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INTERNET CORPORATION FOR
ASSIGNED NAMES AND NUMBERS

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

REGISTERSITE.COM, et al.,

Plaintiff,

v.

INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS, a California Corporation; VERISIGN, INC., a Delaware Corporation; and DOES 1-150, inclusive,

Defendants.

Case No. CV041368 ABC (CWx)

DEFENDANT INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS' NOTICE OF MOTION AND MOTION TO DISMISS CERTAIN CAUSES OF ACTION FOR FAILURE TO STATE A CLAIM UNDER FRCP 12(B)(6); MEMORANDUM OF POINTS AND AUTHORITIES

Date: July 12, 2004
Time: 10:00 a.m.
Dept: 680

Honorable Audrey B. Collins

PLEASE TAKE NOTICE that, on July 12, 2004, at 10:00 a.m. or as soon thereafter as counsel may be heard at the courtroom of the Honorable Audrey B. Collins, United States District Judge, located at 255 East Temple Street, Los Angeles, CA 90012, Defendant Internet Corporation for Assigned Names and Numbers ("ICANN") will and hereby does move this Court, pursuant to Rule 12(b)(6) of the Federal Rules of Civil Procedure, for an order dismissing the following claims for relief contained in the complaint filed by Registersite.com, Name.com, R. Lee Chambers Company LLC, Fiducia LLC, Spot Domain, LLC, !$6.25 Domains! Network, Inc., AusRegistry Group Pty Ltd and !$!Bid It Win It, Inc.'s ("Plaintiffs"):

- first claim for relief for violation of California Business and Professions Code Section 17200 et seq., as against ICANN;
- fifth claim for relief for violation of California Business and Professions Code Section 17200 et seq., as against ICANN;
- seventh claim for relief for violation of California Business and Professions Code Section 17200 et seq., as against ICANN; and
- twelfth claim for relief for breach of contract.

Pursuant to Rule 12(b)(6) of the Federal Rules of Civil Procedure, none of these claims for relief states a claim upon which relief may be granted, as against ICANN. These are the only claims for relief in the complaint that are asserted against ICANN.

ICANN originally met and conferred with Plaintiffs on April 1, 2004, during which ICANN notified Plaintiffs that ICANN intended to file a motion to dismiss plaintiffs' original complaint. Plaintiffs elected to file an amended complaint, which they did on April 8, 2004.

Although the first amended complaint deleted some of the defects in its claims against ICANN, it retained several others, and even introduced some

additional defects. This motion is made following the conference of counsel pursuant to Local Rule 7-3, which took place on May 20, 2004. Counsel were unable to reach any agreements that would obviate the need for the motion.

This motion is based upon this Notice of Motion and Motion, the Memorandum of Points and Authorities attached hereto, the concurrently-filed Request for Judicial Notice, all the papers, pleadings, and records on file herein, and on such other matters as may properly come before the Court before or at the hearing.

Dated: May 28, 2004

JONES DAY

By: Jeffrey A. LeVee
Jeffrey A. LeVee

Attorneys for Defendant
INTERNET CORPORATION FOR
ASSIGNED NAMES AND NUMBERS

MEMORANDUM OF POINTS AND AUTHORITIES

INTRODUCTION

In pursuing this case against ICANN, Plaintiffs are seeking to raise issues *already decided* by Judge Walter in November 2003. Earlier that year, three other registrars, which have identical registrar accreditation agreements ("RAAs") to those of plaintiffs, filed a lawsuit in this Court – known as the *Dotster* litigation – attacking the very same proposal for a Wait Listing Service ("WLS") made by VeriSign. They made the same arguments that ICANN's acceptance of that proposal violated the procedures and other requirements set forth in the RAA, and sought a preliminary injunction to block WLS. Judge Walter denied the motion and in his Order made clear that the arguments of the *Dotster* plaintiffs provided no basis for relief. In the wake of that order, the *Dotster* plaintiffs voluntarily dismissed their lawsuit with prejudice.

