 174 F.3d 1036, 1045 (9th Cir. 1999). For example, one would guess that Microsoft's web page is located at http://www.microsoft.com. *Id*. While attempting to reach the actual web site of a trademark holder, web surfers may type in a guessed domain name that turns out to be occupied by a cybersquatter. *See, e.g.*, Hasbro, Inc. v. Internet Entm't Group, Ltd., 40 U.S.P.Q.2d 1479 (W.D. Wash. 1996) (holding that the famous trademark CANDYLAND for a children's board game was diluted by tarnishment by the defendant's use of "candyland.com" for a web site showing sexually explicit pictures); Ann Davis, *A Cunning Cyber-Lepidopterist Flutters by Some Big Companies*, WALL ST. J., Jan. 15, 1998, at B1, *available at* 1998 WL-WSJ 3479075 (involving a cybersquatter named Hans Schnauber who registered 170 Web addresses, including "timewarner.org" and "smithbarney.org," and used these sites to promote the protection of plants that attract endangered butterflies).

52. For example, although both United Airlines and United Van Lines can coexist in the market place, there can be only one domain name "united.com." In another case, a small company called Gateway.com, Inc. registered and used the domain name "gateway.com" before the computer maker Gateway 2000, and neither company had obtained trademark registration for "Gateway." Gateway 2000, Inc. v. Gateway.com, Inc., No. 5:96CV1021, 1997 WL 33165847, at *1 (E.D.N.C. Feb. 6, 1997).

53. *See, e.g.*, Entrepreneur Media, Inc. v. Smith, No. 00-56559, 2002 WL 200907, at *2–14 (9th Cir. Feb. 11, 2002) (holding that a California public relations firm did not infringe on trademarks belonging to the publisher of Entrepreneur magazine by using the domain name "EntrepreneurPR.com," because of the common and necessary uses of the word "entrepreneur"); Avery Dennison Corp. v. Sumpton, 189 F.3d 868 (9th Cir. 1999) (holding that the defendant, who registered 12,000

2. *Existing Causes of Action for Domain Name Disputes*

In an effort to address the above issues, trademark holders have resorted to federal law to protect themselves in domain name disputes.[54] In addition to trademark infringement law[55] and the FTDA,[56] Congress passed the Anticybersquatting Consumer Protection Act (ACPA) in 1999.[57]

Because the territoriality and multiplicity of the trademark system conflicts with the uniqueness requirement and globalization of the DNS, traditional trademark infringement and dilution law cannot be expected to solve all domain name disputes.[58] First, trademark infringement law under the Lanham Act does not apply well in cybersquatting cases because it requires a showing of the likelihood of consumer confusion.[59] Because cybersquatters often either make no use of the web site or make use in a way that is unlikely to confuse visitors of the site as to its affiliation, cybersquatting alone does not satisfy the "likelihood of confusion" test and therefore would not constitute trademark infringement.[60]

Second, the FTDA provides an alternative cause of action and increases protection of trademark holders against cybersquatters by eliminating the trademark infringement law's "likelihood of confusion" requirement.[61] The FTDA's application, however, is limited to "famous"

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domain names corresponding to common last names, including "Avery.net" and "Dennison.net," and operated a business by licensing them to individuals to use as e-mail addresses, did not violate the Federal Trademark Dilution Act). Trademark holders should not be given unfair advantage with respect to generic domain names because even under trademark law, trademark holders are not entitled to a monopoly on ordinary English words in their generic use. *See* Ralph H. Folsom & Larry L. Teply, *Trademarked Generic Words*, 89 YALE L.J. 1323, 1339–40 (1980).

54. GILSON ET AL., *supra* note 40, § 30.01. Although state law also protects trademark rights, almost all trademark suits are brought in federal court, and federal claims are more commonly asserted. PETER B. MAGGS & ROGER E. SCHECHTER, TRADEMARK AND UNFAIR COMPETITION LAW 27 (6th ed. 2002).

55. Lanham Act § 32, 15 U.S.C. § 1114 (2000) (prohibiting trademark infringement and providing a cause of action for holders of federally registered marks); *id*. § 43(a), 15 U.S.C. § 1125(a) (forbidding false designations of origin and providing a cause of action for holders of unregistered marks).

56. *Id*. § 43(c), 15 U.S.C. § 1125(c).

57. Anticybersquatting Consumer Protection Act of 1999, Pub. L. No. 106-113 (codified at 15 U.S.C. §§ 1114(2)(D), 1125(d)).

58. *See Trademark Protection Hearings*, *supra* note 46, at 152; MCCARTHY, *supra* note 46, §§ 25:72–:73.

59. The Lanham Act prohibits any person without permission from using another's mark "in connection with the sale, offering for sale, distribution or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive." 15 U.S.C. § 1114(1)(a). *See generally* MCCARTHY, *supra* note 46, § 23:1.

60. *See* Lockheed Martin Corp. v. Network Solutions, Inc., 985 F. Supp. 949, 957–58 (C.D. Cal. 1997) ("[S]omething more than the registration of the name is required before the use of a domain name is infringing."); Intermatic, Inc. v. Toeppen, 947 F. Supp. 1227, 1234–36 (N.D. Ill. 1996) (finding that factors weighed against likelihood of confusion because the defendant did not use the "intermatic.com" site for the sale of any product or service and "his use [was] entirely dissimilar from Intermatic's use").

61. The FTDA provides:

(c) Remedies for dilution of famous marks.

marks and "commercial use" of those marks.[62] Although case law expands the definition of "commercial use" to include an attempt to sell a domain name to the trademark holder,[63] cybersquatters are able to escape trademark dilution liability by warehousing and trafficking in a domain name and avoiding offering a domain name for sale back to the trademark holder.[64]

Finally, the adoption of the ACPA is similarly inadequate. The ACPA avails trademark holders of yet another cause of action as "a preferable alternative to stretching federal dilution law when dealing with cybersquatting cases."[65] The ACPA reaches beyond famous marks and commercial use of marks, requiring the establishment of a "bad faith intent to profit" on the part of an alleged cybersquatter to profit from another's mark.[66] Nonetheless, the ACPA has been criticized by trademark holders for requiring a showing of actual "bad-faith intent," and by non–trademark holders for affording too much protection to trademark holders.[67]

C. The Traditional "First Come, First Served" Domain Name Distribution Scheme and NSI's Registration Policy

The inadequacy and imprecision of available legal measures call for the introduction of effective dispute resolution mechanisms and, more importantly, the adoption of fair and feasible operational systems for al-

> (1) The owner of a famous mark shall be entitled, subject to the principles of equity and upon such terms as the court deems reasonable, to an injunction against another person's commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark.

15 U.S.C. § 1125(c). Furthermore, "'dilution' means the lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of the presence or absence of . . . likelihood of confusion, mistake, or deception." Lanham Act § 45, 15 U.S.C. § 1127.

62. *See* 15 U.S.C. § 1127.

63. *See infra* notes 241–42 and accompanying text.

64. S. REP. NO. 106-140, at 7 (1999) ("While the [FTDA] has been useful in pursuing cybersquatters, cybersquatters have become increasingly sophisticated as the case law has developed and now take the necessary precautions to insulate themselves from liability. For example, many cybersquatters are now careful to no longer offer the domain name for sale in any manner that could implicate liability under existing trademark dilution case law. And, in cases of warehousing and trafficking in domain names, courts have sometimes declined to provide assistance to trademark holders, leaving them without adequate and effective judicial remedies.").

65. Sporty's Farm L.L.C. v. Sportsman's Market, Inc., 202 F.3d 489, 497 (2d Cir. 2000). The ACPA prohibits any person from registering, trafficking in, or using a domain name where there is a bad-faith intent to profit from a mark. The domain name involved must be either identical or confusingly similar to a distinctive mark, or identical or confusingly similar or dilutive of a famous mark. 15 U.S.C. § 1125(d).

66. 15 U.S.C. § 1125(d). To guide courts in determining the critical issue of whether the defendant had "a bad faith intent to profit from that mark," Congress set out a list of nine nonexhaustive factors. 15 U.S.C. § 1125(d)(1)(B)(i).

67. For a discussion on businesses' and individuals' reaction to the enactment of the ACPA, see Ritchenya A. Shepherd, *Cyberpirates Now May Have to Walk the Plank*, NAT'L L.J., Dec. 20, 1999, at B18, *available at* LEXIS, News Library, NTLAWJ File. The ACPA broadened the definition of actionable cybersquatting to only require "a bad faith intent to profit from [the] mark," even without an attempted sale back or a "famous" mark. *See* 15 U.S.C. § 1125(d).

locating new domain names. Despite the availability of legal actions, individuals and small business owners with limited resources are unlikely to sue or defend themselves when faced with the prospect of litigation.[68] The existing problems would be largely alleviated, and the number of disputes reduced, if the domain name distribution process could balance the legitimate concerns of trademark holders with the needs of domain name holders.[69]

NSI's traditional domain name distribution policy approved SLD names in the ".com," ".org," and ".net" TLDson a "first come, first served" basis.[70] In deciding whether to approve a domain name application, NSI did not engage in any preliminary review to determine whether the application conflicted with another party's trademark rights,[71] but would deny an application if an identical name had already been reserved or registered.[72] By requiring a registrant to sign a statement affirming that the registration did not infringe on the rights of any third party, NSI made it clear that it would take no responsibility for trademark conflicts or domain name disputes.[73] To initiate a dispute, a complainant was required to prove that he or she had registered a trademark that was identical to the SLD name registered to another.[74] If the domain name registrant failed to prove his or her ownership of a registered trademark of the same name, NSI would place the disputed domain name on hold until the dispute was resolved in or out of court.[75]

68. Harold Feld, *The Fallacy of Equating Domain Names with Protected Marks*, LEGAL TIMES, Nov. 10, 1997, at 28, *available at* LEXIS, News Library, LGLTME File.

69. *See* White Paper, *supra* note 6, at 31,742 (recognizing the need to resolve the common conflicts between trademark holders and domain name holders). To solve this dilemma, the gTLD-MoU's policy urges that a domain name which is "identical or closely similar to an alphanumeric string" of an internationally known trademark should belong to the trademark holder. At the same time, "[a]ppropriate consideration shall be given to possible use of such a second-level domain name by a third party that, for the purposes of this policy, is deemed to have sufficient rights." gTLD-MoU, *supra* note 28, § 2.

70. Network Solutions' Domain Name Dispute Policy, Revision 03, ¶ 1 (Feb. 25, 1998), *available at* http://www.jmls.edu/cyber/docs/dnpol3.html. This is the fifth version of NSI's revised policy, indicating numerous problems in the older system. *See* Christopher P. Rains, *A Domain by Any Other Name: Forging International Solutions for the Governance of Internet Domain Names*, 14 EMORY INT'L L. REV. 355, 384 (2000) (tracing the attempts of various organizations to govern the domain name assignment regime). Previous versions of the policy are available at http://www.jmls.edu/cyber/index/domain.html.

71. *See* Panavision Int'l, L.P. v. Toeppen, 945 F. Supp. 1296, 1299 (C.D. Cal. 1996); Network Solutions' Domain Name Dispute Policy, *supra* note 70 (stating that NSI does not "determine the legality of the domain name registration, or otherwise evaluate whether that registration or use may infringe upon the rights of a third party").

72. *See* Lockheed Martin Corp. v. Network Solutions, Inc., 985 F. Supp. 949, 953 (C.D. Cal. 1997) (explaining that NSI maintains a directory that matches each domain name with its IP address, and screens out an identical name already in use).

73. Network Solutions' Domain Name Dispute Policy, *supra* note 70, ¶ 2; *see also Panavision Int'l*, 945 F. Supp. at 1299 ("[T]he use or registration of the domain name does not interfere with or infringe the rights of any third party with respect to trademark, service mark, trade name, company name, or any other intellectual property right . . . .").

74. *See* Network Solutions' Domain Name Dispute Policy, *supra* note 70, ¶ 8.

75. *See id.* ¶¶ 7, 8, 9.

Trademark holders were dissatisfied with NSI's "first come, first served" domain name distribution scheme.[76] First, it was noted that requiring domain name registrants to sign the statement affirming that the registration did not infringe on the rights of a trademark holder was a mere "paper formality" due to the scant nature of existing law pertinent on the subject and that cybersquatters would continue their opportunistic and abusive practices.[77] Second, the refusal to consider trademarks in the registration process burdened trademark holders, especially because domain name disputes involving obvious cybersquatters would not arise in the first place if there were a preliminary screen in the registration process.[78] Third, to place a registered domain name on hold, the trademark holder had to have a registered trademark identical to the domain name; therefore, challenges against those domain names that were merely confusingly similar to registered trademarks were excluded.[79] Finally, the NSI system also failed to address the rights of holders of unregistered or common-law trademarks.[80]

On the flip side, the rest of the Internet community—including small businesses and individuals—criticized the NSI's policy as favoring trademark holders.[81] The NSI's policy allowed a registered trademark holder to suspend a registrant's domain name without reference to whether there existed a bona fide legal claim of trademark infringement or trademark dilution.[82] This led to the unfairness of reverse domain name hijacking, when many domain name registrants, particularly individuals and small business owners, could be compelled to settle with trademark holders to avoid litigation, even if the alleged infringer had a right to use the domain name.[83] It also appeared unfair for good-faith domain name registrants who had relied on the registry to later be con-

76. *See* Rains, *supra* note 70, at 383–89; David W. Maher, *Trademarks on the Internet: Who's in Charge?*, at *2 (1996), *available at* http://www.aldea.com/cix/maher.html ("The NSI policy in practice satisfies almost no one.").

