

SALLEN V. CORINTHIANS LICENCIAMENTOS LTDA
273 F.3d 14 (1st Cir. 2001)

Before LYNCH, Circuit Judge, STAHL, Senior Circuit Judge, and LIPEZ, Circuit Judge.

LYNCH, Circuit Judge.

This case raises important issues about the relationship between the Anticybersquatting Consumer Protection Act (“ACPA”) and the World Intellectual Property Organization (“WIPO”) dispute resolution procedures under the Uniform Domain Name Dispute Resolution Policy (“UDRP”). This is a dispute between Jay D. Sallen, a resident of Brookline, Massachusetts, and Corinthians Licenciamentos LTDA (“CL”), a Brazilian corporation, over Sallen’s registration and use of the domain name *corinthians.com*. We are asked to determine whether Sallen, a domain name registrant who has lost the use of a domain name in a WIPO dispute resolution proceeding that declared him a cybersquatter under the UDRP, may bring an action in federal court seeking (1) a declaration that he is not in violation of the ACPA; (2) a declaration that he is not required to transfer the domain name to CL; and (3) such relief as necessary to effectuate these ends. The district court held that federal courts lack jurisdiction over such claims. For the reasons that follow, we reverse the district court and hold that there is federal jurisdiction over such claims.

I.

This is a case in the new territory of cybersquatting (also known as “cyberpiracy” or “domain name hijacking”), an Internet phenomenon whereby individuals register Internet domain names in violation of the rights of trademark owners. Alternatively, the case may be viewed as possibly one of “reverse domain name hijacking,” whereby trademark owners abusively assert their trademark rights to strip domain names from rightful owners. Cybersquatters often register domain names incorporating the trademarks of others, with the intent of selling the domain names back to the trademark owners at a profit. Some trademark owners, however, may find accusations of cybersquatting a convenient way to bypass legitimate disputes over trademark rights.

CL asserts that it has rights in Brazil to the name “Corinthiao,” the Portuguese equivalent of “Corinthians,” which is the name of a soccer team popular in Brazil. In the district court, and before this court, CL argued that a WIPO panel properly found that Sallen was a cybersquatter under the UDRP. The UDRP applies to Sallen because its terms are incorporated into his domain name registration agreement--a private contract. CL says that federal courts do not have jurisdiction to revisit the issue of whether Sallen is a cybersquatter as determined under that contract. Further, CL says, federal courts lack jurisdiction over Sallen’s suit under the ACPA because CL has disclaimed any intent to sue Sallen under the ACPA. If Sallen cannot reasonably fear a lawsuit under the ACPA, so the argument goes, then there is no Article III case or controversy. CL insists that its victory under the UDRP is unrelated to, and unaffected by, any cause of action under the ACPA. Even if Sallen had an affirmative right under the ACPA to use *corinthians.com*, it says, he has contractually waived that right by agreeing to the UDRP’s different legal standard in his domain name registration agreement.

Sallen unsuccessfully defended his registration and use of corinthians.com in a WIPO dispute resolution proceeding initiated by CL. WIPO Arbitration and Mediation Center, Administrative Panel Decision, Corinthians Licenciamentos LTDA v. Sallen, No. D2000-0461 (July 17, 2000) (Bianchi, Sole Panelist), at <http://arbitrator.wipo.int/domains/decisions/html/2000/d2000-0461.html>. Sallen then filed a complaint in federal court against CL seeking a declaration that his registration and use of corinthians.com is not unlawful under the ACPA. He relied on both [Lanham Act § 32(2)(D)(v),] 15 U.S.C. § 1114(2)(D)(v) and the declaratory judgment statute, 28 U.S.C. § 2201. [Lanham Act § 32(2)(D)(v),] Section 1114(2)(D)(v) states:

A domain name registrant whose domain name has been suspended, disabled, or transferred under a policy described under clause (ii)(II) may, upon notice to the mark owner, file a civil action to establish that the registration or use of the domain name by such registrant is not unlawful under this chapter. The court may grant injunctive relief to the domain name registrant, including the reactivation of the domain name or transfer of the domain name to the domain name registrant.

[Lanham Act § 32(2)(D)(v),] 15 U.S.C. § 1114(2)(D)(v).