Each of the four claims the Plaintiffs now make against ICANN arises entirely from that same WLS proposal and ICANN's failure to use its contracts with VeriSign to reject the proposal. As a result, Plaintiffs must know that their inclusion of ICANN in this lawsuit is unwarranted. Few of the claims for relief in the first amended complaint contain *any* of the necessary elements to state a claim against ICANN. For example, Plaintiffs include three California Business and Professions Code section 17200 claims against ICANN, each of which contain only one paltry allegation against ICANN.

The reason for Plaintiffs' inability to aver facts that would support their claims is simple: there *are* no facts to support their claim. Instead, this lawsuit was apparently filed merely as a tactic to try to delay the implementation of WLS because Plaintiffs will make more money if WLS is delayed. The Court should not countenance such litigation tactic. ICANN urges the Court to dismiss the first, fifth, seventh, and twelfth claims against ICANN in Plaintiffs' first amended complaint, with prejudice.

STATEMENT OF RELEVANT FACTS

Although Plaintiffs' first amended complaint is lengthy, its allegations with respect to ICANN may be summarized as follows:

Defendant VeriSign is the Internet "registry" for the ".com" and ".net" domains. FAC ¶¶ 4.9, 4.44. A "registry" is analogous to a telephone book in that it maintains a list (and other relevant information) of all of the Internet domain names registered in that particular domain (i.e., ".com"). If a consumer wishes to register a name in either of those domains, the consumer contacts an Internet "registrar" (such as one of the Plaintiffs), which in turn contacts VeriSign to see if the domain name is available or if it is already registered. FAC. ¶¶ 4.10-4.11. Domain name registrations typically are for one or two years. FAC ¶ 4.38. At the end of the registration period, some registrants elect not to renew their domain name registrations, in which case VeriSign deletes the name from the registry. FAC ¶¶ 4.26-4.28.

Some time ago, VeriSign proposed to offer WLS. Via WLS, a consumer (through a registrar) could purchase the ability to "stand in line" for a domain name that might be deleted from the registry. FAC ¶¶ 4.46. If the current subscriber of the domain name elected not to renew her subscription, VeriSign would automatically register the domain name in the name of the person who had purchased the WLS subscription. FAC ¶ 4.48. The Internet registrars could elect to offer WLS to consumers if they wished, but they would be under no obligation to offer WLS.

Plaintiffs are Internet registrars (FAC ¶ 1.4) that "act[] as an interface between registrants [consumers] and the registry operator [in this case, VeriSign], providing domain name registration and other related services to consumers." FAC ¶¶ 4.8-4.10. For various periods of time,[1] Plaintiffs have been offering similar

[1] ICANN notes that some of the Plaintiffs actually became registrars and commenced offering their wait listing services well after VeriSign began public discussions of WLS in 2001, or even after ICANN agreed that it would revise its

types of "wait listing" services to consumers. The difference between Plaintiffs' services and WLS is that Plaintiffs offer no guarantee that they can obtain a domain name for their customers if the name is deleted from the registry. Instead, under Plaintiffs' version of "wait listing," if VeriSign deletes a domain name from the registry, multiple registrars attempt, on behalf of their various customers, to acquire the name in a "split-second" race to be first-in-line when the domain name becomes available. Only one registrar will be successful in obtaining the deleted name for its customer; the other customers will be out of luck. Unlike under WLS, the current system for re-registration of deleted domain names, a customer would simply have to sign up with any one registrar to be placed on the waiting list. This would guarantee the customer the right to be next in line to acquire the domain name should it be deleted.

ICANN is a not-for-profit California corporation that, in 1998, entered into a Memorandum of Understanding with the United States Department of Commerce ("DOC"), which charged ICANN with certain responsibilities for managing and administering the Domain Name System. FAC ¶¶ 4.1-4.7, 4.15-4.18; Bylaws, Art. 1, § 1.[2] The mission of ICANN is to coordinate, at the overall level, the global Internet's systems of unique identifiers, and in particular to ensure the stable and secure operation of the Internet's unique identifier systems. Bylaws, Art. 1, § 1. ICANN conducts no commercial business, and its bylaws do not permit it to function as an Internet registrar or registry. Bylaws, Art. 2, § 2.

