JUDGEMENT

The high court in Prague issued the following judgement on 25 April 2007 in the matter of the Plaintiff: Kaufland Česká republika v.o.s. against the Defendants 1/ ha-vel internet s.r.o. and 2/ CZ.NIC, z.s.p.o. regarding abstention from the usage of the domain and transfer of its registration, in terms of appeal submitted by both Defendants against the judgement issued by the Municipal Court in Prague dated 24 October 2005, ref. No. 32 Cm 55/2005-105:

1. The judgement of the first instance in the respective matter is confirmed in its correct wording that the first Defendant is obliged to abstain from using the domain "kaufland.cz" and both Defendants are obliged to transfer the registration of the domain "kaufland.cz" to the Plaintiff, all within three days after the judgement becomes effective. The statement III of the judgement is modified in a way that the second Defendant is not obliged to pay the legal charges to the Plaintiff and the first Defendant is obliged to pay the Defendant legal charges in the amount of 16,023.75 CZK within three days after the judgement becomes effective.
2. The first Defendant is obliged to pay the Plaintiff the legal charges of the appeal proceedings in the amount of 7,735 CZK within three days after the judgement becomes effective. No legal charges of the appeal proceedings are to be paid by the second Defendant.

By legal action the Plaintiff sought issuance of a decision based on which the court would impose an obligation on the first Defendant to abstain from using the domain "kaufland.cz", and an obligation on both Defendants to correct the detrimental situation by transferring the registration of the domain "kaufland.cz" to the Plaintiff. To the substantiation of claims considered as claims on the grounds of protection against unfair competition, the Plaintiff stated that it is a company belonging to the Kaufland group with the parent company being Kaufland Stiftung & Co. KG with origins back to 1930 and that throughout the years has gained awareness of the general public and in some European countries even a leading position among retail chains. The parent company owns several trademarks with Kaufland indication and operates in the Czech Republic through the operations of the Plaintiff. Kaufland companies promote their products through Internet, regularly at national domains of the respective countries with domains "kaufland". However, the domain "kaufland.cz" was registered (through the second Defendant as the national registrar of domains) by the first Defendant on 1 February 1998 and, as deduced by the Plaintiff from its statement, the purposes of this registration were speculation aimed at benefiting at the expense of the Plaintiff. Although the domain itself has no contents, the Plaintiff has incurred damage as the Internet visitor, after entering the respective domain, does not receive the expected information about the Plaintiff and its offer. Therefore, the Plaintiff considers the actions of the first Defendant as unfair competition pursuant to the general clause (Section 44 (1) of the Commercial Code) and even special facts of the case as taking advantage of the Plaintiff's good name and breaching trademark rights.

In its statement dated 29 June 2005, the first Defendant proposed a dismissal of the legal action as no Plaintiff's rights were breached. The first Defendant objected that the legal action was submitted purposefully to the court of first instance (considering it as incompetent in terms of the location) regarding the specifics of status of the second Defendant. The first Defendant further stated that if the Plaintiff argues with the trademarks of kaufland, then the Plaintiff is not their owner as it is not actively and objectively identified and the first Defendant actually did not breach any trademark rights by only registering the domain. If then the Plaintiff claims unfair competition, the Defendant objected that there is no competitive relationship between the parties as the necessary condition for assessing the conduct as unfair competition, including taking advantage of the Plaintiff's good name.

In its statement dated 27 June 2005, the second Defendant described its status as the domain registrar within the .cz national domain and the principles related to the domain registration process. Furthermore, the second Defendant specified that if the legal action against the first Defendant is

found justified, it will conform to the judgement and carry out the changes in registration. After pointing out a certain inaccuracy in the Plaintiff's proposal regarding its no responsibility for the breach of alleged Plaintiff's rights and specifying that it did not give reason for the conflict, the second Defendant proposed not to satisfy the Plaintiff in terms of payment of the legal charges by the second Defendant.

The court of first instance, by the above specified judgement, imposed, on the first Defendant, the obligation to abstain from using the domain "kaufland.cz" (statement I) within three days after the judgement becomes effective, on both Defendants the obligation to correct the detrimental situation, within thirty days after the judgement becomes effective, by transfer of the registration of the domain "kaufland.cz" to the Plaintiff (statement II) and decided on legal charges by making both Defendants pay the Plaintiff their compensation of 7,425 CZK within three days after the judgement becomes effective (statement III). In the judgement rationale the court first described the Plaintiff's statements and Defendants' statements, then studied the evidence followed by its factual and legal evaluation and specified reasons for not using other proposed evidence. The court based its decision on the Plaintiff's statement about its operations in the Czech market, public knowledge and characteristic quality of the Kaufland name for the Plaintiff and its relation to domestic consumers. The court deduced that the first Defendant registered, with the second Defendant, the domain kaufland.cz, and committed an act breaching Section 44 (1) of the Commercial Code and fulfilled the facts of the case of Section 47 (a) of the Commercial Code. The court also saw as common knowledge, pursuant to Section 121 of the Civil Court Rules, that the first Defendant has been for some time active in massive registration of domains followed by selling these domains without actually attaching any website to those domains. Although the parties operate in different businesses, they may be considered as competitors in general and thus the actions of the Defendant breached the Plaintiff's rights for free competitive activities. According to the court's opinion it is not possible to agree with the second Defendant that it is not competent to assess whether the registered domain breaches third party rights, and the second Defendant may be, at least in obvious cases, required to prevent any illegal conduct. Therefore, the court acquitted the legal action in full and in the conclusion substantiated the statement regarding legal charges.

