

COMMONWEALTH OF KENTUCKY  
SUPREME COURT OF KENTUCKY  
CASE NO. 2009-SC-000043

COMMONWEALTH OF KENTUCKY,  
ex rel. J. MICHAEL BROWN, SECRETARY  
JUSTICE AND PUBLIC SAFETY CABINET

APPELLANT

v.

INTERACTIVE MEDIA ENTERTAINMENT  
& GAMING ASSOCIATION, INC., et al.

APPELLEES

ON APPEAL FROM  
KENTUCKY COURT OF APPEALS  
NOS. 2008-CA-002000; 2008-CA-002019; 2008-CA-002036

ORIGINAL ACTIONS ARISING FROM  
FRANKLIN CIRCUIT COURT, DIVISION II  
CASE NO. 08-CI-1049  
HON. THOMAS D. WINGATE, JUDGE

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BRIEF FOR APPELLEE  
INTERACTIVE MEDIA ENTERTAINMENT & GAMING ASSOCIATION, INC.

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## STATEMENT CONCERNING ORAL ARGUMENT

Appellee agrees that oral argument would assist the Court, but for reasons other than those stated by Appellant. The actions of the Commonwealth and the trial court raise an unusual number of complicated issues with potentially far-reaching effect. The threshold issue, whether an Internet domain name falls within the meaning of "gambling device" as defined by KRS 528.010, is straightforward. Beyond that, this case raises issues that include, but are by no means limited to, the absence of any statutory authority for a forfeiture action such as that brought by the Commonwealth under the Kentucky Penal Code; the constitutionality of the trial court's secret, *ex parte* hearing and its sealing of court records; the trial court's seizure of Internet domain names in secret without statutory basis and without jurisdiction over the domain names; the legislature's intent with regard to gambling in general and Internet gambling in particular; the standing of associations to represent their members' interests; and, the right of a state to shut down part of the Internet worldwide.

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## COUNTERSTATEMENT OF THE CASE

Appellee Interactive Media Entertainment and Gaming Association, Inc. ("iMEGA") does not accept the Appellant's Statement of the Case and offers this Counterstatement.

This is an appeal as a matter of right by Appellant Commonwealth of Kentucky, *ex rel.* J. Michael Brown, the Secretary of the Kentucky Justice and Public Safety Cabinet (the "Commonwealth"), from the Order Granting Petition for Writ of Prohibition entered January 20, 2009 by the Kentucky Court of Appeals. (R. 550-65.)<sup>1</sup> In the underlying civil action brought by the Commonwealth, Franklin Circuit Court found that certain Internet domain names are "gambling devices" within the meaning of the Kentucky Penal Code and that there was "probable cause" to believe that they were used in violation of Kentucky's criminal statutes prohibiting promotion of gambling. Upon that finding, the circuit court ordered seizure of the domain names. It also scheduled a forfeiture hearing under procedures set out within the Penal Code at KRS 500.090. The Court of Appeals, however, held that domain names do not fall within the statutory definition of "gambling device," and therefore the Penal Code "simply does not give the circuit court jurisdiction over them," and that a writ should issue because the circuit court lacked jurisdiction. (R. 558-59.) Judge Taylor added in his concurring opinion that Kentucky statutes provide no authority for the underlying civil action filed by the Commonwealth. (R. 559-63.) For these reasons, and for others set out herein, the Order of the Court of Appeals should be affirmed.

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<sup>1</sup> All record citations are to the Certified Record of File No. 2008-CA-002000-OA unless otherwise specified.

This case arose because of an audacious attempt by the Commonwealth to reach far beyond Kentucky's state line to seize the domain names<sup>2</sup> of Internet gambling Web sites and then to shut down part of the Internet.<sup>3</sup> To do so, the Commonwealth stretched Kentucky statutes far beyond their permissible applications and the legislature's intent, and far beyond the limits of the Due Process Clause of the Fourteenth Amendment. The Commonwealth first declared Internet gambling to be "illegal" under Kentucky statutes when it is not. Then, it declared Internet domain names to be "gambling devices" within the meaning of KRS 528.010(4) when they are not, and invented an "*in rem* civil" forfeiture proceeding which has no basis in Kentucky statutes. In short, the Commonwealth filed a civil action, without process, under the supposed authority of a Kentucky criminal statute, KRS 528.100, and persuaded the circuit court to order the civil forfeiture of the domain names as "gambling devices" possessed or used in violation of the Penal Code. No such procedure is authorized anywhere in Kentucky statutes. From beginning to end, the Commonwealth's entire scheme is without foundation and is an abuse of the legal process in Kentucky.

This action was filed in the trial court as an "*in rem*" action seeking the forfeiture of 141 Internet domain names. No real defendants were named, no process was issued, and no owner of any domain names was notified. In short, this was an action by the Commonwealth to seize property without the slightest pretext of complying with the fundamental dictates of due process.

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<sup>2</sup> An Internet "domain name" is commonly called a "URL" or "Internet address," such as, "<http://courts.ky.gov>."

<sup>3</sup> See, e.g., Tape of Hearing of September 18, 2008, hereafter referenced as Tape, Appellee's App. A, at 2:13:25 to 2:13:30 p.m. Counsel for the Commonwealth told the trial court that if a domain name registrant failed to communicate with the Commonwealth following issuance of the seizure order, "In a week or so, we are going to actually take the domain name and shut it down worldwide."

The Commonwealth alleged that each of the 141 Internet domain names is a "gambling device" as defined in KRS 528.010(4) and therefore subject to forfeiture pursuant to KRS 528.100. (R. 85, 88.) KRS 528.100 in relevant part states that "[a]ny gambling device or gambling record possessed or used in violation of this chapter is forfeited to the state, and shall be disposed of in accordance with KRS 500.090 . . . ." Therefore, two conditions must exist in order for forfeiture to occur: (1) There must be a "gambling device or gambling record," and (2) there must be a "violation of this chapter."

The Commonwealth's action was accompanied by a Motion to Seal Case File. (R. 81-82.) In it, the Commonwealth alleged that the secrecy was warranted because "upon notice of the Commonwealth's action, the owners will take actions to remove the property beyond the Court's jurisdiction." (R. 81.)<sup>4</sup>

The trial court granted the motion, sealed the record, issued no process, and conducted a secret, *ex parte* hearing lasting one hour and 18 minutes on September 18, 2008. (*See generally* Tape, Appellee's App. A.) Prior to the hearing there was no notice to any operators or owners of the domain names or to the public of the motions to seal the records or close the hearing, and the court granted the motion without actually holding a public hearing.

The same day, the Commonwealth filed in the sealed record its Second Amended Complaint (R. 84-97), its Motion for Seizure of Domain Names (R. 99-100), and supporting memorandum (R. 102-72). Count I of the Second Amended Complaint sought forfeiture of the domain names under KRS 528.100. (R. 94-96, ¶¶ 42-48.) Count II alleged that the domain names "are integral and necessary devices" in "illegal online

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<sup>4</sup> The claim that registrants will take actions to remove domain names beyond Kentucky was and is baseless given the fact that the names have never been in Kentucky.

gambling operations" that "constitute a public nuisance." (R. 96, ¶¶ 52-53.) The complaint sought injunctive relief "to abate the nuisance and prevent illegal internet gambling transactions." (*Id.* ¶ 54.)

The trial court issued its Order of Seizure of Domain Names ("the Seizure Order") the same day, September 18, 2008, with the record still under seal. (R. 65-67.)<sup>5</sup> The trial court found that probable cause existed to believe that the domain names "were and are being used in connection with illegal gambling activity" in Kentucky but failed to make a specific finding as to what constituted the illegal activity. (R. 65.) It ordered that the domain names "shall be immediately transferred" by registrars<sup>6</sup> (who were not parties to the litigation and had neither notice nor an opportunity to participate prior to the entry of the order) to the Commonwealth. (R. 66.) The trial court also ordered that notice of the court's order (but not of the material submitted under seal) be sent to registrars and registrants. (*Id.*) The trial court set a hearing "to determine if any party has asserted rights as an owner of the seized property pursuant to KRS 500.090." (*Id.*)

Appellee iMEGA subsequently appeared at such hearing, on September 26, 2008, for the purpose of asserting the rights of its members. (R. 331-34.) The trial court granted iMEGA permissive intervention pursuant to CR 24.02 in an order entered October 2, 2008, and iMEGA appeared at another hearing on October 7, 2008. As a trade association with members that are registrants of some of the 141 subject domain names, iMEGA

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<sup>5</sup> The Order unsealing the record was entered September 23, five days after the seizure order. (R. 328.)

