

RICHARD D. JOHNSON,
Court Administrator/Clerk

The Court of Appeals
of the
State of Washington

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CASE #: 77658-4-I
Namecheap, Inc., Respondent v. Tucows, Inc., Appellant

Counsel:

The following notation ruling by Commissioner Masako Kanazawa of the Court was entered on December 18, 2017, regarding emergency motion to stay:

"This case involves a contractual dispute between Internet domain name registrars over the *method* to transfer about three million plaintiff-managed domains currently on defendant's platform to plaintiff's own platform. The plaintiff's right to have those domains transferred to its own platform is not in dispute.

On November 17, 2017, defendants Tucows, Inc. and eNom, LLC filed a notice for discretionary review of a November 16, 2017 trial court order that granted plaintiff Namecheap, Inc.'s motion for preliminary injunction. The trial court ordered the defendants to sign a request for VeriSign Inc. (a registry) to implement a transfer of about three million Namecheap-managed domains currently on eNom platform to Namecheap's own platform by a method called Bulk Transfer After Partial Portfolio Acquisition (BTAPPA) pursuant to the parties' contract.

On December 7, 2017, Tucows and eNom filed in this Court an emergency motion to stay the preliminary injunction, two weeks after the same relief was denied by the trial court on November 22, 2017. At the defendants' request, the trial court required Namecheap to post an injunction bond in the amount of \$500,000, which Namecheap has posted. As directed by this Court, Namecheap filed an answer to the defendants' emergency motion on an expedited basis on December 13, 2017, and the defendants filed a reply on December 14, 2017. On December 15, 2017, I heard the parties' argument. As explained below, the emergency motion for stay is denied.

Factual Background

Plaintiff Namecheap and defendants Tucows and eNom are all domain name "registrars" accredited by ICANN (Internet Corporation for Assigned Names and Numbers). As registrars, they provide domain name registration services to Internet users around the globe. Domain registration processes and management are maintained by domain name "registries" (such as VeriSign), which contract with registrars like Namecheap, eNom, or Tucows to provide registration services. Namecheap has been eNom's reseller and, as such, registered and managed domains on eNom platform under the Namecheap brand and has paid fees to eNom in connection with the registration, transfer, and renewal of those domains. About four million Namecheap-managed domains remain on eNom platform, including the 3,161,000 domains registered on the .com and .net registries maintained by VeriSign (VeriSign domains) subject to the preliminary injunction at issue. Additionally, Namecheap manages another 4,370,000 domains directly on its own platform.

On July 31, 2015, Namecheap, eNom, and another company signed a Master Agreement. Under the agreement, Namecheap agreed that all new registrations, transfers, and renewals of VeriSign domains would occur exclusively on eNom platform through at least September 30, 2016, plus an additional three-month notice period. eNom agreed to the transfer of Namecheap-managed domains on eNom platform “in any manner, bulk or otherwise” so long as any such transfer “complies with all applicable ICANN and registry rules, regulations and processes.” Respondent’s Appendix (RA) 76. eNom further agreed: “eNom shall not delay, deny, obfuscate or otherwise restrict the transfer of the Namecheap-managed customer domain names.” RA 76.

On December 31, 2016, Namecheap completed its exclusivity obligations to eNom under the Master Agreement. Meanwhile, in January 2017, Tucows acquired eNom, and eNom became an indirect wholly-owned Tucows subsidiary.

A dispute arose between the parties about the proper method to transfer the Namecheap-managed VeriSign domains from eNom to Namecheap platform under the Master Agreement. Although Tucows did not object to the transfer itself, it objected to a transfer by BTAPPA and refused to sign a BTAPPA transfer request required for VeriSign to implement the BTAPPA transfer. Tucows argued that a BTAPPA transfer “has the potential to wreak such havoc and confusion that there is no way” it could comply with “all applicable ICANN and registry rules, regulations and processes.” RA 116. But previously (in July 2016), eNom had agreed to a BTAPPA transfer of 400,000 .BIZ domains to Namecheap. RA 62 ¶¶ 25, 119-122.

On October 10, 2017, Namecheap filed the present lawsuit in King County Superior Court against Tucows and eNom, asserting breach of contract claims, seeking damages as well as specific performance. Namecheap originally filed the action in federal court but, due to a concern that there may not be diversity jurisdiction, refiled it in King County.