(continued...)

agreement with VeriSign to remove the contractual prohibition against its introduction. In fact, a few of the Plaintiffs actually commenced offering this service after the *Dotster* case was filed. These Plaintiffs obviously entered the registrar business knowing that WLS was approaching introduction.

[2] *See* http://www.icann.org/general/bylaws.htm for ICANN's Bylaws.

One of ICANN's purposes has been to "accredit" companies that serve as Internet registrars. When ICANN "accredits" a registrar, ICANN and the registrar enter into a Registrar Accreditation Agreement ("RAA"). Each of the Plaintiffs has signed an essentially identical RAA with ICANN. FAC ¶ 2.15.

After VeriSign submitted its WLS proposal to ICANN, ICANN solicited comment from the Internet community with respect to VeriSign's proposal. FAC ¶¶ 4.60-4.62. After receipt of those comments, ICANN's Board adopted a resolution in August 2002 authorizing ICANN's president to negotiate amendments to its agreements with VeriSign to permit WLS to proceed. FAC ¶ 4.64. After several procedures to review that decision – including reconsideration at the requests of registrars and VeriSign and the filing of a lawsuit in this Court by a group of registrars (the *Dotster* litigation) requesting preliminary and permanent injunctions against ICANN's negotiations with VeriSign – Plaintiffs filed their original complaint on March 1, 2004, only five days before the WLS proposal was to be considered at a regularly-scheduled meeting of ICANN's Board.

On March 6, 2004, the ICANN Board passed a resolution approving the results of negotiations with VeriSign concerning its WLS proposal, which authorized ICANN to seek approval of the United States Department of Commerce (as required by ICANN's agreement with that agency) to amend the VeriSign registry agreements to permit the offering of WLS. FAC ¶ 4.65.

A few days before plaintiffs filed their original complaint in this action, on February 27, 2004, VeriSign filed suit against ICANN, Case No. CV 04-1292 AHM (CTx), which is pending before Judge Matz in the Central District. In that suit, VeriSign alleges, among other things, that ICANN has, in refusing to amend its agreement with VeriSign at an earlier time, (1) conspired with yet-to-be-named registrars and others in violation of section 1 of the Sherman Act; and (2) breached the .com contract between ICANN and VeriSign. On May 10, 2004, Judge Matz

granted ICANN's motion to dismiss VeriSign's complaint, while allowing VeriSign an opportunity to amend.

After ICANN raised objections to the original complaint's sufficiency, on April 8, 2004, Plaintiffs filed their first amended complaint against ICANN ("FAC") and VeriSign. Plaintiffs also added as defendants two other registrars (Network Solutions, Inc., and eNom, Inc.) and an affiliated company (eNom Foreign Holdings Corp.). Plaintiffs claim that WLS threatens Plaintiffs' businesses because "Plaintiffs each offer a service to assist consumers in registering expired domain names." Thus, Plaintiffs seek "to enjoin the defendants' proposed unfair and unlawful WLS activities." FAC ¶¶ 1.4, 1.9. Plaintiffs also claim that ICANN has breached the RAA that each of the Plaintiffs has entered into with ICANN. FAC ¶¶ 2.15, 16.2, 16.3. Plaintiffs allege that WLS would violate the terms of the RAA because WLS does not treat all registrars equally. Further, Plaintiffs claim ICANN breached section 2.3 of the RAA by failing to follow certain procedures in its decision to negotiate with VeriSign regarding the WLS. FAC ¶¶ 16.6, 16.15-16.