77. Brian Berlandi, *"It's Our Way or the Highway:" Americans Ruling Cyberspaces—A Look Back at Bad Policy and a Look Ahead at New Policy*, 3 J. TECH. L. & POL'Y 1, 27 (1998).

78. Rains, *supra* note 70, at 383.

79. *See* Network Solutions' Domain Name Dispute Policy, *supra* note 70, ¶ 8. For example, Microsoft would not be able to use NSI's policy to challenge the registrant of "micr0soft.com." Maher, *supra* note 76, at *2.

80. Rains, *supra* note 70, at 383, 387; Maher, *supra* note 76, at *2.

81. MCCARTHY, *supra* note 46, § 25:74.1; Rains, *supra* note 70, at 383–89.

82. *See* Network Solutions' Domain Name Dispute Policy, *supra* note 70, ¶¶ 7, 8, 9. As a federal court noted,

> NSI's policy has been criticized as favoring trademark owners over domain name holders, and favoring owners of federally registered marks over owners of non-registered marks, because owners of federally registered marks can invoke NSI's policy to effectively enjoin the use of identical domain names without having to make any showing of infringement or dilution.

Lockheed Martin Corp. v. Network Solutions, Inc., 985 F. Supp. 949, 953 (C.D. Cal. 1997).

83. MCCARTHY, *supra* note 46, § 25:73.4. In one highly publicized case, the trademark holder of the toy characters Gumby and Pokey initiated NSI's dispute resolution policy against a twelve-year-old boy who registered the domain name "pokey.com." The toy company finally gave up due to fear of the case's negative publicity. *See Fightin' Mad*, N.Y. TIMES, May 10, 1998, § 6, at 9, *available at* LEXIS, News Library, NYT File.

tested on trademark grounds and be forced to give up names they had worked hard to promote.[84]

The fact that all the domain names were free for the taking gave rise to the cyberspace equivalent of a land rush during the opening periods of registration to acquire the most desired domain names incorporating trademarks, product names, market segments, or their variants.[85] Business entities want to occupy a location on the Internet with an address that their customers can easily guess or remember.[86] There are practical concerns involving the unfair advantage that the wealthiest registrants with the most powerful computers and the most sophisticated technology possessed over small players during the opening land rush period of a "first come, first served" registration scheme.[87] Moreover, registries have found the traditional "first come, first served" scheme impractical with respect to the land rush problem because the computer systems of the registries bear a high risk of becoming clogged or overloaded by a surge of registration requests.[88]

84. Rains, *supra* note 70, at 383. In many cases, the domain name registrant was not aware that a third party held a valid registered trademark identical to the domain name and had used the domain name for years before the trademark holder challenged the domain name's registration.

85. Any new gTLD is likely to encounter an initial land rush when it first starts registration, during which high volumes of applications from the general public seeking the most desirable names must be anticipated. *Internet Domain Names: Hearings Before the Senate Comm. on Commerce, Science & Transportation Subcomm. on Communications*, 107th Cong. (2001) (statement of Michael M. Roberts, President and CEO, ICANN), 2001 WL 2005387, at *16 [hereinafter *Internet Domain Names Hearings*]. As of February 2002, there were about 22.5 million ".com" domain names registered. Frey, *supra* note 4, at C7. The potentially high number of requests for domain names can be illustrated by Kraft General Foods' registration of over 150 domain names, such as "velveeta.com" and "parkay.com" in addition to its other product names. Sheldon H. Klein, *New Attempt at Domain Name Accord*, NAT'L L.J., May 5, 1997, at B11, *available at* WL 5/5/97 Nat'l L.J. B11 (col. 1).

86. Internet users often expect to reach the web site of a company by typing in the name of the company or its major trademark, followed by ".com." Brookfield Communications, Inc. v. West Coast Entm't Corp., 174 F.3d 1036, 1044–45 (9th Cir. 1999). Another category of easy-to-guess domain names includes generic names such as "computer.com" and "beer.com." *See* David Streitfeld, *On the Web, Simplest Names Can Become Priciest Addresses*, WASH. POST, July 15, 1999, at A1, *available at* 1999 WL 17014211 (reporting that 3,000 people a day visited "beer.com" even though the site was never advertised).

87. Cybersquatters may "'devise automated scripts to flood [registrars] with applications.'" Ed Foster, *The Gripe Line: Domain Land Rush the Race to Secure .biz and Other New Domains Looks Lucrative for Certain Players in the Registry Business*, INFOWORLD, July 16, 2001, at 62 (quoting Jeffery Neuman, director of policy and intellectual property at NeuLevel). Those registrants with expensive, high-bandwidth, mechanized-script query systems are capable of sending out millions of rapid-fire queries and foreclosing access by others using conventional means. Louis Touton, *Declaration of Louis Touton in Opposition to Plaintiff's Motion for Preliminary Injunction in* Smiley v. ICANN, ¶ 26 (Sept. 14, 2001), *available at* http://www.icann.org/legal/smiley-v-icann/touton-decl-14sep01.htm [hereinafter *Declaration of Touton*].

88. Late in 2000, "first come, first served" openings of ".com," ".net," and ".org" domain names overwhelmed NSI's system, the most capable DNS registry system in existence. *Declaration of Touton*, *supra* note 87, ¶ 26. Similarly, ".info" registry Afilias was forced to take its system offline for several days when a surge of registration requests overwhelmed the system at the opening of the real-time "first come, first served" registration. Paul Festa, *.info Land Grab Overwhelms Registry* (Oct. 3, 2001), *available at* http://news.com.com/2100-1023-273822.html?legacy=cnet.

D. ICANN's Uniform Dispute Resolution Policy

To correct NSI's flawed domain name distribution policy, ICANN adopted the Uniform Dispute Resolution Policy (UDRP) in 1999, requiring every registrant in the ".com," ".org," and ".net" domains to agree to arbitrate all domain name disputes before ICANN-selected arbitration providers.[89] The UDRP requires three elements to be proved to transfer or cancel a disputed domain name: (1) the challenged domain name is identical or confusingly similar to a mark in which the complainant has rights; (2) the domain owner has no rights or legitimate interest in the domain name; and (3) the domain name has been registered and is being used in bad faith.[90] The UDRP is broader in scope than the NSI policy because it covers unregistered or common-law trademarks as well as domain names confusingly similar to trademarks.[91] In practice, the UDRP proceeding is far quicker than the federal court system and involves no discovery or oral hearings in most cases.[92]

The UDRP proceeding has its problems, however. A recent study found that eighty-one percent of all cases under the UDRP were decided in favor of the trademark holder who brought the suit; consequently, the UDRP has been criticized for bias in favor of trademark holders.[93] The study lends credence to the fear of unfairness because it also found that UDRP providers' influence over the panel composition tended to control the outcomes of the cases.[94] In addition, the UDRP bad-faith standard is

89. *See* Uniform Domain Name Dispute Resolution Policy (Oct. 24, 1999), *available at* http://www.icann.org/udrp/udrp-policy-24oct99.htm. As proposed by the White Paper, the ICANN UDRP adopted some of the recommendations for protecting trademark rights in the DNS set forth by WIPO. *See* White Paper, *supra* note 6, at 31,747; WIPO's Final Report, *supra* note 48.

90. Uniform Domain Name Dispute Resolution Policy, *supra* note 89, ¶¶ 3, 4.

91. *See id.*

92. *See* Rules for Uniform Domain Name Dispute Resolution Policy, ¶¶ 13, 15(b) (Oct. 24, 1999), *available at* http://www.icann.org/dndr/udrp/uniform-rules.htm. Either party involved in a UDRP administrative proceeding is free to file a lawsuit independent of the UDRP proceeding. Uniform Domain Name Dispute Resolution Policy, *supra* note 89, ¶ 4(k).

93. *See* Michael Geist, *Fair.com? An Examination of the Allegations of Systematic Unfairness in the ICCAN UDRP* (Aug. 2001), *available at* http://aix1.uottawa.ca/~geist/geistudrp.pdf [hereinafter Geist, *Fair.com?*] (analyzing the results of 3,094 cases decided since the system began in 1999); Michael Geist, *Fundamentally Fair.com? An Update on Bias Allegations and the ICANN UDRP* (Mar. 2002), *available at* http://aix1.uottawa.ca/~geist/fairupdate.pdf [hereinafter Geist, *Update on Fair.com?*] (updating the previous study by analyzing the results of 4,332 cases and providing the first comprehensive look at default versus nondefault cases); *cf.* Annette Kur, *UDRP: A Study by the Max-Planck-Institut for Foreign and International Patent, Copyright and Competition Law* (Jan. 11, 2002), *available at* http://www.intellecprop.mpg.de/Online-Publikationen/2002/UDRP-study-final-02.pdf (examining 700 individual arbitration decisions made under the UDRP and concluding that although the URDP process does need further refinement, it functions well "as a matter of principle" despite the high success rate of trademark holders).

94. The study found that the most prominent difference between UDRP providers is case outcome. The fact that trademark holders won more frequently with some providers than other providers encourages forum shopping. In addition, three-member panels decided in favor of the trademark holder only sixty percent of the time, while single-member panels did so in eighty-three percent of the cases. In three-member panel cases, both parties had input into the choice of the panelists, while in single-member panel cases, the arbitrator was chosen exclusively by the provider. Geist, *Fair.com?*, *supra* note 93, at 6–8, 17–26. An analysis of nondefault cases finds that the differences between pro-

vague and, even though it explicitly forbids it, may not effectively block reverse domain name hijacking.[95] Furthermore, the UDRP process does not provide remedies other than the cancellation or transfer of the domain name at issue,[96] and the decisions of the administrative panels may not be binding on federal courts.[97]

E. NeuLevel's ".biz" Domain Name Distribution Scheme

1. The ".biz" Domain Name Distribution Scheme

The problems plaguing the distribution of ".com," ".org," and ".net" domain names—such as cybersquatting, land rush, and reverse domain name hijacking—represent obstacles to achieving equal access to the Internet[98] and to striking a delicate balance between free competition and protection of trademarks.[99] ICANN and the new registries have tried to develop domain name distribution systems that would provide all good-faith registrants, regardless of their financial resources, with a fair chance to acquire a desired domain name, while at the same time protecting intellectual property holders by giving them priority to register domain names matching their trademarks.[100] A fair domain name distribution system would efficiently and economically complement the ACPA and the UDRP by resolving disputes instantaneously, without the need to resort to litigation or other means of dispute resolution.

As one of the attempts to develop a fair domain name distribution system, NeuLevel adopted a novel scheme involving a Start-up Period followed by real-time "first come, first served" registration to operate the ".biz" domain name distribution.[101] The Start-up Period involved multiple steps including an intellectual property claim step, a preregistration

viders as well as between single- and three-member panel case outcomes remain virtually unchanged from the overall differences, suggesting that default cases do not explain the data in *Fair.com?*. Geist, *Update on Fair.com?*, *supra* note 93, at 5–9.

95. Keith Blackman, *The Uniform Domain Name Dispute Resolution Policy: A Cheaper Way to Hijack Domain Names and Suppress Critics*, 15 HARV. J.L. TECH. 211, 233–35 (2001) (arguing that the UDRP remains deficient in dealing with reverse domain name hijackers); Uniform Domain Name Dispute Resolution Policy, *supra* note 89, ¶ 4; Rules for Uniform Domain Name Dispute Resolution Policy, *supra* note 92, ¶¶ 1, 15(e) (prohibiting reverse domain name hijacking and defining it as "using the Policy in bad faith to attempt to deprive a registered domain-name holder of a domain name").

96. Uniform Domain Name Dispute Resolution Policy, *supra* note 89, ¶ 4(i).

97. Weber-Stephen Prods. Co. v. Armitage Hardware & Bldg. Supply, Inc., 54 U.S.P.Q.2d 1766, 1768 (N.D. Ill. 2000) (holding that the court is not bound by the outcome of the UDRP proceedings, but declining to decide the degree of deference to be given to UDRP decisions).

98. The U.S. government calls for equal access to the domain names system and agrees with the notion that domain names should be regulated as a pubic trust. White Paper, *supra* note 6, at 31,745, 31,751; Green Paper, *supra* note 20, at 8832–33. "[A]ny administration, use and/or evolution of the Internet TLD space is a public policy issue and should be carried out in the interests and service of the public." gTLD-MoU, *supra* note 28, § 2.

99. *See* White Paper, *supra* note 6, at 31,742; gTLD-MoU, *supra* note 28, § 2.

100. *See* Stellin, *supra* note 5.

101. *Id.*

application step, and a random selection step.[102] Step One involved an "intellectual property claim" (IP Claim) period from May 21, 2001, to July 9, 2001, during which time trademark holders could make claims to notify prospective ".biz" registrants of their rights in registered marks, applied-for marks, or common-law marks.[103] This step was intended to protect the rights of trademark holders, although such claims did not themselves grant preferential rights to particular domain names.[104] To thwart the opportunistic practice of cybersquatters and speculators, NeuLevel notified each domain name applicant of any claimed intellectual property rights regarding the desired domain name if there was an exact match between that domain name and a trademark character string.[105] The applicant was then required to respond and could choose to either withdraw or proceed with the application.[106] If the applicant chose to proceed and was selected to register the name, that name would be put on a thirty-day "hold period" during which an IP Claimant could use any one of three dispute resolution mechanisms, including the Start-up Trademark Opposition Policy (STOP) and the Restriction Dispute Resolution Policy (RDRP) that were specifically developed for ".biz," in addition to the UDRP.[107]

Trademark holders could gain an advantage by filing IP Claims because the STOP was available only to IP Claimants to settle domain name disputes before the domain name became usable.[108] Although the STOP was similar to the UDRP, the STOP imposed a lower burden of proof because it only required a showing that the domain name either had been registered in bad faith *or* was being used in bad faith, while an IP Claimant must establish both elements under the UDRP.[109] Trademark holders who did not file an IP Claim would have to resort to the UDRP, the RDRP,[110] or bring their claim in a court if they wanted to challenge another's domain name registration.