Namecheap filed a motion for preliminary injunction, seeking to compel Tucows and eNom to transfer Namecheap-managed VeriSign domains by BTAPPA. Namecheap supported its motion with declarations of its chief executive officer (CEO) Richard Kirkendall, former ICANN Chief gTLD (generic top-level domain) Registry Liaison Officer and Senior Director of International Domain Names Tina Dam, and an Internet industry engineer Jeff Yoak. Namecheap argued that it has a clear legal right under the Master Agreement to a BTAPPA transfer of the VeriSign domains and would suffer irreparable harm if the domains were not transferred by December 31, 2017, the deadline set by VeriSign. Former ICANN officer Dam had reviewed the parties’ Master Agreement, the BTAPPA checklist made available by VeriSign, the materials Namecheap submitted to VeriSign for BTAPPA approval, VeriSign’s approval of Namecheap’s request for a BTAPPA transfer, as well as the correspondence between Namecheap and the defendants in July and August 2017. RA 181 ¶¶ 21. Dam expressed an opinion that Namecheap met all the elements required for a BTAPPA

transfer and that BTAPPA was the only appropriate process available to perform the agreed bulk transfer of the domains at issue. RA 182 ¶ 22 (summary of conclusions). Dam explained that ICANN approved the BTAPPA process in November 2006 when she was ICANN Senior Director of International Domain Names. BTAPPA arose out of necessity for registrars to move large portfolios of domains from one registrar to another due to, for example, an acquisition of a reseller. RA 180-81 ¶ 18. BTAPPA is necessary to transfer domains in bulk when a reseller to one registrar wishes to move its portfolio to another registrar or where an entity acting as a reseller becomes ICANN accredited and needs to move those domains it registered as a reseller over to its own platform (which would be a good and viable process forward for large resellers/registrars like Namecheap, for example in order to get prices and services directly from the registry as opposed to through eNom). RA 183-84 ¶ 30. Dam opined that BTAPPA is exactly the process contemplated for resellers or registrars to use to move large portfolios of domains between registrars, such as the case between Namecheap and eNom/Tucows. BTAPPA was requested, reviewed, approved, developed, and implemented “for exactly that purpose.” RA 187-88 ¶ 39. Dam also stated that BTAPPA is “a very simple process where the entire transfer takes place at the registry level,” is “solely a change of the sponsoring registrar,” and “can be accomplished easily using a tool VeriSign processes for this very purpose.” RA 190 ¶ 50. BTAPPA requires no action from the registrants (customers), no forms to agree to. RA 190 ¶ 51b.

Dam explained that the holder-authorized transfer (HAT) process, which the defendants urged and called as “Standard Method,” was designed to allow individual domain users to move from one registrar to another and was ill-suited for transferring a large portfolio of domains between registrars. RA 191-92 ¶¶ 53-59. “The inefficiencies and potential complications” that could result if Namecheap used that process “make clear why it is inappropriate and why ICANN approved the BTAPPA process.” RA 191 ¶ 57. Under the HAT process, Namecheap would need to contact all of the registrants (more than 3 million), educating them on the process, explaining why they need to complete the transfer, and walking them through the steps. RA 191-92 ¶ 57. Such transfer would result in a required addition of a one-year term on the domain name expiration date, so the registrants would be disadvantaged by having to agree to pay such additional one-year fee, and Namecheap likewise would need to pay the registration fee to VeriSign. RA 192 ¶ 58b. Namecheap’s customers may be confused when told to perform tasks in order to be moved from another registrar (with whom they have had no relationship) to Namecheap (whom they believed they already were the customer of). RA 192 ¶ 58a. Namecheap would have to, in each instance where the registrants requests a transfer, obtain express authorization via a standardized form. RA 192 ¶ 60. Dam opined that the HAT process, if used outside its intended purpose to transfer the Namecheap-managed domains to Namecheap platform, would cause issues for the Namecheap customers as well as for Namecheap. RA 194 ¶ 66. “This is in contrast to the use of the BTAPPA service, which was designed for such bulk transfers and would be substantially more efficient and less likely to cause confusion among registrants.” RA 194 ¶

