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SECOND CIRCUIT REVIEW

CYBERSQUATTING

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We discuss here a significant decision handed down earlier this month by the United States Court of Appeals for the Second Circuit addressing a thorny issue of Internet law that has been widely publicized in recent months. In that ruling, the Second Circuit became the first federal appellate court to interpret the highly-publicized Anticybersquatting Consumer Protection Act (ACPA), enacted in late 1999 to remedy bad faith registrations of trademarks as domain names by non-owners of the marks.

In *Sporty's Farm L.L.C. v. Sportsman's Market, Inc.*,¹ the Second Circuit, in an opinion written by Judge Guido Calabresi and joined by Judge James L. Oakes and Judge John R. Gibson (United States Court of Appeals for the Eighth Circuit, sitting by designation), affirmed a district court order enjoining use of the domain name “sportys.com.” In so holding, the court — applying the newly-promulgated ACPA instead of the Federal Trademark Dilution Act (the FTDA) under which the district court had issued the injunction — ruled that the registrant of the domain name, virtually identical to the trademark “Sporty’s,” had violated the ACPA.

Aviation Products

Plaintiff Sportsman's Market is a well-known mail order catalog company that sells products for pilots and aviation enthusiasts. Each year, Sportsman's distributes about 18 million catalogues nationwide with annual revenues around \$50 million. Sixty percent of Sportsman's revenues derive from aviation-related sales; 40 percent from non-aviation sales such as tools and home accessories. Since the 1960's, Sportsman's has used “Sporty” to identify its catalogs and products; in 1985, Sportsman's registered the trademark Sporty's with the U.S. Patent and Trademark Office. The Sporty's mark appears on Sportsman's advertising, including the cover of its catalogues and as part of its 1-800-4Sportys phone number. Annually, Sportsman's spends about \$10 million advertising the Sporty's mark.

Defendant Omega Engineering, Inc. is a mail order catalog company that sells principally scientific process measurement and control instruments. In late 1994 or early 1995, Omega's owners, Betty Hollander and Arthur Hollander — a pilot who received Sportsman's catalogs and knew of the Sporty's mark — decided to enter the aviation catalog business and formed a wholly owned subsidiary, Pilot's Depot, for that purpose. Shortly thereafter, Omega registered the domain name “sportys.com.”

In January 1996, Omega formed another wholly owned subsidiary called Sporty's Farm to which Omega sold the sportys.com domain name for \$16,200. Sporty's Farm — a company that grows and sells Christmas trees — began advertising Christmas trees on the sportys.com site. According to the chief executive officer and manager of Sporty's Farm, Ralph Michael, Sporty's Farm was named after his uncle's farm, Spotty's Farm, which, in turn, had been named for Michael's childhood dog, Spotty. According to the Second Circuit, the record contained no evidence that “Hollander was considering starting a Christmas tree business when he registered sportys.com or that Hollander was ever acquainted with Michael's dog, Spotty.”

Sportsman's discovered Omega's registration of sportys.com as a domain name in March 1996. Before Sportsman's could take any action to challenge such registration, Sporty's Farm brought a declaratory judgment action seeking the right to continue its use of sportys.com. Sportsman's counterclaimed (naming Omega as a third-party defendant) for trademark infringement, trademark dilution under the FTDA and unfair competition under the Connecticut Unfair Trade Practices Act (CUTPA). During the litigation, Sportsman's used the domain name sportys-catalogs.com.

Because the parties were engaged in “wholly unrelated businesses” and thus “confusion in the marketplace [was] not likely to develop,” the district court rejected Sportsman's claim for trademark infringement. Sportsman's, however, prevailed on its trademark dilution claim, as the district court concluded that “Sporty's was a famous mark entitled to protection under the FTDA” and that “Sporty's Farm and Omega had diluted Sporty's because ‘registration of the sportys.com domain name effectively compromises Sportsman's Market's ability to identify and distinguish its goods on the Internet by precluding Sportsman's market from using its unique identifier.’”