<sup>6</sup> A domain name is issued by a company known as a "registrar" and is utilized under a contractual arrangement by a "registrant." iMEGA has members who are registrants, or users, of domain names, under such contracts. "Seizure" of a domain name does not amount to seizure of a website, any more than "seizure" of a telephone number would result in seizure of the telephone. However, in the same way that the commandeering and disabling of a telephone number could result in blocking calls to the telephone, the commandeering and disabling of a domain name can block prospective users from reaching a website through the avenue of the domain name seized.

asserted associational standing pursuant to *Hunt v. Wash. State Apple Adver. Comm'n*, 432 U.S. 333 (1977) (copy at R. 335-59.) See also *Interactive Media Entm't & Gaming Ass'n v. Gonzales*, No. 07-2625 MLC, 2008 U.S. Dist. LEXIS 16903 (D.N.J. Mar. 4, 2008) (copy at R. 70-79).

iMEGA on September 26 also filed a Motion to Dismiss on the ground that domain names do not fall within the meaning of "gambling device" as set out in KRS 528.010(4) and that therefore the Commonwealth's action "is without foundation, without precedent, and without basis in Kentucky law." (Motion to Dismiss, Appellee's App. B at 1.) In a Memorandum in support of its Motion to Dismiss filed October 3, 2008, iMEGA argued that, in addition to its erroneous assertion that domain names fit the statutory definition of "gambling device," (1) *in rem* subject matter jurisdiction was lacking because the domain names were not located within Kentucky; (2) seizure of domain names unconstitutionally burdened interstate commerce, violating the Dormant Commerce Clause of the U.S. Constitution; and (3) the elements of a public nuisance claim cannot be met and a domain name is not a proper defendant to such an action. (See iMEGA's Memorandum In Support of Motion to Dismiss, Appellee's App. C.)

In its Opinion and Order entered October 16, 2008 (R. 174-217), the trial court held that it had jurisdiction to proceed and that the prior seizure order was proper, denied motions to dismiss, and scheduled a forfeiture hearing for November 17, 2008 pursuant to KRS 500.090. (R. 213.) The trial court, despite its earlier grant of permissive intervention, held that iMEGA did not have standing and dismissed it as a party. (R. 210-11.) This rendered the interests of iMEGA's members unrepresented.

On October 22, 2008, iMEGA filed a Petition for Original Proceeding Pursuant to CR 76.36 with the Court of Appeals. (R. 7-259.) On October 28, 2008, iMEGA also filed a motion for intermediate relief staying orders of the trial court entered September 18 and October 16, and suspending a forfeiture hearing the trial court had scheduled for December 3, 2008. (R. 261-66.) The Court of Appeals granted this motion for intermediate relief on November 14, 2008. (R. 523-26.) The same day, the Court of Appeals consolidated the iMEGA petition, 2008-CA-002000, with two others: one by Playersonly.com, Linesmaker.com, Mysportsbook.com, Sportsbook.com and Sportsinteraction.com, 2008-CA-002019; and one by Vicsbingo.com and Interactive Gaming Council, 2008-CA-002036. (R. 525.)

Following oral argument, the Court of Appeals granted the writ January 20, 2009. (R. 550-65.) The Commonwealth filed notice of appeal the following day.<sup>7</sup> (R. 566-86.)

### ARGUMENT

#### **I. DOMAIN NAMES ARE NOT "GAMBLING DEVICES" UNDER KRS 528.010(4).**

As the Court of Appeals recognized, the trial court lacked subject matter jurisdiction because domain names do not fit the "gambling device" definition in KRS 528.010(4). "[I]t stretches credulity to conclude that a series of numbers, or Internet address, can be said to constitute a 'machine or any mechanical or other device . . . designed and manufactured primarily for use in connection with gambling.'" (R. 557.)

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<sup>7</sup> The Commonwealth erroneously claims in its brief that the filing of this appeal has the effect of "staying the Order of the Court of Appeals and leaving Judge Wingate's Order of Seizure in effect." Appellant's Br. at 13-14. This is not so. Civil Rule 65.08 "is the exclusive authority under which a stay may be had after a final judgment granting or denying injunctive relief has been appealed." *Bella Gardens Apartments, Ltd. v. Johnson*, 642 S.W.2d 898, 900 (Ky. 1982). See also CR 62.02. Absent a motion under CR 65.08, there can be no stay. The Court of Appeals ordered that Franklin Circuit Court is "[prohibited] from enforcing its order seizing the 141 domain names and from conducting a scheduled forfeiture hearing." (R. 552.) There has been no CR 65.08 motion.



If Kentucky wants to criminalize Internet gambling, the General Assembly can pass a law. No less than eight other states have passed statutes specifically criminalizing Internet gambling. *See, e.g.*, 720 Ill. Comp. Stat. 5/28-1 (Illinois); IC 35-45-5-1 (Indiana); RCW 9.46.240 (Washington); LRS 14:90.3 (Louisiana); ORS 167.109 (Oregon); NRS Chapter 463 (Nevada); MC 23-5-112 (Montana); SDCL 22-25A-7 (South Dakota). Such statutes raise constitutional questions to the extent that they purport to regulate gambling that is legal where bets are placed, and the Kentucky legislature has enacted no similar legislation. Although the Commonwealth alleges, and the circuit court found, "illegal" gambling on the Internet, neither the Commonwealth nor the circuit court cited a statute criminalizing gambling.

Gambling devices that are subject to forfeiture under Kentucky law are:

- (a) Any so-called slot machine or any other machine or mechanical device an essential part of which is a drum or reel with insignia thereon, and which when operated may deliver, as a result of the application of an element of chance, any money or property, or by the operation of which a person may become entitled to receive, as the result of the application of an element of chance, any money or property; or
- (b) Any other machine or any mechanical or other device, including but not limited to roulette wheels, gambling tables and similar devices, designed and manufactured primarily for use in connection with gambling and which when operated may deliver, as the result of the application of an element of chance, any money or property, or by the operation of which a person may become entitled to receive, as the result of the application of an element of chance, any money or property.

KRS 528.010(4) (emphases added).

- A. This Court should give words their "common and approved" meaning.**

The Commonwealth argues that this Court should ignore the definition of "gambling device" and instead look to the "intent" of the General Assembly. However,

the question before this Court is not whether a domain name falls within the "intent" of KRS 528.010(4); it is whether it falls within the statute's plain meaning.

Statutes are to be construed according to "the common and approved usage of language." KRS 446.080(4). The first principle of statutory construction is to look at the plain meaning of the words used. *See Revenue Cabinet v. O'Daniel*, 153 S.W.3d 815 (Ky. 2005). "[S]tatutes must be given a literal interpretation unless they are ambiguous and if the words are not ambiguous, no statutory construction is required." *Commonwealth v. Plowman*, 86 S.W.3d 47, 49 (Ky. 2002). "A court may not interpret a statute at variance with its stated language." *SmithKline Beecham Corp. v. Revenue Cabinet*, 40 S.W.3d 883, 885 (Ky. App. 2001).

The plain language of KRS 528.010(4) shows that a "domain name" is simply not a "gambling device." Domain names are distinct from Web sites. Only the domain names, not Web sites themselves, were seized by the circuit court. The Internet Corporation for Assignment of Names and Numbers ("ICANN"), the quasi-governmental authority that assigns domain names and regulates Internet traffic, defines domain names as mere "mnemonic devices" or memory aids. The Domain Name System ("DNS")

helps users to find their way around the Internet. Every computer on the Internet has a unique address—just like a telephone number—which is a rather complicated string of numbers. It is called its "IP address" (IP stands for "Internet Protocol"). IP Addresses are hard to remember. The DNS makes using the Internet easier by allowing a familiar string of letters (the "domain name") to be used instead of the arcane IP address. So instead of typing 207.151.159.3, you can type [www.internic.net](http://www.internic.net). It is a "mnemonic" device that makes addresses easier to remember.