By its appeal, the first Defendant challenged the entire judgement issued by the court of first instance. The first Defendant considers the conclusion of the court of first instance regarding its unfair competitive conduct as incorrect. The first Defendant emphasized that the line of business of both parties is so different that any competitive relationship between them may not be deduced. The registration itself, as the first Defendant met all conditions for the registration of said domain, does not mean occurrence of unfair competition, plus the court of first instance did not properly substantiate its conclusion in this respect. The conduct of the first Defendant lacks ill will as it did not intend to sell the respective domain and intended to use it for its own project as resulting from evidence proposed to use and dismissed by the court for its redundancy. The first Defendant does not consider its conduct to be in conflict with good competitive manners and nothing is to be used to deduce that there is some automatic right for a certain domain. The first Defendant does not agree that it would breach the Plaintiff's right to freely perform its activities - the Plaintiff had registered a certain domain and has provided its information under this domain. Therefore, the Plaintiff is not endangered by any damage. The first Defendant also reproached the court for considering a certain statement as "common knowledge" and said it did not register the respective domain with the intention to further sell it. In conclusion, the first Defendant proposed the court to change the judgement and dismiss the legal action.

The statement regarding the legal charges contained in the judgement was also challenged by the second Defendant. The second Defendant did not agree with the opinion the court adopted regarding the possibility to review domains for the parties registered with this institution as this could result in possible breach of third party rights. By referring to the existing court practices and its registration

rules, the second Defendant insisted on its opinion that it is not the one that should or could review the validity of the domain registration. The second Defendant proposed that the court of first instance should have and an appeal court should decide, in terms of the relationship between the second Defendant and the Plaintiff, that no party is entitled for compensation of the legal charges.

The high court in Prague as the appeal court reviewed the appeal of the first Defendant pursuant to Section 212 et seq. of the Civil Court Rules, Act No. 99/1963 Coll., as amended, (hereinafter only CCR) - the challenged entire judgement of the court of first instance (and the appeal of the second Defendant regarding the legal charges) considering the first Defendant as an entity fully authorized to challenge statement II of the judgement partially assigning the obligation to the second Defendant, however, also deciding the right of the first Defendant to maintain the domain (its rights were interfered) and the court deduced, based on the appeal, that this part of the statement is also challenged. The court reached a decision that the circumstances do not require cancellation or change of the challenged judgement in the respective matter.

Firstly, it is necessary to say that according to the opinion of the appeal court, the court of first instance did sufficient investigation as to the first Defendant referring to not allowing the evidence about who initiated the discussion about the possibility to transfer the domain and about its intended project for the domain's use. The appeal court is also of the opinion that the statements by the first Defendant, to which the proposal is related, are not, as specified below, essential for the actual decision. Therefore, the appeal court accepted and fully adopted the decision of the court of first instance, referenced here in order to be brief, and also adopted its evaluation and it may be said that the appeal court identified itself with the legal conclusions made by the court of first instance regarding the unfair competitive conduct of the first Defendant.

The subject of the dispute represents claims of the Plaintiff to impose the obligation on the first Defendant to abstain from certain conduct (use of the domain kaufland.cz) and remove the detrimental situation by imposing the obligation on the first Defendant as the holder and on the second Defendant (as the administrator of national domains and thus the authorized entity) to transfer the registration of the respective domain to the Plaintiff. The Plaintiff specified the claims as claims based on unfair competition, therefore pursuant to Section 53 of the Commercial Code (Act No. 513/1991 Coll., as amended, hereinafter only "CC") and on these grounds the court of first instance approved the claims in the challenged judgement.

Pursuant to Section 44 (1) of the CC, the unfair competition concerns conduct in economic competition that is in conflict with good manners and is able to incur damage to other competitors and consumers. The first Defendant based its defence on the statement that its conduct does not contain the competitive relationship element, that its conduct is not in conflict with good competitive manners and the conduct is not able to incur any damage to the Plaintiff, therefore, the first Defendant denies fulfilment of the three conditions necessary for unfair competition.

