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SUPERIOR COURT OF THE STATE OF CALIFORNIA

COUNTY OF LOS ANGELES

VERISIGN, INC., a Delaware corporation, Plaintiff, v. INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS, a California corporation; DOES 1-50, Defendants.	Case No. BC 320 763 [Assigned for all purposes to Judge Rolf M. Treu] **MEMORANDUM OF POINTS AND AUTHORITIES OF PLAINTIFF VERISIGN, INC. IN OPPOSITION TO MOTION TO STAY LITIGATION PENDING ARBITRATION** Date: January 18, 2005 Time: 8:30 a.m. Dept: 58
INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS, a California corporation, Cross-Complainant, v. VERISIGN, INC., a Delaware corporation, Cross-Defendant.	Complaint filed: August 27, 2004

Plaintiff VERISIGN, INC. ("VeriSign") submits this Memorandum of Points and Authorities in opposition to the Motion of defendant Internet Corporation for Assigned Names and Numbers ("ICANN") to stay this litigation pending arbitration ("Motion").

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I. INTRODUCTION

This action concerns the parties' rights and responsibilities under the 2001 .com Registry Agreement (".com Agreement"), pursuant to which VeriSign operates the exclusive Internet domain name registry for the generic top-level domain ("gTLD") known as .com. It is undisputed that ICANN and VeriSign agreed, as expressly stated in the .com Agreement, that all disputes arising under that agreement would be resolved through *litigation* in the *public courts*, unless *both* parties agreed to arbitrate a specific dispute.

Since February 2004, a period of over nine months, ICANN has acknowledged and abided by that agreed upon dispute resolution process under the .com Agreement, by actively litigating the .com disputes (initially in federal court and then in this Court) and, in the process, by seeking and securing one-sided disclosures of the factual theories and evidence upon which VeriSign intends to rely in support of its claims. Having now apparently reaped such benefits as it could from this litigation, but before allowing VeriSign to obtain reciprocal disclosures of ICANN's theories and evidence, ICANN asks the Court to stay adjudication of these disputes under the .com Agreement, in favor of a purported "arbitration" proceeding that ICANN itself recently initiated under a distinct and different contract with VeriSign – the .net Registry Agreement (".net Agreement"). ICANN's stay motion is disingenuous, and should be denied, for at least three reasons.

First, contrary to ICANN's assertions, staying this action will not conserve judicial resources (or any resources), because the .net arbitration proceeding will not obviate the need for the parties to adjudicate *any* issue in this action.[1] Under the clear terms of the .net Agreement's own dispute resolution clause, the .net "arbitration" proceeding that ICANN filed last month is merely advisory: Either party, if dissatisfied with the outcome of that "arbitration" proceeding, may file suit de novo against the other in a public court. Thus, the .net mediation[2] will not even finally

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[1] SnapNames.Com Incorporated is seeking to have its case against ICANN (Case No. BC 324 782) "related" to this action. The *SnapNames.Com* suit will not be subject to a stay. Therefore, if the Court concludes the two cases are related, a stay of *this* action as requested by ICANN would result in the Court's having to consider the related issues in the two cases twice, an outcome antithetical to the interests of judicial efficiency and economy.

[2] Although the .net Agreement refers to "arbitration," the dispute resolution procedure that it requires is, as discussed below, not binding. It is therefore more appropriate to refer to that procedure as a mediation. *See generally* Knight et al., *California Practice Guide: Alternative*

(Footnote Cont'd on Following Page)

resolve the parties' .net disputes, much less the disputes at issue here under the .com Agreement, which the parties specifically agreed to resolve in court. ICANN has not cited a single case or other authority holding that it is appropriate to stay litigation in favor of a non-binding mediation of a different dispute.[3] Since the .net mediation will have no legal effect on this action, there is no basis in law to delay this proceeding for any time period. Indeed, a stay would only frustrate the intent of the parties in agreeing that disputes under the .com Agreement would be resolved in court.

Second, ICANN has waived any purported right to stay this action by defending the .com claims that comprise this action on the merits, and availing itself of unilateral discovery, over the course of nearly nine months. To deny VeriSign the chance to take discovery of ICANN, and thus to equalize the existing imbalance in the exchange of contentions and evidence, would reward ICANN for lying in wait these nine months, during which it never contended or asserted that this action should be stayed.

Third, because staying this action would serve only to delay resolution of the disputes at issue between the parties under the .com Agreement, a stay would seriously prejudice VeriSign by denying it the prompt declaration of rights under the .com Agreement that the law provides for and by leaving VeriSign with the contractual uncertainties and disputes it faces during the remaining almost three-year term of the .com Agreement.