Namecheap's CEO Kirkendall stated that absent an immediate bulk transfer, Namecheap would have to launch marketing campaign to drive and accomplish the transfer of the VeriSign domains to the Namecheap platform. RA 64 ¶ 31. "Transferring domains upon renewal is more disruptive to the customer experience than a bulk transfer, and is likely to injure Namecheap's goodwill with such customers." RA 64 ¶ 31. Kirkendall explained that the degree of competition was "extremely high" among registrars in the domain industry, and it was essential for a registrar to provide top shelf services to its customers in order to maintain a large and satisfied customer base. RA 64-65 ¶ 33. "Absent a bulk transfer, each of the VeriSign domains would remain on the eNom platform under the sponsorship of Namecheap's direct competitors for an extended period of time, thereby giving Defendants an unfair competitive advantage with respect to these Namecheap customers." RA 65 ¶ 33. Kirkendall also stated that Namecheap had had repeated issues with eNom's client support team being unable to adequately support Namecheap's customer support to limit the downtime/impact to Namecheap's customers. Namecheap's response to support requests took longer when eNom was involved than when Namecheap managed them directly, affecting the user experience of Namecheap's customers. RA 65 ¶ 35.

Tucows and eNom filed a response to Namecheap's motion for preliminary injunction and submitted a declaration of Tucows' officer David Woroch. The defendants argued that BTAPPA was burdensome and resource-intensive and available only when a portion but not all of the losing registrar's portfolio of .com and .net domains was acquired "by means of a stock or asset purchase, merger or similar transaction," which is VeriSign's qualified event requirement for BTAPPA. Woroch stated that the "vast majority of domain transfers were accomplished pursuant to the "Standard Method." Tucows' officer Woroch explained the "Standard Method" as follows:

First, the Gaining Registrar confirms the registrant's intent to transfer using a standardized form of authorization;

Second, once consent has been obtained from the registrant, the Gaining Registrar submits a transfer request for the registrant's domain to the sponsoring registry, including a unique authorization code (an "EPP" or "auth" code) specific to the to-be-transferred domain and gathered from the Losing Registrar via the registrant;

Third, provided that the unique authorization code was successfully validated by the sponsoring registry, the Losing Registrar receives notice of the transfer request from the sponsoring registry and solicits a standardized form of authorization from the registrant confirming the registrant's intent to proceed with the transfer; and

Fourth, after the Losing Registrar receives explicit consent from the registrant, or after the Losing Registrar does not receive any response from the registrant within 5 days, the sponsoring registry updates its database so that the Gaining Registrar is listed as officially responsible for the transferred domain.

Petitioners' Appendix (PA) 38-39. Woroch stated that the defendants' systems were not built to automatically support "a massive outflow of domains via BTAPPA." PA 40 ¶ 37. "It would require a one-off project, with significant manual coordination and at significant expense, to process a BTAPPA like the one Namecheap is seeking." PA 40 ¶ 37. "BTAPPA is burdensome and, in a situation like this one, could tie up meaningful portions [of] Defendants' business resources for months on end." PA 40 ¶ 34. The defendants argued that the Master Agreement did not require BTAPPA and did not qualify as a "stock or asset purchase, merger or similar transaction." They argued that Namecheap did not have a clear legal or equitable right to BTAPPA, lacked a well-grounded fear of the invasion of that right, and only alleged injury compensable in damages.

On November 9, 2017, the trial court conducted a hearing on the motion. On November 16, 2017, the court entered an order granting a preliminary injunction by concluding that Namecheap would likely succeed on the merits and would suffer immediate an irreparable harm without an injunction. The court concluded: "The Master Agreement is a valid contract that provides for the transfer of the domain names in question by means including bulk transfers. By refusing to comply with plaintiff's choice to affect a BTAPPA transfer defendants are in breach of that contract."

On November 17, 2017, Tucows and eNom filed a notice for discretionary review to this Court. On November 22, 2017, the trial court denied the defendants' motion to stay the preliminary injunction. Over Namecheap's objection, the court required a \$500,000 injunction bond.

On December 4, 2017, the defendants filed a motion for discretionary review. The motion is currently scheduled for a hearing on January 12, 2018.

Meanwhile, on December 7, 2017, the defendants filed an emergency motion to stay the preliminary injunction.

Decision

Tucows and eNom argue that they are entitled to a stay of the preliminary injunction order as a matter of right under RAP 8.1(b)(2). That rule allows a party to stay enforcement of a decision affecting rights to possession, ownership, or use of property by filing a supersedeas bond or cash or by alternate security approved by the trial court:

Decision Affecting Property. Except where prohibited by statute, a party may obtain a stay of enforcement of a decision affecting rights to possession, ownership or use of real property, or of tangible personal property, or of intangible personal property, by filing in the trial court a supersedeas bond or cash, or by alternate security approved by the trial court pursuant to subsection (b)(4).