As noted in the introduction, Plaintiffs are the second group of registrars that have filed suit against ICANN to try to stop the implementation of WLS. In *Dotster, Inc. v. Internet Corporation for Assigned Names and Numbers*, CV 03-5045-JFW (MANx), three registrars that offered "wait listing" services to assist consumers in registering expired domain names claimed that ICANN had breached sections 2 and 4 of the RAA in its decision to authorize negotiations with VeriSign about the proposed WLS. The *Dotster* plaintiffs unsuccessfully sought a preliminary injunction. In denying the motion for a preliminary injunction, Judge Walter explained that plaintiffs had failed to demonstrate a likelihood of success on the merits of their claims because the RAA clearly did *not* require ICANN to follow the procedures set forth in sections 2 or 4 because WLS did not "affect a right or obligation" of the plaintiff-registrars. November 10, 2003 Order at 6 (attached as Exhibit A to ICANN's concurrently-filed Request For Judicial Notice ("RJN")).

After evaluating this order, the *Dotster* plaintiffs stipulated to dismissal of their action with prejudice; the Court entered that dismissal on December 5, 2003 (attached as Exhibit B to ICANN's concurrently-filed RJN).

LEGAL STANDARD

Although this Court must accept as true material factual allegations in the complaint, "[c]onclusory allegations of law and unwarranted inferences are insufficient to defeat a motion to dismiss for failure to state a claim." *Anderson v. Clow (In re Stac Electronics Sec. Litig.), 89 F.3d 1399, 1403 (9th Cir. 1996)* (internal quotation omitted). To withstand scrutiny under Rule 12(b)(6), the complaint "must contain either direct or inferential allegations respecting all the material elements to sustain a recovery under some viable legal theory." *Scheid v. Fanny Farmer Candy Shops, Inc.*, 859 F.2d 434, 436 (6th Cir. 1988) (internal quotations omitted). In undertaking this analysis, the Court is not required to "accept as true allegations that contradict matters properly subject to judicial notice or by exhibit." *Sprewell v. Golden St. Warriors*, 266 F.3d 979, 988 (9th Cir. 2001). If the complaint falls victim to a motion to dismiss, it should be dismissed with prejudice if amendment would be futile. *See Reddy v. Litton Indus., Inc.*, 912 F.2d 291, 296 (9th Cir. 1990).

ARGUMENT

I. PLAINTIFFS' CLAIMS AGAINST ICANN BASED ON VIOLATIONS OF CALIFORNIA'S UNFAIR COMPETITION LAW ARE FATALLY DEFICIENT.

Plaintiffs' first three claims against ICANN (the first, fifth and seventh claims) are brought against all defendants and allege violations of California's Unfair Competition Law ("UCL"). Plaintiffs are allegedly bringing these claims on behalf of the individual plaintiffs as well as the general public. FAC ¶¶ 5.2, 5.20, 9.2, 9.10, 11.2, 11.12. However, Plaintiffs are not "competent" to bring these claims on behalf of the general public and, therefore, lack standing to bring a

representative action. Indeed, even as claims brought by the individual Plaintiffs, these causes of action, at least as against ICANN, fail to meet the pleading requirements for UCL claims.

A. Plaintiffs Are Not "Competent" To Bring A UCL Claim On Behalf Of The General Public.

A plaintiff must be "competent" to prosecute a UCL claim on behalf of the general public. Cal. Bus. & Prof. Code section 17204; *Kraus v. Trinity Mgmt. Serv., Inc.*, 23 Cal. 4th 116, 138 (2000). To make a showing of competency, the plaintiff must demonstrate that the claim truly is brought on behalf of the "general public." *Rosenbluth Int'l, Inc. v. Super. Ct.*, 101 Cal. App. 4th 1073, 1075 (2002). By contrast, a representative UCL action "based on a contract is not appropriate where the public in general is not harmed by the defendant's alleged unlawful practices." *Id.* at 1077; *see South Bay Chevrolet v. GMAC*, 72 Cal. App. 4th 861, 888-90 (1999) (ruling that a representative action was inappropriate because there was no showing that members of the public were likely to be deceived by a wholesale security agreement between a lender and automotive dealers). Although actions brought to assert claims of individual consumers lend themselves to representative UCL actions, actions brought to vindicate commercial business interests do not. *Prata v. Super. Ct.*, 91 Cal. App. 4th 1128, 1143 (2001) (recognizing a distinction between "actions brought to vindicate the rights of individual consumers" and actions involving "sophisticated business finance issues"); *see also South Bay Chevrolet*, 72 Cal. App. 4th at 883.