Sallen asserts that (1) this provision of the ACPA creates an explicit cause of action for a declaration that a registrant who has lost a domain name under the UDRP has lawfully registered and used that domain name; (2) this declaration overrides the WIPO panel's decision to the contrary; and (3) federal courts may order the domain name reactivated or transferred back to the aggrieved registrant. Sallen's position is that, despite the terms of his domain name registration agreement, and despite the WIPO panel's interpretation of those terms, he is entitled to retain registration and use of corinthians.com if his registration and use of the domain name is consistent with the ACPA.

This case raises an issue of first impression, requiring us to determine whether a domain name registrant, who has lost in a WIPO-adjudicated UDRP proceeding, may bring an action in federal court under [Lanham Act § 32(2)(D)(v)] seeking to override the result of the earlier WIPO proceeding by having his status as a nonviolator of the ACPA declared and by getting an injunction forcing a transfer of the disputed domain name back to him. The answer to this question turns on the relationship between the ACPA, in particular [Lanham Act § 32(2)(D)(v)], and decisions of administrative dispute resolution panels contractually empowered to adjudicate domain name disputes under the UDRP.

The district court dismissed Sallen's complaint on the grounds that no actual controversy existed between the parties since CL never claimed that Sallen violated the ACPA. We hold that, although CL represented that it had "no intent to sue [Sallen] under the ACPA for his past activities in connection with corinthians.com," an actual controversy did exist between the parties concerning rights to corinthians.com, and that the district court incorrectly dismissed Sallen's complaint. [Lanham Act § 32(2)(D)(v)] grants domain name registrants who have lost domain names under administrative panel decisions applying the UDRP an affirmative cause of action in federal court for a declaration of nonviolation of the ACPA and for the return of the wrongfully transferred domain names. Accordingly, we reverse and remand to the district court.

II.

A. Internet Background

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Disputes over domain names have become increasingly common with the expanding commercial use of the Internet. Because of their easily remembered form, domain names have become business identifiers important to offering goods and services on the Internet. The importance of having one's recognized trademark as a domain name stems from the fact that many Internet users, when looking for a company's Web site, may simply infer the Web site's address by extrapolating from the company's recognized trademark. For instance, a person looking for the Coca-Cola Company's Web site might enter "www.cocacola.com" into her Web browser, assuming (correctly) that it would turn up the Coca-Cola Company's official Web site.

As companies seek to incorporate their nationally registered trademarks into domain names that they can use to promote goods and services, they often find that the names, or names confusingly similar, have already been registered by individuals unconnected with the company. This occurrence is unsurprising because the initial domain name registration system is a non-governmentally operated, first-come, first-served system that does not inquire into potential conflicts with trademarks.

In the past, confusingly similar trademarks could exist simultaneously in different geographical areas or in different business sectors without creating consumer confusion. The internet has drastically changed this situation because a domain name is both unique and global in scope.

B. Facts

In August 1998, Sallen registered corinthians.com with Network Solutions, Inc. ("NSI").

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When a domain name registrant registers a domain name with a registrar, such as NSI, the parties enter into a registration agreement. Sallen's registration agreement, like all registration agreements for second level domain names within the .com, .net, .org, .biz, .info, and .name top level domains, incorporates the terms of the UDRP. This is because registrars have agreed, or have been required by ICANN, to incorporate the UDRP into registration agreements for these second level domain names, and registrants must accept the UDRP's terms in order to register a domain name.

By its terms, the UDRP governs disputes between the registrant and third parties over the registration and use of a domain name. UDRP ¶ 1. In particular, the UDRP only governs allegations by third party trademark holders asserting that a registrant has engaged in "cybersquatting." Under the UDRP, a registrant is "required to submit to a mandatory administrative proceeding in the event that a third party * * * asserts," to an ICANN-approved administrative dispute resolution service provider, that (1) the registrant's domain name is "identical or confusingly similar to a trademark or service mark in which the complainant has rights"; (2) the registrant has "no rights or legitimate interests" in the domain name; and (3) the

registrant's domain name "has been registered and is being used in bad faith." *Id.* ¶ 4. A complainant under the UDRP must establish all three elements to prevail.

