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## Taxing Trademarks and Domain Names

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## *Taxing Trademarks and Domain Names*

Xuan-Thao Nguyen and Jeffrey A. Maine\*

In 2006, the top global trademarks or brands include household names across geographical borders. Coca-Cola leads the pack with a trademark valuation of \$67 billion. Other leaders include: Microsoft—\$60 billion; IBM—\$56 billion; GE—\$49 billion; Intel—\$32 billion; Nokia—\$30 billion; Toyota—\$28 billion; and McDonald's—\$27.5 billion. The Google brand leads global brands in the online business with a valuation of \$12.4 billion, an increase of 46 percent from 2005. These numbers reflect how valuable trademarks as corporate assets are. Acquisitions of trademarks, either separately or together with ongoing business concerns, are governed by specific tax rules providing needed certainty to both the sellers and the purchasers.

With the arrival of global electronic commerce transactions on the Internet, new forms of intellectual property rights, such as Internet domain names, have emerged. Today, Internet domain names are some companies' most valuable assets. Yet law professors, attorneys, and judges struggle with the legal nature of domain names, which is far from settled. Questions drawing recent attention include: How should domain names be valued?<sup>1</sup> Can domain names be used as collateral in secured transactions, and how does one perfect a security interest in domain names?<sup>2</sup> What will happen to domain names in bankruptcy?<sup>3</sup>

Another puzzling question, which has received little attention, is how should domain names be treated for federal tax purposes? Although there are tax rules governing traditional intellectual property rights, such as trademarks and trade names, there are no rules dealing specifically with domain names. This chapter addresses these parallel questions: Are domain names merely variations of traditional forms of intellectual property and other intangible rights to which the

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existing tax regime can be applied? Or are domain names new intangible rights that need their own set of tax laws?

Current, albeit arbitrary, rules exist governing the tax treatment of traditional forms of intellectual property.<sup>4</sup> Under present law, for example, the costs of building goodwill in a trademark or trade name are immediately deductible.<sup>5</sup> In contrast, the costs of purchasing a company's trademark, trade name, or goodwill are not immediately deductible but must be recovered over an arbitrary fifteen-year period.<sup>6</sup> While tax principles exist for these traditional intellectual property and intangible rights, specific tax rules do not exist for new intellectual property rights, such as domain names, that are emerging with the arrival of global electronic commerce transactions on the Internet.

This chapter explores the proper tax treatment of domain name acquisition costs.<sup>7</sup> It begins by explaining the rise of valuable domain names as a new intellectual property right having uncertain tax consequences. The next section analyzes the historical and current tax rules governing trademarks, trade names, and goodwill. The chapter then examines the legal nature of domain names to determine whether they can readily fit within the current tax regime for intangible rights. The section explores, specifically, whether domain names should be treated for tax purposes as trademarks or goodwill. The chapter concludes that domain names that function as source identifiers should be treated under the current tax regime applicable to trademarks, so that costs of acquiring such domain names should be recovered ratably over fifteen years. Generic domain names, in contrast, possess "inherent" goodwill not dealt with by the existing intangible tax regime. The disparate treatment between domain names functioning as source identifiers and generic domain names illustrates the inadequacies of tax law in dealing with the expansion of intellectual property rights for existing intangible assets as well as the emergence of new intellectual property rights. This section criticizes the *ad hoc* response by administrative tax agencies in dealing with cyber-assets, and calls for Congress to revisit the current tax regime for intangibles. With the increase of global, electronic commerce transactions on the Internet, the nature of cyberspace will undoubtedly require new tax rules.

## **RISE OF A NEW INTELLECTUAL PROPERTY RIGHT HAVING UNCERTAIN TAX CONSEQUENCES**

### **Rise of Domain Names as Valuable Cyber-assets**

The explosive growth of the Internet in recent years has provided a new medium for electronic commerce and communication across national borders.<sup>8</sup> This network connects computers around the world, facilitates changes in technology,<sup>9</sup> and allows different forms of commerce such as B2B,<sup>10</sup> B2C,<sup>11</sup> and C2C<sup>12</sup> to emerge. Despite the recent economic downturn and the "dot.com"

bubble bursting, the Internet continues to be a critical component of daily life and commerce.<sup>13</sup> As of June 2006, the three leading languages “spoken” on the Internet are English, Chinese, and Japanese,<sup>14</sup> and 1.04 billion people connected to the global network.<sup>15</sup> Businesses and consumers use the Internet to conduct businesses, communicate, research, and exchange information.

The arrival and explosive growth of a networking medium has facilitated the genesis of a new form of cyber-asset, the domain name. A company must have a Web site and domain name to provide information, communication, goods, or services online.<sup>16</sup> Many Internet companies, unlike traditional companies, own mostly intangible assets such as business know-how, Web pages, copyrights, databases, trademarks, and domain names.<sup>17</sup> Domain names can be the name of the company itself or the name of a brand, product, or service.<sup>18</sup> The more recognizable the domain name, the more value it has in the online market. For example, <business.com> was sold for \$7.5 million,<sup>19</sup> <loans.com> for \$3 million, <wine.com> for \$3 million,<sup>20</sup> <autos.com> for \$2.2 million,<sup>21</sup> and <men.com> for \$1.3 million.<sup>22</sup> Offers reached eight million dollars for <cool.com>, and ten million dollars for <america.com>.<sup>23</sup>

Some Internet companies have been willing to spend a large amount of money for a memorable, easy-to-type domain name, because the name helps increase traffic to their Web sites.<sup>24</sup> Internet users often search for a company, product, or service by typing a domain name address in a location bar or entering key words in a search engine. A memorable and easy-to-type domain name will attract more visitors than a long, complicated, or cumbersome domain name. For example, <loans.com> received more than 3,000 visitors a day even though there were no active Web pages connected to the domain name.<sup>25</sup> Bank of America understood how users search for information, products, and services on the Internet, so the company did not hesitate to purchase a domain name for the high-ticket price of three million dollars.<sup>26</sup>

To establish a presence on the Internet, a company must distinguish itself among the vast network of Web sites.<sup>27</sup> One way to do this is to possess a memorable domain name that appeals to customers much like a brand name.<sup>28</sup> This realization has led to speculation in domain name values in recent years. A notable case showing the effect speculation can have on a domain name’s value is <sex.com>, which was reportedly worth as much as \$250 million.<sup>29</sup>

One of the reasons for the spectacular rise in domain name values is the scarcity problem.<sup>30</sup> Another reason is the structure of the domain name assigning system. As described in an earlier chapter, top-Level-Domain (“TLD”) names (<.com>, <.net>, and <.org>) are assigned on a first-come, first-served basis.<sup>31</sup> Domain names are designed to make the Internet friendly to use, by replacing hard-to-remember Internet Protocol numbers with mnemonic names.<sup>32</sup> Each computer or host on the Internet has an Internet Protocol address composed of a long string of numbers, which is quite difficult for users to remember.<sup>33</sup> The domain name system employs alphanumeric names for ease of use.<sup>34</sup> As a result, almost all of the words in the English language have already been registered as

domain names.<sup>35</sup> Individuals or companies that wish to obtain a domain name often discover that the name is no longer available for registration.

To ease the domain name scarcity problem, ICANN,<sup>36</sup> a nonprofit company that controls the domain name assigning system, has introduced more TLDs for registration.<sup>37</sup> The introduction of new TLDs, however, neither eliminates the domain name scarcity problem nor reduces the value of domain names that have been registered in the <.com> TLD.<sup>38</sup> Domain names in the <.com> TLD are often viewed as most desirable<sup>39</sup> because “com” represents “commercial,” and therefore Internet companies believe that having a <.com> name means they are serious about e-commerce.<sup>40</sup>

### Uncertain Tax Treatment of Domain Names

Despite the great value of domain names to many online businesses, rules do not exist that specifically govern their proper tax treatment. Surely, the costs of purchasing an existing domain name would not be immediately deductible, but rather would have to be capitalized.<sup>41</sup> Under Treasury regulations issued in 2004, a taxpayer is required to “capitalize amounts paid to another party to acquire [an] intangible from that party in a purchase or similar transaction.”<sup>42</sup> This rule “merely reflects [well-established] law requiring capitalization of the purchase price . . . paid to acquire property from another.”<sup>43</sup> The regulations list some examples of intangible assets that must be capitalized if the intangible is acquired from another person in a purchase transaction. Although domain names are not listed, acquired domain names would certainly fall within the capitalization rule.

The real issue is whether the capitalized costs of purchasing a domain name may be eligible for deductions over time through an appropriate amortization allowance under an Internal Revenue Code (“Code”) provision or some administrative pronouncement. Unfortunately, none of the current amortization provisions in the Code specifically address domain names.

## TAX TREATMENT OF TRADEMARKS, TRADE NAMES, AND GOODWILL

### Pre-1993 Tax Law

Prior to 1993, the tax law governing intangible assets favored certain traditional intellectual property rights (patents and copyrights) over other traditional intellectual property forms (trade secrets, trademarks, and trade names). Treasury regulations provided that the costs of acquiring intangible assets having a useful life substantially beyond the taxable year were not currently deductible, but rather capitalized.<sup>44</sup> If, however, an acquired intangible asset could be shown to have a limited useful life, then the capitalized acquisition costs were recoverable (deductible) over that asset’s lifetime.<sup>45</sup> As a corollary, the capitalized cost of

an intangible asset that had no definite useful life was not recoverable through amortization, but could only be recovered upon abandonment or disposition of the asset.<sup>46</sup>

Under this legal framework, patents and copyrights were eligible for amortization due to the fact that they have limited useful lives (statutory legal lives of twenty years in the case of patents and 70, 95, or 120 years in the case of certain copyrights).<sup>47</sup> Trademarks and trade names were treated differently. There is no specific term of protection for trademarks and trade names; the protection is available as long as the trademark or trade name is used in commerce and has not been abandoned.<sup>48</sup> Accordingly, under pre-1993 law, all trademark and trade name acquisitions costs had to be capitalized and could only be recovered upon abandonment or disposition of those assets.<sup>49</sup>

The same was true for goodwill. Under pre-1993 tax law, the capitalized costs of acquiring goodwill were not eligible for amortization allowances, as goodwill does not have an ascertainable limited life.<sup>50</sup> Lest there be any doubt, the Treasury regulations have made clear since 1927 that “[n]o deduction for depreciation is allowable with respect to goodwill.”<sup>51</sup> The capitalized costs of obtaining goodwill could only be recovered upon abandonment or disposition of the goodwill.

### Post-1993 Tax Law

The Revenue Reconciliation Act of 1993 dramatically changed the tax treatment of traditional forms of intellectual property and other intangible rights, including goodwill, by enacting section 197 of the Code.<sup>52</sup> Section 197 provides a fifteen-year amortization deduction for the capitalized costs of an “amortizable section 197 intangible,” and prohibits any other depreciation or amortization deduction with respect to that property.<sup>53</sup> Section 197 defines an “amortizable section 197 intangible” as any “section 197 intangible” acquired after August 10, 1993, and held in connection with the conduct of a trade or business or an activity conducted for profit.<sup>54</sup> Section 197 provides a list of intangible assets that fall within the definition of “section 197 intangible” and that are subject to fifteen-year amortization.

Section 197 also specifically excludes certain intangible assets. If section 197 does not apply to an intangible asset (that is, the asset is not listed as a section 197 intangible or is specifically excluded from the definition), amortization continues to be governed by pre-section 197 law.<sup>55</sup> Thus, an intangible asset that is not covered by section 197 and its fifteen-year amortization will be subject to an amortization allowance only if the asset has a limited useful life, the duration of which can be ascertained with reasonable accuracy.<sup>56</sup>

Section 197 dramatically changed the tax treatment of many forms of intangible assets. Section 197 provided an arbitrary fifteen-year recovery period for many intangible assets that were already amortizable over their useful lives under pre-section 197 law. More importantly, it provided for the first time an arbitrary fifteen-year recovery period for many intangible assets that have unlimited useful

lives and, as a result, were not at all amortizable under pre-section 197 law. It also left the law as it was for several other forms of intangible assets, permitting them to be recovered over their reasonable useful lives. What was clear after the enactment of section 197 was that the capitalized costs of creating or acquiring traditional forms of intellectual property rights and many other intangibles were deductible over some recovery period (either fifteen years or the asset's useful life).