In *Rosenbluth*, plaintiff alleged that a travel agency serving large corporate clients used fraudulent accounting methods in order to understate the amount of rebates due to its customers. 101 Cal. App. 4th at 1076. The plaintiff brought the UCL action on behalf of the travel agency's customers, mostly corporations that had contracts with the travel agency. The court recognized that a UCL action brought on behalf of sophisticated parties to business contracts raises significant

"constitutional issues" in that it deprives the businesses of the decision of whether or not to sue, and the right to be represented by their own counsel. Rosenbluth, 101 Cal. App. 4th at 1078-79; *see Bronco Wine Co. v. Frank A. Logoluso Farms*, 214 Cal. App. 3d 699, 718 (1989) (ruling that a UCL action against a winery brought on behalf of absent grape growers raised due process concerns because the absent grape growers were deprived of the decision of whether to participate in the action and to represent themselves). In addition, the *Rosenbluth* court found that actions to redress business interests foreclose absent plaintiffs from recovering individualized damages in that each of the "victims' damages would have to be calculated separately" because they have separate, specific contracts. *Rosenbluth*, 101 Cal. App. 4th at 1079; *Bronco Wine Co.*, 214 Cal. App. 3d at 720. The court, therefore, ruled that plaintiff was not "competent" to bring the action because the purported victims – the large corporations that had individual relationships with the travel agency – were not the general public. *Id.* at 1078-79.

The present case is like *Rosenbluth*. While claiming to bring the action on behalf of "consumers," Plaintiffs are simply attempting to protect their own business interests, which are opposed to the interests of consumers. Plaintiffs allege that *they* will lose money and business if WLS is instituted, because consumers will then choose the more effective WLS in preference to Plaintiffs' wait listing services. By bringing this action, Plaintiffs seek to block WLS and deny consumers a choice in the matter.

As in *Rosenbluth*, "[t]he alleged victims here are not unwary targets of false advertising, innocent youths corrupted by lawbreaking retailers, aggrieved used car purchasers, or a 'singularly dense' group of consumers who fall prey to misleading advertising designed to lure them into high-interest loan contracts." *Rosenbluth*, 101 Cal. App. 4th at 1078 (citations omitted). The alleged victims – the various other registrars accredited by ICANN – are sophisticated entities that have demonstrated, by the filing of the *Dotster* case, that they are capable of asserting

their own interests and have no need for Plaintiffs' representation. They also have different interests than Plaintiffs, as shown by the naming of two of them as defendants in this lawsuit. Plaintiffs' differing corporate interests, and the due process concerns raised by a representative suit in the face of those differences, render Plaintiffs incompetent to bring a representative action. *See Kraus*, 23 Cal. 4th at 138 ("[B]ecause a UCL action is one in equity, in any case in which a defendant can demonstrate a potential for harm or show that the action is not brought by a competent plaintiff for the benefit of injured parties, the court may decline to entertain the action as a representative suit.").

B. Plaintiffs' UCL Claims Do Not Meet The Heightened Pleading Requirements Under Section 17200 .

In order to bring any claim under the UCL, the plaintiff "must state with reasonable particularity the facts supporting the statutory elements of the violation." *Silicon Knights, Inc. v. Crystal Dynamics, Inc.*, 983 F. Supp. 1303, 1316 (N.D. Cal. 1997) (citing *Khoury v. Maly's of Cal.*, 14 Cal. App. 4th 612, 619 (1993)); *Nicolosi Distrib. Co. v. FinishMaster, Inc.*, 2000 U.S. Dist. LEXIS 505 *1, *5 (N.D. Cal. 2000) ("claims brought under California's unfair competition statute must satisfy a heightened pleading standard"). The allegations cannot simply mirror other claims in the complaint but must state specific facts that support the alleged UCL violation. *GlobeSpan, Inc. v. O'Neill*, 151 F. Supp. 2d 1229, 1236 (C.D. Cal. 2001); *see The Official Comm. of Unsecured Creditors v. Donaldson, Lufkin & Jenrette Sec. Corp.*, 2002 WL 362794 *1, *17-18 (S.D.N.Y. March 6, 2002) (citing *Silicon Knights* for the proposition that plaintiffs must do more than reference the rest of their claims and assert that this represents an unlawful or unfair business practice under California's UCL).