102. *Id.*

103. NeuLevel, Inc., *IP Claim Service Terms of Use*, *available at* http:www.neulevel.biz/ardp/docs/ipclaims_service.pdf (last visited Aug. 22, 2002) [hereinafter *IP Claim Service*]. A ninety-dollar fee was required for each intellectual property claim. *Id.* ¶ 6; Stellin, *supra* note 5.

104. *See IP Claim Service*, *supra* note 103, at 2.

105. *Id.*

106. *Id.*

107. *Id.; see infra* notes 108–10 and accompanying text.

108. The STOP was a dispute resolution policy adopted by ICANN to be used in trademark-based domain-name disputes during the Start-up Period of the ".biz" domain name distribution. No UDRP or RDRP case could be initiated on a given domain name until the STOP had been completed for that domain name. NeuLevel, Inc., *Start-up Trademark Opposition Policy (STOP), at* http://www.neulevel.biz/faqs/stop_faqs.html (last visited Feb. 23, 2002).

109. NeuLevel, Inc., *FAQ: Dispute-Resolution Policies, at* http://www.neulevel.biz/faqs/drp_faqs.html (last visited Feb. 23, 2002) [hereinafter *FAQ: Dispute-Resolution Policies*]; Uniform Domain Name Dispute Resolution Policy, *supra* note 89, ¶ 4.

110. The RDRP ensured that the ".biz" domain names were reserved for exclusive use by businesses conducting commercial activities. *FAQ: Dispute-Resolution Policies, supra* note 109.

All applicants, including IP Claimants, needed to go through Step Two to actually apply for the desired domain names.[111] Step Two involved an offline, preregistration application process designed to alleviate the land rush problem during the opening period of domain name registration.[112] Unlike the previous registration procedures for traditional gTLDs—which were conducted free of charge or for a minimal registration fee[113]—the accredited ".biz" registrars charged a nonrefundable monetary fee for each preregistration application. NeuLevel received $2 of this fee regardless of whether the application was ultimately successful.[114] However, payment of this fee did not entitle any applicant to actually register a domain name. To obtain a greater chance of successful registration, each applicant was allowed to submit more than one preregistration application for the same domain name with application fees.[115] During the preregistration period, the registrars forwarded all applications to NeuLevel, which maintained a list of all parties requesting domain names, but did not disclose any information regarding the number of existing applications for the same domain name.[116]

The registrars accepted preregistration applications from July 9, 2001, until September 17, 2001, and the preregistration application period was followed by Step Three.[117] During this step, for the domain names with a single applicant, that applicant was to be granted the right to register the name.[118] If there were multiple applications for the same address, NeuLevel was to randomly select one application from all the applications submitted during the preregistration period, ignoring their orders of submission and the technical capabilities of the registrants.[119] The randomly selected winner would then be entitled to register the domain name for which it had applied.[120]

NeuLevel was scheduled to go live to accept ".biz" registrations on October 1, 2001, and was to subsequently handle real-time applications

111. *IP Claim Service*, *supra* note 103, at 2.

112. *See Declaration of Touton*, *supra* note 87, ¶¶ 22–25.

113. Since 1998, NSI has charged two types of fees with respect to domain names: the registration fee for new domain names ($70 for the first two years) and a reregistration fee for existing domain names already registered ($35 per year after the initial two-year registration period). GILSON ET AL., *supra* note 40, § 30.06[1][c]; Network Solutions Service Agreement (Version Number 5.8), *available at* http://www.netsol.com/en_US/legal/service-agreement.jhtml (last visited Feb. 23, 2002).

114. Susan Stellin, *Compressed Data; Suit Filed in Registration of Domain Names*, N.Y. TIMES, July 30, 2001, at C4, *available at* LEXIS, News Library, NYT File. The fee charged by the registrars at the preregistration step was about $5 per application. Foster, *supra* note 87.

115. In fact, one of the registrars, NSI, offered a discounted fee of $3 per application for 100 or more submissions, while the standard fee charged was $5 for one submission. Foster, *supra* note 87.

116. Joanna Glasner, *Dot-Biz: An Illegal Lottery?* (July 26, 2001), *available at* http://www.wired.com/news/ebiz/0,1272,45584,00.html.

117. GILSON ET AL., *supra* note 40, § 7A.02[1].

118. *Id.*

119. *Id.*

120. The registration fee for a ".biz" name was $66 for the first two years. Foster, *supra* note 87.

on a "first come, first served" basis without charging any application fee.[121]

2. *Lawsuits Regarding the ".biz" Domain Name Distribution Scheme*

Several lawsuits were filed with respect to the ".biz" domain name distribution scheme. A class action complaint against ICANN, the registry NeuLevel, and the ".biz" registrars claimed that the ".biz" scheme qualifies as an illegal lottery in California and the forty-nine other states.[122] The plaintiffs of the suit include David S. Smiley, a radio D.J. from Arizona, who tried to register "radio.biz" and "dj.biz."[123] ePrize, a Michigan limited liability company, later filed another class action against NeuLevel and the ".biz" registrars containing claims similar to those in the *Smiley* litigation, although ePrize did not name ICANN as a party.[124] On October 11, 2001, the Los Angeles Superior Court issued a preliminary injunction prohibiting NeuLevel from distributing ".biz" addresses for which NeuLevel had received more than one application.[125] The injunction was lifted after the plaintiffs failed to post half of the $1.6 million bond, but whether NeuLevel's ".biz" distribution scheme constitutes an illegal lottery remains the subject of these two pending cases.[126]

In late June 2001, Amazon.com sent a letter to NeuLevel stating similar concerns that NeuLevel's ".biz" domain name distribution scheme violated the state anti-lottery laws and the FTDA.[127] In response, NeuLevel filed an action against Amazon.com seeking a declaratory judgment that its process for allocating ".biz" addresses does not violate federal trademark statutes and is not subject to state or federal lottery

121. The "first come, first served" open registration process, scheduled to take place after the pre-registration and randomized selection process ended, was later delayed, and ".biz" went live on November 7, 2001. NeuLevel, Inc., *.BIZ Fact Sheet, available at* http://www.neulevel.biz/press/press_kit/fact_sheet.pdf (last visited Aug. 22, 2002).

122. The complaint also alleges that the registrar's scheme is an unlawful business activity under section 17200 of the California Business & Professional Code. Plaintiffs' First Amended Complaint at 3, Smiley v. Internet Corp. for Assigned Names & Numbers (Cal. Super. Ct. filed July 23, 2001) (No. BC254659).

123. Another plaintiff in the case is an online traffic school, Skyscraper Production, which wants to register "trafficschool.biz." Stellin, *supra* note 114.

124. Plaintiffs' Class Action Complaint at 1–2, ePrize v. NeuLevel (Cal. Super. Ct. filed Sept. 10, 2001) (No. BC257632).

125. Susan Stellin, *Scramble for New Business Web Addresses Is Delayed by Added Tests and a Lawsuit*, N.Y. TIMES, Oct. 22, 2001, at C3, *available at* LEXIS, News Library, NYT File.

126. Susan Stellin, *Technology Briefing Internet: Domain Injunction Lifted*, N.Y. TIMES, Oct. 26, 2001, at C5, *available at* LEXIS, News Library, NTY File.

127. Dina El Boghdady, *New Web Suffixes Beset by Trademark, Registration Fights*, WASH. POST, Sept. 27, 2001, at 2, *available at* 2001 WL 28359914; Susan Stellin, *Efforts to Ease Worries on New Net Addresses*, N.Y. TIMES, Aug. 15, 2001, at 1, *available at* LEXIS, News Library, NYT File.

laws.[128] In October 2001, a Virginia federal district court dismissed the case for lack of subject matter jurisdiction without reaching its merits.[129]

In December 2001, NeuLevel announced that although it believed that its ".biz" domain name distribution scheme was legal, it would reimburse the two dollar preregistration application fees to its registrars and switch to a different scheme in distributing the domain names for which there were multiple applications during the original preregistration application process.[130]

III. ANALYSIS

A. Does NeuLevel's ".biz" Domain Name Distribution Scheme Violate State Anti-Lottery Laws?

1. Is State Regulation of the ".biz" Distribution Scheme Unconstitutional?

Before applying any state anti-lottery statute to the ".biz" domain name distribution scheme, the constitutionality of the state anti-lottery statutes as applied to the Internet needs to be resolved. Potential challenges could be based on the Supremacy Clause and the Commerce Clause.

a. The Supremacy Clause: Are State Anti-Lottery Laws as Applied to the Internet Preempted by Federal Law?

The applicability of the state anti-lottery laws to NeuLevel's ".biz" domain name distribution scheme depends on whether state law as applied to the Internet is preempted by federal law. The Supremacy Clause[131] mandates that federal law overrides state law when a federal statute explicitly prohibits parallel state legislation in the same field.[132] Congressional intent to preempt may also be inferred from the pervasive nature of the federal regulatory scheme[133] or the subject matter being regulated,[134] but such congressional intent must be unambiguous.[135] Moreover, even if Congress does not intend to preempt all state legisla-

128. NeuLevel v. Amazon, No. 01-1245-A, at 1–2 (E.D. Va. 2001), *available at* http://www.lextext.com/NeuLevelvAmazon.pdf.

129. Michael Geist, *While Virginia Court Dismisses NeuLevel Suit Against Amazon*, BNA'S INTERNET LAW NEWS, at *2 (Oct. 12, 2001).

130. *See infra* text accompanying notes 281–86. In this Note, "'.biz' domain name distribution scheme" refers to the original scheme adopted by NeuLevel before the litigation.

131. U.S. CONST. art. VI, cl. 2.

132. Jones v. Rath Packing Co., 430 U.S. 519, 525, 530–31 (1976).

133. *See* Ray v. Atl. Richfield Co., 435 U.S. 151, 163 (1978).

134. Rice v. Santa Fe Elevator Corp., 331 U.S. 218, 230 (1947).

135. N.Y. State Dep't of Soc. Servs. v. Dublino, 413 U.S. 405, 413 (1973) ("If Congress is authorized to act in a field it should manifest its intention clearly. . . . The exercise of federal supremacy is not lightly presumed." (quoting Schwartz v. Texas, 344 U.S. 199, 202–03 (1952))).

tion in a given field, a state law is invalid to the extent that it actually conflicts with federal law.[136]

Congress explicitly permits and adopts concomitant state regulation in the field of lottery prohibition by incorporating state laws into the federal statute.[137] Under 18 U.S.C. § 1955,

> (a) Whoever conducts, finances, manages, supervises, directs, or owns all or part of an illegal gambling business shall be fined under this title or imprisoned not more than five years, or both.
>
> (b) As used in this section—
>
> (1) "illegal gambling business" means a gambling business which—
>
> (i) is a violation of the law of a State or political subdivision in which it is conducted;
>
> (ii) involves five or more persons who conduct, finance, manage, supervise, direct, or own all or part of such business; and
>
> (iii) has been or remains in substantially continuous operation for a period in excess of thirty days or has a gross revenue of $2,000 in any single day.
>
> (2) "Gambling" includes but is not limited to . . . conducting lotteries . . . .[138]

This provision incorporates by reference state anti-lottery laws for the purpose of defining conduct that should be prohibited as "illegal gambling business," and makes a certain violation of state anti-lottery laws that reaches a specific size and scope a federal offense.[139] The language of § 1955 allows states to define "illegal lottery" and manifests a congressional intent to support the legitimacy of parallel state legislation.[140]

The remaining question with respect to preemption is whether the state anti-lottery laws actually conflict with any federal law. A conflict exists "where compliance with both federal and state regulations is a physical impossibility"[141] or where the state law "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress."[142]

Congress has enacted several federal laws directing the development of the Internet. The National Science Foundation Act empowers NSF to support and develop the Internet.[143] The High Performance

136. *Rath Packing*, 430 U.S. at 525–26.
137. *See* 18 U.S.C. § 1955 (2000).
138. *Id.*
139. *Id.*
140. *See id.*
141. Fla. Lime & Avocado Growers, Inc. v. Paul, 373 U.S. 132, 142–43 (1963).
142. Hines v. Davidowitz, 312 U.S. 52, 67 (1941).
143. NSF was "authorized and directed" to "foster and support the development and use of computer and other scientific and engineering methods and technologies, primarily for research and education in the sciences and engineering." 42 U.S.C. § 1862(a).