### *Trademarks and Trade Names*

Subject to important exceptions noted below, a "section 197 intangible" generally includes any patent, copyright, formula, process, design, pattern, know-how, format, package design, computer software, or interest in a film, sound recording, videotape, book, or other similar property.<sup>57</sup> A "section 197 intangible" also includes any *trademark* or *trade name*.<sup>58</sup> A trademark includes any word, name, symbol, device, or any combination thereof, adopted and used to identify goods or services and distinguish them from those provided by others.<sup>59</sup> A trade name includes any name used to identify or designate a particular trade or business or the name or title used by a person or organization engaged in a trade or business.<sup>60</sup> A trademark or trade name includes any trademark or trade name arising under statute or applicable common law and any similar right obtained by contract.<sup>61</sup> The renewal of a trademark or trade name is treated as an acquisition of the trademark or trade name.<sup>62</sup>

Although the definition of "section 197 intangible" appears broad enough to encompass nearly all forms of intellectual property, there are several important exceptions. Several exceptions in section 197 apply to intellectual property that is *not* acquired in a transaction (or series of related transactions) involving the acquisition of assets constituting a trade or business or substantial portion thereof.<sup>63</sup> For example, the term "section 197 intangible" does not include any interest (including an interest as a licensee) in a patent, patent application, or copyright that is not acquired as part of a purchase of a trade or business.<sup>64</sup> Trade secrets, know-how, trademarks, and trade names are not included within the exception for separately acquired assets. Thus, these forms of intellectual property are subject to fifteen-year amortization under section 197 regardless of whether they were acquired as part of a trade or business or separately.

### *Goodwill*

In a dramatic shift in tax policy, section 197 was also structured to govern the tax treatment of goodwill.<sup>65</sup> The term "section 197 intangible" is defined as including goodwill, which is "the value of a trade or business attributable to the expectancy of continued customer patronage."<sup>66</sup> Accordingly, under current law, a taxpayer can amortize the cost of acquiring goodwill ratably over a fifteen-year period irrespective of the fact that goodwill does not have a limited useful life.

## TREATING DOMAIN NAMES AS TRADEMARKS OR GOODWILL?

As has been illustrated, tax rules that govern traditional intellectual property and intangible rights exist. Tax rules do not exist, however, for new intangible rights that are emerging with the arrival of global electronic commerce transactions on the Internet, such as domain names. Although the legal nature of domain names is still unsettled, many tax advisors are looking to current tax principles governing familiar intangible rights for guidance. For example, many tax advisors recommend treating domain names like trademarks. But is this appropriate considering domain names have unique characteristics? This section explores whether domain names can be classified within a category of intellectual property and intangible rights covered by existing tax principles (that is, trademarks and goodwill).

### Domain Names as Trademarks

It has been suggested that domain names should be subject to the same tax rules as trademarks. As discussed previously, amounts paid or incurred to acquire a trademark must be capitalized and deducted ratably over fifteen years under section 197, regardless of whether the trademark is acquired separately or with a trade or business. For purposes of section 197, the term “trademark” “includes any word, name, symbol, or device, or any combination thereof, adopted and used to identify goods or services and distinguish them from those provided by others.”<sup>67</sup> Similarly, a trade name is defined as “any name used to identify or designate a particular trade or business or the name or title used by a person or organization engaged in a trade or business.”<sup>68</sup> Are these regulatory definitions broad enough to include all domain names? Domain names serve a technical function of locating Web sites on the Internet. This technical function is not enough for domain names to fall within section 197’s definition of “trademark” or “trade name.”<sup>69</sup> Therefore, the relevant issue becomes whether domain names serve any other function so as to fall within the scope of section 197.

It is well established that certain domain names may be registered as trademarks. The U.S. Patent and Trademark Office (PTO) has issued guidelines on the registration of domain names as trademarks.<sup>70</sup> Under the PTO policy, domain names are entitled to the protection afforded to trademarks if they are arbitrary, fanciful, suggestive, or descriptive, with acquired secondary meaning.<sup>71</sup> Domain names that are merely descriptive or generic are not entitled to registration in the Principal Register.<sup>72</sup> If a domain name contains a descriptive or generic component, its owner will be asked to disclaim that portion of the trademark.<sup>73</sup> For example, the owner of <nike\_shoes.com> must disclaim an exclusive right to use the word “shoes.” If the descriptive or generic component is part of a unitary<sup>74</sup> domain name such as <nike.shoes.com> or <nikeshoes.com>, no disclaimer is required.<sup>75</sup> Regardless of whether a domain name is registered in the <.com>, <.org>, or <.net> TLD, the significant part of the domain name registration is

the second-level domain, the portion immediately to the left of the dot.<sup>76</sup> Moreover, the PTO policy does not allow registration of domain names that “function as ‘merely an informational indication of the domain name address used to access a website.’”<sup>77</sup>

Obviously, to be considered as a potential trademark for registration, a domain name must function as a source indicator.<sup>78</sup> To qualify as a trademark, the registrant or owner of the domain name must use the domain name at its Web site to distinguish the goods or services offered there and to indicate the source of those goods or services.<sup>79</sup> More specifically, the Web site must be an active or interactive site that offers goods or services using the domain name to identify the source of the goods or services at the homepage or internal pages, capturing the attention of Internet consumers. The domain name owner must use the domain name in advertisements and sales in connection with the products or services offered at the site.<sup>80</sup> All these domain name uses are intended to convey to Internet consumers the relationship between the domain name and the source of sponsorship of the goods or services offered at the Web site. Courts have consistently held that domain names are not merely addresses, but powerful source indicators on the Internet.<sup>81</sup>

A domain name can be a word, phrase, or combination of words and numbers. Whether all domain names are protected under trademark law requires an examination of trademark jurisprudence. Under trademark law, the inquiry of whether a term is entitled to protection begins at the classification of the term within the spectrum of distinctiveness.<sup>82</sup> Within the spectrum of distinctiveness, not all words and phrases receive protection under trademark law.<sup>83</sup> Furthermore, the law does not accord an equal level of protection to all words that qualify as trademarks.<sup>84</sup> Determining whether a protected trademark is strong in the marketplace requires an assessment of the recognition value of the mark.<sup>85</sup> A conceptually strong trademark does not necessarily translate into a commercially strong trademark.<sup>86</sup>

Under trademark law, an arbitrary or fanciful trademark is accorded the highest level of protection because it is deemed to be inherently distinctive.<sup>87</sup> A common word that is used in an uncommon, unexpected way to identify a source of goods or services is an arbitrary trademark.<sup>88</sup> It has no real connection with its associated goods or services. Examples of arbitrary trademarks include APPLE for computers and CAMEL for cigarettes.<sup>89</sup> A fanciful trademark is an invented, coined, nondictionary word<sup>90</sup> that is applied in “a unique, unfamiliar usage for the express purpose of serving as a trademark to be attached to a particular product, but bearing no identifying trace to the product or source.”<sup>91</sup> Some fanciful trademarks include KODAK, CLOROX, POLAROID, and EXXON.<sup>92</sup>

Descending the trademark distinctiveness spectrum, we see suggestive trademarks, which are accorded less protection than arbitrary or fanciful trademarks.<sup>93</sup> Suggestive trademarks are words that require consumers to use their imagination to connect the trademark with its associated products or services.<sup>94</sup> CITIBANK (which connotes an urban or modern bank), GOLIATH (which refers to the large

size of its wooden pencils),<sup>95</sup> and PASSION (which describes the fragrance of its cosmetics)<sup>96</sup> are examples of suggestive trademarks.

Words that describe the nature, quality, characteristics, or function of products<sup>97</sup>—such as KING SIZE for large men's clothes,<sup>98</sup> NO SPOT for a carwash system,<sup>99</sup> and WORLD BOOK for an encyclopedia<sup>100</sup>—are descriptive trademarks. This type of trademark is not automatically entitled to trademark protection. In order to receive protection for a descriptive trademark, an owner must demonstrate that consumers have come to perceive the trademark as a source identifier.<sup>101</sup> Generally, six factors have been identified to help establish secondary meaning. They are (1) advertising expenditures; (2) consumer studies linking the mark to a source; (3) unsolicited media coverage of the product; (4) sales success; (5) third party attempts to plagiarize the mark; and (6) the length and exclusivity of the mark's use.<sup>102</sup> The burden of establishing secondary meaning is heavy, and proof "entails vigorous evidentiary requirements."<sup>103</sup> Essentially, the evidence must establish that the descriptive trademark identifies the producer, not the product.<sup>104</sup>

On the bottom of the trademark protection spectrum are generic words, which never receive protection.<sup>105</sup> Generic trademarks are common words that are names of articles in commerce.<sup>106</sup> A generic term generally refers to "the genus of which a particular product is a species."<sup>107</sup> Examples of generic trademarks are APPLE for apples and COMPUTER for computers.<sup>108</sup> Essentially, "a mark is generic if, in the mind of the purchasing public it does not distinguish products on the basis of source but rather refers to the type of product."<sup>109</sup> Generic trademarks belong to the public.<sup>110</sup> No person has an exclusive right to use or monopolize a generic word that, in its ordinary or common meaning, names a good or service.<sup>111</sup>

Accordingly, domain names that are arbitrary with respect to the goods or services offered at their associated Web site receive a high level of protection under trademark law. <amazon.com> for an online bookstore<sup>112</sup> and <monster.com> for employment services are examples of arbitrary domain names.<sup>113</sup> Similarly, <ebay.com> is a fanciful domain name for an online auction; it is an invented term that has no connection to the goods or services offered at its associated Web site. The domain name <goto.com> is a suggestive trademark for search engine services,<sup>114</sup> because it requires Internet surfers to use their imagination in making the connection between "go to" and Internet searches.<sup>115</sup> <goto.com> has been ranked as the twenty-sixth most visited Web site on the Internet.<sup>116</sup>

Also on the distinctiveness spectrum of domain name trademark protection, we have descriptive domain names. <lawoffices.net> is an example of a descriptive trademark.<sup>117</sup> A descriptive domain name will not be accorded trademark protection unless the name has acquired secondary meaning. Given the vastness of the global network—the existence of more than forty-six million domain names, a billion readable Web pages, and numerous hosts—the owner of a descriptive domain name faces a tremendous task of proving secondary meaning.<sup>118</sup>

Moreover, due to the nature of the Internet, users can access a Web site by its descriptive name by typing the term as a keyword into a search engine.

This would pose difficulty for a domain name holder who attempts to prove that a descriptive domain name has acquired secondary meaning in the minds of Internet users.<sup>119</sup> In addition, courts have rejected evidence proving that the use of a Web site means equal identification with a particular provider,<sup>120</sup> evidence of high placement of the associated Web site in search engine listings,<sup>121</sup> and evidence providing ranking information based on the number of other sites that link to the associated Web site.<sup>122</sup> Courts often demand consumer survey evidence demonstrating that Internet consumers perceive the domain name as a source identifier, not a description of the products or services at the Web site.<sup>123</sup> Descriptive domain names that have not acquired secondary meaning include <bigstar.com>,<sup>124</sup> <hometown.net>,<sup>125</sup> <homemarket.com>,<sup>126</sup> <lawoffices.net>,<sup>127</sup> and <24hourfitness.com>.<sup>128</sup>

The definition of “trademark” in section 197 is broad enough to include domain names that are able to be protected as valid trademarks, such as those considered arbitrary, fanciful, suggestive or descriptive with acquired secondary meaning. Therefore, purchase costs allocable to domain names that function as trademarks should be amortized ratably over a fifteen-year period irrespective of the domain name’s remaining registration period and registration renewal options.