ICANN Glossary—Domain Name System, *available at* <http://www.icann.org/en/general/glossary.htm#D> (last visited May 19, 2009); *see also Am. Girl, LLC v. Nameview, Inc.*, 381 F. Supp. 2d 876, 879 (E.D. Wis. 2005) (similarly defining domain names).

Basically, calling a domain name a gambling device under the definition of 528.010(4) is as illogical as calling a telephone number a gambling device. Suppose, for example, that a sports gambling book operating legally in England or Australia were to accept wagers and credit card payments over the telephone from Kentucky. Applying the Commonwealth's logic as applied in this case, without ever moving against the sports betting operation, Kentucky could proceed *in rem* under KRS 528.100 to seize and seek forfeiture of the operation's telephone number as a "gambling device." Even more absurd is the notion that if an individual in England or Australia named John Smith were receiving wagers that were lawful in the country in which he resided, the Commonwealth of Kentucky could proceed *in rem* to take the name "John Smith" as a gambling device.

Such a result clearly was not the intent of the General Assembly. Under KRS 528.010(4)(b), a "gambling device" is "any other machine or any mechanical or other device, including but not limited to roulette wheels, gambling tables and similar devices, designed and manufactured primarily for use in gambling." The General Assembly envisioned its definition encompassing tangible gambling equipment, not words or numbers. "The definition of 'gambling device' in subsection (4) limits the application of the term to mechanical items used only for the purpose of gambling such as slot machines and roulette wheels." Kentucky Crime Commission/Legislative Research Commission ("LRC") Commentary to KRS 528.010(4) (1974) (emphasis added).

A domain name is not a "device" at all, and is not "manufactured." Moreover, when a domain name is "operated," the only thing that happens is that a user's Web browser connects with an IP address. Domain names, as mere connectors, are not operable, as software and Web sites are. While Kentucky cases have held that such

machinery as slot machines<sup>8</sup> and pinball machines<sup>9</sup> were "contrivances" under a repealed statute, there are no Kentucky cases finding anything so remote, intangible and insubstantial as "domain names" to fit within the definition of KRS 528.010(4).

Importantly, the Commonwealth's brief is silent as to how a domain name is or can be "manufactured." The plain meaning of "manufactured" is a tangible object, such as a roulette wheel or a craps table, not a series of letters and numbers.<sup>10</sup> KRS 528.010(4)(b) expressly requires that the "device" be "designed and manufactured." This is not an either/or proposition. If a "device" is not "designed and manufactured," it simply does not meet the statutory definition. The Commonwealth does not address this issue, because, in the words of the Court of Appeals, it would "stretch[] credulity" if it attempted to do so. (R. 557.)

Instead, the Commonwealth bases its "gambling device" argument on antiquated Kentucky cases interpreting a gambling statute, KRS 436.280, repealed 35 years ago, and on its unsupportable assertion that the General Assembly has intended a "strong public policy prohibiting unregulated gambling operations." (Appellant's Br. at 7.)

Hoping to shoehorn "domain name" into the modern statutory definition of gambling device, the Commonwealth cites *Gilley v. Commonwealth*, 229 S.W.2d 60 (Ky. 1950); *Meader v. Commonwealth*, 363 S.W.2d 219 (Ky. 1963); and *Three One-Ball Pinball Machines v. Commonwealth*, 249 S.W.2d 144 (Ky. 1952).

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<sup>8</sup> See, e.g., *14 Console Type Slot Machines v. Commonwealth*, 273 S.W.2d 582 (Ky. 1954); *Pace Mfg. Co. v. Milliken*, 70 F. Supp. 740 (W.D. Ky. 1947).

<sup>9</sup> See, e.g., *Three One-Ball Pinball Machines v. Commonwealth*, 249 S.W.2d 144 (Ky. 1952); *A.B. Long Music Co. v. Commonwealth*, 429 S.W.2d 391 (Ky. 1968).

<sup>10</sup> See, e.g., Webster's New World Dictionary 2d College Ed. (1968). "Manufacture" is defined as "1. the making of goods and articles by hand or, esp., by machinery, often on a large scale and with division of labor 2. anything so made; manufactured product 3. the making of something in any way, esp. when regarded as merely mechanical."

Each of these cases was decided under the now-repealed KRS 436.280. Each found that various objects were "contrivances" under the old statute, not "gambling devices" under the current one. The *Gilley* court, for example, did not find that "number slips" were "gambling devices"; it found that they were "contrivances," a term not defined in the old statute and absent from the current statute.

However, "gambling device" is given a specific definition in KRS 528.010(4). As the LRC commentary states, the definition limits, not expands, the scope of the statute. The Commonwealth's assertion that the two terms are interchangeable is erroneous. In essence, without any support under current law, the Commonwealth attempts to vastly expand state law into a realm the legislature did not authorize.

Additionally, the Commonwealth cites *Gilley's* assertion that the General Assembly's intent was to "stop all forms of gambling." 229 S.W.2d at 63. However, this was not the General Assembly's intent when it enacted Chapter 528 in 1974. *Gilley* was decided twenty-four years earlier. The new statutory scheme adopted in 1974 narrowed the scope of the anti-gambling statutes, inserted statutory defenses and exemptions, and limited the scope of a "gambling device" by giving it a specific statutory definition. The General Assembly's intent, then, was to make subject to forfeiture only those "gambling devices" as defined by the plain language of KRS 528.010(4).

The United States District Court for the Western District of Kentucky recently addressed a similar question of legislative intent regarding statutory definition.<sup>11</sup> The case presented the question of whether a hotel and motel room tax levied by local ordinance against "motor courts, motels, hotels, inns or like or similar accommodations

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<sup>11</sup> See *Louisville/Jefferson County Metro Government and Lexington-Fayette Urban County Government v. Hotels.com, LP, et al*, Case No. 3:06-CV-480-R at R. 219-228 and attached hereto at Appellee's App. D.

businesses" could be assessed against amounts collected by companies that market hotel rooms on the Internet. The Louisville ordinance was promulgated under KRS 91A.350, *et seq.* The court held that Internet companies facilitating the renting of rooms could not fall within the meaning of "accommodations businesses." Internet room-rental businesses

were truly creatures of the future at the time the statute and ordinance originally were enacted. Such businesses have long since made the leap from a capitalist's imagination to reality, however, and both pieces of legislation have been amended more than once since then. The Court will not now step in to do what the state and local legislative bodies—both of whom can be expected to be fully aware of the intent of their legislative forbears—either failed or chose not to do.

*Hotels.com*, R. 227, Appellee's App. D at 9 (emphasis added). That is precisely the case here. When KRS 528.010(4) was enacted 35 years ago, the Internet was unknown in American life. The legislature could not have intended such a vastly expansive application of the definition as the Commonwealth puts forth.

Kentucky courts have long recognized that courts are not permitted to "breathe into a statute that which the legislature has not put there." *Commonwealth v. Gaitherwright*, 70 S.W.3d 411, 413 (Ky. 2002) (citing *Gateway Const. Co. v. Wallbaum*, 356 S.W.2d 247 (Ky. 1962)). The General Assembly has had numerous opportunities to re-define "gambling device" to encompass domain names. This Court should "not now step in to do what the state and local legislative bodies . . . either failed or chose not to do." *Hotels.com*, R. 227, Appellee's App. D at 9. In short, this Court should decline to rewrite a statute. *Cf. Commonwealth v. Lundergan*, 847 S.W. 2d 729, 731 (Ky. 1993); *Roney v. Commonwealth*, 695 S.W.2d 863, 864 (Ky. 1985).

The judiciary is but one of three component parts of our form of government. Its duty is to interpret and construe laws, not to enact them, and if a plainly warranted construction of a statute should result in a failure to accomplish in the fullest measure that which the Legislature had in view, the remedy is a legislative action, and not judicial construction.

