

Who owns your domain name?

March 2011

BY ALAN S. WERNICK, ESQ., FSB FISHERBROYLES, LLP

T: 847.786.1005 – E: WERNICK@FSBLEGAL.COM

Domain names are valuable intellectual capital assets in today's ecommerce economy. However, just because a business has been using a domain name for years does not mean that the business owns the domain name.

Case study

A recent case, DSPT International, Inc., vs. Lucky Nahum (USCA, 9th Cir., Oct. 27, 2010), provides an example where a business went to court to establish ownership rights and damages when its website was replaced by a page directing visitors to another website.

DSPT designs, manufactures and imports men's clothing. In 1999, DSPT created an EQ brand. Around that time its owner, Dorigo, decided to create a website. Dorigo had brought into the business a friend, Nahum, whose brother was a part-time website designer. DSPT's website, eq-Italy.com, was developed by Nahum's brother in consultation with Dorigo. However, Nahum registered the website in his own name.

In the fall of 2005, Nahum decided to leave DSPT and join a competitor. About a month later, "...DSPT's website mysteriously disappeared. If a customer typed eq-Italy.com into his web browser, instead of seeing DSPT's clothing line, all he saw was a screen saying, 'All fashion-related questions to be referred to Lucky Nahum at: lnahum@yahoo.com.'" Nahum "had inserted that sentence in order to get ... [DSPT] ...to pay him funds that were due to him."

As soon as DSPT became aware of what happened, DSPT requested Nahum to give back the website, but he refused.

Per the court: "Sales plummeted and inventory was left over in the spring from the very bad fall. 2004 had been good and the first quarter of 2005 was the best ever, but the last quarter of 2005, and all of 2006, were disastrous. A lot of inventory had to be sold below cost. DSPT spent \$31,572.72, plus a great deal of time, writing to customers to explain the situation and replacing its website and the stationery that referred customers to eq-Italy.com."

In affirming the trial court's decision, the 9th Circuit looked to the Anti-Cybersquatting Consumer Protection Act, which creates a civil liability basis for "cyberpiracy" when a plaintiff proves that (1) the defendant registered, trafficked in or used a domain name; (2) the domain name is identical or confusingly similar to a protected mark owned by the plaintiff; and (3) the defendant acted "with bad faith intent to profit from that mark."

No dispute existed over the first element — Nahum registered the domain name and was refusing to transfer it to DSPT.

Regarding the second element, the court held that DSPT had common-law trademark rights and a jury could reasonably conclude that the domain name eq-Italy.com is "confusingly similar" to the EQ mark.

For the third element, the court reviewed "bad faith intent" and noted that while there was no evidence of any wrongdoing by Nahum's original domain name registration, his subsequent behavior — using the domain name as leverage against DSPT for his claim of commissions it owed — elevated the behavior to "use" of the domain name "with bad faith intent to profit" therefrom. "As for whether use to get leverage in a business dispute can establish a violation, the statutory factors for 'bad faith intent' establish that it can."

Concluding that the jury verdict awarding DSPT \$152,000 in damages was supported by the evidence, the appeals court stated: "Even if a domain name was put up innocently and used properly for years, a person is liable under 15 U.S.C. § 1125(d) if he subsequently uses the domain name with a bad faith intent to profit from the protected mark by holding the domain name for ransom."

One preventive step

When was the last time you did a Whois query to check the status of your or your client's Internet domain name? The information for the administrative contact and the technical contact are used to manage and maintain the domain name.

Let's say an employee registers a domain name for the business using the employee's business address. When an employee leaves the company his e-mail address is shut down and e-mails sent to that address become undeliverable. What happens when an issue arises concerning that domain name and e-mails sent never get through? The domain name might be lost or other costs incurred.

If your business owns a website domain name, consider using generic e-mail addresses for the domain name registrant, technical and other contact information. Then, set up this generic address to automatically forward any incoming e-mails to several individuals in the company who can respond appropriately to any activity concerning the domain name.

The bottom line is that just because a business uses a website, it cannot assume that it in fact owns the website. If you have not had one done recently, consider having a website legal audit done by an attorney knowledgeable in information technology and intellectual property law. The cost of this preventive legal audit will be far less (both in money and management time) than the costs if you have to go to court, as did DSPT, to establish your legal rights to your domain name.