Accordingly, the district court issued an injunction requiring Sporty's Farm to relinquish all rights to sportys.com, which Sportsman's subsequently acquired. Because the district court did not find that Sporty Farm's and Omega's conduct constituted willful dilution under the FTDA, it did not award “punitive damages, profits, attorney's fees and costs pursuant to the FTDA.” The district court found no violation of CUTPA.

On appeal, Sporty's Farm and Omega challenged the grant of the injunction. Sportsman's appealed the district court's denial of damages under both the FTDA and CUTPA.

The Internet

At the outset of its decision, the Second Circuit briefly explained the workings of the Internet — an arena now familiar to most. In that vein, the court defined the “Internet (or World Wide Web) [as] a network of computers that allows a user to gain access to information stored on any other computer on the network. Information on the Internet is lodged on files called Web pages, which can include printed matter, sound, pictures, and links to other Web pages. An Internet user can move from one page to another with just the click of a mouse.”²

As the Second Circuit further explained, a “domain name” — the address of a Web page — consists of a top-level domain as a suffix (such as .com or .org) and a secondary level domain (comprised of combinations of letters, numbers and symbols). Not surprisingly, most companies prefer to use their trademark or company name as the secondary domain, especially because “the most common method of locating an unknown domain name is simply to type in the company name or logo with the suffix .com.”

The registration of domain names, available through about 100 entities accredited by The Internet Corporation for Assigned Names and Numbers (“ICANN”), is a

simple process involving little more than filling out a form and paying a fee. Unfortunately for trademark owners, domain name registrars generally do not “inquire into whether a given domain name request matches a trademark held by someone other than the person requesting the name.”

As a result, “cybersquatting” — “the registration as domain names of well-known trademarks by non-trademark holders who then try to sell the names back to the trademark owners” for amounts akin to ransom — has become increasingly common, preventing the rightful use of the domain name by the mark owners.

To combat cybersquatting, Congress — while the instant appeal was pending — passed the ACPA. Through the Act, Congress sought “to protect consumers and American businesses, to promote the growth of online commerce, and to provide clarity in the law for trademark owners by prohibiting the bad-faith and abusive registration of distinctive marks as Internet domain names with the intent to profit from the goodwill associated with such marks.”³ Specifically, the ACPA was intended to overcome the uncertainty as to the FTDA's application to the Internet, which uncertainty “ha[d] produced inconsistent judicial decisions and created extensive monitoring obligations, unnecessary legal costs, and uncertainty for consumers and trademark owners alike.”

Remedial Amendment

The ACPA amends the Lanham Act to create a specific federal remedy for cybersquatting.⁴ Specifically, the Act provides in part:

A person shall be liable in a civil action by the owner of a mark, including a personal name which is protected as a mark under this section, if, without regard to the goods or services of the parties, that person:

- (i) has a bad faith intent to profit from that mark, including a personal name which is protected as a mark under this section; and
- (ii) registers, traffics in, or uses a domain name that:
 - (I) in the case of a mark that is distinctive at the time of registration of the domain name, is identical or confusingly similar to that mark;
 - (II) in the case of a famous mark that is famous at the time of registration of the domain name, is identical or confusingly similar to or dilutive of that mark;

The statute also includes a litany of non-exclusive factors informing the “bad faith intent to profit” element, such as whether the domain name registrant enjoys any trademark or other intellectual property rights in the domain name, and whether the registrant is using the domain name in connection with the bona fide offering of goods and services.

With respect to remedies, the act provides that “a court may order the forfeiture or cancellation of the domain name or the transfer of the domain name to the owner of the mark if the domain name was registered before, on, or after the date of the enactment” of the act. In addition, damages (either actual or statutory) are available for violations of the act with respect to “the registration, trafficking, or use of a domain name” that occurs on or after the date of the enactment of the act.

Application of ACPA

Applying the ACPA to the case at bar, the Second Circuit began by noting the “rare if not unique” factual situation presented by this appeal: “A Competitor X of Company Y has registered Y's trademark as a domain name and then transferred that name to Subsidiary Z, which operates a business wholly unrelated to Y.” In view of these unusual facts, the Second Circuit opted to “decide no more than is absolutely necessary to resolve th[is] case.”