Computing Act directs NSF to "provide computing and networking infrastructure support for all science and engineering disciplines" and to "develop and propose standards and guidelines, and develop measurement techniques and test methods, for the interoperability of high-performance computing systems in networks and for common user interfaces to systems."[144] The subsequently enacted Scientific and Advanced Technology Act authorizes NSF to allow commercial activity on the Internet.[145]

State anti-lottery laws do not conflict with these federal laws. By using a domain name distribution scheme without charging an application fee, NeuLevel and ICANN can eliminate the element of consideration and comply with both state laws prohibiting illegal lotteries and federal laws promoting the Internet.[146] Other alternative domain name distribution schemes would similarly execute the congressional intent of promoting new domain name systems.[147] Further, although the state anti-lottery laws do impose limitations on the type of schemes available for allocating domain names, the argument that the federal statutes aim to develop the Internet at all costs would effectively enable individuals and business entities to garner immunity from all state laws simply by conducting their illegal activities on the Internet. In sum, the state anti-lottery laws do not conflict with federal laws promoting the development of the Internet.

b. The Commerce Clause: Do State Anti-Lottery Laws as Applied to the Internet Offend the Commerce Clause?

The Internet can be characterized as an instrument of interstate commerce due to its resemblance to railroads and highways that serve as conduits for the interstate transport of products and services.[148] The Commerce Clause grants Congress the power to regulate interstate commerce.[149] Under this power, Congress may expressly approve of spe-

144. 15 U.S.C. §§ 5521, 5524.

145. *See* 42 U.S.C. § 1870(c) ("The Foundation shall have the authority . . . to enter into contracts or other arrangements, or modifications thereof, for the carrying on of such scientific or engineering activities in connection with matters relating to international cooperation or national security and when deemed appropriate by the Foundation, such contract arrangements, or modifications thereof may be entered into without legal consideration, without performance or other bonds, and without regard to Section 5 of the title 41 . . . .").

146. *See infra* Part IV.B–C.

147. *See id.*

148. *See* Kenneth D. Bassinger, *Dormant Commerce Clause Limits on State Regulation of the Internet: The Transportation Analogy*, 32 GA. L. REV. 889, 904 (1998) (arguing that the Internet itself should be classified as an instrument of commerce due to its structure, operation, and susceptibility to being used as a business tool). The Supreme Court has recognized that transportation means such as railroads have an important role in interstate commerce because of their national structure. S. Pac. Co. v. Arizona, 325 U.S. 761, 771 (1945).

149. U.S. CONST. art. I, § 8, cl. 3.

cific state regulation that affects interstate commerce.[150] When Congress chooses to authorize state laws by incorporating them into a federal statute, such state laws "are invulnerable to constitutional attack under the Commerce Clause."[151]

By explicitly adopting state laws in a federal statute, Congress has proscribed gambling in interstate commerce and determined that state laws are permitted to regulate lotteries in each state, regardless of whether the lotteries are carried out on the Internet.[152] Section 1955 reaches relatively large-scale gambling operations that tend to have a significant impact on interstate commerce[153] and leaves "the states with control of enforcement efforts against smaller gambling operations, . . . though such businesses might be identical to the others in every aspect except size."[154] Because Congress possesses the power to "regulate" rather than "promote" interstate commerce, Congress is free to adopt anticompetitive measures and create inefficient markets.[155] It is therefore irrelevant whether the state anti-lottery laws have any nonuniform or anticompetitive effect on interstate commerce.[156]

Even if there were no federal law specifically approving of the state anti-lottery laws, the state anti-lottery laws as applied to the Internet would probably still be found consistent with the Dormant Commerce Clause. When Congress has not spoken, the first step is to determine whether a state law "regulates evenhandedly with only 'incidental' effects on interstate commerce, or discriminates against interstate commerce."[157] Although a discriminatory state regulation is per se invalid,[158] nondiscriminatory regulations will be upheld "unless the burden imposed

150. Gibbons v. Ogden, 22 U.S. 1, 207 (1824) (stating that Congress "may adopt the provisions of a State on any subject"); *see also* Wilkerson v. Rahrer, 140 U.S. 545 (1891) (explaining that Congress can legitimately use its power under the Commerce Clause to authorize commerce regulation by state laws).

151. Northeast Bankcorp, Inc. v. Bd. of Governors, 472 U.S. 159, 174 (1985).

152. *See* 18 U.S.C. § 1955(b)(1)(i) (2000) ("'[I]llegal gambling business' means a gambling business which is a violation of the law of a state or political subdivision in which it is conducted." The language of the statute does not regulate Internet activities.).

153. Courts agree that 18 U.S.C. § 1955 represents a constitutional exercise of Congress's power under the Commerce Clause, even when applied to cases with no connection to interstate commerce or organized crime, as Congress has authority to regulate intrastate activities that, taken as a class, have a substantial effect on interstate commerce. *See* United States v. Zizzo, 120 F.3d 1338, 1350–51 (7th Cir. 1997); United States v. Sacco, 491 F.2d 995, 999–1001 (9th Cir. 1974).

154. United States v. Pacheco, 489 F.2d 554, 559 (5th Cir. 1974). 18 U.S.C. § 1955 is not unconstitutional merely because it attempts to enforce state law or rests a federal offense on state law. *See In re* Bianchi, 542 F.2d 98, 101 (1st Cir. 1976); United States v. Matya, 541 F.2d 741, 748–49 (8th Cir. 1976).

155. *See* White v. Mass. Council of Constr. Employers, Inc., 460 U.S. 204, 213 (1983) ("Where state or local government action is specifically authorized by Congress, it is not subject to the Commerce Clause even if it interferes with interstate commerce."). *See generally* JOHN E. NOWAK & RONALD D. ROTUNDA, CONSTITUTIONAL LAW § 8.5, at 315–16 (6th ed. 2000).

156. There is no need to interpret congressional intent under the Dormant Commerce Clause, because Congress has spoken. *See* NOWAK & ROTUNDA, *supra* note 155, § 8.5, at 315–16.

157. Hughes v. Oklahoma, 441 U.S. 322, 336 (1979); *see also* Pike v. Bruce Church, Inc., 397 U.S. 137, 142 (1970).

158. Or. Waste Sys., Inc. v. Dep't of Envtl. Quality, 511 U.S. 93, 99 (1994).

on such commerce is clearly excessive in relation to the putative local benefits."[159]

The state anti-lottery laws do not differentiate between in-state and out-of-state economic interests in such a way that benefits the former and burdens the latter. For example, the California anti-lottery statute neither facially nor in practical effect discriminates according to the extent of a lottery runner's contacts with the State of California.[160] Furthermore, protecting state citizens from indulging in a species of gambling is a legitimate state objective,[161] and out-of-state domain name registries or registrars conducting business over the Internet need not do anything dramatically different with respect to California because all fifty states have similar anti-lottery laws.[162] Arguably, the slight differences between state anti-lottery laws do impose an incidental burden on interstate commerce. This burden, however, is not clearly excessive in relation to the putative local benefits, because the state laws prohibit all forms of illegal lotteries, not only those performed on the Internet.[163] Therefore, weighing the benefits against the burdens suggests that state anti-lottery laws as applied to the Internet would probably not offend the Dormant Commerce Clause.

2. *Does the ".biz" Domain Name Distribution Scheme Satisfy the Elements of an Illegal Lottery?*

The nonconformity of the ".biz" domain name distribution scheme with state anti-lottery laws depends on whether each and every element of an illegal lottery can be established. For example, California law[164] imposes a criminal penalty and allows a private cause of action for harm

159. *Pike*, 397 U.S. at 142.

160. *See* CAL. PENAL CODE §§ 319, 321–322 (West 1999) (providing that every person who furnishes, or assists in furnishing, a chance in a lottery to another is guilty of a misdeameanor).

161. *See* 18 U.S.C. § 1955 (2000).

162. *See infra* note 168 and accompanying text.

163. For practical purposes, the national interest in uniform regulation of the Internet in this area is not compelling. Existing state laws simply proscribing illegal activity as applied to the Internet should be distinguished from state Internet regulations specifically targeting Internet activities. These state Internet laws usually expand the scope of the existing laws' regulation, and therefore may not be able to insulate themselves from a Dormant Commerce Clause challenge. *See* Ford Motor Co. v. Tex. Dep't of Transp., 264 F.3d 493, 499–505 (5th Cir. 2001) (holding that the Texas statute prohibiting automobile manufactures from acting as dealers as applied to the Internet did not violate the Dormant Commerce Clause); *cf.* Am. Libraries Ass'n v. Pataki, 969 F. Supp. 160, 168–83 (S.D.N.Y. 1997) (holding that a New York statute specifically criminalizing the dissemination of obscene material to minors through the Internet violates the Dormant Commerce Clause); Bassinger, *supra* note 148, at 914–25 (exploring the constitutional limits the Dormant Commerce Clause imposes on states' attempts to regulate the Internet, an instrument of interstate commerce).

164. California state courts have jurisdiction over ICANN, a California corporation, the registry NeuLevel, and various registrars that entered into an agreement with ICANN to distribute the ".biz" domain names and did business in the State of California. CAL. CIV. PROC. CODE. § 410.10 (West 2002).

caused by the operation of an illegal lottery.[165] Section 319 of the California Penal Code defines a lottery as the following:

> A lottery is any scheme for the disposal or distribution of property by chance, among persons who have paid or promised to pay any valuable consideration for the chance of obtaining such property or a portion of it, or for any share or any interest in such property, upon any agreement, understanding, or expectation that it is to be distributed or disposed of by lot or chance, whether called a lottery, raffle, or gift enterprise, or by whatever name the same may be known.[166]

Under California law, three elements—prize, chance, and consideration—must be present to constitute a lottery; without any of these elements, an illegal lottery claim cannot be established.[167] Almost every other state has a similar anti-lottery law that adopts this universal three-element formula.[168]

In defining the scope of the state anti-lottery statutes, courts have labeled various types of schemes as illegal lotteries. These operations have included a store offering a chance to secure a suit before the customer paid the full amount,[169] a "chain-letter store" in which names were placed on a list upon payment of one dollar and when fifty dollars was accumulated such amount was paid to the person whose name was on top of the list,[170] and a telephone calling card vending machine that determined by chance whether a user received money in addition to a card.[171]

In particular, courts have found that state anti-lottery statutes apply to the distribution of scarce resources by, for instance, a municipal sewer permit allocation system[172] or a state liquor store license issuance sys-

165. California Penal Code sections 321–323 provide that anyone who prepares or draws a lottery, or assists in the selling of or actually sells lottery tickets, is guilty of a misdemeanor. In addition, injunctive relief and a monetary penalty are available to redress an "unlawful, unfair or fraudulent business act or practice," including a violation of the California Penal Code. *See* CAL. BUS. & PROF. CODE §§ 17200, 17204, 17206 (West 2002); Farmers' Ins. Exch. v. Superior Court, 826 P.2d 730, 733–34 (Cal. 1992).

166. CAL. PENAL CODE § 319 (West 1999).

167. Cal. Gasoline Retailers v. Regal Petroleum Corp., 330 P.2d 778, 782 (Cal. 1958).

168. For example, Alabama law provides that a lottery consists of "three elements: (1) a prize, (2) awarded by chance, (3) for a consideration." Grimes v. State, 178 So. 73, 74 (Ala. 1937); *see* ALA. CONST. art. IV, § 65; ALA. CODE §§ 13A-12-20, -21, -22 (2002). Alaska law provides that a lottery includes "three essential elements: consideration, chance, and prize." Morrow v. State, 511 P.2d 127, 128 (Alaska 1973). *See generally* ALASKA STAT. §§ 11.66.200, .210, .220, .280 (2001). Arizona law similarly provides that "[i]n every case of a lottery there must be present the elements of consideration, chance, and prize." *Ex parte* Gray, 204 P. 1029, 1031 (Ariz. 1922). *See generally* ARIZ. REV. STAT. §§ 13-3301, -3303, -3304, -3306 (2002). The U.S. Supreme Court also agrees that "there are three essential elements of a 'lottery, gift enterprise, or similar scheme:' (1) the distribution of prizes; (2) according to chance; (3) for a consideration." FCC v. Am. Broad. Co., 347 U.S. 284, 290 (1954) (internal citation omitted). The precise definition and interpretation of each element under each state's law may vary.

169. People v. Hecht, 3 P.2d 399 (Cal. App. Dep't Super. Ct. 1937).

170. Niccoli v. McClelland, 65 P.2d 853, 854 (Cal. App. Dep't Super. Ct. 1937).

171. Lockyer v. Pac. Gaming Techs., 98 Cal. Rptr. 2d 400, 401 (Cal. Ct. App. 2000).

172. Polonsky v. City of S. Lake Tahoe, 176 Cal. Rptr. 319, 319–20 (Cal. Ct. App. 1981).

tem.[173] Although the courts found that neither scheme constituted an illegal lottery, their reasoning was based upon the lack of an element of "consideration" or "chance" rather than the inapplicability of the state anti-lottery statute to distribution systems for limited resources.[174] Therefore, whether a given state anti-lottery statute covers a particular scheme depends on the interpretation of the three elements of an illegal lottery.

a. The Element of Property

To constitute an illegal lottery under California law, a prize must be won through "the disposal or distribution of property" by the lottery operator, and the winner must "obtain[] such property or a portion of it."[175] Thus, if domain names do not constitute property, NeuLevel's system for allocating ".biz" domain names cannot be an illegal lottery.