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Dispute Resolution § 3:269 (Rutter Group 2003); Chin et al., *California Practice Guide: Employment Litigation* §§ 18:200 & 18:310 (Rutter Group 2003) (When ADR is nonbinding, it is referred to as negotiation, mediation, or voluntary settlement.); *Domke on Commercial Arbitration* §§ 1:1 & 1:3 (3d ed. 2003) ("'Mediation' and 'conciliation' are recognized legal terms of art for what is commonly referred to as 'nonbinding arbitration.'"); Fields et al., *California Alternative Dispute Resolution Practice* § 30.11[5][a] (1998) ("The arbitration may be binding or nonbinding. If nonbinding, it is essentially mediation by another name . . . ."). *Cf. Cheng-Canindin v. Renaissance Hotel Assocs.*, 50 Cal. App. 4th 676, 687-88 (1996) ("[A] dispute resolution procedure is not an arbitration unless there is . . . a final and binding decision . . . ."); *Moncharsh v. Heily & Blasé*, 3 Cal. 4th 1, 9 (1992).

[3] The three cases ICANN cites are utterly inapposite. The stay granted in *Freiberg* was an automatic stay resulting from the pendency of bankruptcy proceedings involving the defendant. *See Freiberg v. City of Mission Viejo*, 33 Cal. App. 4th 1484 (1995). *Walker* holds only that the Court can conduct a hearing to determine its own jurisdiction. *See Walker v. Superior Ct.*, 53 Cal. 3d 257 (1991). And in *Bailey*, the court granted a stay to ensure compliance with a stockholder derivative statute. *See Bailey v. Fosca Oil Co.*, 216 Cal. App. 2d 813 (1963). These cases, and their reasoning, have no applicability here.

Staying this litigation in favor of non-binding mediation would thus be unproductive, prejudicial, and contrary to the mutual intent of the parties under the .com Agreement. VeriSign and ICANN agreed that claims under the .com Agreement would be litigated in court. ICANN's resort to the International Court of Arbitration for the mediation of disputes under the .net Agreement should not become a bootstrap for ICANN's failure to comply with the different and separate dispute resolution requirements of the .com Agreement. Indeed, the International Court of Arbitration may not even have jurisdiction of the parties' disputes under the .net Agreement.[4] The Court should thus deny the instant Motion and move expeditiously to adjudicate this action.

II. THE .NET MEDIATION IS NON-BINDING AND, THEREFORE, WILL NOT FINALLY RESOLVE ANY DISPUTE UNDER THE .NET AGREEMENT.

ICANN's Motion is based on a false premise – namely, that the .net arbitration panel's decision will be binding. In fact, ICANN and VeriSign expressly agreed that they will not be bound by the result of any arbitral proceeding conducted pursuant to the .net Agreement, and that either party, if dissatisfied with the result of such proceeding, may bring suit *de novo* against the other in court. As shown below, this is evident both from the plain language of the .net Agreement itself, as well as from a comparison of *that* language with the corresponding language contained in other contracts that ICANN has executed with VeriSign and with others.

Under those circumstances, no legally cognizable basis has been presented or exists for staying this action, pending the mediation of disputes arising under a different contract. Since the .net mediation is neither final nor binding, it will not resolve the parties' disputes under the *.net* Agreement. Therefore, *a fortiori*, it certainly cannot finally resolve the .com disputes in this action under the .com Agreement. In short, staying this action would serve only to delay a resolution of

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[4] VeriSign intends to challenge the jurisdiction of the International Court of Arbitration to "arbitrate" the .net disputes. Simply stated, finality is an indispensable ingredient of arbitration under the rules of that body, but the .net Agreement clearly provides for a non-binding proceeding. As such, the arbitration provision in the .net Agreement is invalid under the rules of the International Court. *See* W. Laurence Craig et al., *International Chamber of Commerce Arbitration* § 9.02, at 128 (3d ed. 2000). Arbitration "is an authoritative disposition of disputes." *Id.* Thus, "[i]f parties insert a requirement of mutual consent, they no longer have an arbitration." *Id.*; *see also id.* § 8.01, at 106 ("[I]t is fatal to the arbitral process to provide that the arbitrators' decision must be acceptable to both sides. This simply is not arbitration."). *See infra* p. 4 & note 6.

VeriSign's substantial .com claims, with no resulting benefit in judicial efficiency or economy.

A. The .net Agreement's Plain Language Calls Only for Non-binding Mediation.

The .net Agreement's dispute resolution provision is crystal clear. It provides that disputes shall be referred to the International Court of Arbitration only "in the first instance":

> Disputes arising under or in connection with this Agreement, including requests for specific performance, shall be ***referred in the first instance*** to arbitration conducted as provided in this Subsection 5.9 pursuant to the rules of the International Court of Arbitration of the International Chamber of Commerce ("ICC"). . . . ***Either party, if dissatisfied with the result of the arbitration, may challenge that result by bringing suit against the other party in a court located in Los Angeles, California, USA to enforce its rights under this Agreement.*** . . .