UDRP proceedings are conducted by administrative dispute resolution service providers approved by ICANN. ICANN has accredited four service providers and WIPO is one of them. Between December 1999, when the UDRP first came into force, and July 2001, over four thousand cases were brought under the UDRP and roughly two-thirds of these cases were filed with WIPO.

Approximately one year after registering *corinthians.com*, Sallen sent an email to representatives of Corinthians stating that he had "been contacted recently, by several people in brazil [sic], regarding the purchase of [*corinthians.com*]" and that it occurred to him that "it is in [Corinthians's] interest to own it." CL responded by sending Sallen a cease and desist letter concerning *corinthians.com*. Sallen did not respond. At some point, Sallen posted Biblical material on the *corinthians.com* Web site. Sallen asserts that he posted Biblical material before any dispute over the domain name arose; CL disagrees and asserts that no content was present on the site at the time it sent the cease and desist letter to Sallen.

On May 18, 2000, CL filed a complaint with WIPO, asserting, under UDRP ¶ 4(a), that (1) Sallen's domain name was confusingly similar to its trademark; (2) Sallen had no rights in the domain name; and (3) Sallen had registered and used the name in bad faith. Sallen participated in the WIPO dispute resolution process by filing both a response and a supplemental response to CL's complaint. The dispute was ultimately resolved in CL's favor approximately two months later, on July 17, 2000. *Corinthians Licenciamentos LTDA v. Sallen*, No. D2000-0461, at <http://arbitrator.wipo.int/domains/decisions/html/2000/d2000-0461.html>.

CL is the exclusive licensee of Corinthians's intellectual property, which includes the "Corinthiao" mark registered with the Brazilian Institute of Industrial Property, but not with the United States Patent and Trademark Office. It is undisputed that Corinthians is a popular and well known soccer team in Brazil.

The WIPO panel found that Sallen's *corinthians.com* domain name was "identical or confusingly similar to" CL's "Corinthiao" mark, mainly on the grounds that "when comparing Corinthians" with Corinthiao "the domain name at issue is phonetically nearly identical to the Complainant's trademark." Then, finding that Sallen did not use or prepare to use the domain name "in connection with a bona fide offering of goods or services" before he had received notice of the dispute, UDRP ¶ 4(c)(i), and that he was not "making a legitimate noncommercial or fair use of the domain name, without intent for commercial gain [or] to misleadingly divert consumers," *id.* ¶ 4(c)(iii), the panel concluded that Sallen had "no rights or legitimate interests" in *corinthians.com*, *id.* ¶ 4(a)(ii). Finally, the panel concluded that Sallen registered and used *corinthians.com* in bad faith, *id.* ¶ 4(a)(iii), because he registered the domain name primarily for the purpose of selling it to CL, *id.* ¶ 4(b)(i). The panel ordered that the registration of *corinthians.com* be transferred to CL.

The domain name was not immediately transferred, however. Under the UDRP, a disappointed respondent has ten business days from the day of the panel's decision to file a court action, in which case the domain name registrar is contractually bound to "not implement the

Administrative Panel’s decision” and to “take no further action” until the registrar receives evidence that the dispute has been resolved or that the court has dismissed the lawsuit or ruled against the respondent on the merits. *Id.* ¶ 4(k).

On August 2, 2000, Sallen filed a complaint in federal court, staying the WIPO panel’s transfer order. Sallen’s complaint sought declaratory relief to establish that his registration and use of corinthians.com was not unlawful under the ACPA and to establish that he was not required to transfer corinthians.com to CL. He alleged that under the ACPA, he did not have a bad faith intent to profit from CL’s trademark, corinthians.com is not confusingly similar to Corinthiao, and he had a reasonable belief that his use of corinthians.com was fair or otherwise lawful.

CL moved to dismiss Sallen’s complaint, arguing that the district court lacked subject matter jurisdiction, because Sallen requested a declaration of his rights under the ACPA and CL had no intent to sue Sallen under the ACPA. The district court agreed * * * * .

III.

* * * * The basic framework for analyzing federal subject matter jurisdiction has long been settled. Jurisdiction depends upon the facts as they existed when the complaint was brought. For a federal court to have subject matter jurisdiction over a dispute, a statute must confer jurisdiction on the federal court and the exercise of jurisdiction must be consistent with the Constitution.