Although some cases have held that domain names are not subject to the common-law claim of conversion or to statutory lien enforcement remedies such as garnishment, these cases did not resolve the issue of whether domain names can be classified as property.[176] The California Civil Code provides that "the thing of which there may be ownership is called property."[177] The definition of property as found in *Black's Law Dictionary* includes the "right to possess, use, and enjoy a determinate thing," "the right of ownership," and "any external thing over which the rights of possession, use, and enjoyment are exercised."[178] According to a more detailed definition,

> [property is] [t]hat which is peculiar or proper to any person; that which belongs exclusively to one. . . . The term is said to extend to every species of valuable right and interest. More specifically, ownership; the unrestricted and exclusive right to a thing; the right to dispose of a thing in every legal way, to possess it, to use it, and to exclude every one else from interfering with it. . . . The exclusive right of possessing, enjoying, and disposing of a thing. . . . The word is also commonly used to denote everything which is the subject of

173. Daub v. N.Y. State Liquor Auth., 257 N.Y.S.2d 655, 662 (N.Y. Spec. Term 1965).

174. *See Polonsky*, 176 Cal. Rptr. at 320 (holding that the allocation system was not a lottery because the incidental fee charged was not "consideration"); *Daub*, 257 N.Y.S.2d at 662 (holding that the mechanical drawing to determine the numerical order in which the applications were to be processed did not satisfy the element of "chance").

175. CAL. PENAL CODE § 319 (West 1999).

176. *See* Kremen v. Cohen, 99 F. Supp. 2d 1168, 1173 (N.D. Cal. 2000) (concluding that "under the traditional precepts governing the tort of conversion, a domain name is not protected intangible property" and that the tort law of conversion does not encompass some new "form of intangible property"); Network Solutions, Inc. v. Umbro Int'l, Inc., 529 S.E.2d 80, 86 (Va. 2000) (holding that a contract for services is not subject to garnishment, but declining to decide whether a domain name should be classified as property); *see also* Dorer v. Arel, 60 F. Supp. 2d 558, 561 (E.D. Va. 1999) (declining to resolve the issue of whether a domain name is personal property subject to a lien).

177. CAL. CIVIL CODE § 654 (West 2002).

178. BLACK'S LAW DICTIONARY 1232 (7th ed. 1999).

ownership, corporeal or incorporeal, tangible or intangible, visible or invisible, real or personal; everything that has an exchangeable value.[179]

The first issue in determining whether a domain name constitutes property is whether the registrant of a domain name "owns" it.[180] The California Civil Code provides that "[t]he ownership of a thing is the right of one or more persons to possess and use it to the exclusion of others,"[181] and there may be ownership, among other things, "of all obligations."[182] "An obligation is a legal duty, by which a person is bound to do or not to do a certain thing,"[183] and "[a]n obligation arises either from . . . the contract of the parties or . . . the operation of law."[184] Under this line of reasoning, there may be property ownership of an obligation derived from a contract.[185]

In one example, the right of winners to play further games free of charge was held to constitute property under section 319.[186] In *People v. Settles*, the winner of the game in question received a right to play further games of the same sort without additional charge, while normally the privilege of playing such games required a charge.[187] The court reasoned that "the duty of the operators of this game to permit the winner to play further games free [was] an obligation arising from contract" and held that the right of the player was therefore property within the meaning of section 319.[188]

Like the right to play another game in *Settles*, a domain name registrant's right to use a domain name arises from a contract between the domain name registrant and the NeuLevel registry.[189] Successful registration of a domain name results in "a contract for services between the registry and the registrant:"[190] the domain name registrant acquires "a contractual right to use a unique domain name for a specified period of time," while the registry bears a contractual obligation to provide services.[191] Courts may or may not view domain name registration as involving two distinctive rights: (1) the contractual right to use the domain

179. BLACK'S LAW DICTIONARY 1095 (5th ed. 1979).
180. CAL. CIVIL CODE § 654; BLACK'S LAW DICTIONARY, *supra* note 178, at 1232; *id.* at 1095.
181. CAL. CIVIL CODE § 655.
182. *Id.*
183. *Id.* § 1427.
184. *Id.* § 1428.
185. People v. Settles, 78 P.2d 274, 277 (Cal. App. Dep't Super. Ct. 1938).
186. *Id.*
187. *Id.* at 276–77.
188. *Id.* at 277.
189. Registration is the process through which an individual or organization obtains a domain name through an ICANN-accredited registrar. Under the terms of a domain name registration agreement with the registrar, the registrant is entitled to use that particular domain name for a specified period of time, provided certain conditions are met and payment for services is made. NeuLevel, *Glossary of Terms, at* http://www.neulevel.biz/glossary/index.html (last visited Feb. 28, 2002).
190. Dorer v. Arel, 60 F. Supp. 2d 558, 561 (E.D. Va. 1999).
191. Network Solutions, Inc. v. Umbro Int'l, Inc., 529 S.E.2d 80, 86 (Va. 2000).

name which came into existence after the registration and after NeuLevel matched the domain name with the corresponding IP number and prevented others from registering the same name; and (2) the contractual right to use NeuLevel's services that continue to make the domain name operational for a specified period of time.[192] The issue of whether a product/service distinction exists between the two rights need not be resolved, because both rights involve contractual obligations of which there may be ownership and therefore likely conform to the definition of property under *Settles*.[193]

The second contestable issue in determining whether a domain name constitutes property is whether a domain name has any monetary value, because the term "property" "extends to every species of right and interest capable of being enjoyed as such upon which it is practicable to place a money value."[194] On the one hand, with the emergence of the Internet as a market place for products and services, the ownership of a domain name can be very valuable, especially if it is an easy to guess or easy to remember name representing a company, industry, product, or service.[195] Domain names such as "business.com," "altavista.com," and "loans.com" were sold for $7.5 million, $3.3 million, and $3 million, respectively.[196] In addition, domain names based on the marks of well-known companies have been the center of domain name dispute litigation and arbitration.[197] Finally, the reality of the land rush period and NeuLevel's effort to avoid the unfairness of such a land rush by using the current scheme[198] also suggest the significant internal value that could be buried in a domain name.

192. *Id.* at 87 (declining to recognize the distinction between use of the domain name and use of the registry's services). Courts are split on the issue of whether telephone numbers involve a similar distinction. Some have noted a distinction between "a subscriber's rights derived from a contract for telephone service and a subscriber's possible claim to a possessory interest in the telephone number." *E.g.,* Darman v. Metro. Alarm Corp., 528 F.2d 908, 910 n.1 (1st Cir. 1976). Other courts, however, believe that these two rights are inseparable. *See, e.g.*, Rothman v. Pac. Tel. & Tel. Co., 453 F.2d 848, 849–50 (9th Cir. 1971).

193. *See supra* notes 183–91 and accompanying text.

194. Yuba River Power Co. v. Nev. Irrigation Dist., 279 P. 128, 129 (Cal. 1929); BLACK'S LAW DICTIONARY, *supra* note 178, at 1095.

195. *See* MTV Networks v. Curry, 867 F. Supp. 202, 203 n.2 (S.D.N.Y. 1994); Streitfeld, *supra* note 86.

196. *See* Julia Angwin, *San Jose Man Hits Gold—$3.3 Million Web Name: Compaq Pays Big for Internet Address*, S.F. CHRON., July 28, 1998, at A1, *available at* 1998 WL 3919040; Kathryn Balint, *Site Seer: Cyber Visionary Turn Dot Coms into Gold,* SAN DIEGO UNION TRIB., Sept. 7, 2000, at E-1, *available at* 2000 WL 13984404; Tamara E. Holmes, *Sell Your Good Domain Name for Hard Cash*, U.S.A. TODAY, Sept. 11, 2000, at 03D, *available at* 2000 WL 5789209 (reporting that appraisal services can help domain name owners figure out what their domain names are worth and sell their domain names); Andrew Pollack, *What's in a Cybername? $7.5 Million for the Right Address*, N.Y. TIMES, Dec. 1, 1999, at C8, *available at* LEXIS, News Library, NYT File.

197. *See, e.g.*, Panavision Int'l, L.P. v. Toeppen, 141 F.3d 1316 (9th Cir. 1998); Coca-Cola Co. v. Busch, 44 F. Supp. 405 (E.D. Pa. 1942); World Wrestling Fed'n Entm't, Inc. v. Bosman, No. D99-0001, WIPO Arbitration & Mediation Center (2000) (Donahey, Arb.), *available at* http://arbiter.wipo.int/domains/decisions/html/1999/d1999-0001.html.

198. *Internet Domain Names Hearings*, *supra* note 85, at *16.

On the other hand, like a telephone number, a domain name can be a valueless means of reaching a web page, and the added value of a domain name may depend on its use.[199] The contract for services to make the domain name operational only produces value "depending upon how the party receiving the service exploits it," such as through advertisements or online business transactions.[200]

Consistent with this latter view, individuals and businesses will probably not realize any taxable gain by registering domain names. In a case involving the random award of federal oil and gas leases, the Internal Revenue Service (IRS) decided that such an award does not constitute income for tax purposes.[201] In that case, the opportunity to lease oil and gas rights on certain federally owned lands was offered to the public.[202] Although an offer to lease from a qualified applicant would be accepted if the offer was the only one received, the government selected the lessee by a drawing when there was more than one applicant.[203] The IRS concluded that "the difference, if any, between the fair market value and the cost of a lease obtained by a taxpayer under these circumstances is not a prize under [the Tax Code], and such difference is not includible in the taxpayer's gross income under [the Tax Code] when he obtains the lease."[204] Similarly, a registered domain name, representing the opportunity to use a particular address on the Internet for a specified period of time, involves a difference between its fair market value and its registration costs.[205] Therefore, it is unlikely that the IRS would consider the mere registration of a domain name as taxable income.

Despite the fact that the registration of a domain name produces no taxable income on the registrant's part, courts will likely find that a domain name has value and constitutes property. Determinations of untaxability by the IRS are hardly equivalent to conclusions of lack of value or lack of characteristics of property. For example, an inventor need not pay income tax when a patent is issued by the U.S. Patent and Trademark Office even though patents are personal property.[206] Like a patent, first, a domain name only derives its value from its use or commercial exploitation; and second, the domain name itself can be sold for its monetary value. Likewise, a domain name should bear the label of property notwithstanding the fact that the registrant need not pay in-

199. The court used the examples of 1-800-COLLECT and 1-800-FLOWERS to illustrate this point. Dorer v. Arel, 60 F. Supp. 2d 558, 561 & nn. 9, 13 (E.D. Va. 1999).

200. *Id.* at 561.

201. Rev. Rul. 67-135, 1967-1 C.B. 20, 1967 WL 15216.

202. *See id.*

203. Due to multiple demands for certain leases, the lease-holders were able to sell the leases on the market for a price higher than the cost of obtaining the leases and make a profit. *See id.*

204. *Id.*

205. The value of a particular domain name depends on the demand for it, and the "right" domain name may be worth millions of dollars. *See supra* note 196 and accompanying text. The registration cost for a ".biz" domain name is a little more than thirty dollars per year. Foster, *supra* note 87.

206. "[P]atents shall have the attributes of personal property." 35 U.S.C. § 261 (2000).

come tax on the fair market value of the domain name less its registration costs.

b. The Element of Chance

Under section 319, the element of "chance" will be established when a scheme involves "winning and losing depending on luck and fortune rather than, or at least more than, judgment and skill."[207] More precisely, the test is "not whether the game contains an element of chance or an element of skill but which of them is the dominating factor in determining the result of the game."[208]

When the elements of chance and skill are both present, the question of which element is dominant is one of fact depending on the character of the game rather than the player's skill or lack of it.[209] Although there is an element of chance resulting from the deal of the cards, the game of bridge is predominantly one of skill, because throughout the game, the participants make individual judgments that ordinarily determine the game's outcome.[210] In contrast, chance is the dominant element in a horse racing betting scheme, because the outcome of the game depends upon "elements wholly beyond the control of the player."[211] This is so despite the fact that the player might significantly increase his chance of winning based on his judgment and knowledge.[212]

Like the player in the horse racing game, an applicant for a ".biz" domain name could have increased his chance of getting the desired domain name by choosing a unique rather than generic domain name, because fewer entities would have applied for such a name, and if the applicant was the only entity applying for that particular domain name, the applicant would have automatically received the right to register the

207. Hotel Employees & Rest. Employees Int'l Union v. Davis, 981 P.2d 990, 996 (Cal. 1999). Chance is "something that happens unpredictably without any discernible human intention or direction and in dissociation from any observable pattern." People v. Shira, 62 Cal. App. 3d 442, 462 n.12 (Cal. Ct. App. 1976) (quoting WEBSTER'S THIRD NEW INTERNATIONAL DICTIONARY (1965)).

> "Skill is defined as the knowledge of the means or methods of accomplishing a task; the ability to use one's knowledge effectively and readily in execution or performance; dexterity or coordination in the execution of learned physical or mental tasks; a learned power of doing a thing competently; a developed or acquired aptitude or ability; a coordinated set of actions which become smooth and integrated through practice."

Id.

208. *In re* Allen, 377 P.2d 280, 281 (Cal. 1962); *see also* People v. Settles, 78 P.2d 274, 277 (Cal. App. Dep't Super. Ct. 1938).

209. *See Settles*, 78 P.2d at 277 (leaving the question of whether the landing of a dart within a circle on a board was a matter of chance or skill to the jury).

210. *Allen*, 377 P.2d at 281–82.

211. Finster v. Keller, 96 Cal. Rptr. 241, 244, 246 (Cal. Ct. App. 1971). Specifically, factors affecting the outcome of the race included the length of the race, the condition of the horses, the rider, the trainer, the weight carried, and the track, as well as other relevant factors. In one scheme, the operator required the selection of the winning horses to be made a few days in advance of the race. *Id*. at 244, 246.