If the first Defendant denies, referring to the line of business of the parties, the existence of the competitive relationship, it is not possible to agree with this opinion. The stable judicature and legal theory (see, for instance, Štenglová, Plíva, Tomsa at al. Commercial Code, commentary, 11th edition, C.H.Beck 2006, p. 157, J.Munková: Law against unfair competition, commentary, 2nd edition, C.H.Beck 2001, p. 40, P. Hajn: Competitive conduct and law against unfair competition, MU Brno 2000, p. 119) related to the issue of competitive relationship, this relationship is not restricted solely to relationship of entities competing continuously under the economic competition, but it also applies to "ad hoc" competition, i.e. relationship established by a certain act with the existence of competitive intention of the party to gain certain benefit or competitive advantage in an economic situation at the expense of the competitive situation of another entity. To consider certain conduct of a certain entity to be conduct in economic competition (Section 44 (1) of CC), it is not decisive whether the entities are businessmen, but whether the conduct had competitive intention and not a different intention

(judgement by the Supreme Court of the Czech Republic dated 23 October 2003, 5. ref. No. 29 Odo 106/2001).

The above stated facts show that to assess the existence of a competitive relationship it is not decisive what line of business the parties are engaged in (resp. were engaged at the time of domain registration); it is decisive that the Plaintiff entered the Czech market in 1997 (registered as of 10 March 1997) as a domestic representative of an important foreign entity known to the public as "Kaufland", where significant expansion in the domestic market and gaining significant market share could have been expected as well as later attempts to offer goods and services and promotion on Internet. Such promotion was most probable to take place within the national .cz domain for domestic customers and Internet users, with the domain (resp. subdomain) "kaufland". It is decisive that the first Defendant (the entity operating under the name MPS ha-vel spol. s r.o.) registered, for its own use, on 1 February 1998 a domain "kaufland" in the national .cz domain, however, did not establish a website under this domain, neither was using such domain until the court proceedings (commenced in 2005) when the first Defendant started to present a plan for the use of the domain. This means that the first Defendant registering the said identification - without its need for presentation of its services and without any other legal reasons for this identification - entered into a competitive relationship with the Plaintiff interfering with its competitive position (among others through possibility of easy search of its offer by a potential client on Internet) and at the Plaintiff's expense, the first Defendant gained a competitive position as own opportunity for presentation on Internet under the identification kaufland, including the possibility to hold the registration of the name for itself or even use this name as the subject of business. At the moment of registering the identification "kaufland" at the registrar of domains (correctly subdomains in the national domain) the first Defendant entered into a competitive conduct towards the Plaintiff. As it is also definitely clear that the first Defendant chose this identification for registration intentionally as a response to the entry of the Plaintiff into the Czech market, the appeal court concluded that this conduct concerned conduct in economic competition pursuant to Section 44 (1) of the CC.

The above stated conclusion and competitive intention of the first Defendant upon registration of the identification "kaufland.cz" as the domain is related to the assessment of conformity or conflict of the conduct with good manners of competition. The difference between regular and in terms of economic competition permissible conduct and unfair competitive conduct lies in the assessment whether the condition of conflict with good manners of competition was met. The decisive fact is that the competitive intention of the first Defendant means exclusion of the Plaintiff from presentation of its services and offer on Internet in the national domain under the identification kaufland anticipated, logically expected and related to the Plaintiff by the public because, in agreement with the court of first instance, the public does not relate the Plaintiff's retail chain with the exact wording of its business name but with the dominant element of this name and wording of trademarks the Plaintiff is authorized to use, i.e. the identification Kaufland. Another decisive fact is that the first Defendant, despite its denial, did not register the identification in good faith without any legal reason substantiating the choice of the respective identification and also the time of registration after the Plaintiff entered into the Czech market argues for the intention to prevent the Plaintiff to use this identification for Internet-based operations. Finally, it is also decisive that the first Defendant, despite the invitation by the Plaintiff, did not voluntarily transfer the domain to the Plaintiff (for example, in exchange for payment of expenses related to registration and maintenance) although the Plaintiff is entitled to this identification based on its long-term use as well as formal company and trademark law (however, not directly) in a situation when the first Defendant does not have any legal claim or legal interest acknowledged by law to keep this domain "just in case". The passive nature of use of the respective domain, not related or not supporting the business of the first Defendant, proves its no actual necessity (from the registration date until commencement of this case) for the first Defendant, except for reservation of the domain. As a number of arbitration resolutions by WIPO (e.g. in the

well-known and often cited resolution Telstra Corporation Ltd. v. Nuclear Marshmallows, WIPO D2000-0003) stated and is valid for this case as well, a long-term passivity of the domain registration holder may represent one symptom of speculative registration of a domain. The appeal court concludes that the findings regarding time concurrence of the domain registration to the commencement of the Plaintiff's business, the existing nature of the usage of kaufland.cz domain, non-existence of another reason, apart from speculation, why the first Defendant would rightly register the domain, refusal to voluntarily transfer the domain for corresponding compensation, all these facts prove ill will and intention to prevent the Plaintiff from using its characteristic identification and it should be considered conduct in conflict with good manners of competition.