*Western & Southern Life Ins. Co. v. Weber*, 208 S.W. 716, 718 (Ky. 1919).

An Internet domain name simply does not meet the statutory definition of "gambling device." Therefore, the circuit court lacked subject matter jurisdiction.

**B. The statute should be strictly construed against the Commonwealth.**

Where forfeiture is involved, Kentucky has a policy of strict interpretation. *Bratcher v. Ashley*, 243 S.W.2d 1011, 1013 (Ky. 1951). Such statutes are to be read "in favor of the person whose property rights are to be affected." *Id.* The courts are "not at liberty to add or subtract from the legislative enactment or discover meanings not reasonably ascertainable from the language used." *Commonwealth v. Harrelson*, 14 S.W.3d 541, 546 (Ky. 2000). The Commonwealth's brief relies exclusively on KRS 446.080(1) for its proclamation that "all statutes of this state shall be liberally construed with a view to promote their objects and carry out the intent of the legislature." (Appellant's Br. at 23.) However, where forfeiture is involved, strict construction still applies. *Bratcher*, 243 S.W.2d at 1013.

Furthermore, the prohibition of "gambling devices," the definition of "gambling devices" and the statutory provision providing for forfeiture of "gambling devices" all appear in the Penal Code, which makes operating "gambling devices" in violation of statute a Class D felony punishable by up to five years in prison. Because these are criminal statutes, a court must strictly construe these statutes.

Strict construction of criminal statutes dates at least to Chief Justice John Marshall. *United States v. Wiltberger*, 18 U.S. (5 Wheat.) 76, 96 (1820). As a principle of fundamental fairness, citizens must be advised what conduct is considered criminal:

Although it is not likely that a criminal will carefully consider the text of the law before he murders or steals, it is reasonable that a fair warning should be given to the world in language that the common world will understand, of what the law intends to do if a certain line is passed.

*McBoyle v. United States*, 283 U.S. 25, 27 (1931). Holding that an airplane was not a "motor vehicle" for purposes of the National Motor Vehicle Theft Act, Justice Holmes held that "close enough" or "they would have included it had they thought of it" was not good enough in criminal statutes:

When a rule of conduct is laid down in words that evoke in the common mind only the picture of vehicles moving on land, the statute should not be extended to aircraft simply because it may seem to us that a similar policy applies or upon the speculation that if the legislature had thought of it, very likely broader words would have been used.

*Id.* Citizens should not be required to guess at whether their actions may have penal consequences. *Winters v. New York*, 333 U.S. 507, 515 (1947). Strict construction of criminal statutes serves to "protect the individual against arbitrary discretion by officials and judges." 3 N. Singer, *Statutory Construction* § 59.03 at 12-13 (1986). Since the state makes the laws, the laws should be construed strongly against it. *Id.* at 13. This case is a prime example of the reason for this policy: it is intended to prevent the state from arbitrarily declaring an activity illegal when it is not defined as such by statute.

Although Appellee argues that the plain language of KRS 528.010(4) is not ambiguous and cannot include Internet domain names, were this Court to find some ambiguity, the rule of lenity would require that ambiguity to be resolved in Appellee's favor. *White v. Commonwealth*, 178 S.W.3d 470, 484 (Ky. 2005); *see also Haymon v.*



*Commonwealth*, 657 S.W.2d 239, 240 (Ky. 1983) (If "[i]t is not possible to determine which meaning the General Assembly intended . . . the movant is entitled to the benefit of the ambiguity."); *Commonwealth v. Colonial Stores, Inc.*, 350 S.W.2d 465, 467 (Ky. 1961) ("Doubts in the construction of a penal statute will be resolved in favor of lenity.").

Therefore, for multiple reasons that include the principles of strict construction and lenity, domain names are not "gambling devices" and the circuit court was without jurisdiction to act otherwise.<sup>12</sup>

## II. THE TRIAL COURT LACKED JURISDICTION WITHOUT A CONVICTION.

All forfeiture must be authorized by statute. The General Assembly has not authorized forfeiture of a gambling device under KRS 528.100 without a criminal conviction. Therefore, the Commonwealth's action is baseless, improper, and invalid, and the circuit court lacked jurisdiction to act as it did.

The legislative history and structure of KRS Chapter 528 show that its forfeiture provision presumes a conviction before it is triggered. No Kentucky case has held that KRS 528.100 and KRS 500.090 are civil in nature, and the Commonwealth's brief misleads this Court by asserting otherwise. The Commonwealth's view of the statute misinterprets the plain language and legislative history of the gambling forfeiture provisions, mocks due process, and defies basic logic.

The Commonwealth argues that an action under KRS 528.100 and KRS 500.090 is civil and that no conviction is required. This argument rests on four erroneous

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<sup>12</sup> In an amicus filing, the Poker Players Alliance argues that poker is a game of skill, not a game of chance, and does not qualify as gambling. Although iMEGA does not make this argument, the principles of strict construction and lenity would counsel in favor of a holding that poker is not gambling so long as the question is close. See generally Br. of Amicus Curiae Poker Players Alliance, *Interactive Media Ent'mt & Gaming Ass'n, Inc. v. Wingate*, 2009 WL 142995, 2008-CA-2036, January 20, 2009 (R. 284-300 in record of companion petition 2008-CA-2036).

premises: (1) that cases decided under the pre-1974 gambling device forfeiture statute, KRS 436.280, support the idea that forfeiture proceedings for gambling devices today are civil in nature; (2) that the legislative intent of the General Assembly when enacting 528.100 and 500.090 in 1974 was to punish all forms of gambling; (3) that cases decided under KRS 218A.410, the controlled substances statute, are analogous; and (4) that *United States v. Ursery*, 518 U.S. 267 (1996), provides support for allowing civil forfeiture under KRS 528.100 and KRS 500.090. (Appellant's Br. at 47-50.) These premises are either inapplicable or flatly untrue. As Judge Taylor's well-reasoned concurrence set forth, the General Assembly withdrew a civil remedy for forfeiture of gambling devices when it repealed KRS 436.280 and enacted KRS 528.100 and KRS 500.090 in 1974.

**A. There is no statute authorizing this civil forfeiture proceeding.**

The General Assembly extinguished the civil forfeiture provision for gambling devices in 1974 when it enacted KRS 528.100 and KRS 500.090 making conviction a requirement prior to forfeiture. Absent statutory authorization, the Commonwealth has no ability to bring a civil action like the one in this case.

At English common law, only criminal forfeiture existed, and the right of forfeiture did not attach "until the offending person had been convicted and the record of conviction produced." *Ursery*, 518 U.S. at 275. In this country, however, forfeiture exists only by statute. *See id.* at 276. "A forfeiture proceeding is a special one existing only by act of the Legislature." *Bratcher*, 243 S.W.2d at 1015; *see also* OAG 77-734 ("Forfeiture is not a part of the common law. It exists only by statute."). Because forfeitures are not favored in the law, Kentucky courts must "construe forfeiture statutes

strictly against a forfeiture and liberally in favor of the person whose property rights are to be affected." *Bratcher*, 243 S.W.2d at 1013. Absent an explicit statute, property cannot be forfeited without a conviction under Chapter 528.

