

# Technology Law

## Domain Names

### Governance

#### Global Brand Owners Must Soon Decide Whether to Register New gTLDs: Does Classic Rock Hold Some of the Answers?



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The Internet is about to get a lot more crowded, with a new set of opportunities and burdens for brand owners. Everyone is familiar with existing “top-level” domain extensions such as .com, .net, .org, .edu, and so on, but companies will soon be able to operate their own domain name registry, in many cases with their brand name serving as the generic top-level domain (“gTLD”). In other words, we will likely see website addresses ending in brand names (e.g., .apple and .hitachi), “community-based designations” (e.g., .nyc and .paris), and common nouns (e.g., .hotels and .books). In each case, the owner of the particular new gTLD registry will be able to assign a wide, and virtually unlimited, array of words or text to precede the new gTLD, such as imacg5service.apple, customercare.apple, bestsellers.books, etc.

Since the launch of the original gTLDs, and particularly with the .com names, there have been thousands of disputes about who is entitled to register the word(s) appearing before .com. For example, there have been well-known disputes involving madonna.com, emporioarmaniwatches.cn, nestlecareers.com, ferrari150.com, and hannamontanaonlinetickets.com. After the launch of the new gTLDs, there will likely be similar disputes, except now they will be focused upon which party should be able to own what follows the dot.

#### Timeline and Costs

The Internet Corporation for Assigned Names and Numbers (“ICANN”) is the nonprofit organization responsible for managing the Internet’s global top-level domain name space - including the .com, .net, .org and other widely-known extensions. On the sunrise date of January 12, 2012, ICANN will begin accepting applications from companies wishing to create, secure and operate for themselves a whole new series of generic top-level domains. That first application round is set to close, or “sunset,” on April 12, 2012. If all goes according to plan - and that remains a big “if” right now - successful applicants should be able to use their new gTLDs in 2013. Significantly, ICANN does not anticipate offering a new round for further applications for at least another year (i.e., until 2013 or later).

At first glance, the ability for companies to acquire their own gTLDs sounds like a great business idea, especially if those companies are consumer-facing or brand-driven. However, the short- and long-term costs are substantial. The current estimates merely to file an application for a new gTLD are several hundred thousand dollars, including an application fee of \$185,000 for each applied-for gTLD and the required escrowing of three full years of operating costs. In addition, applicants must agree to a 10-year operating term, which further requires annual payments of \$25,000 to ICANN. There are also “soft” costs associated with applying for and running a domain registry, including employee, consulting, technical and legal expenses. In all, companies

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interested in a gTLD would be wise to estimate an expense of at least \$2 million, and perhaps much more. If a company outsources its domain name portfolio management, rather than running its own registry, there will be additional costs for the registry operator.

### Why Is This So Expensive?

Applicants for a new gTLD must complete and submit a lengthy and very technical application. In addition to a detailed business plan required by ICANN, applicants must create detailed schedules by which certain steps are to be accomplished and to begin partnering with third parties who offer IT or registry services, as the ICANN timetable leaves little margin for error or additional time to correct defects in the application and technical problems in the delegation process.

In addition to a wide array of potential technical issues that may arise, disputes can be expected if more than one company applies for the same or similar gTLD in the first round. ICANN refers to this as a “string contention,” and ICANN will not permit identical gTLDs to coexist, or similar gTLDs if they are likely to cause confusion. Some competing applicants may be able to work out a resolution among themselves. For example, they could agree to share a generic or industry-specific gTLD if they operate in the same field (e.g., .shoes, or .cars), or agree to cooperate if they coexist in unrelated fields (e.g., .continental). If the competing applicants are unable to achieve a resolution, the applied-for gTLD may proceed to auction and be awarded to the highest bidder.

Even then there remains the specter of additional kinds of challenges. Notably, and distinct from the dispute procedures relating to the existing gTLDs (e.g., .com, .net and so on), formal disputes will require substantial filing fees and up-front escrowed payments of costs by both parties, with current estimates ranging from a few thousand dollars to \$50,000 or more. The precise fees will be set by each service provider, and will vary depending on a number of factors. Significantly, it is anticipated that the loser of the challenge will ultimately be required to pay all challenge costs, including the arbitrators’ fees but probably not including attorneys’ fees.