(Decl. of Jeffrey A. LeVee Supp. Mot. for Stay ("LeVee Decl.") Ex. B (.net Agreement) ¶ 5.9 (emphasis added), filed Nov. 12, 2004.)

Thus, the .net mediation is merely "step one" of a multi-step process for resolving .net disputes. The party dissatisfied with the result of step one may "challenge that result by bringing suit against the other party in a court." (*Id.*) Notably, in such a suit, the dissatisfied party would not be limited to an appeal of the *arbitration* award but, rather, would revert to the position it had prior to the "arbitration" and, therefore, be free directly to "enforce its rights *under this Agreement*." (*Id.* (emphasis added).) This language clearly anticipates that the panel's decision will be purely advisory – a mere prelude to *de novo* litigation in court.

B. ICANN Knew How To Contract for Binding Arbitration When It Wanted To.

The plain meaning of the language used in the .net Agreement takes on special significance when it is compared to that used in other ICANN agreements, which plainly provide for binding arbitration. At about the time VeriSign and ICANN were negotiating the 2001 .net Agreement, ICANN was also negotiating registry agreements with other registry operators to run several newly created gTLDs (*e.g.*, .biz, .info). (*See* Decl. of Thaddeus M. Pope ("Pope Decl.") Ex. 1 at FAQ-16, filed concurrently.)

ICANN desired to conform the .net Agreement with the terms of its form "unsponsored TLD agreement," which it was using with these new registry operators. (*See id.* ("ICANN Management proposed to VeriSign to revise all three Registry Agreements (for .com, .net, and .org) to use the form developed for the new unsponsored TLDs."); Pope Decl. Ex. 8 (April 16, 2001

Letter of Stuart Lynn) at 5 ("The .net Registry Agreement would also adopt the form of the registry agreement that will be entered into by the new global TLD registry operators.").)[5]

Ultimately, however, ICANN and VeriSign took a different course with the .net Agreement, and ICANN did not fulfill its goal. In marked contrast to the form unsponsored TLD agreement, VeriSign and ICANN unambiguously agreed that the dispute resolution procedure to be followed under the .net Agreement would be non-binding.

In so doing, they departed from the then-standard ICANN dispute resolution provision, which stated:

> Disputes arising under or in connection with this Agreement, including requests for specific performance, shall be ***resolved*** through ***binding arbitration*** conducted as provided in this Subsection 5.9 pursuant to the rules of the International Court of Arbitration of the International Chamber of Commerce ("ICC"). . . .

(Pope Decl. Ex. 3 ¶ 5.9 (Unsponsored TLD Agreement).) Thus, the dispute resolution clause in ICANN's form unsponsored TLD agreement provides that disputes shall be "resolved" through arbitration; the .net Agreement simply provides that disputes shall be "referred" to arbitration and, then, only "in the first instance." Moreover, the form unsponsored TLD agreement explicitly provides that the result of any arbitration proceeding will be "binding"; the terms "resolved" and "binding" are, however, conspicuously absent from the .net Agreement. (*See* LeVee Decl. Ex. B ¶ 5.9.)[6]

Furthermore, not only does the .net Agreement lack the "binding" arbitration language of ICANN's form unsponsored TLD agreement, but it also contains affirmatively *non-binding*

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[5] A sponsored TLD is a specialized TLD that has a sponsor representing a specific community that is served by the TLD. Examples include the .museum, .aero, and .coop TLDs. (*See* Pope Decl. Ex. 7 (Definitions page).) The new unsponsored TLD registry operators all entered into the form unsponsored TLD agreement. (*See* Pope Decl. Exs. 4-6.)

[6] The .net Agreement also lacks the "binding" arbitration language that the *ICC* recommends parties adopt in their contracts to select ICC arbitration: "All disputes . . . shall be finally settled under the Rules of Arbitration of the ICC." (*See* Pope Decl. Ex. 10 (ICC Rules) at 5.) A comparison of the dispute resolution clauses in the .net and .com Agreements is similarly illuminating. The .com Agreement provides for arbitration only when both parties agree. But, also, by providing that the parties may "enforce an arbitration award," the .com Agreement clearly contemplates that if there were an arbitration award, it would be binding on the parties. (*See* LeVee Decl. Ex. C ¶ II.15.) The .net Agreement, in telling contrast, contains no such enforcement provision.

arbitration language. Unlike the form unsponsored TLD agreement, the .net Agreement permits "either party, if dissatisfied," to go to court to "enforce its rights under [the .net] Agreement." (*Id.*) Clearly, ICANN knows precisely how to draft a binding arbitration dispute resolution provision when it wants to. And, just as clearly, ICANN did not draft one for the .net Agreement.