The forfeiture statute repealed in 1974, KRS 436.280, stated in its entirety:

Any bank, table, contrivance, machine or article used for carrying on a game prohibited by KRS 436.230, together with all money or other things staked or exhibited to allure persons to wager, may be seized by any justice of the peace, sheriff, constable or police officer of a city, with or without a warrant, and upon conviction of the person setting up or keeping the machine or contrivance, the money or other articles shall be forfeited for the use of the state, and the machine or contrivance and other articles shall be burned or destroyed. Though no person is convicted as the setterup or keeper of the machine or contrivance, yet, if a jury, in summary proceedings, finds that the money, machine or contrivance or other articles were used or intended to be used for the purpose of gambling, they shall be condemned and forfeited.<sup>13</sup>

(Emphasis added). Thus, prior to 1974, gambling devices were subject to forfeiture under two scenarios: (1) upon conviction of any person using the gambling device as prohibited by statute; or (2) upon a finding by a jury that the device was used for gambling. The statute at that time explicitly authorized seizure and forfeiture of gambling property absent a conviction. In turn, the Kentucky courts appropriately and explicitly relied on this provision when holding that KRS 436.280 contemplated a civil forfeiture proceeding. *See, e.g., Hickerson v. Commonwealth*, 140 S.W.2d 841, 842 (Ky. 1940); *Sterling Novelty Co. v. Commonwealth*, 271 S.W.2d 366, 368 (Ky. 1954); *14 Console Type Slot Machines v. Commonwealth*, 273 S.W.2d 582, 583 (Ky. 1954). Even under this statute, however, there would be a jury trial, presumably open to the public—unlike the procedure applied by the trial court in this case. Each and every reported case

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<sup>13</sup> Notably, the Commonwealth's brief fails to lay out the language of either KRS 528.100 or the now-defunct KRS 436.280.

concerning civil forfeiture of gambling property in Kentucky was decided under the prior statute.<sup>14</sup>

Under that repealed statute, "possession" of a gambling device was not a criminal offense. Only "use" of a gambling device was prohibited. However, the General Assembly had concerns that the civil forfeiture proceeding "resulted in a forfeiture of gambling devices possessed although possession was previously not an offense." Kentucky Crime Commission/LRC Commentary to KRS 528.100 (1974). To remedy this problem, the General Assembly eliminated the civil, *in rem* procedure in 1974 when it enacted KRS 528.100 and repealed KRS 436.280.

As such, it is simply incorrect to call KRS 436.280 a "predecessor" statute to KRS 528.100, as the Commonwealth does. The entire pre-1974 anti-gambling scheme, KRS 436.200-436.330, was repealed, and KRS Chapter 528 was adopted, eliminating the civil forfeiture provision. KRS 528.100 now provides:

Any gambling device or gambling record possessed or used in violation of this chapter is forfeited to the state, and shall be disposed of in accordance with KRS 500.090, except that the provision of this section shall not apply to charitable gaming activity as defined by KRS 528.010(10).

(Emphasis added). As Judge Taylor recognized in his concurring opinion below, "Considering the legislative history of KRS 528.100 and the unambiguous language of the current statute, it is clear that the General Assembly intended to extinguish the civil *in rem* forfeiture proceeding as to gambling devices." (R. 562) Without a finding that (1) a "gambling device or record" exists, and (2) that it was "possessed or used in violation" of

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<sup>14</sup> The Commonwealth's brief attempts to mislead this Court with its statement that: "As Kentucky courts have recognized for nearly seventy years, KRS 528.100 and its predecessor are civil forfeiture statutes, and the forfeiture action is a civil, *in rem* proceeding." (Appellant's Br. at 49-50.) This assertion is flatly untrue. No Kentucky court has recognized that KRS 528.100 is a civil forfeiture statute. Only the long-repealed KRS 436.280, with its unambiguous authorization of a civil forfeiture proceeding, has been recognized as such.

Chapter 528, forfeiture cannot go forward under the current statute. There can be no finding of a violation of Chapter 528 until there is a criminal charge and a conviction. Until there is a conviction, it is impossible to know whether any property is possessed or used in violation of Chapter 528.

This intent is further elucidated by the legislature's decision to tie forfeiture to KRS 500.090. KRS 528.100 mandates that forfeited gambling property be disposed of in accordance with KRS 500.090. KRS 500.090(1)(a) provides that "property other than firearms which is forfeited under any section of this code may, upon order of the trial court, be destroyed by the sheriff of the county in which the conviction was obtained." (Emphasis added).

KRS 500.090, the general statute governing disposal of any property subject to forfeiture under the Penal Code, assumes that a conviction under the Penal Code has occurred, and is not triggered until there is such a finding. Since a conviction by a trial court is a prerequisite, KRS 500.090 gives no further due process protection; it assumes due process was afforded prior to conviction. Instead, once KRS 500.090 is triggered, the ability of parties to retain their property is sharply circumscribed. The initial finding of illegality cannot be challenged (since this was determined by the conviction), and the scope of any forfeiture hearing is limited to the following "innocent" or "unaware" owner exception:

- (4) The trial court shall remit the forfeiture of property when the lawful claimant:
  - (a) Asserts his or her claim before disposition of the property pursuant to this section;
  - (b) Establishes his or her legal interest in the property; and
  - (c) Establishes that the unlawful use of the property was without his or her knowledge and consent . . . .

KRS 500.090(4).<sup>15</sup>

Thus, the statutory scheme is logical and the Penal Code forfeiture provisions are internally consistent. Once a person is indicted and convicted for an activity prohibited by the Penal Code, if property has been forfeited pursuant to statute, KRS 500.090 is triggered. Due process is protected by the conviction requirement, and, absent the assertion of a claim by an "unaware owner," forfeiture is mandatory. *Commonwealth v. Fint*, 940 S.W.2d 896, 897 (Ky. 1997).

The Commonwealth's construction of Chapter 528, by contrast, is incoherent when analyzed within the Penal Code's statutory scheme. The Commonwealth's position and actions in this case can be summarized as follows: It can declare an activity "illegal," obtain a generalized "probable cause" finding from a circuit court judge in a secret, *ex parte* hearing held without notice to affected parties, seize property, and proceed straight to a forfeiture hearing under KRS 500.090(4), where the owner of the property is limited to arguing that it was an "unaware owner" of the property in question. This all happens with no indictment, no conviction, no trial, or even the naming of any defendant.<sup>16</sup>

The Commonwealth's position is deeply flawed. Chapter 528 provides a number of defenses to prosecution under the gambling statutes. KRS 528.010(7) states that any party meeting the status of "player" shall have a defense to any prosecution under the

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<sup>15</sup> The Commonwealth in its brief, without citation to authority, asserts that "KRS 500.090 provides the owner of any Domain Defendant the opportunity to introduce evidence, to rebut and refute the Commonwealth's evidence, and to assert any defense that it chooses to assert." (Appellate Br. at 20.) This is demonstrably false and again misleads this Court. In fact, the Commonwealth itself argues in his brief that the hearing under KRS 500.090(4) is the only hearing required prior to forfeiture of gambling property. (Appellant's Br. at 8.) KRS 500.090(4)(c) requires that an owner "[e]stablish that the unlawful use of the property was without his or her knowledge or consent." Thus, lack of knowledge and consent is the only argument that can be brought during this hearing.

<sup>16</sup> Indeed, the Commonwealth has charged no one with any criminal wrongdoing in this action. In fact, it has not specified any activity occurring within the Commonwealth that is illegal.

chapter, and KRS 528.100 exempts property used in "charitable gaming activity" from forfeiture. However, under the Commonwealth's position, these defenses can never be asserted and these statutory provisions become superfluous.

Moreover, the offenses alleged by the Commonwealth require a finding that the party "advanced," "profited from," or "intended to advance or profit from" gambling activity, KRS 528.020-528.030, a finding that is not made under the Commonwealth's approach to the statute. Under the Commonwealth's approach, it need never prove beyond a reasonable doubt that any individual or entity over whom it can assert proper jurisdiction engaged in a criminal act.

Instead, the Commonwealth's position is that once it shows "probable cause" in a closed, *ex parte* hearing, and finds a judge to issue a seizure order, then the initial allegation of criminality cannot be challenged and none of its evidence can be tested.<sup>17</sup> It need never prove beyond a reasonable doubt that the owner of property was more than a player; an activity was not charitable; a party advanced, profited from or intended to advance or profit from gambling activity; or even that an activity like poker qualified as gambling activity.

For example, an issue raised in this case is the question of whether poker is a game of chance or skill. This is a possible defense to a criminal charge of promoting gambling. However, under the Commonwealth's scheme, a person can be deprived of property under the Penal Code without ever having opportunity to make that argument.

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<sup>17</sup> This concern is only amplified by review of the Commonwealth's closed, *ex parte* "probable cause" hearing on September 18, 2008. In the seventy-eight minute proceeding, counsel made numerous unchallenged, unsubstantiated assertions. The Commonwealth's key fact witness, Officer Gregory Howard, needed three tries to identify the purported "device" used to gamble in the Commonwealth. He first identified "software" as the device used to gamble. Asked again, he identified "the website." Only after that did he identify the "domain name" as the alleged gambling device. (Tape, Appellee's App. A at 03:15:09 to 3:15:44 p.m.)