If the complaint contains claims against multiple defendants, the plaintiff is required to allege the specific facts tying each defendant to the alleged UCL violation. *See Silicon Knights*, 983 F. Supp. at 1316. In *Silicon Knights*, plaintiff, a

video game designer, sued its partner-corporation, as well as the corporation's individual officers alleging, among other things, violations of the UCL. *Id.* at 1305-06. The trial court agreed with the individual defendants that plaintiff failed to allege facts sufficient to support a UCL claim against the individual defendants. *Id.* at 1316. Even though the body of the complaint contained factual detail regarding the conduct of the individual defendants, the majority of plaintiff's claims were brought against the corporate-partner and not the individual defendants. *Id.* As such, there was no underlying basis for the UCL claims as alleged against the individual defendants. *Id.*

The present case is similar to *Silicon Knights* in that the majority of the claims are brought against defendants other than ICANN. In addition, Plaintiffs allege no basis for any UCL-based claim against ICANN, let alone facts sufficient to support three separate UCL claims. Indeed, even if Plaintiffs had included allegations specifically directed to ICANN's conduct, these still would be insufficient, because by its very nature that conduct – failure of ICANN to use its contractual relationships to prohibit the other defendants from offering WLS in a manner that the Plaintiffs allege violate the UCL – does not itself violate the UCL. Laws of general application such as the UCL are enforced by courts and the executive branch; Plaintiffs have not shown why ICANN is obliged (or, indeed, even equipped) to affirmatively use its agreements with VeriSign and other registrars to compel those companies to comply with the UCL and the myriad other laws around the world that may apply to them. And because ICANN itself does not engage in the commercial registrar or registry businesses, there can be no allegation that ICANN will participate in the actions about which Plaintiffs complain.

In Plaintiffs' first claim, there is only one allegation that could possibly be directed against ICANN: "The Defendants and each of them have aided or assisted in setting up, managing, or drawing the lottery in the WLS lottery enterprise." FAC ¶ 5.19. All the other allegations in the first claim are aimed at the activities of the

other defendants – VeriSign, NSI, and/or eNom and its holding company (FAC ¶¶ 5.2-5.18). ICANN is not even mentioned by name and therefore no specific facts are alleged, as required by *Silicon Knights,* tying ICANN to the alleged UCL violation. In fact, even the complaint makes clear that ICANN will not be involved in "setting up" or "managing" WLS, but at most will fail to use its contracts to prohibit it.

As for the fifth claim, there is only one mention of ICANN: "ICANN approved the WLS for a one-year trial without requiring Verisign to disclose (or to require registrars to disclose) that consumers may not have the opportunity to renew their WLS subscriptions after the one-year trial period." FAC ¶ 9.6. It appears that Plaintiffs are attempting to allege that the sale of WLS subscriptions by VeriSign constitutes false advertising. FAC ¶ 9.8. But ICANN does not (and will never) sell WLS subscriptions. ICANN has not required (and does not propose to require) VeriSign to engage in the acts alleged to constitute false advertising. Therefore, the statement regarding ICANN's approval of the WLS for a one-year trial is irrelevant to the alleged false advertising by VeriSign and is not sufficient to satisfy the pleading requirements for a violation of the UCL. ICANN does not, by merely allowing VeriSign under its agreements to sell WLS subscriptions, become liable under the UCL in the event VeriSign advertises WLS in a manner that Plaintiffs consider to constitute false advertising.