III. THE .NET MEDIATION HAS NO LEGAL IMPACT ON THIS ACTION.

Because the .net mediation will not even finally resolve disputes under the .net Agreement, it certainly cannot resolve any issues in this action, under the .com Agreement. Furthermore, and for some of the same reasons, the .net mediation will not have collateral estoppel effect in this litigation, both because it concerns different issues and because the parties agreed that a *court* would resolve disagreements arising under the .com Agreement. Because the .net mediation can have no *legal* impact on this action, no justification exists for staying this action to await the outcome of that non-binding proceeding.

A. The .net Mediation Cannot Have Any Collateral Estoppel Effect Because It Will Not End in a Final Judgment.

Collateral estoppel requires that the first proceeding "end with a final judgment on the merits." *Younan v. Caruso*, 51 Cal. App. 4th 401, 406 (1996). This requirement cannot be satisfied here; because the .net mediation is non-binding, it does not even constitute an adjudicatory procedure. *See* Knight et al., *California Practice Guide: Alternative Dispute Resolution* § 3:246 (Rutter Group 2003); *Shepherd v. Greene*, 185 Cal. App. 3d 989, 993 (1986) ("advisory only"). Therefore, it will not and cannot result in a final judgment, and collateral estoppel does not apply.

B. The .net Mediation Cannot Have Any Collateral Estoppel Effect Because It Will Not Decide the Same Issues.

Collateral estoppel also requires that "the issue necessarily decided at the previous proceeding is identical." *Younan*, 51 Cal. App. 4th at 406. This requirement also cannot be satisfied here, because the .net mediation concerns issues distinct from those presented in this action. While the .net mediation concerns the .net Agreement and the .net gTLD, this action concerns the .com Agreement and the .com gTLD.

1. The .com and .net Agreements Are Separate, Distinct, and Independent.

The 2001 Registry Agreements for .com and .net are, and were always intended to be, separate, distinct, and independent agreements. They are different contracts that concern different gTLDs. The .com Agreement concerns only the .com gTLD. And the .net Agreement concerns only the .net gTLD. Notably, ICANN's own publicly posted comparative analysis confirms how different the .com and .net Agreements are and were intended to be.

In November 1999, ICANN and VeriSign's predecessor, Network Solutions, Inc. ("NSI"), entered into a single registry agreement with respect to NSI's operation of the registry for the .com, .net, and .org gTLDs. (*See* Compl. ¶¶ 1 & 16; Pope Decl. Ex. 2 (1999 Registry Agreement).) In May 2001, however, the parties split the unified 1999 Registry Agreement into three separate registry agreements, one agreement for each of the gTLDs involved. (*See* LeVee Decl. Ex. A (Request for Arbitration) ¶ 21.) The resulting .com Agreement looked (and is) very different than the resulting .net Agreement.

These differences were conscious and deliberate. At about the time the 2001 .com and .net Registry Agreements were being finalized, ICANN prepared a report, *Information on Proposed VeriSign Revisions*, to "bring together in one place the key information regarding the present and proposed agreements." (*See* Pope Decl. Ex. 1 at 1.) In this report, ICANN lamented that the terms of the 1999 Registry Agreement had been unfavorable to ICANN. (*See id.* at FAQ-17 & FAQ-19; *see also* Pope Decl. Ex. 8 (April 16, 2001 Letter from Stuart Lynn) at 3 ("[T]he 1999 agreement . . . provides VeriSign with procedural and legal protections and options not available to any other participant in ICANN.").)

But while ICANN and VeriSign altered many of the 1999 agreement's provisions for the 2001 .net Agreement, they did ***not*** alter many of those terms for the contemporaneously executed 2001 .com Agreement.[7] As ICANN explained at the time: "The above measures in the proposed .com Agreement do not completely address the ambiguities and undesirable limitations in the current [1999] Agreement." (Pope Decl. Ex. 1 at FAQ-20.) And, in another report ICANN

[7] In adapting the 1999 agreement to the .com Agreement, the parties changed over 20% fewer words than in adapting the 1999 agreement to the .net Agreement. (*See* Pope Decl. ¶¶ 19-20.)

published at about the same time, ICANN wrote: "The existing [1999] agreement would be amended to provide that it applied only to the .com registry." (Pope Decl. Ex. 9 (March 1, 2001 Melbourne Meeting Topic) ¶ D.4.)