However, generic domain names such as <fitness.com>, <wireless.com>, <wine.com>, and <register.com> (which provides domain name registration services), are not entitled to protection. For example, a court held that <cds.com> (where the owner asserted that “cds” is in reference to compact disc products and services) is generic and therefore not entitled to trademark protection.<sup>129</sup>

Although generic domain names are not entitled to trademark protection, they are greatly sought after by many Internet companies. The tradeoff for selecting a generic domain name without trademark protection is that the name needs little promotion to be effective, as it directly communicates to Internet users the nature of the goods or services offered at the associated Web site.<sup>130</sup> The rationale for not allowing generic domain names to have trademark protection is rooted in the well-established “genericness” doctrine. The genericness doctrine dictates that generic terms cannot be appropriated or monopolized; all may use words that comprise ordinary language. Indeed, no individual or entity may corner the market on a term used in everyday speech to the exclusion of the public and competitors who may seek, “at the risk of potential liability to one who laid claim to words of common currency, to avail themselves of ordinary language to refer to an article by its publicly accepted name.”<sup>131</sup>

Under the genericness doctrine, there is no trademark protection whatsoever for generic terms, even if the terms have acquired secondary meaning.<sup>132</sup> This rule applies regardless of how long a term has been used in marketing a particular product or service, or how closely the term has come to be associated with a particular source.<sup>133</sup> Moreover, as the Supreme Court emphatically announced sixty-six years ago, goodwill in a generic term is shared by all, and its free exercise is in the interest of the public.<sup>134</sup>

The question then arises whether the costs of purchasing generic domain names are amortizable under section 197, like the costs of purchasing domain names protected under trademark law. Some commentators have suggested that generic domain names might constitute a trademark or trade name *for tax purposes* even if they do not for intellectual property law purposes. In other words, generic domain names may be included in the broad definition of a trademark or trade name under section 197, even though they cannot be trademarked because they are common names. To better understand this argument, a closer look at the tax definitions of trademark and trade name is in order.

The regulations under section 197 define a trademark as “any word, name, symbol, or device, or any combination thereof, adopted and used to identify goods or services and distinguish them from those provided by others.”<sup>135</sup> Similarly, a trade name is defined as “any name used to identify or designate a particular trade or business or the name or title used by a person or organization engaged in a trade or business.”<sup>136</sup>

More importantly, according to some commentators, the regulations state that “[a] trademark or trade name includes any trademark or trade name arising under statute or applicable common law, and *any similar right granted by contract*.”<sup>137</sup> Relying on this regulatory definition, one commentator has suggested that generic domain names, even though not able to be protected under trademark law, “can still serve to identify a certain company (or mascot) on the web and are registered rights,” and thus are a “‘similar right’ granted by contract.”<sup>138</sup> Another commentator has similarly suggested that a generic domain name might be a similar right granted by contract:

[A] domain name is adopted to identify a web site and to distinguish that web site from web sites provided by others. If a web site itself could be deemed a ‘service’ then all domain names would constitute ‘a similar right granted by contract’ even though the domain name would not be a trademark under the Lanham Act. . . . Although we might expect the definition of a trademark or trade name for tax purposes to follow that of applicable IP law, the regulations are clearly not so limited. The fact that the regulations refer to ‘a similar right granted by contract’ means that the definition of a trademark or trade name for tax purposes is broader than that under IP law.<sup>139</sup>

Contrary to the arguments above, the definition of trademark under tax law is similar to the definition of trademark provided under the federal trademark statute, the Lanham Act. As noted above, regulations under section 197 define a trademark as “any word, name, symbol, or device, or any combination thereof, adopted and used to identify goods or services and distinguish them from those provided by others.”<sup>140</sup> Similarly, the Lanham Act provides that a trademark is a “word, name, symbol, or device, or any combination thereof used by a person . . . to identify and distinguish his or her goods . . . from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.”<sup>141</sup>

This strongly suggests that, like the Lanham Act, section 197 excludes generic domain names that do not function as trademarks because such names fail to identify and distinguish the associated goods or products from those provided by others.<sup>142</sup> Identifying and distinguishing goods or services are the cornerstone functions of a trademark; a domain name that is unable to do so is therefore not a trademark under either section 197 or the Lanham Act.<sup>143</sup>

Moreover, the regulations for section 197 indicating that “[a] trademark or trade name includes any trademark or trade name arising under statute or applicable common law, and any similar right granted by contract,” must be interpreted consistently with the definition of trademark provided in the plain language of section 197.<sup>144</sup> That means that “any similar right granted by contract” cannot be expanded to include a name that is not capable of identifying and distinguishing goods or services of one source from those of another. Furthermore, statutory interpretation canons<sup>145</sup> dictate that “any similar right granted by contract” must be parallel to and cannot be in conflict with a right “arising under statute or applicable common law.”<sup>146</sup> Otherwise, the regulations defining trademarks and trade names could also include nontrademarks in their scope, which would be an anomalous result.<sup>147</sup>

The interpretation of section 197 and its regulations advocated by those who believe generic domain names are capable of identifying the Internet company behind associated Web sites is contrary to established law stating that generic words are incapable of identifying a producer, maker, or source. Generic words by their own nature identify products. To say that generic domain names are capable of identifying their owners would turn years of precedent on its head. Interpreting tax law at the detriment of well-established trademark law is hardly fulfilling the intent of the drafters, carrying out tax policy, or serving the public good.

### Domain Names as Nontrademarks

As argued above, domain names that function as source indicators are treated as trademarks for purposes of section 197. Generic domain names, however, are not. The question still remains whether the costs of purchasing generic domain names are amortizable under section 197. It could be argued that a generic domain name purchase should be treated as a goodwill purchase, amortizable over fifteen years under section 197. Purchasing a generic domain name, as the argument might go, is the same as purchasing a company with a recognized name at a premium to its true asset value.

Acquired goodwill is included within the definition of a section 197 intangible asset.<sup>148</sup> The regulations define goodwill for purposes of section 197 as “the value of a trade or business attributable to the expectancy of continued customer patronage . . . [that] may be due to the name or reputation of a trade or business or any other factor.”<sup>149</sup> Does the value of a generic domain name fit section 197’s definition of goodwill (that is, value attributable

to expectancy of continued customer patronage)? Purchasing a generic domain name gives an owner the exclusive right to that name, for no two are identical.<sup>150</sup> Most importantly, a domain name allows an owner to direct Internet traffic to its Web site,<sup>151</sup> provided the owner has developed a Web site associated with its domain name.<sup>152</sup> Internet users search for companies, products, and services by applying two common search methods. Internet users can type a domain name directly into a web browser.<sup>153</sup> Or they can type a domain name into a search engine that conducts a search and provides users with choices of Web sites they may want to visit.<sup>154</sup> The domain name serves as the link between the owner and users of a Web site.<sup>155</sup> In addition, the domain name serves as an important signal used to locate resources on the Internet.<sup>156</sup>

Bank of America, for example, purchased the domain name <loans.com> for three million dollars because the location received three to four thousand hits per day, even though the domain name was not associated with a developed Web site.<sup>157</sup> Users looking for lending services on the Internet, without knowing of any particular company, often decide to randomly select a name, most likely one that is easily associated with lending services, such as “loans”; they then type <www.loans.com> directly into the Web browser.<sup>158</sup> Bank of America understood how traffic reaches a Web site, the role of a memorable domain name in e-commerce, so it purchased <loans.com> for a high price to obtain visitors at its soon-to-be-constructed Web site.<sup>159</sup> For the same reason, a number of other memorable domain names command a high price on the secondary market.<sup>160</sup>

Clearly these memorable, generic domain names possess inherent value based on the number of visitors they attract,<sup>161</sup> even though no Web site has been constructed, no business has been created, and no products or services have been offered.<sup>162</sup> The inherent value in generic domain names, however, is not identical to the general concept of “goodwill”; that is, a company’s “expectation of continued patronage,” which requires that the company continue in existence, offering goods or services and building a reputation.<sup>163</sup>

The concept of “goodwill” is more akin to the value that a domain name accumulates after a company constructs and maintains an associated Web site. Indeed, when a Web site is constructed and used in connection with the sale of products or services, value might be added to the domain name.<sup>164</sup> Value is measured by the number of visitors to the Web site and could be the result of a combination of factors, such as its online content,<sup>165</sup> ease of navigation, quality products or services, or extensive and visible advertising.<sup>166</sup>

In sum, the inherent value of a generic domain name (value distinct from that added by the registrant or the person who has the right to use the domain name) is not the same as “goodwill” as defined in section 197.<sup>167</sup> However, value added by the registrant after a Web site is constructed and the domain name is used in connection with the site, could be considered “goodwill” within the meaning of section 197 (or “trademark” value as discussed above). In the latter case, the domain name is dependent on the value or goodwill added. Indeed, the domain name could not be transferred without the value or goodwill added.

If generic domain names are not treated as “trademarks” or “goodwill” under section 197, the next issue is whether the costs of a generic domain name are amortizable over any other Code provision or administrative pronouncement. As a general rule, if section 197 does not apply to acquired intellectual property rights, amortization continues to be governed by pre-section 197 law. Prior to the enactment of section 197, section 167 permitted a taxpayer to amortize the capitalized costs of acquiring certain intangible property. To be eligible to amortize the capitalized costs of acquiring intangible property under section 167, the acquired asset must have an ascertainable useful life. In other words, intangible property not covered by section 197 may nevertheless be subject to an amortization allowance under section 167 if the intangible property is “known from experience or other factors to be of use in the trade or business or in the production of income for only a limited period, the length of which may be estimated with reasonable accuracy.”<sup>168</sup> Intangible property with no ascertainable useful life is not subject to the allowance for amortization.<sup>169</sup>

Does a generic domain name have a determinable useful life so as to be eligible for amortization under section 167? The regulations under section 167 provide that the useful life of an asset is not necessarily the statutory legal life of the asset, but rather is the “period over which the asset may reasonably be expected to be useful to the taxpayer in his or her trade or business or in the production of income.”<sup>170</sup> It might be argued that the useful life of a domain name is the initial registration period. After all, there is an initial domain name registration period for a generic domain name (for example, 1, 2, 5, or 10 years) depending on the agreement with the domain name registrar, and a domain name might be lost if the registrant does not renew it.

Despite the suggestion that a generic domain name “can still be considered an asset that can be amortized,”<sup>171</sup> amortization of a generic domain name under section 167 is improper and inconsistent with the general, pre-section 197 treatment of intangibles. To permit generic domain name acquisition costs to be written off over the domain name’s initial registration period makes little sense. The initial period is often short and would allow purchasers to recover substantial acquisition costs over a very short recovery period. More importantly, purchasers often plan to use domain names for periods extending well beyond the initial registration period. The cost to renew a generic domain name is minimal, and for most purchasers, continued registration is expected.

To permit generic domain name purchasers to pick an amortization period over which they expect the generic domain names to be useful in their business is troublesome. Generic domain names are unlike other amortizable intangible assets with inherent value, such as separately acquired patents and copyrights, which are readily susceptible to such estimates. For example, a taxpayer can typically establish the useful life of a patent or copyright for amortization purposes based on his own experiences with similar property.<sup>172</sup> If such experiences are inadequate, a taxpayer can establish the useful life of a patent or copyright based on general industry standards.<sup>173</sup>

The same is not true for generic domain names. The useful life of a patent or copyright (and hence the recovery period over which deductions will be allowed) is typically tied to the period over which the patent or copyright will most likely generate income for the taxpayer.<sup>174</sup> Indeed, the goal behind permitting taxpayers depreciation or amortization deductions is to achieve a fair allocation of the costs of acquiring an asset to the period in which the taxpayer realizes income from the asset.<sup>175</sup> The economic usefulness of a generic domain name cannot be measured by the domain name's condition or by the passage of time, suggesting that generic domain names should not be subject to amortization under section 167.

In short, the useful life of a generic domain name is unascertainable. The owner of a generic domain name today cannot be the owner tomorrow if he or she forgets to renew the domain name registration. Yet, the owner of a generic domain name can bring a conversion action against the registrar who assigns the domain name to others without the original owner's permission, given that the domain name registration at the time of the assignment or transfer was valid. Although a generic domain name can be acquired separately for its inherent value, the name itself does not have an ascertainable useful life. Indeed, a generic domain name can last forever, as long as the owner pays the registration fees.

