

Expert Analysis

Contracts and the New Generic Top-Level Domains: Best Practices and Important Provisions In Contracts with Icann and Third-Party Domain Service Providers

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Many of the organizations that have applied with the Internet Corporation for Assigned Names and Numbers, or ICANN, to establish new Internet “top-level domain” name registries are companies such as consumer product and financial service providers that have a presence on the Internet but have never been in the Internet service provider industry *per se*. In order to apply for a new “generic” TLD,¹ however, these companies must submit detailed applications setting out their corporate structure and financial and technical qualifications, a description of the mission and purpose of the proposed domain registry and a description of their security measures and WHOIS systems. To do so, most companies retain the services of independent, experienced domain name registry consultants. Many also retain “registry service providers” to provide the backend technical and administrative functions necessary to operate the TLD registries. If they are awarded a domain registry, companies must also enter a registry agreement with ICANN.

Although ICANN’s application process has been well documented, little attention has been given to the form or obligations of the registry agreement or how the representations in the TLD applications may control the purpose, features and operation of the TLDs. Companies need to understand their obligations under ICANN’s application and registry agreement. They also need to understand and be prepared to negotiate with consultants and RSPs.

This article focuses on provisions in ICANN registry agreement and RSP agreements that may affect a company’s rights and obligations. Agreements regarding the TLD should be as carefully reviewed by companies as their most sensitive business and intellectual property agreements, and companies are encouraged to review with their counsel the proposed agreements, as well as future filings they may make with ICANN.

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NEW DOMAIN NAME SYSTEM

The Domain Name System, or DNS, is the system of words, letters and numbers used to access sites and resources on the Internet. It is about to change dramatically. Under the new TLD system, the 23 current TLDs (e.g., .com, .net and .edu) may be joined by more than 1,000 new TLDs comprising generic terms, geographic names and trademarks.

This tectonic change will enable companies to use their trademarks and generic terms not only as second-level domains (SLDs — the string of letters to the left of the “dot” — e.g., “brand” in brand.com or “smu” in smu.edu), but also as TLDs (the string of letters to the right of the dot). The costs of doing so are great (each applicant has already paid \$185,000 plus consultant’s fees just to apply for a new TLD, and the owners may need to pay millions of dollars to operate a domain registry for the first five years). Many companies, however, believe the new TLD system offers important advantages, including the ability to provide enhanced security and limit illegal activities in the registries, establish brand-centric registries with enhanced customer services, and experience and develop registries featuring particular goods, services or resources. If the first round of applications is successful, other companies will undoubtedly decide to participate in future rounds of applications.

THE NEW GTLD APPLICATION/REGISTRY AGREEMENT

Successful TLD applicants must enter into a formal registry agreement with ICANN that establishes the applicant’s contractual responsibilities to ICANN, including the fees, reporting and indemnification obligations, the obligation to comply with ICANN’s current and future policies, and ICANN’s and the applicant’s representations and warranties. The registry agreement also establishes a 10-year term for the TLD delegation.

The registry agreement is, for all intents and purposes, an adhesion contract allowing few, if any, provisions to be negotiated by an applicant. In contrast, ICANN states in both the required TLD application forms and in the registry agreement that it reserves the right to make “reasonable updates and changes” to the registry agreement during the course of the application process.²

The first thing for applicants to note is that the registry agreement incorporates by reference the information, affirmations, expression of purpose, security plans and plans for the protection of intellectual property rights that the applicant included in its application for the TLD. Companies applying for TLD registries, therefore, need to keep in mind that the information, statements and explanations that they made in the application will become part of their commitments to ICANN and may be binding for the term of the registry agreement.³

One of the foremost issues that applicants who own valuable trademarks need to consider is that Section 7.11 provides that “nothing in the registry agreement grants the applicant any property ownership rights or interests in the TLD or the letters, words, symbols or other characters making up the TLD string.” In other words, if a BRAND company applies for .BRAND, the registry agreement does not grant the company any intellectual property rights to that TLD string.⁴ Under U.S. trademark law, use of a mark must be controlled by the owner of the mark with respect to the nature and quality of the goods or services on or in connection with which the mark is used. Taken broadly, Section 7.11 means the grant of a domain registry does not itself convey any rights to the TLD apart from the contract. Applicants should consider including language clearly stating that the applicant’s use of domains that consist of

trademarks may establish rights in the trademarks. Without this, a potential infringer of a trademark could argue that because a trademark owner does not have complete control over its trademark as a TLD, it should not be able to claim rights based on its use.⁵ Applicants should therefore consider revising Section 7.11.