### What Is a Global Brand Owner To Do?

The decision whether to register new gTLDs has been the subject of much debate and consternation among global brand owners. The gTLDs represent a substantial investment of time and money, with an uncertain return on investment. Then again, the consequences of “missing the boat” could be significant if the popularity of the new gTLDs exceeds expectations. So far, many of the industry articles and guidance published on this subject have outlined some of the issues to consider, but many brand owners are still uncertain about what to do.

It is time for brand owners to clear their minds and focus their thinking. As a first step, there is some guidance in the lyrics to the song “Freewill” by the classic rock band Rush.<sup>1</sup> Below are some lessons based on those lyrics.

#### – Lesson 1: “Blame is better to give than receive.”

Global brand owners have many stakeholders in significant decisions on brand protection, and essentially all of those decisions resolve on a cost-benefit scale. In which countries should trademarks be registered? Which infringers should be pursued and sued in court? Are we ready for a refreshed or modernized logo? Should we consider a brand extension or a joint venture? The decision whether to register a new gTLD is a very significant cost-benefit decision, where all major stakeholders should be involved to make a collaborative, well-informed decision. After all, if the new gTLDs are as big as or bigger than some expect, no individual decision-maker wants to end up holding the bag on a major missed business opportunity. Conversely, no individual decision-maker wants to be responsible for a substantial line-item expense that turns out to be relatively useless.

At a minimum, the decision team should involve legal (at least in-house and outside trademark counsel), communications/public relations, marketing/advertising, corporate security, IT, and one or more executives from the company’s senior leadership team. Tax treatment of the economic benefits and burdens of a new gTLD should also be considered. In selecting stakeholders to participate in the decision-making, it is important to include persons who might potentially benefit from new revenue streams that a new gTLD might create (as explained below), and to think comprehensively in selecting a decision team.

In addition, the company should not only consider registering its own “house mark” as a new gTLD (e.g., .pepsi), but also whether there is value in capturing a category of goods (e.g., .nyc) that could attract registrants willing to pay the company money to be able to use such an extension.

#### – Lesson 2: “You can choose a ready guide in some [legal] voice.”

At the end of the day, the business will need to decide whether to spend the time and money needed to register a new gTLD, but lawyers will help guide clients to consider the potential benefits and opportunities of doing so, as well as the potential risks of not doing so. Along the way, a good lawyer will offer practical suggestions for the decision-makers to consider. To be balanced against the time and expense of registering a new gTLD, the following factors, among others, could be cited to support a decision to register a new gTLD:

*a. The brand has been susceptible to high-stakes counterfeiting and fraud.* As a defensive “blocking” move, entities like banks and investment companies should consider the value in adding this new asset to their anti-fraud expenses. Conversely, brands

that have faced mainly “garden variety” infringements will still find value in registering a new gTLD, but probably have less of a need to do so.

*b. The brand is inherently descriptive, or is it potentially vulnerable to a petition to cancel.* Similar to the dispute resolution procedures for the existing gTLDs (e.g., .com), a challenger to another’s gTLD will need to show that the applicant has no legitimate claim to the new gTLD. With regard to inherently distinctive trademarks (e.g., HITACHI), that will usually not be very difficult.

However, the new gTLDs contemplate that parties can register generic or highly descriptive words to “follow the dot.” In those cases, the challenge to an earlier applicant may be more difficult, or may ultimately involve a need to purchase the new gTLD from an earlier applicant. Looking at the question somewhat differently, will your company be at a competitive disadvantage if a competitor registers a generic gTLD (e.g. .travel), which it would be difficult, if not impossible, to successfully challenge?

Finally with regard to generic or highly descriptive marks, the application for or ownership of a new gTLD could be argued as useful evidence that the brand owner is carefully policing its mark.

*c. There are significant potential monetization opportunities in owning the gTLD.* In addition to the defensive blocking value of a new gTLD, some brand owners may anticipate the ability to generate a profit from their operation of a new domain name registry. For example, companies with a large global franchise, marketing or other networks may require their authorized affiliates to use secondary domains under a new gTLD (e.g., marketingusa.bmw or franchisee147.mcdonalds). Similarly, companies with large or global distribution chains could require their distributors to do the same. Subject to other considerations, the affiliates in either instance could be required to pay the costs of the secondary domains, as well as perhaps some contribution to the overall operation of the gTLD.