It should be noted that in January 2004, the Internal Revenue Service (Service) issued final regulations under section 167 that provide a fifteen-year safe harbor amortization period for certain self-created intangible assets that do not have readily ascertainable useful lives.<sup>176</sup> Under the safe harbor, amortization is determined using a straight-line method with no salvage value, consistent with amortization under section 197.<sup>177</sup> Does this safe harbor amortization apply to purchased generic domain names when amortization is not authorized under sections 197 or 167 of the Code? Unfortunately, the answer is no. The regulations provide that the safe harbor amortization governs only certain self-created intangible assets and does not apply to intangibles *acquired from another party*.

## CONCLUSION

It has been concluded that, under current tax rules, the costs of purchasing a domain name that functions as a trademark are amortizable over fifteen years under section 197, whereas the costs of purchasing a generic domain name are not amortizable at all unless it can be shown that a portion of the cost is attributable to "goodwill" or "trademark" value. This conclusion is troubling in light of the fact that most intangible property with significant value is amortizable over some period, either the arbitrary fifteen-year recovery period under section 197 or the intangible property's useful life under section 167. If valuable intangible business assets such as trademarks, trade names, and goodwill are amortizable, why are acquired generic domain names not amortizable? It seems that the approach of trying to classify domain names as one or more variations of existing intellectual or intangible property rights, and then looking for the appropriate

current tax rules dealing with those variations, has produced an unsatisfactory tax regime for domain names.

For example, there is a distinction under current tax law between domain names that function as trademarks and those that do not. What happens if a portion of the value of a generic domain name derives from its association with a particular business? Should the generic domain name now be considered two assets, one with inherent value (not amortizable) and the other with either goodwill or trademark value (amortizable)? Consider the following example: <car.com> is a domain name where “car” is a generic word such as vitamins, wireless, and loans. The name is owned and used by a Web site that at first was not an active business. Subsequently, the Web site receives repeated unique hits and develops a large and loyal customer base. The Web site owner then decides to sell the business, including the domain name, which now has a market value of \$5.5 million.<sup>178</sup> According to one commentator:

A portion of the value of the name derives from its association with the business. So to some extent, the name should be treated as having trademark value. The remaining value is the name’s inherent value. The inherent and trademark values in this transaction are separate assets, and their values have different sources. One derives from the inherent value of the exclusive use of a generic term, and the other derives from the goodwill of the business.<sup>179</sup>

It would follow then, under existing tax rules, that a portion of the cost of a generic domain name would be eligible for amortization, and the other portion of the cost would not be eligible for amortization.

This approach would result in much litigation concerning the identification of and valuation of domain names. Because no amortization would be allowed for the inherent value of a domain name, taxpayers would try to distinguish trademark value from inherent value in a single domain name, and the Service would undoubtedly challenge their determinations. Taxpayers who have the resources to litigate over the identification and valuation of domain names would be better off than those taxpayers who lack such resources. Needless to say, fitting domain names within existing tax rules would produce much litigation and uncertainty.

The inadequacies and uncertainties of the current tax regime are becoming more apparent with the emergence of new forms of intellectual property rights. As with domain names, no special tax rules exist specifically governing the tax treatment of Web site creation and acquisition costs. Taxpayers and advisors are left with questions such as: Should the costs related to the development of a Web site be treated the same as software development costs? How should the costs of creating or purchasing content for Web sites be treated? Does it make a difference if some Web site content is copyrightable or noncopyrightable?

If Web sites are considered variations of existing intellectual or intangible property rights to which existing tax law can be adopted, then the tax treatment of Web sites may depend on the Web site’s components (for example, software,

copyrightable content, noncopyrightable content). This result could produce varying rules not easily applied in practice. For example, if the Service agrees that the basic structure of a Web site (the permanent portion of the site) should be treated as “software,” a Web developer would be able to immediately deduct the costs of building the basic structure of the site under Revenue Procedure 2000-50.<sup>180</sup> If a taxpayer incurred costs to develop copyrightable content such as literary text, music, photographic images, art works, graphics, and sound, such costs would either be currently deductible or amortized over the useful life of the copyright.<sup>181</sup> If a taxpayer incurred costs to develop noncopyrightable content, such costs might not have to be capitalized.<sup>182</sup> If the costs of developing noncopyrightable content must be capitalized, they would only be amortizable if a useful life could be established.<sup>183</sup>

Again, current and historical tax concepts (section 197 and pre-section 197 law) do not translate smoothly with respect to the expansion of existing rights for certain intangible assets or, more importantly, the emergence of new intellectual property and intangible rights such as domain names. An unfortunate trend that is developing is an *ad hoc* response by administrative bodies to fill in the gaps. For example, the Service issued an administrative pronouncement, Revenue Procedure 2000-50, to clarify the uncertain tax treatment of software development costs. More recently, the Service adopted new regulations under section 167, Treasury Regulation section 1.167(a)-3(b), to provide a fifteen-year safe harbor amortization period for created intangibles that do not have an ascertainable useful life.

Each time the Service responds to inadequacies in the current tax law, new issues are raised and additional uncertainties are created. A better approach would be for Congress to revisit section 197's treatment of intangible assets. Section 197 has received little legislative attention since its enactment over ten years ago. With the arrival of global electronic commerce transactions on the Internet, the nature of cyberspace will undoubtedly require new tax rules.

## NOTES

1. See, e.g., Ian C. Ballon, *Domain Names*, 661 PLI/Pat 39, 59 (2001); Ted A. Berkowitz, *Internet Issues in Bankruptcy Law*, 755 PLI/Pat 727, 753 (2003); Francis G. Conrad, *Dot.Coms in Bankruptcy Valuations Under Title 11 or www.snipehunt in the Dark.Noreorg/Noassets.com*, 9 Am. Bankr. Inst. L. Rev. 417, 430-431 (2001).

2. See, e.g., Brent R. Cohen & Thomas D. Laue, *Acquiring and Enforcing Security Interests in Cyberspace Assets*, 10 J. Bankr. L. & Prac. 423, 433-442 (2001); Alexis Freeman, *Internet Domain Name Security Interests: Why Debtors Can Grant Them and Lenders Can Take Them*, *Computer & Internet Law.*, June 2003, at 7; Xuan-Thao N. Nguyen, *Commercial Law Collides with Cyberspace: The Trouble with Perfection—Insecurity Interests in the New Corporate Asset*, 59 Wash. & Lee L. Rev. 37, 73-82 (2002).

3. See, e.g., Marjorie Chertok & Warren E. Agin, *Restart.com: Identifying, Securing and Maximizing the Liquidation Value of Cyber-Assets in Bankruptcy Proceedings*, 8 Am.

Bankr. Inst. L. Rev. 255, 280 (2000); A. Mechele Dickerson, *From Jeans to Genes: The Evolving Nature of Property of the Estate*, 15 Bankr. Dev. J. 285, 301–309 (1999).

4. For a thorough treatment of intellectual property taxation, see generally Jeffrey A. Maine & Xuan-Thao N. Nguyen, *Intellectual Property Taxation: Transaction and Litigation Issues* (2003).

5. *Id.* at 193–194.

6. *Id.* at 276–279.

7. This chapter will focus solely on the deductibility of domain name purchase costs, and will not address the tax treatment of domain names sales. For the likely tax treatment of domain names sales, see Maine & Nguyen, *supra* note 4, at 401–408.

8. See, e.g., Dale M. Cendali & Brian V. Ellner, *How to Ensure That Your Web Site Complies with Consumer Protection Laws*, *Computer & Internet Law.*, Dec. 2002, at 1 (“To understand the relevance of rules regulating Internet advertising, one must recognize that the growth of the Internet and e-commerce has been explosive.”); Aldo Forgione, *Weaving the Continental Web: Exploring Free Trade, Taxation and the Internet*, 9 *Law & Bus. Rev. Am.* 513, 556 (2003) (“The surging popularity of the Internet and the recent growth of e-commerce dramatically changed the nature and economics of global business.”).

9. See, e.g., Barbara A. Cherry, *Utilizing “Essentiality of Access” Analyses to Mitigate Risky, Costly and Untimely Government Interventions in Converging Telecommunications Technologies and Markets*, 11 *CommLaw Conspectus* 251, 254 (2003) (discussing government plan to support “research on advanced infrastructure technology and government use of e-commerce broadband applications in an effort to achieve major economic growth and productivity gains in the United States by making affordable broadband Internet connections available to American homes, schools and small businesses”); Andrew J. McClurg, *A Thousand Words Are Worth a Picture: A Privacy Tort Response to Consumer Data Profiling*, 98 *Nw. U. L. Rev.* 63, 100 (2003) (stating that the Internet, the World Wide Web, and information technology change daily).

10. Business-to-business (B2B) is the dominant form of online commerce. See Benjamin C. Elacqua, *The Hague Runs into B2B: Why Restructuring the Hague Convention of Foreign Judgments in Civil and Commercial Matters to Deal with B2B Contracts Is Long Overdue*, 3 *J. High Tech. L.* 93, 94–96 (2004) (discussing B2B contracts on the Internet); see also Corby C. Anderson & Ted P. Pearce, *The Antitrust Risks of Information Sharing*, 23 *Franchise L.J.* 17, 21 (2003) (explaining that “business-to-business exchanges, which are Internet-based electronic markets designed to permit businesses (but not individual consumers) to communicate and transact business with each other through a Web site or portal,” may raise antitrust concerns).

11. Business-to-consumer (B2C) commerce is still in the early stages of growth, as one study indicated, with only a quarter of online users “reporting they make purchases online and under fifteen percent doing any of the other transactional activities. Despite all of the sound and fury, business to consumer commercial online transactions are but in their earliest stages.” Press Release, Stanford Inst. for the Quantitative Study of Soc’y, *Study of the Social Consequences of the Internet*, [http://www.stanford.edu/group/siqss/Press-Release/press\\_detail.html](http://www.stanford.edu/group/siqss/Press-Release/press_detail.html) (last modified July 6, 2001) (providing and analyzing online consumers’ usage of the Internet) (emphasis omitted); see also Elacqua, *supra* note 10, at 96 (noting that B2C transactions are mainly for personal transactions and “the most recognizable B2C contracts are transacted through ebay”).

12. Daniel Doda, *Antitrust Concerns in the B2B Marketplace: Are They “Bricks and Mortar” Solid or a “Virtual” Haze?*, 27 Wm. Mitchell L. Rev. 1733, 1736 (2001) (“Consumers can also transact with other consumers (‘C2C’). Online auctions, such as eBay, Inc., where individuals can purchase items from other individuals, is an example of a C2C transaction.”).

13. Studies reveal that consumers use the Internet for communication, information, entertainment, and commercial transactions. *E.g.*, Stanford Inst. for the Quantitative Study of Soc’y, *supra* note 11 (reporting that consumers use Internet email for communication; conduct Internet research to obtain information about hobbies, travel, and general interest; use the Internet as an entertainment source; and engage in commercial transactions ranging from common purchases to e-banking).

14. World Internet Usage, <http://www.internetworldstats.com/stats.htm> (last revised Aug. 19, 2006) (providing the top ten languages on the Internet and stating that English, Chinese and Japanese are the top three leading languages on the internet).

15. *Id.* (estimating global internet population in different continents and worldwide); see also Elacqua, *supra* note 10, at 94 (2004) (stating that “[b]y the year 2007, the number of Internet users is projected to be approximately 1.46 billion”).

16. Pamela Segal, *Attempts to Solve the UDRP’s Trademark Holder Bias: A Problem That Remains Unsolved Despite the Introduction of New Top Level Domain Names*, 3 Cardozo Online J. Conflict Resol. 1, ¶ 11 (2001) (“In order to provide information, goods, or services on the Web, it is necessary for an individual or company to have a web site or a homepage presence, which of course includes a domain name.”).