The federal question jurisdiction statute, 28 U.S.C. § 1331, states that “[t]he district courts shall have original jurisdiction of all civil actions arising under the Constitution, laws, or treaties of the United States.” In order to determine whether a case arises under federal law, we look at the plaintiff’s well-pleaded complaint. Sallen’s complaint alleges a cause of action under federal law, namely [Lanham Act § 32(2)(D)(v),] 15 U.S.C. § 1114(2)(D)(v), and so his cause of action arises under federal law for purposes of § 1331.

CL asserts that Sallen’s action does not arise under [Lanham Act § 32(2)(D)(v)] because he has not provided notice to a “mark owner” as required by the statute and because there is no dispute under the ACPA. CL’s argument is without merit. Sallen has clearly stated in his complaint that [Lanham Act § 32(2)(D)(v)] is the basis for his requested relief. Whether or not Sallen can win his claim under [Lanham Act § 32(2)(D)(v)] is a separate question which does not bear on jurisdiction unless Sallen’s claim is “wholly insubstantial and frivolous.” *Bell v. Hood*, 327 U.S. 678, 682-83 (1946).

Sallen’s claim is not wholly insubstantial and frivolous. Whether CL is a “mark owner” within the meaning of the statute is in dispute, but it is far from frivolous to argue that it is. Sallen claims that he gave notice to CL as required by [Lanham Act § 32(2)(D)(v)] and CL does not dispute this. Instead, CL says that it has not registered “Corinthians” as a U.S. trademark and so Sallen did not provide notice to a “mark owner.” CL’s interpretation of “mark owner” is unpersuasive. The ACPA says “mark,” not “registered mark,” which § 1127 defines separately. Section 1127 defines “mark” to include “any trademark” and that same section defines “trademark” as “any word, name, symbol, or device * * * (1) used by a person, or (2) which a

person has a bona fide intention to use in commerce and applies to register on the principal register * * * , to identify and distinguish his or her goods * * * and to indicate the source of the goods.” 15 U.S.C. § 1127. “Mark owner” must be understood against the backdrop of U.S. trademark law, which provides some protections to unregistered marks.

In addition, interpreting “mark owner” to apply only to registered U.S. marks would create a perverse result at odds with our view of the ACPA as granting relief to registrants who have wrongly lost domain names in UDRP proceedings. It would be very odd if Congress, which was well aware of the international nature of trademark disputes, protected Americans against reverse domain name hijacking only when a registered American mark owner was doing the hijacking. Such a policy would permit American citizens, whose domain names are subject to WIPO transfer orders, to get relief against abusive mark owners that have registered in the U.S., but not against abusive mark owners that have not registered (including both foreign mark owners and domestic mark owners that have not registered). It would leave registrants unprotected against reverse domain name hijackers so long as the hijackers are not registered with the PTO.

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According to CL, regardless of any UDRP dispute between it and Sallen, there is no dispute under the ACPA. But this assumes that a declaration of compliance with the ACPA is only relevant to defend against a potential lawsuit under that very statute and that a declaration of Sallen’s compliance with the ACPA could not redress his UDRP defeat. This assumption is incorrect. [Lanham Act § 32(2)(D)(v)] provides a registrant who has lost a domain name under the UDRP with a cause of action for an injunction returning the domain name if the registrant can show that she is in compliance with the ACPA. A declaration of Sallen’s compliance with the ACPA would redress his loss of corinthians.com in the UDRP proceeding.

First, the UDRP clearly contemplates judicial intervention and, in fact, that the judicial outcome will override the UDRP one. See UDRP ¶ 4(k) (stating that UDRP proceedings shall not prevent either party from “submitting the dispute to a court of competent jurisdiction for independent resolution”).

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The ability of the parties to a UDRP proceeding to seek independent resolution of the issues was part of the compromise codified in the UDRP. See UDRP ¶ 4(k). Because the UDRP explicitly contemplates independent review in national courts, the cause of action Sallen seeks to assert is consistent with the UDRP’s structure.