Considering as an initial matter whether the ACPA governed this appeal notwithstanding the fact that it was enacted after the district court's decision, the Second Circuit instructed that, “as a general rule, [it applies] the law that exists at the time of the appeal.” The court nevertheless acknowledged that, “even if a new law controls, the question remains whether in such circumstances it is more appropriate for the appellate court to apply it directly or, instead, to remand to the district court to enable that court to consider the effect of the new law.”⁵

Because the Second Circuit found it “clear that the new law was adopted specifically to provide courts with a preferable alternative to stretching federal dilution law when dealing with cybersquatting cases” and because “the findings of the district court, together with the rest of the record, enable[d] [it] to apply the new law to the case without difficulty,” the Second Circuit chose to decide the appeal, rather than remand.

Distinctive v. Famous

Turning to the merits, the Second Circuit first determined “whether Sporty's is a distinctive or famous mark and thus entitled to the ACPA's protection.” In so doing, the court distinguished “distinctiveness” and “fame,” advising that “distinctiveness refers to inherent qualities of a mark and is a completely different concept from fame,” noting that a mark may well be distinctive long before it acquires fame. The court further cautioned that “even a famous mark may be so ordinary, or descriptive as to be notable for its lack of distinctiveness.” The Second Circuit had “no doubt” that “Sporty's, as used in connection with Sportsman's catalogue of merchandise and advertising, is inherently distinctive.” The court did not reach the issue of whether the Sporty's mark was famous, as the ACPA did not require such a finding.

The Second Circuit easily determined that although (because of the apostrophe) “the domain name sportys.com is not precisely identical to the sporty's mark, it is certainly ‘confusingly similar’ to the protected mark” within the meaning of the Act.

Addressing next, as it must under the Act, “whether Sporty's Farm acted with a ‘bad faith intent to profit’ from the mark Sporty's when it registered the domain name sportys.com,” the court — counseling that “bad faith intent to profit are terms of art in the ACPA and hence should not necessarily be equated with bad faith in other contexts” — looked to the nine “bad faith” factors identified in the Act.⁶ The Second Circuit found “more than enough evidence in the record below of ‘bad faith intent to profit’ so that no reasonable factfinder could return a verdict against Sportsman's.”

First, the court explained that “it is clear that neither Sporty's Farm nor Omega had any intellectual property rights in sportys.com at the time Omega registered the domain name,” noting that Sporty's Farm was not formed until nine months later and did not obtain the name from Omega until the filing of this lawsuit. Nor does the domain name consist of the legal name of the party that registered it — Omega. As for whether the prior use of the domain name was in connection with the bona fide offering of any goods or services, the court decided that this factor cut “against Sporty's Farm since it did not use the site until after this litigation began, undermining its claim that the offering of Christmas trees on the site was in good faith.”

The court also identified the following additional bases to support its finding of bad faith: (1) “Sporty's Farm does not claim that its use of the domain name was ‘noncommercial’ or a ‘fair use of the mark’”; (2) “Omega sold the mark to Sporty's Farm under suspicious circumstances”; and (3) “the Sporty's mark is undoubtedly distinctive.”

The Second Circuit deemed the “most important grounds” to support its finding of bad faith to be “the unique circumstances of this case, which do not fit neatly into the specific factors enumerated by Congress but may nevertheless be considered under the statute.” Because “Omega planned to enter into direct competition with Sportsman's in the pilot and aviation consumer market” and because Omega's owners were aware of the Sporty's mark, the Second Circuit concluded that “it cannot be doubted, as the court found below, that Omega registered sportys.com for the primary purpose of keeping Sportsman's from using that domain name.”⁷

Indeed, the court found it noteworthy that Omega created another company in an unrelated business, Sporty's Farm, in an effort to use the name in a commercial fashion, keep the name from Sportsman's and thereby shield itself from a likelihood of confusion finding in an infringement suit by Sportsman's.

