

## Domain Name Liabilities

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

T: 847.786.1005 – E: [WERNICK@FSBLEGAL.COM](mailto:WERNICK@FSBLEGAL.COM)

Domain names are valuable intellectual capital assets in today's ecommerce enabled economy. However, ownership of domain names is not always clearly understood by everyone who uses a website to do business. Just because a business has been using a domain name for years does not mean that the business owns the domain name.

Domain names are valuable for several reasons. First, they are unique – each domain name represents a unique IP address or, in other words, a unique location/address on the Internet. Second, domain names often are comprised of words or phrases that consist of valuable trademarks (e.g., Kodak.com, and Xerox.com). Third, businesses spend significant amounts of monies marketing their domain names to drive traffic to their websites. But what happens when the proverbial "digital rug" is pulled out from under the business and one morning they wake up to find that their website is replaced with a single page directing visitors to some other website?

A recent case from the United States Court of Appeals for the 9<sup>th</sup> Circuit provides an example where a business, believing that it owned its website, went to court to establish its ownership rights when their website was replaced by a page directing visitors to another website. In the case of DSPT International, Inc., vs. Lucky Nahum, the Court describes a problem that perhaps could have been avoided for \$25 in 1999 only if the business owner or his attorney better understood the issues involved in owning a domain name.

DSPT is a business that designs, manufactures and imports men's clothing, and was founded and owned by Paolo Dorigo. Its brand name since 1988 had been "Equilibrio" but in 1999 created an "EQ" brand for its clothing. Around that time Dorigo decided to create a website on this new thing (at the time) called the Internet. Dorigo had brought into the business a friend, Lucky Nahum, whose brother, a hairdresser, was also a part-time website designer. DSPT's website, [www.eq-Italy.com](http://www.eq-Italy.com) was developed by Nahum's brother in consultation with Dorigo. However, Nahum registered the website in his own name.

It's not uncommon for an employee to obtain and register a domain name, using his or her own name and email address, for a company. I have on multiple occasions represented such companies (including some very large companies). Giving the employee the benefit of the doubt, this often is done as a matter of expediency by the employee rather than with initial malicious intent. However, at some point down the road this arrangement creates problems for the business, as the DSPT case teaches.

Let's roll the clock forward from 1999 to fall of 2005, when Nahum decided to leave DSPT and join a competitor. About a month after Nahum's departure from DSPT, "... 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](mailto:lnahum@yahoo.com).'" According to the Court, Nahum had no use for the website, and had told his new boss at DSPT's competitor that "he had inserted that sentence in order to get Equilibrio [DSPT's older brand] to pay him funds that were due to him." As soon as DSPT became aware of what happen, DSPT requested Nahum to give back the website, but he refused.

For most businesses, losing control the company website would be problematic, but in the retail business this creates a serious crisis. Most retailers do a substantial portion – nearly three-fourths – of their annual business in the fourth quarter of the year, so manufacturers and wholesalers like DSPT also do a significant portion of their annual business during that quarter, supplying the retailers in addition to taking orders for spring merchandise deliveries. DSPT used its website to conduct this business and, since it didn't have its website, sales plummeted. According to 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 Court of Appeals looked to the Anti-Cybersquatting Consumer Protection Act (ACCPA) 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."

There was no dispute over the first element of the ACCPA analysis – Nahum registered the domain name and was refusing to transfer it to DSPT.

Regarding the second element, the Court found that even though DSPT had not registered the "EQ" mark, the evidence presented established that only DSPT used the "EQ" mark "...for a men's shirts line, and used the Italian fashion connection as a selling point." Based on the evidence the Court held that DSPT had common law trademark rights and that a jury could reasonably conclude (as it had) that the domain name "eq-Italy.com" is "confusingly similar" to the mark "EQ."

In its analysis of the third element, the Court reviewed the ACCPA statutory factors for "bad faith intent" and noted that while there was no evidence of any wrongdoing by Nahum's original registration of the domain name, his subsequent behavior – to use the domain name as leverage against DSPT for his claim of commissions owed by DSPT – 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. ‘Evidence of bad faith may arise well after registration of the domain name.’ The statute contains a safe harbor provision, excluding a finding of ‘bad faith intent’ for persons who reasonably believed that use of the domain name was fair use or otherwise lawful, but that safe harbor has no application here.”

The Court held that the “intent to profit” means “...simply the intent to get money or other valuable consideration. ‘Profit’ does not require that Nahum receive more than he is owed on his disputed claim. Rather, [p]rofit includes an attempt to procure an advantageous gain or return.”

Concluding that the jury verdict awarding DSPT \$152,000 in damages was supported by the evidence, the Court of Appeals states: “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.”

The bottom line is that a business should not assume that it owns a domain name simply because it uses it. If you have not had one done recently, consider having a website legal audit done by an attorney knowledgeable in information technology law and intellectual property law (preferably someone who also has a background in the technology). Suffice it to say that 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 legal rights to your domain name.

## Helpful Hint

If your business uses a website, consider using generic email addresses for the domain name registrant, technical and other contact information. For example, use a generic email address like `admin@yourdomain.com`. Then, set up this generic email address to automatically forward any incoming emails to several individuals in the company that can act appropriately and responsively to any activity concerning the domain name (e.g., an attempt at an unauthorized transfer of the domain name, DMCA filings, etc.). This generic email address that auto-forwards all incoming emails can help avoid problems when using an individual’s personal (or work) email address (e.g., if the person goes on vacation or is out sick, the email address may not be monitored in a timely manner, or if the individual leaves the company the email address may subsequently become inactive).