The Commonwealth argues that it may file a civil, *in rem* action under KRS 528.100 against property where poker is promoted and advanced. It argues that it can institute a secret, *ex parte* hearing on that action and persuade a court to find "probable cause" that KRS Chapter 528 was violated. The court in secret could order seizure of any equipment used or possessed in the poker operation. The poker operation then would be left to seek its relief in KRS 500.090. There, however, it could not challenge the probable cause finding or assert the "game of skill" defense.<sup>18</sup> KRS 500.090 provides for remission only where a violation was found and the owner shows he was unaware of the violation.

Finally, the Commonwealth makes a series of unsubstantiated assertions regarding the legislative intent underlying KRS 528.100.<sup>19</sup> It is clear, however, that the General Assembly did not determine "to punish all forms of gambling," as the circuit court asserted, when it enacted Chapter 528. (Appellant's Br. at 47.) Prior to 1974, gambling, other than on horse racing at a licensed track, was strictly prohibited in all forms. The General Assembly expressly limited the reach of the anti-gambling statutes when it enacted Chapter 528:

Under the Kentucky Penal Code, no criminal sanctions are imposed against the player. The controversial proposition, not peculiar to Kentucky, making every person who gambles in any manner whatsoever subject to a criminal penalty, unless he gambles within the confines of a licensed racetrack, is eliminated. Previously, KRS 436.270 imposed criminal sanctions against the card or dice player as well as the player of other gambling devices, and KRS 436.200 made it a crime for a person to engage "in any hazard or game on which money or property is bet, won or lost . . . ." Thus, players at a church or charitable bingo game and players

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<sup>18</sup> See generally Br. of Amicus Curiae Poker Players Alliance, *Interactive Media Ent'mt & Gaming Ass'n, Inc. v. Wingate*, 2009 WL 142995, 2008-CA-2036, January 20, 2009 (R. 284-300 in record of companion petition 2008-CA-2036).

<sup>19</sup> It first quotes the trial court's opinion that "[i]t would be absurd for our General Assembly to emphasize the pernicious nature of gambling within the state and . . . to punish all forms of gambling, yet restrict the remedial measures made available to its law enforcement agents." (Appellant's Br. at 47.) Second, it claims that "[h]ad the General Assembly wished to change the nature of the proceeding, it could have clearly expressed its contrary intent when it enacted KRS 528.100." (Appellant's Br. at 49.)



of wheels at a social picnic or county fair are subject to criminal penalties. Such activity is commonplace and there is in actuality no widespread condemnation of the conduct. Recognition of these facts is the principal reason for excluding the player from criminal liability.

Kentucky Crime Commission/LRC Commentary to KRS Chapter 528 (1974).

Therefore, in 1974, the General Assembly actually acknowledged that gambling is commonplace. Consistent with this, KRS 528.010(7) expressly allows the defense of "player" to any prosecution under Chapter 528. The General Assembly actually decriminalized some gaming activities. It makes sense that the General Assembly would contemporaneously choose to extinguish the civil forfeiture procedure about which it expressed concern. The General Assembly expressed its intent quite clearly in 1974, and that intent is contrary to the assertions of the Commonwealth.

The Commonwealth made up, and persuaded the circuit court to adopt, an unauthorized civil forfeiture procedure that flouts the language, legislative history, and expressed intent of the General Assembly. This secret "process" offers no notice to a property owner of the nature of the specific allegations, no opportunity to contest the Commonwealth's assertions of criminality, no opportunity to test the Commonwealth's evidence, nor any opportunity to allow the property owner to assert defenses for a charge under Chapter 528. The circuit court simply had no jurisdiction to act as it did, and the order of the Court of Appeals granting the writ must be affirmed.

**B. Chapter 218A's forfeiture process is irrelevant to the Penal Code.**

The Commonwealth inappropriately cites two cases interpreting the statute authorizing forfeiture of controlled substances under KRS 218A.410. (Appellant's Br. at 47-48) (citing *Osborne v. Commonwealth*, 839 S.W.2d 281 (Ky. 1992) and *Smith v. Commonwealth*, 205 S.W.3d 217 (Ky. App. 2006)). These cases are not analogous,

however, because Chapter 528 is located within the Kentucky Penal Code and KRS 500.090 is applicable only to violations of the Penal Code, while Chapter 218A is not part of the Penal Code and contains separate forfeiture provisions. The Attorney General saw this distinction over thirty years ago:

KRS 500.090 sets out the forfeiture provisions applicable to the Kentucky Penal Code. Each reference under this provision specifically limits itself to the Penal Code. The scope of this section is therefore only applicable to the forfeiture of property used or possessed in violation of the Code. . . . [I]t is clear that Chapter 218A, dealing with controlled substances, is not considered a part of the code.

OAG 77-734.

Chapter 218A sets out a procedure for a civil action. The Penal Code does not.

KRS Chapter 218A outlines a detailed procedure for seizure and forfeiture of controlled substances and property used to manufacture and distribute them. KRS 218A.410-218A.415. Controlled substances themselves can be "seized and summarily forfeited to the state," even if the owner is unknown. KRS 218A.410(1)(b). Other property, however, is subject to civil standards of preponderance of the evidence to show it was not traceable to the controlled substances. *Harbin v. Commonwealth*, 121 S.W.3d 191, 195-96 (Ky. 2003). "[I]t is clear from the language contained in 218A.410, that the Legislature intended for an individual to be afforded the basic constitutional protections of due process prior to forfeiture of otherwise legal property." *Olden v. Commonwealth*, 203 S.W.3d 672, 678 (Ky. 2006).

The "statutorily-mandated burdens of proof, and presumptions favoring the Commonwealth, render these forfeiture actions more akin to a civil proceeding than to a criminal trial . . . ." *Smith v. Commonwealth*, 205 S.W.3d 217, 222 (Ky. App. 2006). Moreover, KRS 218A.410, unlike forfeiture provisions under the Penal Code, allows for

judicial discretion in determining whether the property is traceable to a controlled substances transaction. *Olden*, 203 S.W.3d at 678 ("[T]he trial court had discretion in finding whether Appellant has indeed met his burden in rebuttal and ultimately ordering the forfeiture . . .").

This makes sense. The statute allows seizure and immediate forfeiture of controlled substances, because they are illegal *per se*. However, for "otherwise legal property"—a car allegedly used to transport illegal drugs, for example—it requires the Commonwealth to make a showing that the property was traceable to the drug transaction, then gives the owner an opportunity to prove otherwise. The trial court, after a public hearing or trial, has discretion whether to order forfeiture of the property. In short, Chapter 218A provides a due process procedure for the Commonwealth to seek forfeiture of property using civil burdens of proof. It is, therefore, a civil forfeiture proceeding.

The forfeiture provisions within the Penal Code are very different from those found in Chapter 218A. A "device" is only illegal and subject to forfeiture if it: (1) meets the statutory definition of "gambling device" under KRS 528.010(4); and (2) is possessed or used in violation of Chapter 528. In turn, the offenses the Commonwealth has alleged requires a finding that the party "advanced," "profited from," or "intended to advance or profit from" gambling activity. KRS 528.020-528.030. Upon such a showing beyond a reasonable doubt, the gambling device "is forfeited."

The Commonwealth's protestations notwithstanding, a deck of cards is not analogous to cocaine, because a deck of cards by itself is not illegal in the Commonwealth. (*See* Appellant's Br. at 17, 29) (comparing iMEGA to fictitious

"Narcotics Trafficking Association," and comparing Internet gaming websites to "drug cartels"). Cards become subject to forfeiture only when used to advance or profit from gambling activity. See KRS 528.020(1); KRS 528.030(1). This is the key distinguishing characteristic between offenses triggering KRS 500.090 under the Penal Code and controlled substance offenses under Chapter 218A. The Commonwealth, under the Penal Code, has the burden of proving this element of intent and the rest of its case under criminal burdens of proof. Due process is provided prior to forfeiture by the criminal trial process under the Penal Code.