Finally, Plaintiffs' seventh claim is also brought against all defendants. It alleges that VeriSign and the "Participating Registrars" are violating the UCL by misleading consumers by purporting to sell ownership in domain names, when they have no interest (Plaintiffs argue) to sell. FAC ¶¶ 11.6-11.11. In this claim, the only mentions of ICANN are Plaintiffs' references to the registry agreement between Verisign and ICANN and the Registry-Registrar Agreements between VeriSign and all ICANN-accredited registrars (FAC ¶¶ 11.6-11.7) and their assertion that "[n]either ICANN nor the Department of Commerce has authority to

approve Verisign's attempt to leverage its *de facto* control into *de jure* rights" (FAC ¶ 11.10). Whatever this means, this is the *only* allegation against ICANN, and the allegation does not contain any *facts* to demonstrate that Plaintiffs have a legitimate claim against ICANN. Moreover, ICANN's authority, or lack thereof, regarding WLS does not convert its removal of contractual constraints to VeriSign's introduction of WLS into a violation of the UCL.

As in *Silicon Knights*, Plaintiffs are required to plead ***with specificity*** the factual support for a UCL claim against ***each defendant***. *Silica Knights*, 983 F. Supp. at 1316. Plaintiffs' "allegations" in these three UCL claims do not satisfy this burden as to ICANN. This failure is fatal to Plaintiffs' first, fifth and seventh claims against ICANN.

C. Plaintiffs' First Claim Fails for the Additional Reason that Plaintiffs Have Not, and Cannot, Allege an Illegal Lottery.

Plaintiffs' first claim for relief contains an additional fatal flaw. In their first claim, Plaintiffs allege that WLS is an "illegal lottery" under California Penal Code section 319, and therefore a UCL violation. FAC ¶¶ 5.10, 5.14-5.15. But Plaintiffs have failed to plead facts supporting a violation of the underlying statute. *Aguilar v. Atl. Richfield Co., 25 Cal. 4th at 826, 856-57* (ruling that if there is no violation of the underlying law, there can be no UCL claim based on the alleged violation).

To state a violation of California Penal Code section 319, a plaintiff must allege facts establishing three elements: (1) the disposition of property; (2) upon a contingency determined by chance; (3) to a person who has paid a valuable consideration for the chance of winning the prize. Cal. Pen. Code section 319; *Finster v. Keller*, 18 Cal. App. 3d 836, 843 (1971).

The WLS would have to be dominated by chance in order to violate section 319.[3] "Chance," the California Supreme Court has explained, "means that winning

[3] A system or game cannot be considered "as one of chance solely because chance is a factor in producing the result." *People v. Settles*, 29 Cal. App. 2d Supp. 781, 787 (1938).

and losing depend on luck and fortune rather than, or at least more than, judgment and skill." *Hotel Employees & Restaurant Employees Int'l Union v. Davis*, 21 Cal. 4th 585, 592 (1999). In other words, "[t]he test is not whether the game contains an element of chance or an element of skill but which of them is the dominant factor in determining the result of the game." *In re Allen*, 59 Cal. 2d 5, 6 (1962).

Plaintiffs have not, and cannot, plead that WLS is dominated by "chance." In fact, Plaintiffs' own allegations demonstrate that WLS is *not* dominated by chance. As Plaintiffs' allege, under WLS, "registrars who choose to offer the WLS will be able to subscribe (on behalf of customers) to currently registered <.com> and <.net> domain names" and "[o]nly one WLS subscription will be accepted for each domain name" on a "first-come/first-served basis." FAC ¶ 4.46. Then, if the reserved domain name expires, "VeriSign would not delete the name, but instead would assign the name to the registrar who placed the reservation." FAC ¶ 4.48. Thus, the WLS is little different than an option of first refusal to purchase real estate: if the current owner decides to sell, the option-holder can buy, but the option-holder may have no influence on the decision of the current owner to sell. It depends on the decision of the current owner, not on chance. The fact that "contingencies" are present does not convert the option into a lottery.