ICANN tried to "reduce the differences between the legal agreements" (Pope Decl. Ex. 1 at FAQ-16), but, by its own admission, ICANN failed to eliminate many significant differences between the .com and .net Agreements. Although key provisions of the 1999 Agreement – which, as noted, ICANN considered favorable to VeriSign – were modified for the 2001 .net Agreement, those provisions persisted unchanged in the 2001 .com Agreement. Moreover, the .com Agreement contains substantive provisions, such as ICANN's obligation to enter into agreements with competing TLD registries, that are expressly placed in issue by the Complaint in this action but that are not found in the .net Agreement. Thus, under no circumstances could the .net mediation resolve those issues.

2. The .com and .net gTLDs Are Also Separate, Distinct, and Independent.

Not only are separate, distinct, and independent *agreements* at issue in the two proceedings, but also at issue are different *gTLDs*. For example, the .com gTLD contains more than 31 million registered domain names, while the .net gTLD contains only 5 million. (*See* Pope Decl. Ex. 16 (registry monthly report) at 18.) Indeed, ICANN itself has repeatedly contended that the interpretation of a registry agreement depends to some extent on the size and nature of the gTLD to which it pertains. (*See, e.g.*, LeVee Decl. Ex. C (Request for Arbitration) ¶ 50; Pope Decl. Ex. 8 (April 16, 2001 Letter from Stuart Lynn) at 7.)

In short, the .net mediation concerns a separately negotiated contract, containing materially different terms, and governing a distinct gTLD, than are at issue here. Accordingly, even if the .net mediation could result in a final judgment concerning the *.net* Agreement and the .net gTLD (something it cannot do), it still would have no collateral estoppel effect on this action because it does not present the "identical" issues, or any of them, for resolution.

C. The .net Mediation Cannot Have Any Collateral Estoppel Effect Because the Parties Agreed To Litigate Disputes Under the .com Agreement.

Notwithstanding their agreement to mediate disputes in the first instance under the .net

Agreement, the parties agreed to a different mechanism for resolving disputes under the .com Agreement. Under the .com Agreement, the parties provided for access to the public courts to resolve disputes. By its Motion, ICANN now attempts to make an end-run around this mutually agreed upon provision. However, staying this action would defeat the parties' bargained-for contractual expectations and intent, and disserve the interests of justice.

1. The 2001 .com and .net Agreements Contain Deliberately Different Dispute Resolution Provisions.

One of the specific provisions in the 1999 Registry Agreement that ICANN tried to change in the 2001 agreements was the dispute resolution provision. (*See* Pope Decl. Ex. 1 at FAQ-3.) The 1999 Registry Agreement provided for arbitration only if ***both*** parties agreed:

> Disputes arising under or in connection with this Agreement, including requests for specific performance, shall be resolved in a court of competent jurisdiction ***or, at the election of both parties*** (except for any dispute over whether a policy adopted by the Board is a Consensus Policy, in which case at the election of either party), ***by an arbitration*** conducted as provided in this Section pursuant to the International Arbitration Rules of the American Arbitration Association ("AAA"). . . .

(Pope Decl. Ex. 2 ¶ 13 (1999 Registry Agreement) (emphasis added).)

Although the parties modified this provision for the 2001 .net Agreement, *supra* pp. 4-6, they did ***not*** modify it for the .com Agreement. Because the .com gTLD is significantly larger and more pervasive, VeriSign did not want disputes concerning the .com gTLD to be decided in an informal proceeding with, at most, limited discovery and without strict adherence to the law. Consequently, VeriSign successfully resisted changing the provision in the .com Agreement that disputes would be resolved through litigation. Thus, the 2001 .com Agreement, like the 1999 Registry Agreement, provides that disputes arising under or in connection with that agreement shall not be arbitrable unless ***both*** parties agree:

> Disputes arising under or in connection with this Agreement, including requests for specific performance, ***shall be resolved in a court of competent jurisdiction or, at the election of both parties*** (except for any dispute over whether a policy adopted by the Board is a Consensus Policy, in which case at the election of either party), by an arbitration conducted as provided in this Section pursuant to the International Arbitration Rules of the American Arbitration Association ("AAA"). . . .

(LeVee Decl. Ex. C (.com Agreement) ¶ II.15 (emphasis added).)

In short, VeriSign and ICANN deliberately and concurrently opted for dramatically different dispute resolution procedures for the .com and .net gTLDs. While the parties agreed to mediate disputes in the first instance under the .net Agreement, subject to their right to trial *de novo*, they expressly agreed to reserve to the public courts the responsibility for adjudicating disputes under the .com Agreement, following full discovery and in accordance with the law. ICANN's Motion is thus blatant forum shopping to defeat its own agreement and to thwart the expressed intent of the parties.

