

What is a Domain Name Anyway? Impact of *Network Solutions v. Umbro International* Ruling.

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By now, business lawyers understand how domain names work, and even that their clients sell and buy domain names. Less clear is how domain names, as a type of asset, fit into existing property law structures. For example, can a bank take a domain name as collateral? Can a creditor seize a domain name to satisfy a debt? If so, what process is appropriate? Two recent court decisions, the US District Court for the Eastern District of Virginia's in *Dorer v. Arel*, 60 F. Supp. 2d. 558 (E.D. Va. 1999) and the Supreme Court of Virginia's in *Network Solutions, Inc. v. Umbro International, Inc.*, No. 991168 (Va. April 21, 2000),¹ demonstrate how the initial confusion over what domain names are causes more confusion when property law rules are applied.

In *Dorer v. Arel* the US District Court examined the issue of defining a domain name as a property right. Faced with a plaintiff seeking disposition of a domain name by sheriff's sale, the court denied the requested relief. The court believed the plaintiff's intent was to effect transfer of the domain name and advised the plaintiff to use Network Solutions, Inc.'s domain name dispute process to accomplish this end. In dicta, the court suggested that a domain name is not personal property subject to judicial lien, but instead represents trademark rights (to the extent the domain name holder has trademark rights in the term registered as a domain name) and contract rights (under the contract between the domain name holder and Network Solutions, Inc.) The court opined that a domain name is merely an address, and has value subject to lien only to the extent that the manner of its use adds value. The court stated "if the only value that comes from transfer of the domain name is from the value added by the user, it is inappropriate to consider that an element subject to execution."

The Virginia Supreme Court reached the same conclusion in *Network Solutions, Inc. v. Umbro International, Inc.* The court was asked to determine whether a sheriff could seize a domain name and sell it at a sheriff's sale to satisfy a judgment against the domain name registrant. The plaintiff had obtained a money judgment against the defendant, which had registered several domain names with Network Solutions, Inc. Although most of the domain names were not related to the plaintiff's cause of action, the plaintiff wanted them sold to raise funds to satisfy its money judgment. The lower

¹ This decision overruled a lower court decision in *Umbro v. Canada, Inc.*, Va. Cir. Ct., Fairfax County, No. 174388 (February 3, 1999).

court had viewed the defendant's domain names as personal assets subject to lien and allowed the seizure. The Virginia Supreme Court disagreed, finding that while a domain name is an intangible asset, that asset is limited to the contract rights held under the contract between the domain name holder and the registrar. The domain name holder has no separate intellectual property right in the domain name. The court concluded that the contract rights inherent in the domain name can not be seized using Virginia's statutory garnishment procedure.

The decision's direct impact on creditor activity is limited because the decision only addresses seizing a domain name using the Virginia statutory garnishment procedure. The court even hinted that a creditor might be able to levy against or obtain domain name rights using a different procedure. Therefore, the *Umbro* decision should not affect the ability of a creditor to seize a domain name, although it will help define the appropriate method to use. What the decision will affect is the value of the domain name to the seizing creditor.

Currently, people treat domain names as possessing some kind of inherent intellectual property right. They assume they can transfer the domain name freely, and renew the domain name perpetually. The lower court decision in *Umbro*, as well as a district court's recent decision transferring a domain name in a trademark infringement case, *Online Partners.com, Inc. v. Atlanticnet Media Corp.*, No. Civ.A.C98-4146 (N.D. Cal. Jan. 20, 2000), support that viewpoint. Unfortunately for both creditors and domain name holders, the *Umbro* decision says that the only rights held in the domain name are the rights under the domain name contract. This means a creditor might levy against a domain name, but be unable to sell the domain name. In this manner, the decision limits the rights of a domain name holder and thus reduces the value of the domain name.

Some domain name registrars, including Network Solutions, Inc., take the official position that domain names are not transferable. In practice, they allow domain name holders to effectively transfer a domain name by canceling the registration at the same time the new owner enters into a new registration contract with the registrar. However, nothing in Network Solutions, Inc.'s current Domain Name Service Agreement gives the domain name holder the right to transfer a domain name using this method. In fairness, Network Solutions may soon revise its service agreement to clarify that although a domain name contract is not assignable, the right to use a domain name may be transferred using Network Solutions' defined procedures. To date, this problem has not affected the market for domain names. However, domain name holders should be concerned, and given the large

number of ICANN-accredited domain name registrars, no domain name owner should use a registrar that does not contractually allow assignment of a domain name.

Of equal concern is a provision in Network Solutions, Inc.'s Domain Name Service Agreement letting Network Solutions, Inc. void the agreement if a creditor attempts to obtain an interest in the domain name. This provision has at least three potential effects. It reduces the value of a domain name as collateral, perhaps limiting a domain name holder's ability to raise funds or obtain credit. It makes a company with valuable domain names a poorer credit risk because the creditors can not count on having access to what is otherwise a valuable asset. And, the domain name holder risks losing its domain name because of creditor activity.

Despite the terms of its Domain Name Service Agreement and its actions in the *Umbro* case, Network Solutions, Inc. has cooperated in the involuntary transfer of domain names, especially through the bankruptcy process. It has fought against forced garnishment or seizure of domain names, but does not typically cancel domain names solely because of creditor collection activity. Network Solution's policy is to transfer a domain name when presented with a court order ordering transfer that is directed to the current domain name holder. It does require that the parties follow its standard transfer procedures. In the *Websecure, Inc.* case (In re *Websecure, Inc.*, case no. 98-13316-CJK, US Bankruptcy Court for the District of Massachusetts), a chapter 7 bankruptcy trustee auctioned the debtor's domain name, PLANETROCK.COM, using the Bid4Assets.com liquidation auction Web site. He used Network Solution, Inc.'s written Registrant Name Change Agreement to successfully complete the transfer to the successful bidder. Right now, several bankruptcy trustees are using the Bid4Assets.com Web site to auction domain names.

The ability of creditors, whether secured lenders or judgment holders, to seize and liquidate domain names has received too little attention in the past. In the wake of the *Umbro* decision, attorneys should pay more attention to treatment of domain names as property rights, and how the domain name registration agreement terms affect their clients' rights to future use of the domain name.

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