RAP 8.1(b)(2). The defendants argue that because they are willing to transfer the disputed domains and, if unsuccessful on appellate review, would transfer the domains by BTAPPA, there is no need for a supersedeas bond or additional security. They argue that “the disputed domains are personal or intellectual property” for purposes of RAP 8.1(b)(2). Motion at 5. But, even assuming that the disputed domains are personal or intellectual property, the defendants do not explain how the preliminary injunction order affects their “rights to possession, ownership or use” of the domains when they do not dispute Namecheap’s right to the transfer of the domains from eNom to Namecheap platform and only dispute the method of transfer.

Further, with respect to intellectual property, a stay as a matter of right under RAP 8.1(b)(2) is available “*in the trial court* only if it is reasonably possible to quantify the loss that would be incurred by the prevailing party in the trial court as a result of the party’s inability to enforce the decision during review.” RAP 8.1(b)(2) (emphasis added). “The issue is addressed to, and decided by, the trial court rather than the appellate court.” 2A KARL B. TEGLAND, WASHINGTON PRACTICE RAP 8.1, at 592 (8th ed. 2014) (WASHINGTON PRACTICE). Namecheap asserts both tangible and intangible harm, including harm to its goodwill, market position, and business opportunities. The defendants are not entitled to a stay as a matter of right under RAP 8.1(b)(2).

Tucows and eNom alternatively argue that a stay is appropriate under RAP 8.3. Under that rule, this Court may issue orders including an injunction to ensure effective and equitable review. RAP 8.3 was initially designed to grant the appellate court the authority to stay enforcement of a judgment other than a money judgment or a judgment affecting property. WASHINGTON PRACTICE, RAP 8.3, at 616. “That authority is now expressly found in RAP 8.1(b)(3), leaving RAP 8.3 to cover other, miscellaneous situations in which an appellate court might be called upon to enter orders needed to insure effective and equitable review.” WASHINGTON PRACTICE at 616. Under RAP 8.1(b)(3), this Court may stay a trial court decision pending review if the party seeking relief demonstrates (1) that its appeal raises a debatable issue and (2) that the harm without a stay outweighs the harm that would result from it. In balancing the harm, this Court considers whether a stay is necessary to maintain the status quo and preserve the fruits of a successful appeal in light of the equities of the situation. See Purser v. Rahm, 104 Wn.2d 159, 177, 702 P.2d 1196 (1985). Applying the criteria, I conclude that a stay is not warranted.

Although debatability is a low threshold, the debatability of the issue raised by the defendants must be considered in light of the criteria for interlocutory review under RAP 2.3(b). Although the defendants appear to argue that a preliminary injunction order is appealable, it is neither a final judgment under RAP 2.2(a)(1) nor a “decision affecting a substantial right in a civil case that in effect determines the action and prevents a final judgment or discontinues the action” under (a)(3). The defendants have filed a motion for discretionary review, which seeks review under RAP 2.3(b)(2). That rule requires a showing of a “probable error.” The defendants’ arguments asserting errors must also be considered in light of the applicable standard of review, which is an abuse of discretion. See Kucera v. Dep’t of Transp., 140 Wn.2d 200, 209, 995 P.2d 63 (2000) (“A trial court’s decision to grant an injunction and its decision regarding the terms of the injunction are reviewed for abuse of discretion.”).

A preliminary injunction is an equitable remedy. A party seeking a preliminary injunction (here, Namecheap) must demonstrate (1) a clear legal or equitable right, (2) a well-grounded fear of immediate invasion of that right, and (3) actual and substantial harm resulting from the acts to be enjoined. Tyler Pipe Indus., Inc. v. Dep’t of Revenue, 96 Wn.2d 785, 792, 638 P.2d 1213 (1982); Rabon v. City of Seattle, 135 Wn.2d 278, 284, 957 P.2d 621 (1998). To establish a clear legal or equitable right, Namecheap had to show it would likely prevail on the merits. See Rabon, 135 Wn.2d at 285. These criteria “must be examined in light of equity, including the balancing of the relative interests of the parties and the interests of the public, if appropriate.” Id. at 284.

The defendants argue that the trial court erred by granting the ultimate relief. But the trial court did not grant full relief to Namecheap. Namecheap asserts claims related to other domains not subject to the preliminary injunction order. Namecheap also seeks direct and consequential damages, which have yet to be determined by the trial court.