**C. These forfeiture proceedings are criminal, not civil, proceedings.**

This Court has answered the question of whether the Penal Code forfeiture provisions are punitive. In *Commonwealth v. Fint*, a defendant entered a guilty plea to four counts of felony theft, and the Commonwealth moved for forfeiture of a truck used in the theft. 940 S.W.2d at 896. The theft chapter in the Penal Code has a forfeiture provision similar to KRS 528.100 mandating that property "used in commission or furtherance" of a theft offense "shall be forfeited as provided in KRS 500.090." *Id.* at 897; KRS 514.130(1). The trial judge denied the Commonwealth's motion to forfeit the truck, and the Court of Appeals affirmed. *Id.*

This Court reversed, noting that the forfeiture statute gave the trial judge no discretion; forfeiture was mandatory. *Id.* "When a statute mandates forfeiture of property used in a criminal offense, the forfeiture amounts to an additional penalty for the offense." *Id.* (citing *Austin v. United States*, 509 U.S. 602 (1993)) (emphasis added). The forfeiture provisions under the Penal Code are punitive and criminal in nature.

The Commonwealth ignores the law of Kentucky and instead cites *United States v. Ursery*, 518 U.S. 267 (1996). However, *Ursery* simply stands for the proposition that the key distinction between a criminal and civil forfeiture is whether it was intended to be punitive or remedial in nature. Since this Court held that the mandatory forfeiture provisions under the Penal Code are punitive, *see Fint, supra*, it stands to reason that a punishment under the Penal Code would require a conviction before it is enforced. Therefore, even under *Ursery*, KRS 528.100 and KRS 500.090 are criminal in nature, requiring a criminal proceeding and a conviction prior to forfeiture.

### III. iMEGA PROPERLY ASSERTS ASSOCIATIONAL STANDING.

This case presents a perfect example of the proper exercise of associational standing. The trial court erred in its order of October 16, 2008 when it denied Appellant iMEGA associational standing and intervenor status. The Commonwealth uses a red herring when it argues that "[a]ssociational standing is barred by the clear language of KRS 500.090." (Appellant's Br. at 17.) In fact, the Commonwealth's argument confirms that this is the kind of action for which associational standing was designed.

In its order granting the writ on January 20, 2009, the Court of Appeals stated that

[a]lthough the trial court concluded in its October 16th order that the associations had no standing to advance the interests of their members, the fact remains that they were initially granted leave to intervene to assert those very interests. Having participated in the proceedings below, and given the adverse ruling on their claims of lack of jurisdiction, we find no basis for denying those same participants the right to seek relief in this proceeding.

(R. 556.)

In *Hunt v. Wash. State Apple Adver. Comm'n*, 432 U.S. 333 (1977), the United States Supreme Court set out a three-part test for associational standing.

An association has standing to bring suit on behalf of its members when:  
(a) its members would otherwise have standing to sue in their own right;  
(b) the interests it seeks to protect are germane to the organization's purpose and (c) neither the claim asserted nor the relief requested requires the participation of the individual members in the lawsuit.

*Hunt*, 432 U.S. at 334.

This Court has held that such standing is established when a party has "a judicially recognizable interest in the subject matter of the suit." *Ashland v. Ashland F.O.P No. 3, Inc.*, 888 S.W.2d 667, 668 (Ky. 1994). In *Ashland F.O.P.*, this Court recognized that the non-profit F.O.P lodge had standing on the ground that its members had "a real and substantial interest" in a dispute over a city ordinance requiring new city employees to live inside the city limits. 888 S.W.2d at 668. Similarly, in *Warren County Citizens for Managed Growth, Inc. v. Board of Com'rs of City of Bowling Green*, 207 S.W.3d 7 (Ky. App. 2006), the Kentucky Court of Appeals recognized standing of the non-profit Warren County Citizens group on the ground that members living four miles from the proposed development at issue would "be directly affected." 207 S.W.3d at 13. Beyond doubt iMEGA's members have "a real and substantial interest" in the dispute and would "be directly affected" by it.

As to the three *Hunt* criteria, associational standing for iMEGA is clearly appropriate. First, iMEGA's members are registrants of the subject domain names. They unquestionably would have standing in the Commonwealth's action "in their own right." Second, iMEGA is a not-for-profit corporation organized in the state of New Jersey for the purpose of collecting and disseminating information regarding electronic and Internet-based gaming, and of representing its members' interests. These are entities directly affected by the trial court's orders with interests germane to iMEGA's purpose.

Finally, the participation of individual members is not required in this action. This case is here as an appeal of an order of the Court of Appeals in an original action seeking to stop a circuit court's improper exercise of jurisdiction affecting iMEGA members. Similarly, in the trial court, iMEGA stepped in to attempt to stop the abusive effort by the Commonwealth's executive branch to bring about a legally unauthorized forfeiture of those domain names. These issues are not particular to any individual owner of a domain name; rather, this action deals with statutory and constitutional issues that apply in all cases involving an effort to seize any domain name under Chapter 528. The individual participation of iMEGA members obviously is not required. In short, before the trial court, the Court of Appeals, and now here, iMEGA has asserted associational standing precisely for its intended purpose.

The Commonwealth wants to avoid the entire issue of the proper application of Chapter 528 by saying no person or business entity could ever have standing to deal with these issues since the only issue is whether such a person or entity is an "innocent" or "unaware" owner. The Commonwealth argues that KRS 500.090 "does not provide for associational standing" (Appellant's Br. at 17), but that argument totally misses the point. If, *supra*, the entire forfeiture scheme devised by the Commonwealth and relied upon by the circuit court is invalid, KRS 500.090 is inapplicable in this matter. KRS 500.090 provides only an "unaware owner" objection to forfeiture. KRS 500.090(4) does not provide a constitutional due process mechanism wherein a claimant may challenge a finding of criminality. Therefore, KRS 500.090 is irrelevant to associational standing under the standards of *Ashland F.O.P.*, *Warren County Citizens*, or *Hunt*.

The Commonwealth agrees with the appropriateness of associational standing here when it states that such standing may be allowed "in respect to injunctive or declaratory relief." (Appellant's Br. at 16.) That is precisely the case here. A petition seeking a writ of prohibition is an original injunctive action in the Court of Appeals. Similarly, in the trial court, all parties on both sides sought injunctive or declaratory relief. Associational standing for iMEGA is proper, and the trial court erred when it held that it is not. The Court of Appeals properly found that there is no basis for denying iMEGA "the right to seek relief in this proceeding."

#### **IV. THE STANDARD FOR ISSUANCE OF A WRIT WAS MET.**

The Court of Appeals correctly held that the standard for issuance of a writ under Kentucky law was met completely in this case upon the finding that the trial court was proceeding without jurisdiction.

If domain names cannot be considered gambling devices, Chapter 528 simply does not give the circuit court jurisdiction over them. Accordingly, petitioners have satisfied the criteria for obtaining a writ prohibiting enforcement of the circuit court's previous orders and the conduct of the scheduled forfeiture hearing. No showing of irreparable injury is required.

(R. 558-59.) This Court has held that a

writ of prohibition may be granted upon a showing that (1) the lower court is proceeding or is about to proceed outside of its jurisdiction and there is no remedy through an application to an intermediate court; or (2) that the lower court is acting or is about to act erroneously, although within its jurisdiction, and there exists no adequate remedy by appeal or otherwise and great injustice and irreparable injury will result if the petition is not granted.

*Hoskins v. Maricle*, 150 S.W.3d 1 (Ky. 2004). Because the trial court "clearly erred in concluding that the domain names can be construed to be gambling devices subject to forfeiture under KRS 528.100," (R. 557), the *Hoskins* standard is met.



Even if a showing of great injustice and irreparable injury were required, Appellee would meet the requirement readily. The fact that the Commonwealth and the circuit court have moved unconstitutionally under an unauthorized forfeiture proceeding constitutes great injustice. Violation of constitutional rights constitutes irreparable harm. *Overstreet v. Lexington-Fayette Urban County Government*, 305 F.3d 566, 578 (6th Cir. 2002). A writ is appropriate to prevent a trial court from violating fundamental constitutional rights. *James v. Hines*, 63 S.W.3d 602, 608 (Ky. App. 1998).