Since the UDRP cannot confer federal jurisdiction where none exists, the remaining question is whether Congress has, in fact, provided a cause of action to override UDRP decisions. Under § [Lanham Act § 32(2)(D)(v)], Congress has provided registrants such as Sallen with an affirmative cause of action to recover domain names lost in UDRP proceedings. The statute clearly states that a registrant whose domain name has been “suspended, disabled, or transferred” may sue for a declaration that the registrant is not in violation of the Act and for an injunction returning the domain name. [Lanham Act § 32(2)(D)(v)], 15 U.S.C. § 1114(2)(D)(v).

Sallen is a registrant. His domain name has been transferred. Now he simply seeks the declaration and injunction that the statutory provision makes available. Congress's authorization of the federal courts to "grant injunctive relief to the domain name registrant, including the reactivation of the domain name or transfer of the domain name to the domain name registrant," provides Sallen with an explicit cause of action to redress his loss of corinthians.com under the UDRP.

That a declaration of compliance with the ACPA trumps the panel's finding of noncompliance with the UDRP is further supported by the overlap between the two provisions. In the WIPO proceeding, the panel found that corinthians.com was confusingly similar to CL's trademark, that Sallen had no rights or legitimate interests in corinthians.com, and that the domain name was registered and being used in bad faith. Sallen argues that, under U.S. law, none of these claims is legally supported.

Although CL recognizes overlap between the UDRP and the ACPA, it argues that WIPO proceedings determine whether a registrant's use of a domain name is in accordance with the UDRP, not whether there has been a violation of a U.S. law. But a WIPO panel's application of the UDRP requires it to resolve issues of U.S. law in some cases and, in these cases, a federal court's declaration of a UDRP participant's rights directly impacts the decision issued by the WIPO panel. For instance, the panel found that Sallen had "no rights to or legitimate interests in the domain name at issue." The panel concluded that publishing quotes from the Bible before CL filed its complaint but after Sallen had notice that there was a dispute brewing was insufficient to constitute a right or legitimate interest. A finding by a federal court that Sallen was within his rights when he used corinthians.com to post Biblical quotes would directly undercut the panel's conclusion.

Similarly, the panel, taking into consideration Sallen's "lack of rights or interests in the domain name," found that Sallen had registered and used corinthians.com in bad faith. Again, Sallen asserts that he had no bad faith intent because he believed, and had reasonable grounds to believe, that his use of corinthians.com was fair or otherwise lawful under [Lanham Act § 32(d)(1)(B)(ii)]15 U.S.C. § 1125(d)(1)(B)(ii). A finding by a federal court that Sallen was within his rights would necessarily undermine the panel's conclusion that he used the domain name in bad faith.

More generally, a court's [Lanham Act § 32(2)(D)(v)] decision that a party is not a cybersquatter under the ACPA, and that a party has a right to use a domain name, necessarily negates a WIPO decision that a party is a cybersquatter under the UDRP. The conclusion that a federal court's interpretation of the ACPA supplants a WIPO panel's interpretation of the UDRP is further reinforced by the fact that WIPO does not create new law--it applies existing law. In fact, the application of the "lowest common denominator of internationally agreed and accepted principles concerning the abuse of trademarks," rather than the creation of new law, is part of the UDRP's fundamental structure. [Citation omitted].

CL claims that it does not contest any of Sallen's ACPA cybersquatting arguments, but instead defends WIPO's decision that Sallen violated the UDRP's contractual prohibition on cybersquatting. As CL understands the law, Sallen has waived his rights under the ACPA by agreeing to different standards under the UDRP. But [Lanham Act § 32(2)(D)(v)] provides

disappointed administrative dispute resolution participants with a chance to have any unfavorable UDRP decision reviewed in a U.S. court. We think this provision means that a federal court's decision that Sallen was in compliance with the ACPA necessarily contradicts the WIPO panel's finding that Sallen lacked a legitimate interest in corinthians.com. Congress has defined in the ACPA what it means to lack a legitimate interest in a domain name under U.S. law. For that reason, should a federal court declare that Sallen is in compliance with the ACPA, that declaration would undercut the rationale of the WIPO panel decision.