212. A skilled player had about one chance in 250 of winning, while an unskilled player had about one chance in 999,999. *Id.* at 244.

name.[213] Nevertheless, no matter how unique and fanciful the domain name was, whether another applicant happened to desire the same domain name was something wholly beyond the control of the applicant. Choosing a unique domain name may increase the odds of winning that name, but it could not determine who would be ultimately entitled to register it because that determination was based on randomized selection.[214] Moreover, if "skill" could be defined as the means by which to effect a desired outcome, not applying for domain names that would presumably be in popular demand would hardly qualify as "skill" because the applicant would give up the desired outcome by doing so.[215] Thus, the element of chance, rather than the skill of the applicants, was dominant in determining who would be awarded a particular domain name.

Another important factor to consider in establishing the element of chance is that the result of the game need only be uncertain as to the player, not the operator.[216] The scheme in *People v. Hecht*, involved a store club in which the members paid weekly dues for tailored suits.[217] The owner of the store periodically selected winners who would receive suits without further payments, based on acquaintance rather than random drawing.[218] The court found the element of chance present in such a scheme because "[a]s to the purchaser it [was] uncertain" whether the purchaser would win the suit before he paid for it, and there was a chance "that luck and good fortune [would] give a large return for a small outlay."[219] Likewise, in the ".biz" domain name distribution scheme, as to domain name applicants, whether the applicant would be entitled to register the desired domain name was uncertain.[220] Before the preregistration application period ended, one could not be certain of whether any other entities would apply for the same domain name, while it was certain that randomized selection would determine the outcome if more than one entity was involved.[221] From the perspective of the domain name applicant, the outcome of the application depended on luck, and therefore, the element of chance is established.

213. *See* GILSON ET AL., *supra* note 40, § 7A.02[1].

214. *Id.*

215. The applicant was supposed to be free to apply for whatever domain name he or she desired, and the "task" could be "accomplished" only if the applicant was awarded the desired domain name, not just any name. *See* People v. Shira, 62 Cal. App. 3d 442, 462 n.12 (Cal. Ct. App. 1976).

216. *See* People v. Hecht, 3 P.2d 399, 402 (Cal. App. Dep't Super. Ct. 1931).

217. *Id.* at 399.

218. *Id.*

219. *Id.* at 402; *see also* Dillingham v. McLaughlin, 264 U.S. 370, 373 (1924) ("What a man does not know and cannot find out is chance as to him, and is recognized as chance by the law.").

220. *See* GILSON ET AL., *supra* note 40, § 7A.02[1].

221. *See id.*

c. The Element of Consideration

The element of consideration in a lottery is "the fee (in the form of money or anything else of value) that a participant pays the operator for entrance."[222] In the ".biz" distribution scheme, the two dollars an applicant paid for each application was presumably necessary to compensate NeuLevel and the registrars for their processing costs.[223] The question remains whether the fee charged for each application was legitimate compensation for NeuLevel and the registrars' processing expenses or it constituted consideration in an illegal lottery.

The fact that part of the application fee covered expenses that NeuLevel and the registrars incurred in processing applications would probably not prevent a finding of consideration. It has been held that "[t]he consideration to make such a transaction a lottery need not be paid exclusively for the chance to win the prize;" rather, "[i]t is sufficient that the consideration . . . be paid for something else and the chance to win the prize."[224] In other words, the question of whether there is consideration is determined from the standpoint of the player, not the operator.[225] Based on this reasoning, a one dollar fee paid by subscribers for a six-month magazine subscription and a drawing entry established the element of consideration.[226] Similarly, the aggregate price consumers paid for both gasoline and a drawing entry satisfied the requirement of consideration.[227] In the ".biz" domain name distribution scheme, an application was not to be considered during the randomized selection for the right to register unless the applicant paid the application fee.[228] From the applicant's perspective, the application fee was an aggregate price paid for both the processing of the application and the entry for randomized selection. Consequently, the application fee in the NeuLevel scheme probably satisfies the element of consideration.

The argument that the application fee charged for each ".biz" domain name application may not have even covered the processing costs of NeuLevel and the registrars must fail. The complexity of the NeuLevel scheme necessitated substantial expenses, including the ex-

222. Hotel Employees & Rest. Employees Int'l Union v. Davis, 981 P.2d 990, 996 (Cal. 1999).

223. Louis Touton, *Supplemental Declaration of Louis Touton in Opposition to Plaintiff's Motion for Preliminary Injunction in* Smiley v. ICANN, ¶¶ 26, 31 (Oct. 5, 2001), *available at* http://www.icann.org/legal/smiley-v-icann/touton-supp-decl-05oct01.htm [hereinafter *Supplemental Declaration of Touton*].

224. Holmes v. Saunders, 250 P.2d 269, 270 (Cal. Dist. Ct. App. 1952). The amount paid "constituted the aggregate price for the merchandise or service and the ticket that represented a chance to win the prize; in other words, for one undivided price both were purchased, the merchandise, or service, and ticket, the ticket being as much bought as though priced separately." Cal. Gasoline Retailers v. Regal Petroleum Corp., 330 P.2d 778, 788 (Cal. 1958) (quoting Featherstone v. Indep. Serv. Station Ass'n, 10 S.W.2d 124, 127 (Tex. Civ. App. 1928)).

225. *Cal. Gasoline Retailers*, 330 P.2d at 788.

226. *See Holmes*, 250 P.2d at 269–70.

227. *See Cal. Gasoline Retailers*, 330 P.2d at 783, 788.

228. *See* Foster, *supra* note 87; Stellin, *supra* note 114.

penses associated with building a database of the intellectual property claims, matching the preregistration applications to the database, notifying applicants of potential conflicts, implementing the choices of such applicants, and implementing dispute resolution procedures.[229] This feature, however, is not significant in determining the presence of consideration. In a case involving a reverse vending machine that provided random payment upon the deposit of specific kinds of empty containers, the court held that it was "immaterial that the sponsor [did] not profit from the game or that important public policies [were] furthered such as the recycling of resources."[230] Similarly, it is the payment of the application fee by the players, rather than any benefit NeuLevel may have obtained from its ".biz" distribution scheme, that determines whether the consideration element of a lottery is established.[231]

The ".biz" domain name distribution scheme is distinguishable from another example of random distribution systems for limited resources that was found to not constitute an illegal lottery due to a lack of consideration despite the charge of an application fee.[232] Under the sewer permit distribution system of *Polonsky v. City of South Lake Tahoe*, the city required all applicants for the permits to prove their ownership of land and pay an application fee.[233] The city then issued available sewer connection permits through a random allocation system.[234] Without explaining its reasoning, the court held that "the incidental fee charged to cover the cost of notifying those qualified to apply by their ownership interests was not consideration."[235] Although the owner of a particular parcel of land could apply only once for a sewer permit under the *Polonsky* system due to its proof of ownership requirement,[236] each applicant for a ".biz" domain name was allowed to submit more than one application for the same domain name as long as the applicant paid an application fee for each application.[237] Based on this distinction, *Polonsky* should not control the present issue.

B. Does NeuLevel's ".biz" Domain Name Distribution Scheme Violate the FTDA?

By allowing duplicative applications and charging multiple application fees for each domain name, NeuLevel and other ".biz" registrars could have also potentially exposed themselves to federal trademark di-

229. *Supplemental Declaration of Touton*, *supra* note 223, ¶¶ 26, 31.
230. 64 Op. Cal. Att'y Gen. 629, 630 (1981).
231. *See id.*
232. Polonsky v. City of S. Lake Tahoe, 176 Cal. Rptr. 319, 320 (Cal. Ct. App. 1981).
233. *Id.*
234. *Id.* at 319–20.
235. *Id.* at 320
236. *See id.* at 319–20.
237. Foster, *supra* note 87; Stellin, *supra* note 114.

lution liabilities. Under the FTDA, the establishment of a trademark dilution claim requires a showing

> that (1) the mark is famous; (2) the defendant is making a commercial use of the mark in commerce; (3) the defendant's use began after the mark became famous; and (4) the defendant's use of the mark dilutes the quality of the mark by diminishing the capacity of the mark to identify and distinguish goods and services.[238]

A party with a registered mark such as "Amazon.com" would easily establish the "famous mark" element. Also, courts have held that the mere registration of a domain name identical to another's famous mark dilutes the quality of the famous mark within the meaning of the FTDA because it prevents the mark holder from identifying and distinguishing goods and services on the Internet.[239] Moreover, the charge of multiple application fees for a single domain name could constitute "commercial use" within the meaning of the FTDA.[240]

Courts have consistently defined the scope of "commercial use" by distinguishing capitalization on the value of a domain name as a domain name itself from exploitation of the value of a domain name as a trademark. In *Panavision International*, the Ninth Circuit construed "commercial use" to cover attempts to sell a domain name to the trademark holder, even though the defendant registrant did not attach the domain name to any goods or services.[241] The court explained that the defendant "curtailed Panavision's exploitation of the value of its trademarks on the

238. Panavision Int'l, L.P. v. Toeppen, 141 F.3d 1316, 1324 (9th Cir. 1998); *see* 15 U.S.C. § 1125(c) (2000).

239. *Panavision Int'l*, 141 F.3d at 1327. The court relied on three reasons to reach this conclusion. First, "[t]o find dilution, a court need not rely on the traditional definition such as 'blurring' and 'tarnishment.'" *Id.* at 1326. Second, potential customers of the plaintiff will be discouraged if they cannot find its web page by typing in the guessed domain name identical to its mark, "but instead are forced to wade through hundreds of web sites." *Id.* at 1327. Third, the defendant's use of the domain name "also puts [the plaintiff]'s name and reputation at his mercy." *Id.*; *see also* Sporty's Farm L.L.C. v. Sportsman's Mkt., Inc., 202 F.3d 489, 495 (2d Cir. 2000) (agreeing that the defendant diluted the plaintiff's trademark because registration of the domain name identical to the plaintiff's trademark "effectively compromise[d] [the plaintiff]'s ability to identify and distinguish its goods on the Internet" by precluding the plaintiff from "using its 'unique identifier'").

240. Section 45 of the Lanham Act defines "use in commerce" as "the bona fide use of a mark in the ordinary course of trade, and not made merely to reserve a right in a mark." 15 U.S.C. § 1127 (2000).

> [A] mark shall be deemed to be in use in commerce—
> (1) on goods when—
> (A) it is placed in any manner on the goods or their containers or the displays associated therewith or on the tags or labels affixed thereto, or if the nature of the goods makes such placement impracticable, then on documents associated with the goods or their sale, and
> (B) the goods are sold or transported in commerce, and
> (2) on services when it is used or displayed in the sale or advertising of services and the services are rendered in commerce . . . .

Id.

241. *Panavision Int'l*, 141 F.3d at 1325; *see also* Intermatic, Inc. v. Toeppen, 947 F. Supp. 1227, 1239 (N.D. Ill. 1996) (holding that the cybersquatter's intention to "arbitrage" the "intermatic.com" domain name and "to resell the domain name [back to Intermatic or to some other party] is sufficient to meet the 'commercial use' requirement of the Lanham Act").

Internet, a value which [the defendant] then used when he attempted to sell the Panavision.com domain name to Panavision."[242]

In contrast, in *Avery Dennison Corp. v. Sumpton*, the Ninth Circuit held that there was no "commercial use" when the defendant registrant "use[d] words that happen to be trademarks for their non-trademark value."[243] In that case, the defendant registered common surnames as domain names and licensed e-mail addresses using these surnames, including "avery.net" and "dennison.net."[244] The court reasoned that although Avery Dennison Corporation owned the registered trademarks "Avery" and "Dennison," the defendant intended to capitalize on the surname status of "Avery" and "Dennison," rather than the trademark status of these two words.[245] Therefore, satisfaction of the "commercial use" element turns on whether one "traded on the value of marks as marks"[246] by attempting "to sell the trademarks themselves."[247]

Along the same line of reasoning, the requirement of "commercial use" is not met when a registry or registrar simply allows domain names identical to trademarks to be registered by individuals or companies other than the trademark holders.[248] In *Academy of Motion Picture Arts & Sciences v. Network Solutions, Inc.*, NSI registered domain names such as "academyaward.com" and "oscar.net" to parties other than the Academy.[249] By pointing out that the mere registration of a domain name did not constitute a "commercial use" and that NSI had not marketed its registration service by exploiting the Academy's marks,[250] the court implied that NSI had not exploited the value these domain names derived from their status as marks. Based on its "first come, first served" domain name distribution scheme, NSI would have received the same amount of financial benefit regardless of who registered those domain names.[251]

Conversely, the ".biz" domain name distribution scheme allowed for duplicative applications, thereby enabling NeuLevel and the registrars to receive multiple application fees for each domain name and increase their revenue if there were more applications for the same domain name.[252] Presumably, domain names incorporating famous marks would attract higher numbers of applications from the mark holders and specu-

242. *Panavision Int'l*, 141 F.3d at 1325.
243. Avery Dennison Corp. v. Sumpton, 189 F.3d 868, 880 (9th Cir. 1999).
244. *Id.* at 872–73.
245. *Id.* at 880.
246. *See id.* (quoting Panavision Int'l, L.P. v. Toeppen, 945 F. Supp. 1296, 1303 (C.D. Cal 1996)).
247. *See Avery Dennison Corp.*, 189 F.3d at 880 (quoting *Panavision Int'l*, 141 F.3d at 1325).
248. *See* Acad. of Motion Picture Arts & Scis. v. Network Solutions, Inc., 989 F. Supp. 1276, 1279 (C.D. Cal. 1997).
249. *Id.* at 1278.
250. *Id.*
251. *See id.* at 1277.
252. *See* Foster, *supra* note 87; Stellin, *supra* note 114.

lators than would other domain names.[253] This crucial distinction could lead to the conclusion that NeuLevel and other ".biz" registrars were liable for trademark dilution because they exploited the value of those domain names as trademarks and, therefore, the element of "commercial use" could be established.