As the first Defendant refused to transfer the domain to the Plaintiff then, as mentioned above, it acted in conflict with good manners of competition as it prevented the Plaintiff from presenting its business under the domain the public reasonably expects such presentation in relation to the Plaintiff. Therefore, undoubtedly the conduct of the first Defendant is capable of incurring damage to the Plaintiff through reducing the number of visitors to its website that would have otherwise visited this website. Based on the above said and in agreement with the court of first instance, the appeal court concluded that the conduct of the first Defendant met the conditions for assessing certain conduct as conduct of unfair competition pursuant to Section 44 (1) of the CC. It is clear, although it is not important any more, that the conduct of the first Defendant may be included under a special facts of the case of unfair competition pursuant to Section 46 of the CC because the domain kaufland.cz is capable of evoking misconception of the individual interested in the Plaintiff's website that at such website he/she will find information about the Plaintiff, and facts of the case pursuant to Section 48 of the CC as the general knowledge of Kaufland identification established by the Plaintiff with the domestic public includes this identification under the Internet environment. The domain with such an identification, so far owned by the first Defendant, is to be searched (and thus may bring benefit to the first Defendant) by those interested due to the Plaintiff's reputation.

Therefore, the claims applied by the Plaintiff against the first Defendant for abstention from detrimental conduct being unfair competition and for removal of the existing detrimental situation are rightful pursuant to Section 53 of the CC and if the court of first instance satisfied these claims then it acted correctly and the appeal court, pursuant to Section 219 of the CCR, confirmed its decision as objectively correct. This conclusion also applies to the obligation imposed on the second Defendant only because that according to the valid rules of domain registration that form a part of the contract concluded between the first Defendant and the second Defendant the second Defendant is, based on its status, authorized to implement and ensure the actual change of the domain holder.

Based on the above said, the appeal court confirmed the judgement as objectively correct pursuant to Section 219 of the CCR in both its statements (adjusting the second statement by omitting redundant statements). However, the statement regarding the legal charges was, pursuant to Section 220 (3) of the CCR, amended by the appeal court for incorrect calculation of the Plaintiff's expenses towards the first Defendant and also the appeal court assessed the reasons for the second Defendant's appeal as reasons pursuant to Section 150 of the CCR being the reasons for which it is not appropriate to assign the second Defendant with obligation to pay the legal charges. The appeal court here fully accepted the arguments by the second Defendant against the conclusions of the court of first instance, which also corresponds with existing judicature. Therefore, the appeal court assigned the fully successful Plaintiff with no right, pursuant to Section 224 (1) and Section 150 of the CCR, for payment of the legal charges by the second Defendant. The first Defendant was, based on the outcome of the proceedings (Section 224 (1), Section 142 (1) of the CCR), ordered to pay the compensation to the Plaintiff pursuant to Section 137 of the CCR in the amount of 16,023.75 CZK including attorney's fees for proceedings with two claims (2 x 6,200 CZK) pursuant to the Public Notice No. 484/2000 Coll., Section 8 (b), Section 17 (1) and compensation for 3 acts of 75 CZK each pursuant to attorney tariffs (Public Notice No. 177/1996 Coll., Section 13 (3)), all increased by VAT, plus compensation of a court

fee of 1,000 CZK.

The same principles were used to make a decision regarding the appeal of the legal charges and also pursuant to Section 224 (1), Section 137, Section 142 (1) CCR, Section 150 CCR, and the first Defendant, unsuccessful in these proceedings, was imposed an obligation to pay the Plaintiff these costs amounting to 7,735 CZK, including half of the fee 2 x 6,200 CZK, pursuant to the Public Notice No. 484/2000 Coll., Section 8, Section 17 (1), Section 18 (1), and a lump sum fee of 300 CZK pursuant to attorney tariffs (Public Notice No. 177/1996 Coll.), increased by VAT. In terms of the relationship between the Plaintiff and the second Defendant, it was decided, for reasons stipulated above, not to impose the obligation to pay these charges.

When studying the judgement, it is necessary to keep in mind that the judgement contains the court's statement, its rationale and also the summary of statements of the involved parties whereas the court did not have to mention certain statements at all (e.g. when issuing the preliminary action) and therefore these statements only represent a legal opinion of the respective party and not the court's conclusion.

Likewise, the court's decision may not automatically be applied to other cases (despite their similarity) and the CZ.NIC association recommends to consult each particular case with experts in domains and lawyers.