The new gTLD could also offer one-stop-shopping to consumers, thus enhancing the ability to grow market share, and perhaps building the enterprise value of the brand. For example, elevating a brand name to the status of a gTLD will undeniably give the brand added exposure and notoriety, which directly contribute to brand value. Whereas a brand may now occupy some (but rarely all) of the web addresses preceding .com, .net, .gov, and .edu, a new gTLD will be its own registry, and will necessarily own and be able to grant access to whatever precedes the dot. Similarly, the owners of new gTLDs that occupy so-called community addresses (e.g., .NYC) or common nouns (e.g. .MUSIC) will be able to position content on sub-domains in a brand-enhancing way (e.g., by listing the gTLD owner’s brands and content ahead of others), and possibly also foster joint ventures and revenue-generating license arrangements with business partners who seek a marketing synergy (e.g, hotels and restaurants, airlines and car rentals, etc.)

*d. The brand owner has so far not been able to secure the preferred .com registration of its name or house mark.* To date, a famous

name or mark (or acronym) followed by “.com” has been the gold standard for domain name registrations and e-commerce. Most, but not all,<sup>2</sup> brand owners have been able to acquire such domain names, either by (1) applying for them first; (2) successfully challenging others’ claims to them; or (3) buying them from parties who registered them first. Some brand owners who have been unable to do so have been content enough to use some variation of their name in their principal .com registration. Although the future value of the new gTLD system is not clear, the opening of the application period in January 2012 offers a new opportunity to be first with a preferred name/brand/acronym.

#### – Lesson 3: “Phantom Fears”?

For brand owners considering a new gTLD as a defensive blocking move, the question arises whether an infringer would invest hundreds of thousands of dollars to register a gTLD, and much more money to maintain it over time? The conventional wisdom seems to be “no,” but this is not a one-size-fits-all prediction. The answer will depend on the nature of the underlying business, the degree of vulnerability to (and ill-gotten gains from) counterfeiting and fraud, the protectability of the name or mark at issue, and other factors.

In any event, even trademark owners who do not apply for their own gTLDs in the first round should carefully monitor the new gTLDs for possible objection at the appropriate time.

#### – Lesson 4: “Uncertain Ends”?

One thing that can be said for sure is that it is uncertain how popular the new gTLD system will be. Will it be the new gold standard for domain names? Which way will brand owners be kicking themselves a few years from now? Despite the uncertainty, there are several ways to consider the potential value of a gTLD beyond the advantages already mentioned.

Of significant interest to many brand owners is the potential that ownership of a new gTLD might significantly increase the Search Engine Optimization (“SEO”) for their brand. As this time, it is difficult to predict or quantify that benefit, and the SEO benefit will likely vary greatly depending on the kind of name that is registered and the existing degree of SEO that is already being undertaken.

Another uncertainty is the value of a new gTLD in the future sale of a brand. If gTLDs do become the new gold standard for domain names, a buyer of a brand would likely expect the gTLD to convey, and the gTLD may represent significant equity, even potentially exceeding the expenses to that point.

– **Ultimate Lesson: “If you choose not to decide, you still have made a choice.”**

Most importantly, brand owners need to recognize now that they will need to make a firm decision within the next few weeks about whether to apply for a gTLD. It cannot be overemphasized that there is substantial legal, technical, operational and other work that will be required, and the application itself is a significant, time-consuming undertaking. Among the items required are third-party certificates and certifications, background checks of applicants and their businesses and principals, and other intensive work where the time line is not entirely within the brand owner’s control.

Moreover, any brand owner who intends to apply for a gTLD must be prepared to file at the opening bell on January 12, 2012. ICANN will accept only 500 applications in the first round, and early filing also increases the chance of success against other applicants for similar gTLDs. Brand owners who do not make a firm decision about the gTLDs well in advance of the January deadline will indeed still have made a choice - not to secure a gTLD in the opening round.

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<sup>1</sup> The 1980s classic rock band Rush released the song “Free Will” in 1980 (during the teenage formative years of the coauthors of this article), as part of the record album *Permanent Waves*. The full lyrics appear at <http://www.azlyrics.com/lyrics/rush/freewill.html> (last visited Sept. 13, 2011).

<sup>2</sup> Even the White House has had tremendous difficulty in securing whitehouse.com, which instead for a long time resolved to an adult web site.