The defendants argue that Namecheap did not demonstrate irreparable harm. But the declaration of Namecheap’s CEO Kirkendall describes millions of dollars in direct and consequential damages flowing from Namecheap’s inability to transfer the VeriSign domains by BTAPPA as well as lost business opportunities, good will, and market position. Kirkendall explains that the alternative transfer methods proposed by the defendants would deprive Namecheap of the benefits of the bargain under the Master Agreement and seriously damage Namecheap’s goodwill among existing and prospective customers.

The defendants argue that Namecheap does not have a clear legal or equitable right to BTAPPA. They argue that the Master Agreement does not mention BTAPPA and requires eNom to provide EPP transfer codes, which are used only for non-bulk transfers. But eNom consented to “the transfer in *any* manner, bulk or otherwise” of the disputed domains so long as such transfer complies with applicable ICANN and registry rules, regulations, and processes. RA 76 (emphasis added). “Any” means “every” and “all,” which would include BTAPPA so long as such transfer complies with applicable ICANN and registry rules, regulations, and processes. See State v. Westling, 145 Wn.2d 607, 611, 40 P.3d 669 (2002) (“‘Any’ means ‘every’ and ‘all.’”). eNom further agreed not to “obstruct, delay, obfuscate or otherwise restrict the transfer.” RA 76. As to the EPP transfer codes, the Master Agreement requires eNom to provide such codes “if required,” RA 76, indicating that Namecheap may choose transfers that would not require EPP codes.

The defendants argue that only a stock or asset purchase, merger or similar transaction can qualify for BTAPPA and that the Master Agreement does not qualify as an asset purchase. But former ICANN officer Dam stated her opinion that the Master Agreement qualified as an asset purchase to warrant a BTAPPA transfer. RA 185 ¶ 35a. In fact, eNom previously agreed to a BTAPPA transfer of 400,000 .BIZ domains to Namecheap on July 29, 2016. RA 62 ¶ 25, 119-122. According to Dam, Namecheap met all of the elements required for a BTAPPA transfer, and BTAPPA was the only appropriate process available to perform the agreed bulk transfer of the domains at issue. RA 182 ¶ 22. The defendants did not present an expert opinion to refute Dam’s opinion. Also, a stock or asset purchase, merger or similar transaction is VeriSign’s qualifying event requirement for BTAPPA, and VeriSign has approved Namecheap’s qualifying event affidavit for BTAPPA with respect to the transfer of the VeriSign domains at issue. RA 60 ¶ 19, 96-97, 99.

Although the defendants may raise debatable issues, it is questionable whether they can meet the RAP 2.3(b)(2) criterion for discretionary review.

In any event, the balance of the parties’ relative harm does not favor a stay, considering the equities of the situation. The defendants argue that without a stay, they “would be constrained to have their employees do work that Defendants do not believe they are obligated to do (at the expense of other work priorities and contractual obligations).” Motion at 12. They argue that once the transfer is done, it cannot be undone. I recognize that not staying the preliminary injunction may moot the defendants’ motion for discretionary review. But the harm asserted by the defendants appears economical, and Namecheap has posted an injunction bond in the amount of \$500,000 to protect the defendants.

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A stay requested by the defendants would essentially undo the preliminary injunction and the trial court's equitable decision balancing the parties' interests. Granting a stay would also essentially reverse the trial court's discretionary decision denying the same relief. The trial court concluded that without a preliminary injunction, Namecheap will suffer "immediate and irreparable harm" and that the "equities weigh in favor of the plaintiff and the public interest weighs in favor of an injunction." According to VeriSign's email sent to Namecheap, the "closing" of the BTAPPA qualifying event must occur within 12 months preceding the BTAPPA transfer request. RA 86. Namecheap considers December 31, 2016 as the "closing" of their acquisition of the VeriSign domains at issue (thus the BTAPPA qualifying event) because the eNom exclusivity for the domains ended on December 31, 2016, triggering Namecheap's right to have them on its own platform under the Master Agreement. Namecheap argues that unless the BTAPPA transfer is instituted by December 31, 2017, BTAPPA would no longer be available to transfer the VeriSign domains. In reliance on the preliminary injunction order, Namecheap had taken steps to implement the BTAPPA transfer before the defendants filed their emergency motion in this Court.

In view of the record and the arguments presented, I conclude that a stay is not appropriate. The emergency motion to stay is denied."

Sincerely,



Richard D. Johnson
Court Administrator/Clerk

emp

c: The Honorable Hollis R. Hill