17. See, e.g., Robert Brady, Sean Beach & Karen B. Skomorucha, *Determining and Preserving the Assets of Dot-Coms*, 28 Del. J. Corp. L. 185, 185 (2003) (noting that unlike “old economy companies,” dot-com companies “possess less tangible, but not necessarily less valuable, assets like customer lists, data, software technology, trademarks, copyrights, patents, domain names, and other intellectual property”); Farah Z. Usmani, *Information Privacy and Internet Company Insolvencies: When a Business Fails, Does Divestiture or Bankruptcy Better Protect the Consumer?*, 8 Fordham J. Corp. & Fin. L. 273, 276 (2003) (noting that when many e-companies declared bankruptcy, among their most valuable assets were domain names, licensed technology, and customer lists).

18. *Sallen v. Corinthians Licenciamentos LTDA*, 273 F.3d 14, 19 (1st Cir. 2001) (noting that domain names are often company names and names of products and services).

19. S.A. Mathieson, *It’s All in a Name: Can You Still Find a Good Domain Name for Your Business?*, Guardian (London), Oct. 30, 2003 (reporting the sale of the domain name <business.com> for \$7.5 million and <if.com> for one million dollars), *available at* <http://www.guardian.co.uk/print/0,3858,4785236-111113,00.html>.

20. DomainMart, *Most Valuable Domain Names*, at <http://www.domainmart.com/interact/most-valuable.htm> (last visited Oct. 5, 2004).

21. *Id.* Among the car-related domain names, <cars.com> was a subject of litigation, and a federal court found that the service mark CARS.COM was a “famous mark[.]” *Classified Ventures, LLC v. Softcell Mktg., Inc.*, 109 F. Supp. 2d 898, 900–901 (N.D. Ill. 2000) (finding that plaintiff had developed CARS.COM into a strong and famous mark within one year and noting that “[g]iven the nature of communication, particularly over the Internet, even marks advertised but a year can develop strength and fame” and that the site’s overnight success is “evident by the activity on the Cars.com Site, which is one of the most heavily trafficked auto-related web sites on the Internet”).

22. *Domain Name Prices Rise Again*, Investor's Bus. Daily, Dec. 29, 2003, at A2 (reporting that domain name prices are on the rise again as evident by the purchase of <men.com> for \$1.3 million by a group of entertainment executives from Rick Schwartz).

23. *Cool.com: Most Valuable Domain Name?*, MSNBC, [http://www.zdnet.com/2100-9595\\_22-519606.html](http://www.zdnet.com/2100-9595_22-519606.html) (Mar. 30, 2000) (reporting various offers for purchasing domain names <cool.com> and <america.com>).

24. *Essential Monitoring*, Internet Mag., Nov. 1, 2003, at 26 (stating that users visit Web sites by typing domain names directly as a URL address and thus having a memorable domain name is important); David P. Miranda, *The Master of Your Domain Name*, Intell. Prop. L. Newsletter, Winter 2000, at 23 (stating that as "websites on the Internet continue to proliferate, the value of memorable domain names have skyrocketed").

25. Daniel Joelson, *Banks Square Off Over Internet Domain Names*, Bank Tech. News, Nov. 22, 2000, at 1 (reporting the number of visitors to <loans.com> without having an active Web site).

26. *Id.* (reporting banks attempting to establish their presence on the Internet).

27. Gayle Weiswasser, *Domain Names, The Internet, and Trademarks: Infringement in Cyberspace*, 20 Santa Clara Computer & High Tech. L.J. 215, 224 (2003) (stating that in order for Internet companies to communicate effectively to their customers, it is essential that they have a unique domain name that is easily recognizable to customers). Domain names are seen as the "corporate identity in the information age" and "the electronic signs on the virtual storefronts." *Id.*; see also Steve Higgins, *What's in an Internet Name? To On-Line Marketers, Lots*, Investor's Bus. Daily, Oct. 17, 1995, at A10 ("Catchy addresses are as important to on-line merchants as prime retail space is to conventional merchants, cybersnauts say. It's easier to order jewelry from a business that can be reached by typing 'gold.com,' for example, than it is to buy it from another vendor with a forgettable address."); David P. Krivoshik, *Intellectual Property: Paying Ransom on the Internet*, N.J. L.J., Oct. 23, 1995, at 10 (discussing valuable domain names in e-commerce).

28. See Peter B. Maggs, *The '.US' Internet Domain*, 50 Am. J. Computer L. 297, 298 (2002) (noting that because "domain names are used by people to identify businesses and institutions, it is important that they be easy to remember, easy to use, and have positive connotations"); Minqin Wang, *Regulating the Domain Name System: Is the ".Biz" Domain Name Distribution Scheme an Illegal Lottery?*, 2003 U. Ill. L. Rev. 245, 271 ("[W]ith the emergence of the Internet as a market place for products and services, the ownership of a domain name can be very valuable, especially if it is an easy to guess or easy to remember name representing a company, industry, product, or service."); Shelley Rowland & Tim Jackson, *Protecting Your IP*, Indep. Bus. Wkly., June 19, 2002 (recommending companies to "consider domain name registrations as a part of an overall branding strategy").

29. See Jon Swartz, *Sex.com Ownership Ruling Expected*, USA Today, Aug. 2, 2000, at 3B. The <sex.com> site had reportedly received twenty-five million visitors daily. Elen Lewis, *Sex Education*, New Media Age, June 28, 2001; see also Joseph Menn, *Tangled Tale of the Pilfered Porn Site Courts: Stephen Cohen, One of the Internet's Most Successful Entrepreneurs, Made His Fortune by Stealing the Sex.com Site*, L.A. Times, Mar. 26, 2001, at C1 (reporting on the litigation over ownership of the <sex.com> domain name).

30. The scarcity of domain names is attributable to four key factors: the technical uniqueness, the semantic uniqueness, the economic uniqueness, and the origin uniqueness of domain names. Christopher Reed, *Internet Law: Text and Materials* 38 (2000). Some commentators, however, believe that the scarcity is artificially created by the lack of democratic participation in the control of Top-Level-Domains. See Jay P. Kesan, *Private*

*Internet Governance*, 35 Loy. U. Chi. L.J. 87, 116 (2003) (summarizing critiques of the domain name assigning systems).

31. Christopher S. Lee, *The Development of Arbitration in the Resolution of Internet Domain Name Disputes*, 7 Rich. J.L. & Tech. 2, ¶¶ 7–10 (2000), <http://law.richmond.edu/jolt/v7i1/article2.pdf> (stating that NSI is the registrar that provided domain name registration services for domain names in the TLDs <.com>, <.org>, and <.net>).

32. See A. Michael Froomkin & Mark A. Lemley, *ICANN & Antitrust*, 2003 U. Ill. L. Rev. 1, 6 (2003) (noting that because Internet Protocol “numbers are hard for people to remember, Internet standards provide for the creation of mnemonic names [or domain names] for resources”); Viktor Mayer-Schönberger, *The Shape of Governance: Analyzing the World of Internet Regulation*, 43 Va. J. Int’l L. 605, 657 (2003) (stating that the Internet domain name system makes “it easier for humans to memorize where in cyberspace a particular piece of information is located or how a particular communication partner can be reached” and that “[i]n essence, a domain name is mnemonic shorthand for the hard-to-remember numerical Internet address”).

33. Tamarah Belczyk, *Domain Names: The Special Case of Personal Names*, 82 B.U. L. Rev. 485, 489 (2002) (noting that host computers connected to the Internet are identified and located by numerical Internet Protocol addresses that “consist of a series of numbers separated by periods, for example 123.456.789.12”).

34. Steven Blackerby, *Flat Broke and Busted, But Can I Keep My Domain Name? Domain Name Property Interests in the First, Fifth, and Eleventh Circuits*, 11 J. Intell. Prop. L. 117, 121 (2003) (noting that “[b]ecause people remember names better than [a long string of] numbers,” the Domain Name System was designed to translate domain names used by humans into the numeric Internet Protocol addresses used by computers connected to the Internet).

35. Anupam Chander, *The New, New Property*, 81 Tex. L. Rev. 715, 793 n.437 (2003); Jessica Litman, *The DNS Wars: Trademarks and the Internet Domain Name System*, 4 J. Small & Emerging Bus. L. 149, 158 (2000) (noting that essentially every word in the English dictionary has been registered as a domain name).

36. Internet Corporation for Assigned Names and Numbers (ICANN) is an internationally organized, nonprofit corporation that is

responsible for managing and coordinating the Domain Name System (“DNS”) to ensure that every address is unique and that all users of the Internet can find all valid addresses. It does this by overseeing the distribution of unique IP addresses and domain names. It also ensures that each domain name maps to the correct IP address.

ICANN, *FAQs*, at <http://www.icann.org/faq/#WhatisICANN> (last modified June 9, 2004).

37. David E. Roberts, *Top Level Domain Reorganization: A Constitutional Solution to Legislative Attempts at Internet Regulation*, 36 Ind. L. Rev. 883, 904 (2003) (stating that ICANN responded to the saturation of the <.com> TLD by creating seven new TLDs); Segal, *supra* note 16, at 1, ¶¶ 18–20.

38. Orion Armon, *Is This as Good as It Gets? An Appraisal of ICANN’s Uniform Domain Name Dispute Resolution Policy (UDRP) Three Years After Implementation*, 22 Rev. Litig. 99, 103–104 (2003) (noting that the introduction of the new TLDs such as <.info> and <.biz>, among others, will not “markedly reduce the number of Internet domain name . . . disputes, because the availability of new TLDs has not prompted companies to abandon their old <.com> domains” and many new domain name registrations in the

new TLDs “are being used as ‘pointers’ to forward Internet browsers to websites in the <.com> TLD”).

39. Connie L. Ellerbach, *Domain Name Dispute Remedies: Tools for Taming the World Wide Web*, 759 PLI/Pat 513, 516 (2003) (noting that the <.com> TLD “has become the [TLD] of choice, desired by both commercial and non-commercial entities”).

40. Litman, *supra* note 35, at 158–159 (stating that “[b]ecause of successful advertising, a large segment of the public had come to view.com as the only ‘real’ domain”).

41. Most taxpayers prefer to fully recover costs through immediate deductions rather than spread those costs over a number of years (i.e., amortize the costs) or recover those costs when the property is disposed of (i.e., subtract the costs from the amount realized on a sale to determine gain realized). Unfortunately, there are a number of overriding Code provisions that prevent the current deductibility of otherwise allowable expenditures. Thus, what may seem to be a deductible expense under one provision may be classified as a non-deductible expenditure under another overriding provision. A major overriding provision is one that disallows the immediate deduction of costs that are considered “capital expenditures.” See I.R.C. § 263(a) (providing for nondeductibility of capital expenditures); see also *id.* § 263A(a) (requiring a taxpayer to capitalize all direct and indirect expenditures incurred to produce certain property).

42. Treas. Reg. 1.263(a)-4(c)(1). The reason such acquisition costs are not currently deductible is that the resulting property is not consumed or used within the year, but rather persists and generates income over a period of years. If the costs incurred to acquire such property were deductible in full in the current year, then there would be a mismatching of income and expenses that produced that income. Income would be understated in the year of acquisition and overstated in later years. This problem is avoided by prohibiting the immediate deduction of capitalized acquisition costs.

43. 67 Fed. Reg. 77701, 77703, pmb1. (Dec. 19, 2002).

44. Treas. Reg. § 1.263(a)-2(a). The reason such intangible asset acquisition costs are not currently deductible is that the resulting acquired intangibles are not consumed or used within the year, but rather persist and generate income over a period of years. If the costs incurred to acquire such intangible assets were deductible in full in the current year, then there would be a mismatching of income and expenses that produced that income. Income would be understated in the year of acquisition and overstated in later years. This problem is avoided by prohibiting the immediate deduction of capitalized acquisition costs.

45. *Id.* § 1.167(a)-3 (“If an intangible asset is known from experience or other factors to be of use in the business or in the production of income for only a limited period, the length of which can be estimated with reasonable accuracy, such an intangible asset may be the subject of a depreciation allowance.”).

46. *Id.* (“An intangible asset, the useful life of which is not limited, is not subject to the allowance for depreciation.”).