IV. RECOMMENDATION: REGULATING DOMAIN NAME DISTRIBUTION WITH EXISTING STATE AND FEDERAL LAWS

A. Congress Should Not Expand the Statutory Safe Harbors for Registries and Registrars and Need Not Introduce New Laws for Internet-Specific Regulation

1. Safe Harbors for Domain Name Registries and Registrars

At present, both federal statute and federal case law indicate a trend toward relieving domain name registries and registrars of liability for allocating domain names. As part of the 1999 ACPA, Congress created subsection 32(2)(D) of the Lanham Act to grant domain name registries and registrars safe harbors under limited circumstances.[254] Subsections 32(2)(D)(i) and (ii) safe harbor provisions immunize domain name registries and registrars from liability for refusing to register, canceling, or transferring a domain name if they are in compliance with a court order pursuant to the ACPA or in furtherance of a dispute resolution policy prohibiting cybersquatting.[255] The legislative history of the ACPA indicates that Congress intended to use this safe harbor to prevent registries and registrars from being named as parties in lawsuits by those who are unsatisfied with the result of a particular domain name dispute,[256] not to confer them immunity from liability for registering or distributing domain names.

With respect to liability for registering or distributing domain names, Congress effectively codifies previous case law in the subsection 32(2)(D)(iii) safe harbor provision of the Lanham Act.[257] In *Academy of Motion Picture Arts & Sciences* and *Lockheed Martin Corp. v. Network*

253. Due to the time-consuming nature and uncertainty of dispute resolution and litigation, trademark holders may be inclined to secure the domain names by filing more than one application, and speculators may want to take their chances too.

254. 15 U.S.C. § 1114(2)(D) (2000).

255. *Id.* § 1114(2)(D)(i)–(ii).

256. [The § 1114(2)(D)(i)–(ii) safe harbor] exemption will allow a domain name registrar, registry, or other registration authority to avoid being joined in a civil action regarding the disposition of a domain name that has been taken down pursuant to a dispute resolution policy, provided the court has obtained control over the name from the registrar, registry, or other registration authority, but such registrar, registry, or other registration authority would not be immune from suit for injunctive relief where no such action has been filed or where the registrar, registry, or other registration authority has transferred, suspended, or otherwise modified the domain name during the pendency of the action or willfully failed to comply with a court order.

145 CONG. REC. S14715 (daily ed. Nov. 17, 1999).

257. 15 U.S.C. § 1114(2)(D)(iii).

Solutions, Inc., a California district court held that a registry or a registrar that registers an allegedly infringing domain name does not incur liability under either trademark infringement law or the FTDA.[258] The court reasoned that "something more than the registration of the name is required before the use of a domain name is infringing"[259] and the element of "commercial use" cannot be established by registries' or registrars' acts of mere acceptance of registration.[260] These cases, however, did not deal with the situation where a domain name registry or registrar engages in acts of more than the registration of a domain name for another party.

In accord with case law, subsection 32(2)(D)(iii) of the Lanham Act provides that a domain name registrar or registry "shall not be liable for damages under this section for the registration or maintenance of a domain name for another absent a showing of bad faith intent to profit from such registration or maintenance of the domain name."[261] The language of "under this section" indicates that this safe harbor provision applies only to trademark infringement liabilities with respect to federally registered trademarks, but not to trademark dilution or other liabilities under federal or state law.[262] Therefore, registrars or registries engaging in domain name distribution could be liable for trademark dilution or violation of other laws without the establishment of a "bad faith intent to profit."

2. *Congress's Options*

In theory, possible domain name distribution schemes may "include: (1) first-come, first served; (2) market price sales; (3) merit selection; (4) selection by arbitrary criteria; (5) random selection with unlimited entries per applicant; and (6) random selection with one entry per

258. Acad. of Motion Picture Arts & Scis. v. Network Solutions Inc., 989 F. Supp. 1276, 1279 (C.D. Cal. 1997); Lockheed Martin Corp. v. Network Solutions, Inc., 985 F. Supp. 949, 967 (C.D. Cal. 1997).

259. *Lockheed Martin Corp*., 985 F. Supp. at 957. Section 32 of the Lanham Act prohibits using another's mark without permission "in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause and take, or to deceive." 15 U.S.C. § 1114 (1)(a). "By accepting registrations of domain names containing the words 'skunk works,' NSI is not using the SKUNK WORKS mark in connection with the sale, distribution or advertising of goods and services." *Lockheed Martin Corp.*, 985 F. Supp. at 957. Furthermore, registries and registrars have "no affirmative duty to police the Internet in search of potentially infringing uses of domain names." *Id.* at 966.

260. *Acad. of Motion Picture Arts & Scis.*, 989 F. Supp. at 1279 ("The mere registration of a domain name does not constitute a commercial use."); *Lockheed Martin Corp*., 985 F. Supp. at 959 ("NSI's acceptance of domain names registration is not a 'commercial use' within the meaning of the Federal Trademark Dilution Act.").

261. 15 U.S.C. § 1114(2)(D)(iii).

262. *See* 15 U.S.C. § 1114. The safe harbor provision applies only to § 32 of the Lanham Act (trademark infringement), not § 43(c) of the Act (trademark dilution).

applicant."[263] The weight of authority suggests that some of these domain name distribution schemes and their variants may violate existing state and federal laws.[264] Congress thus faces the options of expanding available safe harbors for registries and registrars, allowing regulation under existing laws, or tightening up regulation with the introduction of new Internet-specific laws.

Leaving domain name registries and registrars under the regulation of existing laws is the best option. First, a careful analysis indicates valid policy reasons that compel regulation of private entities in charge of domain name distribution rather than granting more safe harbors to these entities. In practice, no domain name registries or registrars have ever been sanctioned by law, and indeed, in its suit against Amazon, NeuLevel initially attempted to argue that it had sovereign immunity because it was carrying out a policy of ICANN.[265] Nevertheless, the increasingly indispensable role the Internet plays in our society mandates governmental regulation to ensure the overall fairness and legality in allocating new domain names. Second, the coverage and practical effects of the state anti-lottery laws and the FTDA render the introduction of new Internet-specific legal regimes unnecessary at this point, notwithstanding the fact that these existing laws are not specifically directed at Internet activities.

B. State Anti-Lottery Laws as Applied to Domain Name Distribution Systems Further Sound Societal Policy

1. Schemes Involving Random Selection Process

A random selection scheme for domain name distribution has its widespread appeal because it is easy to administer, does not advantage any applicant over another, and is potentially profitable for registries and registrars. Although state legislatures may not have anticipated the technological advancement taking place today, the assumption that the unique characteristics of the DNS will make it difficult, if not impossible, to sensibly apply existing laws not specifically directed at the Internet is overstated. The state anti-lottery laws actually fit well in the picture of domain name distribution regulation and should be applied whenever random selection processes are involved.

263. Maggs, *supra* note 16, at 310; *see Declaration of Touton*, *supra* note 87, ¶¶ 26–30. Among these options, the subjective merit selection option is practically infeasible, and the selection by arbitrary criteria option violates the fairness principle in distribution domain names. They are therefore unlikely to be adopted. Maggs, *supra* note 16, at 313.

264. *See supra* Part III; *see also infra* note 291; *infra* text accompanying notes 289–92.

265. The sovereign immunity argument appeared in NeuLevel's Complaint, and NeuLevel later dropped this argument in its First Amended Complaint. *Compare* NeuLevel, Inc. v. Amazon, Inc., First Amended Complaint, Sept. 6, 2001, Case No. 01-1245-A (E.D. Va. 2001), *available at* http://www.icannwatch.com/essays/neulevel.pdf, *with* Complaint (Aug. 9, 2001) (on file with the University of Illinois Law Review).

2. *Avoiding the Social Ills Associated with Lotteries*

States prohibit lotteries because lotteries have been blamed for directly or indirectly contributing to large-scale social problems such as poverty, negative impact on children, criminal activity, and compulsive gambling.[266] More importantly, society's tolerance of lotteries could lead to moral degradation by encouraging high-risk, low-investment, short-term ventures and devaluing the traditional virtues of education, hard work, thrift, and savings.[267]

These social implications exist regardless of whether a scheme involves a distribution of limited resources or cash. To some extent, NeuLevel's ".biz" domain name distribution scheme comprises a double high-risk, low-investment, short-term venture because it combines speculation on the value of a domain name itself with the risk of not getting the domain name in the randomized selection. It will not be surprising to find that under this scheme, smaller businesses tend to spend a disproportionately high percentage of their business expenses attempting to secure a desired domain name. Whether the prize received is something intangible or whether the consideration being paid is something of insignificant value, the harm done to society is the same.

3. *Ensuring Fairness in Allocating Domain Names*

Applying the state anti-lottery laws to regulate domain name distribution also addresses the policy concerns regarding the fair allocation of domain names by ensuring equal access to the DNS without regard to financial resources of the applicants.[268] The ".biz" domain name distribution scheme was primarily designed to avoid the technical problems caused by the land rush and to allow small business entities with limited resources a fair shot at the game.[269] In reality, however, the ".biz" scheme failed to achieve its second goal.

During the land rush period, there are two problems that a "first come, first served" scheme is not capable of handling. First, at the land rush opening of a "first come, first served" distribution scheme, a massive initial surge of a large number of applications to secure the most popular domain names may potentially clog or overwhelm the DNS registry system.[270] Even as the ".com" economy cooled off, when NeuLevel went live and accepted registration applications for ".biz" domain names on a "first come, first served" basis, it received applications at a rate of

266. *See* Ronald J. Rychlack, *Lotteries, Revenues and Social Costs: A Historical Examination of State-Sponsored Gambling*, 34 B.C. L. REV. 11, 60–74 (1992) (analyzing the history and social effects of lotteries and concluding that the societal costs of lotteries have been shouldered by the impoverished, children, victims of crimes, and people prone to compulsory behavior).

267. *See id.* at 73–74.

268. *See supra* note 100 and accompanying text.

269. *See Declaration of Touton*, *supra* note 87, ¶¶ 22–25.

270. *See id.* ¶ 26.

ten per second.[271] When ".info" opened its real-time "first come, first served" registration process, a surge of registration applications overwhelmed the system and forced Afilias to take the system offline for a couple of days.[272] With respect to this problem, a monetary charge for each preregistration application would probably discourage applicants from filing a large number of duplicative applications for the same domain name.[273] The charge of an application fee would do little, however, to solve the second problem.

The second problem with the "first come, first served" system is that it potentially allows applicants with the most powerful computers to occupy the registry system, causing other applicants to be denied access.[274] This unintended result casts serious doubts on the fairness of the distribution of domain names on a "first come, first served" basis. By permitting or even encouraging the filing of duplicative applications with application fees,[275] the original NeuLevel ".biz" domain name distribution scheme favored the applicants with the most financial resources, the very same evil it set out to combat.

4. Complying with the State Anti-Lottery Laws

Complying with the state anti-lottery laws does not necessarily mean that registries should revert back to the traditional "first come, first served" scheme or abandon the idea of random selection by adopting completely different schemes such as an auction to allow the highest bidder to register the domain name.[276] Because it is impossible to avoid the elements of "prize" and "chance" when a random selection process is involved, the most effective way to comply with the state anti-lottery laws would be to eliminate the element of "consideration."[277] For example,

271. William Glanz, *Companies Rush to Do .biz as Local Registrar Activates Domain*, WASH. TIMES, Nov. 8, 2001, at 1, *available at* 2001 WL 4166125. This took place just after midnight on November 7, 2001. *Id.*

272. Festa, *supra* note 88.

273. This monetary charge would at least prevent rapid-fire mechanized-script queries. *See Declaration of Touton*, *supra* note 87, ¶ 26; Foster, *supra* note 87, at 2. The alternative solution of limiting each applicant to one application would also avoid this problem. Allowing unlimited application without an application fee, however, would comply with the state anti-lottery laws, but would not address the problem of the registry system being overwhelmed by a large number of applications.

274. *See Declaration of Touton*, *supra* note 87, ¶ 26.

275. *See* Foster, *supra* note 87.

276. In the context of settling a domain name dispute between two parties, it has been argued that forcing the domain name registrant into a sealed-bid bilateral auction would guarantee economic efficiency. This auction mechanism would ensure that the disputed domain name ends up in the hands of the party who values it the most, while granting just compensation to the other party. Gideon Parchomovsky, *On Trademarks, Domain Names, and Internal Auctions*, 2001 U. ILL. L. REV. 211, 229–40.

277. It is impossible to remove domain names, the element of "prize," from the scheme because the purpose of the scheme is to give away domain names to registrants. The element of "chance" cannot be avoided whenever a random selection process is involved. Although NeuLevel's ".biz" distribution scheme did not disclose the number of applications for each domain name during the preregistration period, disclosing the number of other applications for the same domain name does not change

registries could allow unlimited entries per applicant and waive the application fee at the preregistration stage.[278] Registration fees could be raised to defray the costs of processing the applications. Alternatively, registries could limit each applicant to a single application.[279] The costs of setting up such a system could have to be covered by raising the five to six dollar registration fee NeuLevel received from the registrars significantly, and paying the increased registration fee would probably be less burdensome than filing duplicative applications with a separate fee for each entry.[280] By eliminating the preregistration application fee or limiting one entry per applicant, registries and registrars would be able to avoid the element of consideration, prevent the social ills caused by lotteries, and further the policy of equal access to the Internet domain name system.