2. ICANN Cannot, in Effect, Compel VeriSign To Arbitrate .com Disputes Merely Because the Parties Agreed To "Arbitrate" .net Disputes.

ICANN is attempting to ride the arbitration horse in the wrong race. The duty to arbitrate is assumed by contract. *See AT & T Techs., Inc. v. Comm. Workers of Am.*, 475 U.S. 643, 648-49 (1986); *see generally Freeman v. State Farm Mut. Auto Ins. Co.*, 14 Cal. 3d 473, 481 (1975); *Lopez v. Charles Schwab & Co.*, 118 Cal. App. 4th 1224, 1229-30 (2004); *Banner Enter. v. Superior Ct.*, 62 Cal. App. 4th 348, 356 (1998); *United Pub. Employees v. San Francisco*, 53 Cal. App. 4th 1021, 1031 (1997). It is undisputed here that the parties never agreed to arbitrate, or even initially to mediate, disputes under the .com Agreement.[8] Indeed, they agreed to just the opposite. VeriSign and ICANN specifically committed to litigate disputes under the .com Agreement. Moreover, in its own analysis of the .com Agreement, ICANN conceded: "the fact that litigation is specifically contemplated in the existing agreement would likely make it impossible for ICANN to assert that a court did not have jurisdiction over the dispute." (Pope Decl. Ex. 1 at FAQ-2.)

Yet, in that context and against this historical background, for ICANN to assert, as it does, that the .net mediation will be sufficiently binding on or decisive of the .com claims in this action to warrant a stay, constitutes a repudiation of the clearly expressed intent of the parties with respect to the .com Agreement – to resolve disputes thereunder in court. In the face of such an explicit agreement, a mediation of .net claims cannot foreclose (as ICANN proposes) a judicial resolution of issues under the .com Agreement and does not justify a stay of these proceedings. *See Vandenberg v. Superior Ct.*, 21 Cal. 4th 815, 827 (1999); *Benasra v. Mitchell Silberberg & Knupp*, 96 Cal. App.

[8] ICANN has not moved either to dismiss this action or to compel arbitration of disputes under the .com Agreement.

4th 96, 105 (2002); *Marsch v. Williams*, 23 Cal. App. 4th 250, 266 (1994). Simply stated, a stay would defeat VeriSign's access to the court to adjudicate .com disputes, with the attendant right to conduct discovery and to develop a full evidentiary record, in derogation of the parties' agreement.[9]

IV. ICANN WAIVED ITS RIGHT TO SEEK A STAY OF THIS ACTION.

In its Motion, ICANN asserts that the .net mediation is the mirror image of this litigation. (Mot. at 1-2.) But if ICANN really thought that were true, it must have thought it was true nine months ago when the parties began litigating these .com issues. Importantly, ICANN could have initiated the .net mediation then, or in the months that followed, but chose not to. The circumstances that form the gravamen of the .net mediation existed when VeriSign commenced this .com litigation in February 2004, and have existed ever since. However, by its unreasonable delay in seeking to arbitrate, and by its significant and sustained participation in the .com litigation in the interim, ICANN gained an unfair advantage through unilateral discovery from VeriSign, in addition to stalling the resolution of both sets of disputes. Accordingly, ICANN has waived its purported right to arbitrate under the .net Agreement and has certainly waived any right to seek a stay pending that proceeding.

A. ICANN Actively Participated for Nine Months in Litigation under the .com Agreement and Obtained Unilateral Benefits from Such Participation.

Pursuant to the dispute resolution provision in the .com Agreement, which provides that disputes in connection with that agreement "shall be resolved in a court of competent jurisdiction," on February 26, 2004, VeriSign filed a complaint in the U.S. District Court for the Central District of California, alleging, among other matters, that ICANN had breached the .com Agreement.

ICANN has extensively and actively participated in the ensuing .com litigation for nearly

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[9] ICANN suggests that any delay from staying this action would be insignificant because the .net Agreement calls for a decision "within ninety days." (*See* Mot. at 6-7.) But the ICC Court has already notified the parties that it "may modify these shortened time limits." (*See* Pope Decl. Ex. 12 at 3.) Indeed, even ICANN recognizes that ninety days is unrealistic. (*See* Mot. at 6 ("possible slippage"); *id.* at 3 ("ICC may lengthen that period").) In reality, the delay would be far greater. ICC statistics show that ICC panels typically take ***more than a year*** to issue a decision after arbitration is initiated. (Pope Decl. Ex. 11 (ICC practice guide) ("In most cases it would be unrealistic to expect that the final Award can be made in less than one year."); *id.* Ex. 13 at 5 (ICC Bulletin).)