We would not lightly assume that Congress enacted the ACPA, but intended all domain name registrants to be governed by a different standard, administered by international dispute resolution panels, with no eventual recourse to whatever affirmative protections the U.S. law might provide. A contextual understanding of [Lanham Act § 32(2)(D)(v)] supports reading the provision to include complaints such as Sallen's. Section [32](2) addresses limitations on liability of potential defendants in trademark infringement actions. Section [32](2)(A) creates the "innocent infringer" exception and § [32](2)(B) creates a limitation on liability of advertisers. Section [32](2)(D), added to the Lanham Act by the ACPA, creates, among other things, an exception to liability for domain name registrars that transfer or revoke domain names from registrants pursuant to a policy by the registrar prohibiting registration of domain names that are "identical to, confusingly similar to, or dilutive of another's mark." § [32](2)(D)(ii)(II). Section [32](2)(D)(ii)(I) also creates an exception to liability for domain name registrars that transfer or revoke domain names from registrants pursuant to a court order. The purpose of subsections (D)(i)-(ii) is "to encourage domain name registrars * * * to work with trademark owners to prevent cybersquatting through a limited exemption from liability for domain name registrars * * * that suspend, cancel, or transfer domain names pursuant to a court order or in the implementation of a reasonable policy prohibiting cybersquatting." H.R. Conf. Rep. No. 106-464, at 116 (1999); see also H.R. Rep. No. 106-412, at 15. Subsections (D)(i)-(ii) are, on this reading, quite favorable to trademark holders because they encourage domain name registrars to cooperate with trademark holders' attempts to assert their trademark rights.

Subsection (D)(iv) then provides that if a registrar suspends or transfers a registrant's domain name based on a knowing misrepresentation by another person that "a domain name is identical to, confusingly similar to, or dilutive of a mark," then the person making the misrepresentation is liable to the registrant. This provision states that "[t]he court may also grant injunctive relief to the domain name registrant, including the reactivation of the domain name or transfer of the domain name to the domain name registrant." This subsection, in contrast to subsections (D)(i)-(ii), "protects the rights of domain name registrants against overreaching trademark owners." H.R. Conf. Rep. No. 106-464, at 117. Although subsections (D)(i)-(ii) encourage enforcement of policies against cybersquatting by facilitating cooperation between registrars and trademark owners, subsection (D)(iv) provides a counterweight to ensure that this cooperation does not result in reverse domain name hijacking, whereby trademark holders abuse anticybersquatting provisions to take domain names from rightful, noninfringing registrants.

Subsection (D)(v), similar to subsection (D)(iv), also acts as a counterweight to offset potential overreaching by trademark holders. Subsection (D)(v) was viewed as an "additional protection[]" to subsection (D)(iv), designed to aid registrants who lose their domain names to overzealous trademark holders. *Id.* The similarity of subsections (D)(iv) and (v) is reinforced by their parallel structure. They use the exact same language, stating that "[t]he court may grant

injunctive relief to the domain name registrant, including the reactivation of the domain name or transfer of the domain name to the domain name registrant.” Viewed in context, and with the structure of the statute in mind, subsection (D)(v) is best understood to provide domain name holders with a cause of action to rectify reverse domain name hijacking by trademark holders using the UDRP process to require registrants to transfer domain names originally held by rightful users under U.S. law.

The legislative history also supports the proposition that § [32](2)(D)(v) was intended to provide registrants in Sallen’s position with a cause of action. Senator Hatch, discussing § [32](2)(D)(v), which he offered as an amendment to the bill that was enacted as the ACPA, explained that

a domain name registrant whose name is suspended in an extra-judicial dispute resolution procedure can seek a declaratory judgment that his use of the name was, in fact, lawful under the Trademark Act. This clarification is consistent with other provisions of the reported bill that seek to protect domain name registrants against overreaching trademark owners.

145 Cong. Rec. S10,516 (1999). This provision, along with others added by the Hatch-Leahy amendments, was understood by Senator Hatch to “balance the rights of trademark owners with the interests of Internet users” and to “preserv[e] the rights of Internet users to engage in protected expression online and to make lawful uses of others’ trademarks in cyberspace.” *Id.* at S10,515. Subsection (D)(v) is best understood as creating a protection for registrants to counteract abusive behavior by trademark holders. And this abusive behavior is best understood to include administrative dispute resolution proceedings under the UDRP where those proceedings are intended, as Sallen has asserted, to strip a domain name from a registrant who has lawfully registered and used that domain name.

IV.

For these reasons, the district court’s decision is reversed and the case is remanded.