Another part of the registry agreement that applicants should closely analyze is its intellectual property indemnification provision. Under the registry agreement, an applicant is responsible for indemnifying and defending ICANN and its directors, officers, employees and agents from third-party claims, damages, liabilities, costs and expenses arising from or relating to intellectual property ownership rights with respect to the TLD, the delegation of the TLD and the applicant's operation of the registry or the applicant's provision of registry services. Applicants should therefore ensure that their registration of use of a TLD does not infringe another company's trademark or other rights in the TLD string.

Furthermore, unless an applicant is an intergovernmental organization or governmental entity, in which case there is a different standard for indemnification of ICANN, an applicant has the first right to take control of the defense and investigation of an intellectual property claim. If the applicant does not proceed, ICANN will have the right to defend the claim as it may deem appropriate, at the cost and expense of the applicant. Moreover, the registry agreement provides that ICANN must consent to any settlements that do not fully indemnify ICANN. As a recommendation, applicants should consider limiting their indemnification obligations, if possible, in a manner similar to ICANN's limitations on its liability in the registry agreement (*i.e.*, to a limited amount of money or payment over a limited period of time). Moreover, an applicant should take such indemnification requirements into consideration if it delegates any obligations to a third-party RSP so that such liability is properly transferred and the applicant is adequately protected.

Another important part of the registry agreement is the Article 4 term and termination provision. The registry agreement's initial term is 10 years. After that, the registry agreement may be renewed for successive 10-year periods. However, a number of potential events could either prevent renewal at the end of the initial 10-year term or, worse, lead to early termination of the registry agreement. For instance, the ICANN can refuse to renew the registry agreement if there has been a fundamental and material breach of the registry agreement's covenants or if the company fails to meet payment obligations. Another ground for termination is if, during the term, the registry operator is found to be in material breach on at least three separate occasions. It is unclear what ICANN considers a fundamental and material breach, however, and this should be more clearly defined to ensure compliance with ICANN's obligations. Furthermore, applicants should request that a material breach not be held against them if it is properly cured within a set period. This "cure" provision would be particularly relevant if the material breach arises due to actions by a third-party service provider acting on behalf of the applicant.

ICANN may also terminate the registry agreement if the applicant fails to complete all testing and procedures for delegation of the gTLD into the root zone (*i.e.*, the computer servers that route Internet traffic) or if the applicant enters into bankruptcy. ICANN may also terminate the registry agreement if the applicant knowingly employs any officer who is convicted of a misdemeanor related to financial activities or of a felony, or if any current member of the applicant's board of directors or similar governing body is convicted of the same. Applicants should try to limit this section

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as much as possible. They should also establish internal hiring policies to avoid any possible issues.

Finally, applicants should consider the change of control and assignment provisions contained in the registry agreement. Under Section 7.5, ICANN may assign the registry agreement in conjunction with its reorganization or re-incorporation to another nonprofit corporation or similar entity organized for the same or substantially the same purpose without the applicant's prior permission. The applicant, however, must obtain written approval from ICANN for any assignment or transfer of the registry agreement, including a change of control or any material subcontracting arrangement, which is deemed an assignment. This provision may affect potential merger or buy-out situations in which some of the applicant's value is attributed to the applicant's gTLD.

To avoid possible future issues, applicants should consider amending this provision so they have the ability to transfer or assign the registry agreement if they transfer their business or a part of their business or set forth grounds on which ICANN is required to approve a transfer. In order to appease ICANN, the assignment provision could state that the assignee or transferee would meet the standards of the applicant and agree to be bound by the terms and conditions of the registry agreement. Some first-round applicants, notably Donuts LLC, have alternatively adopted the strategy of forming separate wholly owned subsidiaries to apply for gTLDs. Rather than assign the registry agreement and gTLD, they can simply transfer the business entity to avoid the ICANN's approval requirement. New applicants might consider this strategy in future rounds.

RSP AGREEMENTS

In addition to entering into the registry agreement with ICANN, most applicants will enter into agreements with third-party service providers, including consultants, RSPs, and data escrow, financial guarantee and insurance services.

Like the registry agreement, each third-party service agreement requires careful review. In most cases in the first round of applications, the principal agreements are with the consultants assisting in the preparation and processing of applications and acting as general contractors in arranging for the backend registry and registrar services through RSPs.

Under these agreements, applicants are required to supply all information the consultant reasonably requests in order to prepare the application. Companies should therefore designate personnel to provide this information and to update it as necessary; the validity of the registry agreement depends on the accuracy and completeness of this information.