Finally, the Second Circuit ridiculed “the explanation given for Sporty's Farm's desire to use the domain name, based on the existence of the dog Spotty,” finding the explanation “more amusing than credible.” The Second Circuit concluded that there existed “ample and overwhelming evidence that, as a matter of law, Sporty's Farm acted with a bad faith intent to profit from the domain name sportys.com,” and ruled that Sporty's Farm violated Sportsman's statutory rights under the ACPA.

Regarding the appropriate remedy, the Second Circuit noted that the ACPA authorizes the forfeiture, cancellation or transfer of a domain name registered before, on, or

after the enactment of the Act — precisely the relief ordered by the district court under the FTDA and, according to the Second Circuit, equally “appropriate under the ACPA.”

As for damages, the court held that “under the ACPA, damages are unavailable to Sportsman's since sportys.com was registered and used by Sporty's Farm prior to the passage of the new law.” The Second Circuit, however, addressed whether “Sportsman's might nonetheless be eligible for damages under the FTDA since there is nothing in the ACPA that precludes, in cybersquatting cases, the award of damages under any pre-existing law.”⁸ And under the FTDA, “where willful intent to dilute is demonstrated, the owner of the famous mark is — subject to the principles of equity — entitled to recover (1) damages (2) the dilutor's profits, and (3) costs.”

The court nevertheless concluded that Sportsman's was not entitled to damages under the FTDA, finding that the district court did not “clearly err” when it found that “Sporty's Farm's actions were not willful.” The court did, however, call the question “a very close one” in light of the fact that Hollander was aware of the Sporty's mark and did not create the Sporty's Farm business until months after registration of the domain name.

A Blurry Line

Sportsman's fared no better with its claim for damages under CUTPA. Addressing that claim, the Second Circuit — weighing the requisite factors — held that “the actions of Sporty's Farm and Omega did not contravene CUTPA.” Specifically, the court determined that, prior to its decision interpreting the ACPA, the “line between business tactics with respect to domain use that were unfair and those that, if hard-nosed, were nonetheless legitimate was blurry.” Accordingly, the Second Circuit did not find the conduct of Omega and Sporty's Farm to be “immoral, unethical, oppressive, or unscrupulous” under CUTPA. Nor did the court find a substantial enough injury to satisfy CUTPA's requirements.

In sum, the court held that the district court's injunction was proper under the ACPA and denied damages to Sportsman's under the ACPA, the FTDA and CUTPA.

Finally, the Second Circuit rejected Sporty's Farm's argument that “any injunction requiring it to relinquish use of sportys.com is impermissibly retroactive.”⁹ Finding the argument meritless, the court explained that the issued injunction provided only prospective relief to Sportsman's. In other words, because the injunction “did no more than avoid the continuing harm that would result from Sporty's Farm's use of the domain name,” the Second Circuit found no retroactivity problem.

The ACPA's enactment has spurred a slew of actions seeking redress for purported acts of cybersquatting. The Second Circuit's decision demonstrates that, in fact, redress may be obtained more easily under the ACPA than through dilution or infringement claims. In addition to the ACPA, cybersquatting victims have an additional avenue of “easier” relief under the recent ICANN Uniform Domain Dispute Resolution Policy — an administrative proceeding intended to provide a fast and cost-effective remedy. Of course,

for trademark owners unable to avail themselves of the ACPA or ICANN remedies because their marks have not been registered as domain names by true cybersquatters, all of the traditional remedies under the Lanham Act remain available.

ENDNOTES

- (1) Nos. 98-7452, 98-7538, 2000 WL 124389 (2d Cir. Feb. 2, 2000).
- (2) *Id.* at *1.
- (3) *Id.* at *4, citing S. Rep. No. 106-140, at 4.
- (4) 15 U.S.C. § 1125(d)(1)(A).
- (5) *Sporty's Farm*, 2000 WL 124389 at *6.
- (6) *Id.* at *8 n.15.
- (7) *Id.* at *8.
- (8) *Id.* at *9.
- (9) *Id.* at *11.