While the WLS contains contingencies, the contingencies are not determined by simple "chance." First, a potential registrant must make the business decision to reserve a domain name through WLS. Presumably, this business decision is based upon a review of the likelihood that the current registrant will allow the domain name to expire and that the expiring domain name promotes the reserving registrant's personal or business interests. Few people would spend money to stand in line to obtain the names "microsoft.com" or "cnn.com"; this is a *decision,* not *chance*. Second, the registrant has to have the business acumen to make these decisions on an expedited basis in order to ensure that she is the first to reserve the domain name: WLS reservations are accepted on a "first-come/first-served basis,"

and "[o]nly one WLS subscription [will] be accepted for each domain name." FAC ¶ 4.46. This is *execution of a decision,* not *chance.* Finally, the current registrant of the domain name then must make the decision whether to renew the domain name or let it expire; this, too, is a *decision,* not *chance.* If the current registrant allows the domain name to expire, the WLS registrant then secures the expiring domain name for her own benefit.

Thus, WLS is not dominated by chance, but by personal, economic and business decisions – numbers are not drawn, dice are not thrown and luck is not present. FAC ¶¶ 4.46, 4.48. Indeed, WLS provides dramatically more certainty than the "system" Plaintiffs offer – in which any of dozens of registrars might be able to obtain a deleted domain name on behalf of its customer.[4]

II. PLAINTIFFS' TWELFTH CLAIM FOR BREACH OF THE REGISTRAR ACCREDITATION AGREEMENT MUST FAIL.

In their twelfth claim, Plaintiffs allege that ICANN has breached the RAA by authorizing VeriSign to proceed with the WLS without following procedures set forth in the RAA. FAC ¶ 4.59-68, 16.5-16.28. Plaintiffs argue that, as registrars, they have certain rights when ICANN seeks to enter into amendments to agreements with registry operators such as VeriSign, if ICANN's conduct might have some effect on the registrars.

Plaintiffs are wrong. The contract Plaintiffs signed with ICANN plainly gives Plaintiffs no right to interfere with ICANN's contractual relationship with any of ICANN's registries, including VeriSign. Instead, the provisions of the RAA upon which Plaintiffs seek to rely only gives Plaintiffs rights if and when ICANN takes actions "that impact the *rights, obligations, or role* of Registrar." RAA § 2.3

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[4] Plaintiffs' first cause of action fails for another reason: the first element of the underlying claim requires that there be a "disposition" of property, which is not possible here. *See Lockhead Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999); *Dorer v. Arel*, 60 F. Supp. 2d 558, 561 (E.D. Va. 1999) ; *Network Solutions, Inc. v. Umbro Int'l, Inc.*, 529 S.E. 2d 80, 86 (Va. 2000).

(emphasis added). Such an impact on registrar rights, obligations, or roles can occur, for example, when ICANN proposes to adopt what is defined by the RAA as a "Consensus Policy". Under section 4 of the RAA, adoption of such a policy affects the rights, obligations, and role of *all* accredited registrars by mandating that the registrars conduct their businesses in conformity with the Consensus Policy. But ICANN's decision to amend the VeriSign *registry* agreements to allow WLS to be offered does not constitute a Consensus Policy under the *Registrar* Accreditation Agreement, and does not affect registrars' rights, obligations, or role under that agreement.

Judge Walter decided this precise issue in the *Dotster* case. Judge Walter's opinion was issued at the preliminary injunction stage, but there can be no mistake that he categorically rejected the very contract theories that Plaintiffs allege in their twelfth claim.[5] This Court should reject those theories as well, as a matter of law.

In analyzing the *Dotster* plaintiffs' claim that "ICANN will be in breach of various provisions of the RAA if it approves an amendment to the Registry Agreement between ICANN and Verisign," Judge Walter analyzed the Consensus Policy provisions of Subsection 4.1 of the RAA, which specify the circumstances in which the obligations and role of registrars (and the rights of ICANN) under the RAA are altered. Judge Walter explained that:

> Subsection 4.1 only applies in situations where ICANN *seeks to compel* registrar action without amending the RAA. There is nothing in this provision that imposes any obligation upon ICANN to act only by consensus where its actions do not seek to compel registrar action.

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[5] *See Emrich v. Touche Ross & Co.*, 846 F.2d 1190, 1198(9th Cir. 1998) (a district court may take notice of the proceedings and determinations of prior related litigation without treating the Rule 12(b)(6) motion as one for summary judgment).