47. Indeed, the regulations specifically mentioned patents and copyrights as intangible assets eligible for amortization. *Id.*

48. Under federal trademark law, abandonment is presumed if nonuse of the trademark extends for three years. 15 U.S.C. § 1127 (2000). Token uses of a trademark for the purpose of reserving trademark rights do not prevent a finding of abandonment. *Exxon Corp. v. Humble Exploration Co.*, 695 F.2d 96, 99–103 (5th Cir. 1983). In addition, abandonment of a trademark could occur if the owner failed to police the trademark so

that it becomes the generic name for the product or service with which it is used. 15 U.S.C. § 1127.

49. I.R.C. § 177 (repealed 1986) permitted taxpayers to elect to amortize any trademark or trade name expenditures over a period of five years or more.

50. The prohibition against amortizing the cost of goodwill first appeared in Treas. Reg. § 1.167(a)-3, which stated that “[n]o deduction for depreciation is allowable with respect to good will.” This prohibition first appeared in the regulations in 1927. See Kevin R. Conzelmann, 533-2d T. M., *Amortization of Intangibles*, A-5 & n.31 (2001) (citing T.D. 4055, VI-2 C.B. 63; Reg. 69, Art. 163 (Revenue Act of 1926)).

51. Treas. Reg. § 1.167(a)-3 (1960); see Conzelmann, *supra* note 50, at A-5 & n.31 (citations omitted).

52. Revenue Reconciliation Act of 1993, P.L. 103-66, 107 Stat. 416 (1993) (codified as amended at 26 U.S.C. § 197).

53. I.R.C. § 197(a)-(b). The amortization deduction under section 197 is determined by amortizing the capitalized costs ratably over a fifteen-year period beginning on the first day of the month in which the property is acquired and held in connection with a trade or business or activity conducted for profit. *Id.* § 197(a); Treas. Reg. § 1.197-2(f)(1) (as amended in 2000); see I.R.C. § 162 (trade or business expenses); *id.* § 212 (activity conducted for profit).

54. I.R.C. § 197(c)(1).

55. Treas. Reg. § 1.167(a)-14(a) (providing that intangibles excluded from section 197 are amortizable only if they qualify as property subject to the allowance for depreciation under section 167(a)).

56. *Id.* § 1.167(a)-3 (pre-section 197 law and current law for intangibles otherwise excluded from section 197).

57. *Id.* § 1.197-2(b)(5).

58. *Id.* § 1.197-2(b)(10).

59. *Id.*

60. *Id.*

61. *Id.*

62. *Id.*

63. I.R.C. § 197(e). A trade or business that is acquired in a series of related transactions will be considered acquired in one transaction for applying section 197. *Id.* § 197(e)(4).

64. *Id.* § 197(e)(4); Treas. Reg. § 1.197-2(c)(7) (“A patent or copyright includes any incidental or ancillary rights (such as a trademark or trade name) that are necessary to effect the acquisition of title to, the ownership of, or the right to use the property and are used only in connection with that property.”).

65. I.R.C. § 197(d)(1)(A)-(B).

66. Treas. Reg. § 1.197-2(b)(1).

67. *Id.* § 1.197-2(b)(10)(i) (2000).

68. *Id.*

69. The technical function of locating sites on the Internet does not fall within the required definitional function of identifying goods or services and distinguishing them from those provided by others.

70. See *555-1212.com, Inc. v. Comm’n House Int’l, Inc.*, 157 F. Supp. 2d 1084, 1086 (N.D. Cal. 2001) (mentioning PTO registered domain name); *Image Online Design, Inc.*

v. Core Ass'n, 120 F. Supp. 2d 870, 878 (C.D. Cal. 2000) (stating PTO governs trademark registrations for domain names); U.S. Patent & Trademark Office, Examination Guide No. 2-99: Marks Composed, in Whole or in Part, of Domain Names (1999) [hereinafter PTO Examination Guide No. 2-99] (explaining PTO policy of registering domain names as trademarks), available at <http://www.uspto.gov/web/offices/tac/notices/guide299.htm>.

71. See PTO Examination Guide No. 2-99, *supra* note 70.

72. See *id.*

73. When an owner disclaims a portion of a trademark, the owner cannot assert that it has any rights to that portion of the trademark. 15 U.S.C. § 1056 (2003).

74. A mark is unitary if it creates "a commercial impression separate and apart from any unregistrable component." See Trademark Manual of Examining Procedure § 1213.05, at 1200-1214 (3d ed. 2003).

75. PTO Examination Guide No. 2-99, *supra* note 70.

76. See Christie L. Branson, Comment, *Was \$7.5 Million a Good Deal for Business.com? The Difficulties of Obtaining Trademark Protection and Registration for Generic and Descriptive Domain Names*, 17 Santa Clara Computer & High Tech L.J. 285, 305 (2001) (discussing the PTO policy on registering domain names as trademarks).

77. Eric G. Begun, *Even Courts Aren't Sure: Domain Name: Property? Contract?*, N.J. Law., Sept. 10, 2001, at 7.

78. 1 J. McCarthy, Trademarks and Unfair Competition § 7:17.1, at 7-25 (4th ed. 1996) ("A domain name can become a trademark if it is used as a trademark.").

79. See, e.g., *Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F. Supp. 949, 956 (C.D. Cal. 1997) (noting that when a domain name is used only to indicate an address on the Internet and not to identify the source of specific goods and services, the name is not functioning as a trademark); 2 Jerome Gilson & Jeffrey M. Samuels, Trademark Protection and Practice §§ 5.11 (1997) (distinguishing the technical use from the trademark use of domain names to identify goods and services).

80. Cf. *Data Concepts, Inc. v. Digital Consulting, Inc.*, 150 F.3d 620, 628 (6th Cir. 1998) (Merritt, J., concurring) (noting that Data Concepts failed to establish use of the <dc.com> domain name as a trademark, "[f]or instance, there is no evidence in the record indicating whether Data Concepts disseminated advertisements of its services displaying the 'dc.com' address or whether the company's customers or employees simply passed the 'dc.com' address along to potential customers in the same way someone might give out a telephone number").

81. See, e.g., *Brookfield Commc'ns, Inc. v. W. Coast Entm't Corp.*, 174 F.3d 1036, 1055 (9th Cir. 1999) (recognizing that "[t]he domain name is more than a mere address: like trademarks, second-level domain names communicate information as to source"); *Patmont Motor Werks, Inc. v. Gateway Marine, Inc.*, 1997 WL 811770, at \*4 n.6 (N.D. Cal. Dec. 18, 1997) ("Because of the importance of a domain name in identifying the source of a website, many courts have held that the use of a trademark within the domain name of a URL can constitute a trademark violation."); *Cardservice Int'l v. McGee*, 950 F. Supp. 737, 741 (E.D. Va. 1997), *aff'd*, 1997 WL 716186 (4th Cir. 1997); *Panavision Int'l v. Toeppen*, 945 F. Supp. 1296, 1304 (C.D. Cal. 1996).

82. "A court's inquiry into whether a term merits trademark protection starts with the classification of that term along the spectrum of 'distinctiveness.'" *Boston Beer Co. L.P. v. Slesar Bros. Brewing Co.*, 9 F.3d 175, 180 (1st Cir. 1993).

83. *DeGidio v. W. Group Corp.*, 355 F.3d 506, 510 (6th Cir. 2004) (stating that whether a trademark qualifies for “protection is determined by where the mark falls along the established spectrum of distinctiveness”).

84. See *id.* (discussing the distinctiveness spectrum of trademarks and finding that arbitrary, fanciful, and suggestive trademarks are inherently distinctive and automatically entitled to protection, descriptive trademarks are accorded protection only if they acquired a secondary meaning, and generic marks are never distinctive and do not receive protection); *GoTo.com, Inc. v. Walt Disney Co.*, 202 F.3d 1199, 1207 (9th Cir. 2000) (“Trademarks “can be conceptually classified along a spectrum of increasing inherent distinctiveness. From weakest to strongest, marks are categorized as generic, descriptive, suggestive, and arbitrary or fanciful.” (citations omitted)).

85. See *King of the Mountain Sports, Inc. v. Chrysler Corp.*, 185 F.3d 1084, 1093 (10th Cir. 1999) (stating that “to assess the relative strength of a mark, one must consider the two aspects of strength: (1) ‘Conceptual Strength: the placement of the mark on the [distinctiveness or fanciful-suggestive-descriptive] spectrum’; and (2) ‘Commercial Strength: the marketplace recognition value of the mark’” (citation omitted)).

86. See *Sunenblick v. Harrell*, 895 F. Supp. 616, 626 (S.D.N.Y. 1995) (“[A] mark may be conceptually strong and yet commercially weak if the mark lacks the requisite ‘origin-indicating’ quality in the eyes of consumers.”).

87. See *Duluth News-Tribune v. Mesabi Publ’g Co.*, 84 F.3d 1093, 1096 (8th Cir. 1996) (stating that “an arbitrary or fanciful trademark is the strongest type of mark and is afforded the highest level of protection” (citing *Cellular Sales, Inc. v. MacKay*, 942 F.2d 483, 485 (8th Cir. 1991)); see also *Eli Lilly & Co. v. Natural Answers, Inc.*, 233 F.3d 456, 462 (7th Cir. 2000) (affirming the finding that PROZAC® is a “fanciful word that has no meaning independent of Lilly’s mark” and that “[s]uch marks are entitled to the highest protection”).

88. See generally *Sports Supply Group, Inc. v. Columbia Cas. Co.*, 335 F.3d 453, 460 n.7 (5th Cir. 2003); *Union Nat’l Bank of Tex., Laredo, Texas v. Union Nat’l Bank of Tex., Austin, Texas*, 909 F.2d 839, 845 (5th Cir. 1990).

89. See *BigStar Entm’t, Inc. v. Next Big Star, Inc.*, 105 F. Supp. 2d 185, 198 (S.D.N.Y. 2000) (noting that “‘APPLE’ as a brand name for a computer or ‘XEROX’ for a copier are arbitrary and fanciful trademarks, respectively).

90. See *Transamerica Corp. v. Trans Am. Abstract Serv., Inc.*, 698 F. Supp. 1067, 1071 (E.D.N.Y. 1988) (stating that a fanciful trademark is “‘a word invented solely for use as a trademark’” (quoting *Pan American World Airways, Inc. v. Pan American Sch. of Travel, Inc.*, 648 F. Supp. 1026, 1033 (S.D.N.Y. 1986), *aff’d without opinion*, 810 F.2d 1160 (2d Cir. 1986)).

91. *BigStar Entm’t*, 105 F. Supp. 2d at 197; see also *Sport Supply Group*, 335 F.3d at 461 n.7.

92. *Larsen v. Terk Techs. Corp.*, 151 F.3d 140, 148 n.5 (4th Cir. 1998).

93. *Virgin Enters. Ltd. v. Nawab*, 335 F.3d 141, 148 (2d Cir. 2003) (stating that arbitrary or fanciful trademarks “receive broader protection than weak marks, those that are descriptive or suggestive of the products on which they are used”).

94. “A term is suggestive if it requires imagination, thought and perception to reach a conclusion as to the nature of the goods.” *Stix Prods., Inc. v. United Merchs & Mfrs., Inc.*, 295 F. Supp. 479, 488 (S.D.N.Y. 1968).

95. *Champions Golf Club, Inc. v. The Champions Gold Club, Inc.*, 78 F.3d 1111, 1117 (6th Cir. 1996) (stating that CITIBANK and GOLIATH are suggestive trademarks).

96. See *Elizabeth Taylor Cosmetics Co., Inc. v. Annick Goutal, S.A.R.L.*, 673 F. Supp. 1238, 1244 (S.D.N.Y. 1987) (finding PASSION a suggestive trademark).

97. See *Stix Prods.*, 295 F. Supp. at 488 (“A term is descriptive if it forthwith conveys an immediate idea of the ingredients, qualities or characteristics of the goods.”).

98. See *King-Size, Inc. v. Frank’s King Size Clothes, Inc.*, 547 F. Supp. 1138, 1156 (S.D. Tex. 1982) (finding KING-SIZE a descriptive trademark for large men’s clothes).