Providing registry services, and operating, marketing, maintaining and administering the domain registry pursuant to the ICANN are the principal obligations of the applicant under the registry agreement, but these tasks will generally be outsourced to RSPs with experience in providing registry and registrar services. These services must comply with the Registry Operator Code of Conduct, the rights-protection mechanisms and all other ICANN policies adopted by the applicant under the registry agreement. In most cases, the application consultants retain the RSPs as part of their services. Accordingly, applicants are advised to obtain from their consultants, as part of the third-party service agreement, a detailed list of delegated responsibilities and a schedule listing the reports that will be provided by the consultant or RSP. In addition, applicants should ensure

that provisions in third-party service agreements, including the term of the agreements arranged by consultants, align with the registry agreement in order to avoid potential compliance issues.

There are a number of other important provisions to consider in all third-party agreements. For instance, third-party agreements may contain hidden fees that are in addition to the monthly or annual fees due under the contract. Such fees should be specified and reduced if there is a termination or an assignment of the consultant or registry agreement.

From an intellectual property perspective, applicants should ensure that third-party agreements state that the applicant owns or has clear license to use all work product developed pursuant to the third-party agreement, including, without limitation, all deliverables.

Applicants should seek assignment of all right, title and interest in and to any work product, inventions, copyrightable works or trademarks developed in connection with the application and delegation, including the right to sue for past, present and future infringement. For work product over which the consultant or RSP retains ownership, consideration needs to be given to whether the applicant should seek a license that extends beyond termination of the original agreement. Along the same lines, applicants should pay careful attention to the indemnification and liability provisions contained in third-party agreements. Third-party agreements that limit liability to the amount paid under the contract or a certain dollar amount may not adequately cover the costs that relate to the indemnification provision of the registry agreement. Accordingly, applicants should weigh their risk tolerance and consider negotiating or amending liability limitations contained in these agreements. Finally, as previously mentioned, applicants should analyze the assignment provisions contained in third-party service agreements and seek terms that allow the applicant or the RSP to transfer or assign its rights and obligations.

CONCLUSION

For many companies, the ability to establish their own TLD registries will be a valuable part of their online business plans. However, participating in the application process and establishing a new registry requires services and expertise well beyond the present experience or abilities of most companies. Agreeing to ICANN's terms and retaining third-party consultants, RSPs and content providers requires careful consideration. One of the best ways to avoid potential pitfalls is to analyze how the registry agreement and third-party service agreements will affect a particular business and its registry operation. Applicants can strengthen their position and future success through carefully reviewed and crafted registry and third-party agreements. The foregoing touches on only a few of the contract issues raised by these agreements. Before committing to the gTLD application process or retaining third-party consultant or RSP services, companies should carefully review their expectations and the terms of the operating and service provider agreements with counsel experienced in Internet, online, licensing and service agreements. The new Internet domain space offers great promise, but negotiating it successfully and profitably requires exceptional care and consideration.

NOTES

¹ Although 1,173 "gTLD" applications were filed for truly generic terms such as "book," "insurance," "shop" and the like, and 65 are for geographic terms such as "Africa" and "Paris," 696 applications are for registered trademarks such as Mattel, Google and Gallo. These latter terms are

not “generic” except in the sense they will be top-level domains such as .com or .edu. We have therefore adopted the use of TLD rather than gTLD to refer to the new TLD names in general.

² See “gTLD Applicant Guidebook,” Module 6, Section 14.

³ Specific sections of the application that will become part of the registry agreement include the following: the applicant’s statement of the mission and purpose of the registry, measures the applicant will take to protect against geographic name registration, a description of registry services to be provided and operation and technical capabilities of the applicant or its RSPs, a detailed description of the proposed registry lifecycle, proposed policies and procedures to minimize abusive registrations and other activities, rights-protection mechanisms, registry security policy, data backup and escrow policies, the applicant’s financial statements and a registry financial plan.

⁴ Current U.S. trademark law and U.S. Patent and Trademark Office practice is that gTLDs such as .com and .net are generally considered unprotectable generic terms. “Trademark Manual of Examining Procedure,” or TMEP Section 1215.01. However, both “brand” and “generic” new gTLDs may be entitled to trademark protection if they are used as trademarks to indicate a particular source or service, but not if they are not used solely as Internet domains. See TMEP Section 1209.03(m).

⁵ A full discussion of this potential problem is beyond the scope of the present article, but it may be of crucial import to trademark owners.



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