nine months. (*See* Pope Decl. Exs. 14 & 15 (Court Dockets), 18 (ICANN's posting of litigation documents).) In particular, on April 5, 2004, ICANN filed a motion to dismiss for failure to state a claim. And on April 20, 2004, ICANN filed a "special motion to strike" certain of VeriSign's claims under the California anti-SLAPP statute. *See* Cal. Civ. Proc. Code § 425.16. The anti-SLAPP motion, in particular, necessarily related to the *merits* of the action. VeriSign opposed the motion to strike and, as required by the relevant anti-SLAPP case law, submitted substantial evidence to support its claims, including seven lengthy declarations and numerous exhibits, totaling nearly 900 pages. (*See* Pope Decl. ¶ 21.)

After the motion to dismiss was granted with leave to amend, VeriSign, on June 14, 2004, filed a First Amended Complaint, adding new detailed allegations to support the same claims as had been alleged in the original complaint. ICANN filed a second motion to dismiss on July 6, 2004, and renewed its special motion to strike. After another round of extensive briefing, the District Court dismissed VeriSign's amended complaint on purely jurisdictional grounds on August 26, 2004, never reaching the anti-SLAPP motion. The next day, VeriSign filed its Complaint in the instant action, containing the same basic contract claims that had been alleged in federal court.

Three months later, after having unilaterally obtained substantial evidence from its nine months of active participation in the .com litigation, ICANN first initiated the .net "arbitration" and moved to stay this litigation.

B. ICANN's Participation in the .com Litigation Has Prejudiced VeriSign.

ICANN has improperly manipulated this litigation to the detriment of VeriSign. Despite its latest position that this action and the .net mediation are virtually identical, never during the past nine months since VeriSign initiated the .com litigation did ICANN: move to compel arbitration of those claims, commence a mediation under the .net Agreement, or move to stay this litigation, until now. Instead, ICANN fought on the merits, filing motions designed to force VeriSign to lay out its case. Now, before VeriSign can conduct discovery of its own, ICANN seeks to stay this action. ICANN has waited too long and has benefited too much from the .com litigation to seek a stay.

1. ICANN's Delay Triggers a Waiver.

Failure to demand arbitration within a reasonable time is a waiver of arbitration. *See Spear*

v. CAA, 2 Cal. 4th 1035, 1043 (1992); *Sobremonte v. Superior Ct.*, 61 Cal. App. 4th 980, 992 (1998). All the claims in this litigation have been on file since VeriSign sued ICANN in federal court on February 26, 2004. (*See* Mot. at 1-2, 4, 6.) Yet ICANN did not file its Request for Arbitration until November 10, 2004. (*See* LeVee Decl. Ex. C (Request for Arbitration).) Thus, notwithstanding its purported view that the .com litigation and the .net arbitration raise nearly identical issues, ICANN waited nearly nine months before initiating arbitration and seeking a stay.

This is a very substantial delay: California courts have found waiver where parties have delayed as little as four months in asserting arbitration. *See, e.g., Guess?, Inc. v. Superior Ct.*, 79 Cal. App. 4th 553, 557 (2000) (four months); *Davis v. Continental Airlines*, 59 Cal. App. 4th 205, 213 (1997) (six months); *Lounge-A-Round v. GCM Mills, Inc.*, 109 Cal. App. 3d 190, 200-02 (1980) (nine months); *Sobremonte*, 61 Cal. App. 4th at 992 (ten months).

2. ICANN Has Actively Participated in the .com Litigation.

Furthermore, ICANN not only delayed for nine months in seeking arbitration, but during that time, it actively participated in the .com litigation. Significant and sustained participation in litigation itself constitutes a waiver of arbitration. *See Sobremonte*, 61 Cal. App. 4th at 992. In this instance, in the .com litigation, ICANN has filed four motions, counter-claims, and hundreds of pages of briefing. (*See* Pope Decl. ¶ 23.)

Most notably, through its anti-SLAPP special motion to strike, ICANN forced VeriSign to reveal strategies, theories, and evidence that it never would have been required to disclose in the arbitral arena. *See generally HMS Capital, Inc. v. Lawyers's Title Co.*, 118 Cal. App. 4th 204, 212 (2004); *ComputerXpress, Inc. v. Jackson*, 93 Cal. App. 4th 993, 999 (2001). ICANN, in effect, used the litigation process to "test" VeriSign on the merits of its case, forcing VeriSign to provide admissible evidence to establish the probability of prevailing on the merits on every cause of action it asserted.