99. See *Raco Car Wash Sys., Inc. v. Smith*, 730 F. Supp. 695, 701 (D.S.C. 1989) (finding “No Spot” a descriptive trademark), *appeal dismissed*, 929 F.2d 694 (4th Cir. 1991)).

100. See *Field Enters. Educ. Corp. v. Cove Indus., Inc.*, 297 F. Supp. 989, 992 (E.D.N.Y. 1969).

101. Secondary meaning attaches if “the consuming public primarily associates the term with a particular source.” *Bristol-Myers Squibb Co. v. McNeil-P.P.C., Inc.*, 973 F.2d 1033, 1040 (2d Cir. 1992) (citing *Centaur Commc’ns, Ltd. v. A/S/M Commc’ns, Inc.*, 830 F.2d 1217, 1221 (2d Cir. 1987)).

102. See *Centaur Commc’ns*, 830 F.2d at 1221 (listing the factors for determining whether a descriptive mark has achieved secondary meaning).

103. *20th Century Wear, Inc. v. Sanmark-Stardust Inc.*, 747 F.2d 81, 90 (2d Cir. 1984) (quoting *Ralston Purina Co. v. Thomas J. Lipton, Inc.*, 341 F. Supp. 129, 134 (S.D.N.Y. 1972)).

104. See *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 786 (1992) (Thomas, J., concurring) (“[T]he user of a . . . descriptive word or symbol could obtain relief only if he first showed that his trade name did in fact represent not just the product, but a producer. . . .”).

105. See *Sport Supply Group, Inc. v. Columbia Cas. Co.*, 335 F.3d 453, 460 n.7 (5th Cir. 2003) (noting that a generic trademark, “which refers to an entire class of products (such as ‘airplane’ or ‘computer’), does not distinguish a product at all, and therefore receives no protection under trademark law”); *A&H Sportswear, Inc. v. Victoria’s Secret Stores, Inc.*, 237 F.3d 198, 222 (3d Cir. 2000) (stating that generic marks receive no protection and “they are not ‘trademarks’ at all”).

106. “A generic term is one that is commonly used as the name of a kind of goods. Unlike a trademark, which identifies the source of a product, a generic term merely specifies the genus of which the particular product is a species.” *Liquid Controls Corp. v. Liquid Control Corp.*, 802 F.2d 934, 936 (7th Cir. 1986) (citations omitted).

107. *815 Tonawanda St. Corp. v. Fay’s Drug Co., Inc.*, 842 F.2d 643, 647 (2d Cir. 1988).

108. See *Sport Supply Group*, 335 F.3d at 460 n.7.

109. *Courtenay Commc’ns Corp. v. Hall*, 334 F.3d 210, 214 n.2 (2d Cir. 2003).

110. See *Interstellar Starship Servs., Ltd. v. Epix, Inc.*, 304 F.3d 936, 944 (9th Cir. 2002) (noting that an apple grower in Washington may use the domain name <www.apple.com> to promote his business and has no fear of infringing the famous APPLE trademark for computers).

111. See *Am. Cyanamid Corp. v. Connaught Labs., Inc.*, 800 F.2d 306, 308 (2d Cir. 1986) (“A trademark holder cannot appropriate generic . . . terms for its exclusive use, and a trademark infringement finding thus cannot be based on the use of a generic . . . term. . . .”).

112. See *Interstellar Starship Servs.*, 304 F.3d at 943 n.6 (9th Cir. 2002) (noting that “Amazon” is an arbitrary trademark).

113. See Mark J. Gundersen, *Want to Be Ruler of Your Own Domain? The Name’s the Thing in E-Business*, 11 Bus. L. Today 19, 19 (2002) (stating that <monsters.com> is an arbitrary domain name and may require more advertising to create an association between the name and the service or product supplied at the associated Web site).

114. See *GoTo.com, Inc. v. Walt Disney Co.*, 202 F.3d 1199, 1207 (9th Cir. 2000) (concluding that GOTO is a suggestive trademark for search engine services).

115. *Id.*

116. See *id.* at 1208 (noting that the domain name and its associated Web site was ranked as the twenty-sixth most visited Web site; analyzing the trademark, words and logos, and how the trademark is used in the Internet by the trademark owner and others; and concluding that the trademark is not strong).

117. *DeGidio v. W. Group Corp.*, 355 F.3d at 506, 511 (6th Cir. 2004) (affirming the district court’s finding that <lawoffices.net> is a descriptive trademark of an “online database of attorneys and the electronic publication via a global network of computers”).

118. *Id.* at 513 (listing a seven-factor test for assessment of secondary meaning); *BigStar Entm’t, Inc. v. Next Big Star, Inc.*, 105 F. Supp. 2d at 185, 202 (S.D.N.Y. 2000) (listing a six-factor test for secondary meaning). Even if a domain name has been used for a good length of time and without interruption of use, the wide use of the descriptive term by other Web sites weighs “against a finding of secondary meaning.” *DeGidio*, 355 F.3d at 513. Further, even if the plaintiff has spent millions of dollars in advertisements, such information alone does not establish that the descriptive domain name has come to identify the source. See *BigStar Entm’t*, 105 F. Supp. 2d at 202 (Although the plaintiff had reportedly spent twelve million dollars in advertising, “the Court is unable to determine supportably the extent to which plaintiff’s advertising efforts have been effective in causing consumers to associate ‘BIGSTAR’ or ‘BIGSTAR.COM’ only with plaintiff.”).

119. See *Thomas v. Network Solutions, Inc.*, 2 F. Supp. 2d 22, 26 (D.D.C. 1998) (noting that a domain name “can be tailored to be easily remembered, and even to convey information about the user—it is often descriptive,” that “the user can access a site by its descriptive name” and that “[i]f the name is properly registered and linked to an IP address, the user will be conveyed to the site he or she seeks”); see also *1-800 Contacts, Inc. v. WhenU.com*, 309 F. Supp. 2d 467, 492 n.45 (S.D.N.Y. 2003) (“[A] metatag is ‘buried code’ that is not visible to Internet users, which is referenced by domain name search engines or directories to determine whether a website corresponds to descriptive keywords entered into the search engine by a computer user. Those websites with metatags corresponding to the requested keywords appear on the computer screen as the search engine’s response.” (citing *Brookfield Commc’ns, Inc. v. W. Coast Entm’t. Corp.*, 174 F.3d 1036, 1061–1062 n.23 (9th Cir. 1999))).

120. See *DeGidio*, 355 F.3d at 513 (noting that the plaintiff provided affidavits of three people who visited the <lawoffices.net> site and such evidence failed to “identify the website with a particular source of services” and that “[m]ere use of a website does not equal identification with a particular provider”).

121. See *Shade’s Landing, Inc. v. Williams*, 76 F. Supp. 2d 983, 989 (D. Minn. 1999).

122. See *DeGidio*, 355 F.3d at 513 (noting that the district court correctly rejected “as irrelevant the rankings by WebsMostLinked.com, a site that ranks websites based upon the number of other sites that link to them”).

123. See *id.* (noting that the plaintiff did not submit consumer survey evidence for secondary meaning); *BigStar Entm't*, 105 F. Supp. 2d at 203 (noting that the plaintiff did not conduct a consumer survey for secondary meaning).

124. *BigStar Entm't*, 105 F. Supp. 2d at 203 (finding that the domain name <bigstar.com> has not achieved secondary meaning because “the Court is unable to determine supportably the extent to which plaintiff’s advertising efforts have been effective in causing consumers to associate ‘BIGSTAR’ or ‘BIGSTAR.COM’ only with plaintiff”).

125. *Eglen v. Am. Online, Inc.*, 2003 WL 21508343, at\*10 (S.D. Ind. June 12, 2003) (finding that <hometown.net> is merely descriptive and that the plaintiff failed to prove that it has secondary meaning).

126. *Shade’s Landing*, 76 F. Supp. 2d at 989.

127. In analyzing whether the domain name <lawoffices.net> has acquired secondary meaning, the court applied a seven-factor test that included (1) direct consumer testimony; (2) consumer surveys; (3) exclusivity, length and manner of use; (4) amount and manner of advertising; (5) amount of sales and number of customers; (6) established place in the market; and (7) proof of intentional copying. *DeGidio*, 355 F.3d at 513. The court held that the evidence submitted by the plaintiff failed to satisfy its heavy burden of proof. *Id.*

128. See *24 Hour Fitness USA, Inc. v. 24/7 Tribeca Fitness, L.L.C.*, 277 F. Supp. 2d 356, 362–363 (S.D.N.Y. 2003) (analyzing the trademark “24 Hour Fitness,” finding that “the evidence that the mark 24 Hour Fitness has achieved secondary meaning in the minds of consumers to a significant degree as identifying Plaintiff as the particular source of goods and services offered under that rubric is far from compelling,” and concluding that it is a descriptive trademark, and arguably a generic trademark, since there are 1.6 million hits for the word “fitness” alone).

129. This is a case where the owner of the domain name <cds.com> attempted to expand the scope of its original trademark “CDS,” which was the initial trademark of its businesses. The plaintiff sought a declaratory judgment that its domain name <cd.com> does not infringe upon the defendant’s “CDS.” The defendant claimed that “CDS” is for compact disc products and services. The court found that the defendant’s assertion rendered its “CDS” trademark a “a term in common usage” and the mark was “invalid as being generic.” *CD Solutions, Inc. v. Tooker*, 15 F. Supp. 2d 986, 989–990 (D. Or. 1998).

130. See *Gundersen*, *supra* note 113, at 20–21. The first step, then, is to consider choosing a common or descriptive name versus choosing an arbitrary or fanciful one. The usual tradeoff exists between a descriptive name that needs little promotion to be effective, but is harder to register and defend—versus an arbitrary or fanciful name that needs more promotion, but is more defensible. Each approach represents a valid Internet business model, but each has different legal consequences—especially on the Internet.

131. See *BigStar Entm't, Inc. v. Next Big Star, Inc.*, 105 F. Supp. 2d 185, 195 (S.D.N.Y. 2000); see also *Am. Cyanamid Corp. v. Connaught Labs., Inc.*, 800 F.2d 306, 306 (2d Cir. 1986).

132. See generally *Surgicenters of Am., Inc. v. Med. Dental Surgeries, Co.*, 601 F.2d 1011, 1016 (9th Cir. 1979) (“[A] ‘generic word’ cannot be validly registered as a trademark even if there is proof of secondary meaning.”).

133. See generally *Keebler Co. v. Rovira Biscuit Corp.*, 624 F.2d 366, 374 (1st Cir. 1980) (“No amount of purported proof that a generic term has acquired secondary meaning associating it with a particular producer can transform that term into a registrable trademark.”); *CES Publ’g Corp. v. St. Regis Publ’ns Inc.*, 531 F.2d 11, 13 (2d Cir. 1975) (rejecting the district court’s finding that a generic term may become a trademark if it

acquires secondary meaning, and reiterating the rule that generic terms cannot attain trademark status in any circumstance).

134. See *Kellogg Co. v. Nat'l Biscuit Co.*, 305 U.S. 111, 122 (1938) (stating that “[s]haring in the goodwill of an article unprotected by . . . trade-mark is the exercise of a right possessed by all—and in the free exercise which the consuming public is deeply interested”).

135. Treas. Reg. § 1.197-2(b)(10)(i).

136. *Id.*

137. *Id.* (emphasis added).

138. Annette Nellen, *Domain Names and Other Intangibles for Internet Business*, 14 J. Tax'n F. Inst. 31, 34 (2001).

139. E-mail from David L. Cameron, Associate Director, Tax Program, and Senior Lecturer, Northwestern University School of Law, to Jeffrey A. Maine, Professor of Law, University of Maine School of Law, (Jan. 23, 2004) (on file with authors).

140. Treas. Reg. § 1.197-2(b)(10).

141. 15 U.S.C. § 1127 (2004).