In practice, the California anti-lottery law has been effective in regulating the behavior of the ".biz" registry and registrars. Approximately 1.5 million applications were submitted during the preregistration period for 58,000 names, and those so-called Group 2B domain names for which there were multiple applications were put on hold in light of the litigation.[281] While the litigation was still pending in court, NeuLevel announced that it would reimburse the controversial two dollar preregistration application fees to the registrars.[282] Although NeuLevel stood by the proposition that its original distribution scheme was fair and legal, it decided to switch to a different scheme for distributing the affected Group 2B domain names to prevent them from being tied up by the litigation.[283] Under the new scheme, NeuLevel reopened all Group 2B do-

the analysis and will not eliminate the element of "chance." *See supra* notes 220–21 and accompanying text.

278. This is what NeuLevel chose to do while the *Smiley* case was pending in court. *See infra* text accompanying notes 284–86.

279. At least under California law, this can be done either with or without charging the preregistration application fee. Under *Polonsky*, the incidental fee charged to cover the application processing costs is not consideration when there is only one application per applicant. Polonsky v. City of S. Lake Tahoe, 176 Cal. Rptr. 319, 319–20 (Cal. Ct. App. 1981). It is, however, probably safer to eliminate the application fee altogether. Furthermore, the effective enforcement of one entry per applicant rule can be technically challenging for large gTLDs where no unique identification number for each applicant such as trademark registration number or social security number, is readily available. *Declaration of Touton*, *supra* note 87, ¶ 30.

280. The registrars charged about five dollars per application at the preregistration step. Foster, *supra* note 87. Both automated means and manual review may be needed to ferret out straw-man duplicative applications and the like. *Declaration of Touton*, *supra* note 87, ¶ 30. Penalties could also be set up to discourage the most determined and unscrupulous applicants.

281. Approximately 280,000 domain names were applied for during the preregistration period. The *Smiley* litigation did not affect the domain names with single applicants, and 168,000 of these names were operational on October 1, 2001. Stellin, *supra* note 125; NeuLevel, *Change of Distribution Methods for .biz Domain Names on Registry Reserve FAQs*, *at* http://www.neulevel.biz/faqs/distr_methods_faqs.html (last visited Feb. 23, 2002) [hereinafter *Change of Distribution Methods for .biz*].

282. *Domain Application Fee Refunds*, N.Y. TIMES, Dec. 24, 2001, at C5, *available at* LEXIS, News Library, NYT File.

283. *Change of Distribution Methods for .biz*, *supra* note 281.

main names to the public, including applicants who did not apply during the original preregistration application process and employed a Start-up Period similar to its original scheme.[284] Notably, NeuLevel did not collect any fees for applications submitted during the new process.[285] NeuLevel then utilized a round robin process involving randomized selections in several rounds, so as not to favor any particular registrar, and the selected applicant was then allowed to register the domain name.[286]

By refunding the two dollar fee to the registrars and providing the Internet public with another chance to obtain the affected Group 2B domain names, NeuLevel attempted to repair the harms that could be caused by its original scheme. These harms included the preregistration application fee paid by the applicants and the lost opportunity in obtaining a desired domain name. Meanwhile, although the ".biz" registrars are expected to in turn reimburse affected domain name applicants, some registrars have not passed NeuLevel's $2 two dollar fund on to their customers and some registrars have not refunded their own fees to their customers.[287] Therefore, these registrars and NeuLevel may remain vulnerable to illegal lottery challenges.

C. The FTDA Can Be Readily Applied to Protect Trademark Holders' Interests

1. Schemes Involving Unusual Profitability of Certain Domain Names

Among possible domain name distribution schemes,[288] market price sales and NeuLevel type of random selection involve the dubious feature of allowing domain name registries and registrars to receive higher profits from registering the more popular domain names than others with less demand. The FTDA could be applicable under these circumstances. It may not be a problem when generic domain names made of common English words produce more income for registries and registrars than other domain names. A similar phenomenon involving domain names identical to trademarks, however, can be troublesome.

284. Starting in early February 2002, NeuLevel accepted new domain name applications for the affected names from the public, matched the applications against the IP claims, sent conflict notices, and allowed domain name applicants to decide whether they would proceed or cancel their applications. *Id*.

285. *Id*.

286. This round robin process randomized the queue (or batch) of names submitted by each registrar, and then assigned a random order to pick names from each of the registrars' queues, so that no more than one application from each registrar's batch was processed in each round. *See id.* Under the illegal lottery analysis, the round robin process is not distinguishable from the random selection process involved in NeuLevel's original ".biz" distribution scheme because it does not alter the element of "chance." *See supra* notes 207–21 and accompanying text.

287. The fee charged by the registrars at the preregistration step was about five dollars per application, higher than the two dollars per application fee paid to NeuLevel by the registrars. Foster, *supra* note 87.

288. *See supra* note 263 and accompanying text.

Under the FTDA, NeuLevel and the ".biz" domain name registrars could be found liable due to the multiple application fees they received for domain names that were identical to famous marks if these domain names ended up in the hands of someone other than the holders of the famous marks.[289] Regulation of domain name distribution on the part of registries and registrars under the FTDA may not completely prevent unscrupulous registrant speculators from violating the FTDA or other laws, but at a minimum holders of famous marks would not be exploited twice, both by cybersquatters and by domain name registries and registrars.

A domain name distribution scheme that auctions off domain names to the highest bidder could also be problematic under the FTDA.[290] Registries and registrars could be making "commercial use" of famous marks when they reap the profit from the auction of domain names identical to famous marks.[291] In the example of a ccTLD, the auction mechanism used to distribute the ".tv" domain names resulted in abusive registration of domain names by cybersquatters with the intent of ransoming them to trademark holders.[292] Applying the FTDA to regulate domain name auctions would help avoid such unintended results. It should be noted that compliance with the FTDA will remain an issue even if the U.S. government receives the proceeds from the auction because the government is only allowed to give away domain names as public property, but not private property such as goodwill associated with trademarks.

2. *Protecting the Interests of Trademark Holders*

Although DNS registries and registrars cannot be expected to solve the trademark-domain name dilemma entirely at the domain name distribution stage, applying the FTDA to the domain name distribution process would prevent at least part of the unfairness by protecting trademark holders' interests. At the same time, the FTDA allows some

289. *See supra* Part III.B. The ACPA may be less relevant here because it would require a showing of bad faith intent on the part of the registries or the registrars to profit from the mark, which is usually hard to establish under the nine-factor test. *See* 15 U.S.C. § 1125(d)(1)(B)(i) (2000).

290. The Internet community is generally opposed to the use of auctions to allocate domain names, because such use favors the wealthy and increases the cost to the public of registering domain names. *Declaration of Touton*, *supra* note 87, ¶ 28. If an auction scheme is adopted, most likely the U.S. government, rather than private parties such as a registries or registrars, will receive the auction proceeds because the domain names are public property. Maggs, *supra* note 16, at 312.

291. *See* 15 U.S.C. § 1125(c). The high profit derived from such an auction may constitute "commercial use" because it exploits the value of a domain name as a mark rather than the value of a domain name as a domain name itself. *See supra* notes 241–53 and accompanying text.

292. While most countries have limited their ccTLDs to their residents and businesses, some countries, especially small countries with highly marketable country codes, allow anyone in the world to use their country code with a fee. For example, the government of Tuvalu leased the ".tv" domain names to an American company, which held auctions to distribute the ".tv" domain names in the year 2000. Christopher Keough, *Dot-TV Saga*, L.A. BUS. J., Jan. 14, 2002, at 1, *available at* 2002 WL 11231645; *see also Declaration of Touton*, *supra* note 87, ¶ 28.

leeway for registries to experiment with different schemes to balance the interests of trademark holders with those of the rest of the Internet community. For domain name distribution schemes based on random selection, limiting each applicant to one application or waiving the pre-registration application fee would avoid "commercial use" of the domain names and bring the schemes in compliance with the FTDA.

Alternatively, for domain name distribution schemes based on either random selection or auction, providing trademark holders with priorities in registering domain names identical to their trademarks would help eliminate the element of "commercial use" because the barriers set for domain name speculators would extinguish additional profits registries and registrars may otherwise receive.[293] Registries have designed different types of priorities for trademark holders in addition to the ".biz" IP Claim service.[294] For example, ".info" domain name distribution Afilias designated a Sunrise Period, during which companies holding registered marks were allowed to register domain names that exactly matched the character strings of their registered marks before the system accepted general registrations from the public.[295] After the Sunrise Period, Afilias processed registration applications from the public in a random selection process and subsequently on a "first come, first served" basis.[296]

293. *See supra* notes 241–53 and accompanying text. By not limiting protection to famous marks, registries and registrars can avoid the issue of determining whether a mark is "famous" under the FTDA. 15 U.S.C. § 1125(c). It should be noted that affording trademark holders a priority in registration does not completely solve the domain name-trademark dilemma. Expansion of protected categories beyond domain names that exactly match trademarks is probably infeasible, because the standard will be too subjective. It would be difficult (and unfair) to provide trademark holders with priorities in registering or bidding for all domain names that may potentially dilute, but are not identical to their trademarks. The domain name distribution process is not meant to resolve those ambiguous issues that are best left for decision by courts.

294. *See supra* notes 103–10 and accompanying text.

295. Afilias, *.INFO Rollout Schedule*, *at* http://www.affilias.info/register/schedule (last visited Feb. 23, 2002) [hereinafter *.INFO Rollout Schedule*]. During the Afilias Sunrise Period from July 25, 2001, to August 27, 2001, only one trademark holder was to be randomly selected if there were multiple trademark holders with identical trademarks. *Id.* For 120 days after the Sunrise Period, there was a Sunrise Challenge Period during which a trademark holder could challenge conflicting domain names applied for during the Sunrise Period. *Id.* Any dispute was to be directed to a process administered by the World Intellectual Property Organization, a United Nation agency. Afilias, *Sunrise Challenge Overview, at* http://www.affilias.info/register/dispute_resolution/sunrise_challenge_overview (last visited Feb. 23, 2002). After the Sunrise Challenge Period ended, trademark holders could resolve ".info" domain name disputes through the UDRP or a court system. *Id.* The rollout of ".info" registration was bumpy due to loopholes in the Sunrise registration process that allowed unscrupulous domain name speculators to register domain names before the general public using false trademark data. Afilias tried to fix the problem by amending its Sunrise rules and challenging a large number of Sunrise names that appeared to be facially invalid. Leslie Walker, *As ".com" Gets Company, a Rush for Addresses*, WASH. POST, Aug. 23, 2001, at E01, *available at* 2001 WL 28359481; Afilias, *Afilias Strengthens Sunrise Policies to Ferret Out Phony Registrants, at* http://www.afilias.info/news/press_releases/pr_articles/2001-12-06-01 (last visited Feb. 23, 2002).

296. *.INFO Rollout Schedule*, *supra* note 295. During the Start-up Period following the Sunrise Period, if multiple applications requested the same domain name, only one application was to be randomly selected in a round robin process. After the close of the Start-up Period, applications were to be accepted on a "first come, first served" basis. *Id.*

The Sunrise Period provision is more favorable for the interests of trademark holders than the IP Claim service approach.[297] The Sunrise Period provision prevents cybersquatting by precluding speculators from registering domain names that are identical to trademarks.[298] The IP Claim service, however, furnishes the trademark holders with no choice other than arbitration or litigation if other domain name applicants do not back off after being notified of the trademark holders' rights. Although they strike the balance between the interests of trademark holders and those of the broader Internet community at different points, both the IP Claim service and the Sunrise Period provision sought to protect the trademark holders and help bring domain name distribution into compliance with the FTDA.

V. CONCLUSION

Technological advancements and the proliferation of online commercial transactions necessitate expansion of the DNS and consequently require domain name distribution systems that can keep pace with the rapid growth and development of the Internet. Previously managed under the authority of the U.S. government, the distribution of domain names is now privatized and requires regulation rather than expanded safe harbors. The existing state and federal laws can be applied to help orchestrate more appropriate and equitable domain name distribution systems that address the concerns of the Internet community without the need for new Internet-specific models or regimes. By regulating domain name distribution schemes involving random selection processes, the state anti-lottery laws would help ensure equal access to the DNS by the Internet public without regard to registrants' financial resources. Meanwhile, the FTDA would facilitate the balancing of the interests of trademark holders with those of the rest of the Internet community.

297. Registries have the choice between limiting protection to only registered trademarks and extending protection to both applied-for and common-law trademark holders. *IP Claim Service, supra* note 103, at 1–2; *.INFO Rollout Schedule*, *supra* note 295.

298. The ".info" Sunrise Period provision ignored the legitimate rights of non–trademark holders to use certain generic terms. The U.S. Small Business Administration argued that the ".info" Sunrise Period provision was not only unnecessary in light of remedies like the UDRP and the ACPA, but also could result in "wholesale disenfranchisement of individuals and small businesses." The Office of Advocacy of the U.S. Small Bus. Admin., *Small Business Impact of Famous Mark Protection* (Apr. 4, 2000), *at* http://www.dnso.org/wgroups/wg-b/Archives/msg00735.html. A fairer Sunrise Period provision could limit its protection to famous marks.