ICANN's extensive participation in the .com litigation has prejudiced VeriSign in two material respects. First, ICANN forced VeriSign to expend significant time and effort and to incur significant expenses. *See Guess?*, 79 Cal. App. 4th at 558; *Kaneko Ford Design v. Citipark, Inc.*,

202 Cal. App. 3d 1220, 1228-29 (1988).[10] Second, and more importantly, ICANN forced VeriSign to disclose its defenses and strategies. *See Berman v. Health Net*, 80 Cal. App. 4th 1359, 1366 (2000); *Guess?*, 79 Cal. App. 4th at 558; *Davis*, 59 Cal. App. 4th at 215.

Having availed itself of the benefits of participating in the .com litigation in court, ICANN now seeks to stay this action to prevent VeriSign from obtaining the same types of information and evidence from ICANN and from progressing toward an adjudication of its claims. It would be manifestly unfair to VeriSign, and directly contrary to the parties' contract, to reward ICANN's gamesmanship. "In litigation, as in life, you can't have your cake and eat it too." *Guess?*, 79 Cal. App. 4th at 555.

V. A STAY WOULD MATERIALLY PREJUDICE VERISIGN.

Civil actions should be expeditiously resolved without delay. *See generally* Cal. Gov't Code § 68607 ("[J]udges have the responsibility to eliminate delay."); Cal. Std. Jud. Admin. § 2 (Trial courts should "eliminate all unnecessary delay."); *Fuller v. Superior Ct.*, 87 Cal. App. 4th 299, 306 (2001) ("Plaintiffs are entitled to expeditious and fair resolution of their civil claims.").

This rule applies with particular force in this action for declaratory relief. Declaratory judgment actions such as this are entitled to priority in setting trial dates. *See* Cal. Civ. Proc. Code § 1062.3; *Mycogen Corp. v. Monsanto Co.*, 28 Cal. 4th 888, 898 (2002). Declaratory relief, after all, promotes judicial economy by quickly relieving parties "of the uncertainty and insecurity with respect to rights and legal relations." *See Lortz v. Connell*, 273 Cal. App. 2d 286, 301 (1969).

VeriSign and ICANN seriously and genuinely disagree as to the interpretation of essential terms of the 2001 .com Agreement. (*See* Compl. ¶ 89.) They are bound to perform under this agreement for at least another three years. Consequently, the parties have a real and compelling need for guidance from the Court.[11] (*See id.* ¶ 92.) To stay this action for a year or more would

[10] Indeed, ICANN's failure to renew its SLAPP motion in state court, although the contract claims are substantively the same, strongly suggests that ICANN intended to use and, in fact, did use the anti-SLAPP motion in federal court as a discovery device. (*Compare* Pope Decl. Ex. 14 (federal docket) *with id.* Ex. 15 (state docket).)

[11] VeriSign's complaint in federal court included essentially the same claim for declaratory relief that is now before this Court. (*See* Pope Decl. Ex. 17.) Interestingly, ICANN has never moved to dismiss or otherwise challenged the legal sufficiency of VeriSign's declaratory relief claim, nor ever questioned the need for declaratory relief as between the parties to the .com Agreement.

deprive the parties of that expeditious guidance and frustrate the very purpose of declaratory relief.

If VeriSign relies on its interpretation of the .com Agreement and proceeds to offer new services to consumers without ICANN's approval, VeriSign risks ICANN's declaring it to be in breach of the .com Agreement and/or attempting to terminate the agreement prematurely, with resulting losses of revenue from third parties, profits, extension rights, reputation, and good will, and other potentially resulting collateral consequences. (*See id.* ¶ 93.)

Alternatively, were VeriSign to defer offering such services to the public during the effective period of the .com Agreement, or to modify such services due to ICANN's conduct and threats, VeriSign would suffer irreparable losses of revenue from third parties, profits, market share, competitive position, reputation, and good will. (*See id.* ¶ 94.) And millions of Internet users will be deprived of the improved functionality and quality of VeriSign's services. *See Fuller*, 87 Cal. App. 4th at 301 (denying stay based in part on consideration of the interests of the public).

Under the Declaratory Relief Act, VeriSign is entitled to preferential trial setting and adjudication of its declaratory relief claims. A stay would thwart VeriSign's rights and delay its receipt of judicial guidance regarding the parties' rights and obligations under the .com Agreement.

VI. CONCLUSION

By its motion, ICANN is seeking to delay these proceedings for over a year, after which time the parties will be in the same position they are in now with respect to the .com Agreement issues raised in the Complaint. Those issues cannot be, and will not have been, resolved by any .net mediation, nor will a full evidentiary record have been developed or presented on the .com issues. Consequently, for all of the foregoing reasons, this Court should deny ICANN's motion to stay this action pending the mediation under the .net Agreement.

DATED: December 20, 2004.

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