142. See *BellSouth Corp. v. DataNational Corp.*, 60 F.3d 1565, 1569 (Fed. Cir. 1995) (“A generic term cannot function as an indication of source,” i.e., “cannot inform the public that the product has a particular source.”); *In re Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 828 F.2d 1567, 1569–1570 (Fed. Cir. 1987) (stating that generic marks are incapable of indicating a particular source of goods or services, and cannot be registered as trademarks; doing so “would grant the owner of the mark a monopoly, since a competitor could not describe his goods as what they are” (citing *CES Publ'g Corp. v. St. Regis Publ'ns Inc.*, 531 F.2d 11, 13 (2d Cir. 1975))). Even the fact that the public may associate a generic term with a particular source will not necessarily preclude a finding of “genericness.” See, e.g., *E. Air Lines, Inc. v. N.Y. Air Lines, Inc.*, 559 F. Supp. 1270, 1275 (S.D.N.Y. 1983).

143. The primary function of a trademark is to identify and distinguish the goods or services of one source from those sold by all others, although this may be accomplished anonymously. 1 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 12.01[1] (3d ed. 1992); see *Merrill Lynch*, 828 F.2d at 1569 (“Generic terms, by definition incapable of indicating source, are the antithesis of trademarks, and can never attain trademark status.”). The Lanham Act precludes registration on the principal register of a mark that “when used on or in connection with the goods of the applicant is merely descriptive or deceptively misdescriptive of them.” 15 U.S.C. § 1052(e)(1) (2004). A generic term falls within this prohibition because “[t]he generic name of a thing is in fact the ultimate in descriptiveness.” *H. Marvin Ginn Corp. v. Int'l Ass'n of Fire Chiefs, Inc.*, 782 F.2d 987, 989 (Fed. Cir. 1986).

144. Treas. Reg. § 1.197-2(b)(10)(i).

145. “Under the principle of *ejusdem generis*, when a general term follows a specific one, the general term should be understood as a reference to subjects akin to the one with specific enumeration.” *Norfolk & W. Ry. Co. v. Am. Train Dispatchers' Ass'n*, 499 U.S. 117, 129 (1991).

146. *Circuit City Stores, Inc. v. Adams*, 532 U.S. 105, 106 (2001), is illustrative of the maxim *ejusdem generis*. There, the Court interpreted that “‘any other class of workers engaged in . . . commerce’ constitutes a residual phrase, following, in the same sentence, explicit reference to ‘seamen’ and ‘railroad employees.’ The wording thus calls for application of the maxim *ejusdem generis*, under which the residual clause should be read to

give effect to the terms ‘seamen’ and ‘railroad employees,’ and should be controlled and defined by reference to those terms.” *Id.* (citation omitted).

147. See, e.g., *Gustafson v. Alloyd Co., Inc.*, 513 U.S. 561, 575 (1995) (warns against attributing to a generic term “a meaning so broad that it is inconsistent with its accompanying words, thus giving ‘unintended breadth to the Acts of Congress’” (quoting *Jarecki v. G.D. Searle & Co.*, 367 U.S. 303, 307 (1961))).

148. I.R.C. § 197(d)(1)(A).

149. Treas. Reg. § 1.197-2(b)(1).

150. See *Brookfield Commc'ns, Inc. v. W. Coast Entm't Corp.*, 174 F.3d 1036, 1044 (9th Cir. 1999) (explaining that each domain name is associated with a webpage and is unique in that there are no identical domain names).

151. See *Carefirst of Md., Inc. v. Carefirst Pregnancy Ctrs., Inc.*, 334 F.3d 390, 394 (4th Cir. 2003) (noting that the plaintiff registered a number of domain names that contain “carefirst” to direct Internet traffic to its Web site); *Nat'l A-1 Adver., Inc. v. Network Solutions, Inc.*, 121 F. Supp. 2d 156, 177 (D.N.H. 2000) (finding that the plaintiff used certain domain names to generate commercial web traffic to their sites).

152. See *Interactive Prods. Corp. v. a2z Mobile Office Solutions, Inc.*, 326 F.3d 687, 691 (6th Cir. 2003) (noting that upon entering a domain name into the web browser, the corresponding Web site’s “homepage” will appear on the computer screen).

153. See *id.* (“A specific website is most easily located by entering its domain name into the browser.”); see, e.g., *PGMedia, Inc. v. Network Solutions, Inc.*, 51 F. Supp. 2d 389, 408 (S.D.N.Y. 1999) (concluding that a domain name is “simply a routing instruction that helps computers find each other”). The actual networking, however, is done through the Internet Protocol numbers that correspond with domain names for the ease of human users. See *id.*:

[T]here does not appear to be a requirement that a computer user wishing to establish an Internet site have a domain name at all. This is because domain names serve the sole purpose of making it easier for users to navigate the Internet; the real networking is done through the IP numbers.

154. If a Web user does not know the domain name, the user may then use an Internet search engine. “When a keyword is entered, the search engine processes it to generate a (sometimes long) list of Web pages (ideally relating to the entered keyword).” *Interactive Prods.*, 326 F.3d at 691.

155. This linkage is severed if there is a third party who registered a misspelled version of the domain name. See *Ballistic Prods., Inc. v. Precision Reloading, Inc.*, 2003 WL 21754816, at\*5 (D. Minn. July 28, 2003) (holding that irreparable harm exists in a case where the defendant registered misspelled domain names and directed Internet traffic from the plaintiff’s Web site to defendant’s Web site). Defendant’s action caused consumer confusion, leading them to falsely believe that the plaintiff does not operate a Web site. *Id.* Thus, the plaintiff “can never know how much traffic was lost, or how much faster the traffic would have grown” absent defendant’s registration of the misspelled domain names. *Id.* (quoting *Shields v. Zucarini*, 89 F. Supp. 2d 634, 641 (E.D. Pa. 2000)).

156. See *Interactive Prods.*, 326 F.3d at 691 (“A website’s domain name (e.g., a2zsolutions.com) signifies its source of origin and is, therefore, an important signal to Internet users who are seeking to locate web resources.”). Due to its source identifying capacity, many courts have held that the use of another’s trademark within the domain

name of a Web site can constitute a trademark violation. *Id.* See generally *Shields v. Zuccarini*, 254 F.3d 476, 483 (3d Cir. 2001) (affirming the district court's ruling in favor of the trademark owner in a case where the defendant registered domain names that incorporated the protected trademark to divert Internet traffic from the trademark owner's Web site to the defendant's Web site, causing irreparable harm to the trademark).

157. See Elise Ackerman, *Low-tech Entrepreneurs Stake Claim to Online Domains*, San Diego Union-Trib., Jan. 24, 2000, at C1 (stating that Bank of America paid three million dollars for <loans.com>, an undeveloped domain name).

158. See *Costly 'Loans' for Bank of America*, Computers Today, May 31, 2000, at 106 (reporting that Bank of America purchased the domain name <loans.com> because "it's a unique and valuable name, especially in connection with what [Bank of America does] which is make loans to individuals and businesses").

159. See Daniel Joelson, *Banks Square Off Over Internet Domain Names*, Bank Tech. News, Nov. 22, 2000, at 1 (stating that the acquisition of the domain name <loans.com> for three million dollars is "less startling when one considers that the site was receiving 3,000 to 4,000 hits per day at the time"); Patrick Larkin, *Profit.com: P&G Sells 'Net Names*, Cincinnati Post, Aug. 30, 2000, at 6B (reporting that Bank of America paid three million dollars for <loans.com>, "a nonexistent site that was getting 3,000 to 4,000 hits a day").

160. See generally Larkin, *supra* note 159 (listing generic domain names sold or being offered for sales at high prices).

161. See Warren Agin, *Workouts and Bankruptcy in the cCommerce Economy*, 661 PLI/Fifth Annual Internet Law Inst. 947, 990 (2001) (stating that "a domain name represents goodwill because the traffic generated by a website—the number of people who visit the website and view the content provided there—and consequently the value of that website depend on the domain name" and that "[w]hen the domain name changes, the volume of traffic to the website will drop, as visitors are no longer able to locate the website").

162. See *Dorer v. Abel*, 60 F. Supp. 2d 558, 561 (E.D. Va. 1999) (acknowledging that there are generic domains that are "extremely valuable to Internet entrepreneurs" because they can be "freely transferred apart from their content").

163. See generally *Newark Morning Ledger Co. v. United States*, 507 U.S. 546, 555–556 (1993) ("Although the definition of goodwill has taken different forms over the years, the shorthand description of good-will as 'the expectancy of continued patronage' provides a useful label with which to identify the total of all the imponderable qualities that attract customers to the business.").

164. See Mason Miller, Note, *Technoliability: Corporate Websites, Hyperlinks, and Rule 10(b)–5*, 58 Wash & Lee L. Rev. 367, 381 (2003) (noting that the number of visitors to a Web site determines the "value" of the Web site).

165. See John E. Cumberford, *Hyperlinking and Framing: Recent Developments and Trends*, 644 PLI/Pat 293, 295 (2001) ("What drives visitors to websites is content—whether it's sports scores, music downloads or pornography—that's the thing that makes people show up, stay there, and come back another day."); Jennifer Gordon, *For Web Success: Content, Content, Content*, Marketing for Law., Nov. 2000, at 7 (stating that keeping online content fresh will encourage traffic).

166. Ryan L. Blaine, Comment, *Election Law and the Internet: How Should the FEC Manage New Technology?*, 81 N.C. L. Rev. 697, 725 (2003) ("Large Internet corporations also use radio and television advertisements to increase the traffic to their Web sites.");

Kristen M. Beystehner, Note, *See Ya Later, Gator: Assessing Whether Placing Pop-Up Advertisements on Another Company's Website Violates Trademark Law*, 11 J. Intell. Prop. L. 87, 96–99 (2003) (discussing different types of online advertisements employed by Web sites to increase traffic to their sites); Allison Roarty, Note, *Link Liability: The Argument for Inline Links and Frames as Infringements of the Copyright Display Right*, 68 Fordham L. Rev. 1011, 1016 (1999) (noting that Web site owners utilize links to increase traffic to their Web sites).

167. See *Dorer*, 60 F. Supp. 2d at 561 (“[I]f 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 [the domain name] is an element subject to execution.”).

168. Treas. Reg. § 1.167(a)–3.

169. *Id.*

170. *Id.* § 1.167(a)–1(b).

171. CCH Tax and Accounting, *Domain Names—What You Must Know About Their Tax Treatment*, E-Commerce Tax Alert 1, ¶10 (Dec. 2000), <http://tax.cchgroup.com/eecom/archive/2000/1200/200.htm> (citation omitted).

172. Treas. Reg. § 1.167(a)–1(b) (stating that a taxpayer may establish the useful life of eligible property for depreciation purposes based upon his own experiences with similar property).

173. *Id.* (stating that if a taxpayer's experience is inadequate, the taxpayer may establish useful life based on general industry standards).

174. The regulations provide that the useful life of intellectual property is not necessarily the statutory legal life of the asset, but rather is the period over which the asset may reasonably be expected to be useful to the taxpayer in his or her trade or business or in the production of income. *Id.* § 1.167(a)–1(b).

175. See, e.g., *Comm'r v. Idaho Power Co.*, 418 U.S. 1, 11–12 (1974) (explaining the purpose of the cost recovery system).

176. Treas. Reg. § 1.167(a)–3(b).

177. *Id.* § 1.167(a)–3(b)(3) (providing that the basis of the intangible asset, without regard to salvage value, is amortized ratably over the fifteen-year amortization period beginning on the first day of the month in which the intangible asset is placed in service by the taxpayer).

178. For a similar example, see David E. Hardesty, *Taxation of Internet Domain Names—Can They Be Shoehorned Into the 15-Year Amortization Rules?*, 93 J. Tax'n 367, 370 (Dec. 2000).

179. *Id.*

180. Revenue Procedure 2000–50 defines software as “any program or routine (that is, any sequence of machine-readable code) that is designed to cause a computer to perform a desired function or set of functions. . . .” Rev. Proc. 2000–50, 2000–2 C.B. 601. Under such a definition, designing a Web site with HTML language is creating “software.”

181. For possible tax treatment of Web site expenditures, see Maine & Nguyen, *supra* note 4, at 201–207.

182. *Id.*

183. *Id.*