Additionally, "[g]reat and irreparable injury' means 'something of a ruinous nature.'" *Newell Enterprises, Inc. v. Bowling*, 158 S.W.3d 750, 754 (Ky. 2005), citing *Bender v. Eaton*, 343 S.W.2d 799, 800 (Ky. 1961). Ruin is exactly what the Commonwealth said it wants to inflict upon iMEGA's members.<sup>20</sup> Such intent, coupled with the trial court's unconstitutional seizure order, satisfies any possible requirement of a showing of injustice and harm, were one to be applied.

In addition, there is no adequate remedy at law for what is occurring here. As set forth above (p. 29), under the Commonwealth's theory there can be no appeal of the probable cause determination and subsequent seizure and forfeiture because no person or entity is involved in the initial, secret hearing and the only issue which can be contested thereafter is the "unaware owner" issue. There is no appeal right from the circuit court's finding of "probable cause" of criminality.

The Commonwealth argues that "Kentucky courts have refused to issue a writ for the benefit of an absconding property owner in similar circumstances." (Appellant's Br. at 22.) The Commonwealth further argues, again in a circular fashion, that "[t]his Court should likewise not employ a writ to allow the property or its owners to avoid the

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<sup>20</sup> See, e.g., n. 2, *supra*.

statutory procedures of the *in rem* forfeitures." *Id.* This circular argument again assumed that the procedure sanctioned by the circuit court is proper. If, however, these procedures are improper, then a writ is the appropriate remedy.

The Commonwealth cites two cases decided in 1950, *Blackerby v. Adams*, 232 S.W.2d 79 (Ky. 1950), and *Linn v. Bryan*, 226 S.W.2d 959 (Ky. 1950). Both cases, however, turned on grounds irrelevant here. In *Blackerby*, this Court held that "great loss" was not shown, and that the order the petitioner sought to overturn was interlocutory. 232 S.W.2d at 80. In *Linn*, this Court held that a writ would contravene legislative intent regarding a condemner's right of entry and possession of condemned property. 226 S.W.2d at 960. By contrast, in its petition, iMEGA sought relief from a trial court that was exercising jurisdiction erroneously in an unauthorized forfeiture procedure. iMEGA is not seeking to avoid statutory procedures; it is seeking to stop the executive branch from inventing procedures that the legislature has not approved.

The petition was properly granted under this Court's standards for a writ.

#### V. INTERNET GAMBLING DOES NOT VIOLATE KENTUCKY STATUTES.

The Commonwealth is incorrect in its unceasing assertions in its brief that the 141 Internet domain names are devices that enable "illegality." The Commonwealth has not shown that any element of any Kentucky gambling offense has been committed within the Commonwealth.<sup>21</sup> The General Assembly in 1974 decriminalized gambling by gamblers, and it has never prohibited any form of Internet gambling, as other states have.

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<sup>21</sup> Remarkably, the Commonwealth's investigators did not even gamble on all Web sites they visited by using the 141 Internet domain names. During the secret, *ex parte* hearing on September 18, 2008, the trial court asked counsel for the Commonwealth if investigators employed by the Commonwealth placed bets on all sites. Counsel answered, "Just about." (Tape, Appellee's App. A at 2:18:00 p.m.) Counsel stated that investigators were not able to gamble on sites reached through some of the 141 domain names. (*Id.* at 2:17:50 to 2:20:40 p.m.) However, the trial court did not compel counsel to specify those sites on which gambling occurred and those on which it did not occur. This raises additional, serious questions as to how

A Kentucky circuit court lacks subject matter jurisdiction to adjudicate alleged criminal acts unless they are committed in Kentucky. *Commonwealth v. Cheeks*, 698 S.W.2d 832, 834 (Ky. 1985). "In simple terms, the commission of a statutory offense in Kentucky gives rise to the authority i.e. 'jurisdiction' of the courts of this state to preside over the prosecution of the case." *Id.* (emphasis added). The Penal Code sets this out:

Except as otherwise provided in this section, a person may be convicted under the law of this state of an offense committed by his own conduct or the conduct of another for which he is legally accountable when:  
(a) Either the conduct or the result which is an element of the offense occurs within this state; ...

KRS 500.060. (emphasis added).

To determine whether any alleged illegal conduct occurred in Kentucky, it is necessary to analyze statutory elements. The trial court appeared to operate under the misconception that gambling constituted the illegal act. In the secret, *ex parte* hearing, the Commonwealth stated that it "created a team which engaged in at least 500 man-hours on-line, randomly accessing various internet gambling websites available in Kentucky." (R. 178.) The circuit court concluded that domain names "are being used in connection with illegal gambling activity within the Commonwealth." (R. 180.) Nothing in the opinion elaborates or specifies how elements of statutory violations were shown.

However, there is nothing illegal in Kentucky in "accessing various internet gambling websites." KRS 528.010(7) defines "player" as "a person who engages in any

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the trial court reached its "probable cause" finding as to any specific domain name, and how venue could have been proper for a showing of criminal conduct as to any name. Furthermore, Counsel for the Commonwealth argued that the offense of promoting gambling occurred even on those sites where investigators were unable to gamble because such sites advertised gambling. (*Id.* at 2:18:25 to 2:18:32 p.m.) There is no prohibition in Kentucky statutes upon advertising, and such commercial speech is protected by the First Amendment. Therefore, this is a patently absurd interpretation of law. It also illustrates the unfairness and due process violations of the secret, *ex parte* hearing process from which there is no appeal. The trial court did not question counsel's assertion that advertising gambling on Web sites constitutes a criminal offense in Kentucky. (*Id.*) These unchallenged assertions illustrate the fundamental unfairness of the process invented by the Commonwealth.

form of gambling solely as a contestant or bettor," without receiving profit "other than personal gambling winnings" and without "otherwise rendering any material assistance to" operating the gambling activity. "The status of a 'player' shall be a defense to any prosecution under this chapter." KRS 528.010(7). Gambling, therefore, is not prohibited. The secret testimony did not establish that any players violated Chapter 528.

Rather, the Commonwealth alleges violations of KRS 528.020, "Promoting gambling in the first degree," and KRS 528.030, "Promoting gambling in the second degree." (R. 92-93.) A person may be guilty of those offenses "when he knowingly advances or profits from unlawful gambling activity." (R. 92.) A person commits first-degree promoting by also "setting up or operating a gambling device." (*Id.*) A person advances gambling activity when, "acting other than as a player, he engages in conduct that materially aids any form of gambling activity." KRS 528.010(1). (R. 93.)

Promoting gambling is not a "result" offense such as homicide or assault, in which the result of death or bodily injury is an element of the crime. *Commonwealth v. Hager*, 41 S.W.3d 828, 831 (Ky. 2001). The elements of promoting gambling all entail conduct of those who allegedly committed crimes. Accordingly, under KRS 500.060, the relevant jurisdictional inquiry is whether such conduct occurred "within this state."

Under KRS 528.100, to successfully seek forfeiture of a domain name, the Commonwealth must show that someone within this state possessed or used it to advance or profit from gambling. But, the Commonwealth admits that "owners of the Domain Defendants are purposely located outside the United States." (R. 81.) (emphasis added). The Commonwealth admits that all alleged acts that constitute a possible crime in fact occurred outside Kentucky. The Commonwealth does not allege that any person while

in Kentucky profited from gambling activity. The Commonwealth does not allege that anyone while in Kentucky committed any act advancing gambling.

The forfeiture provision of KRS 528.100 simply cannot be triggered where there was no possession or use of a gambling device "in violation of this chapter." Therefore, there is no construction of facts in this case under which the trial court could have jurisdiction over any conduct alleged by the Commonwealth.

## **VI. THE DOMAIN NAMES ARE NOT SUBJECT TO JURISDICTION IN KENTUCKY.**

### **A. The Trial Court Violated The Due Process Clause.**

The Internet domain names are not subject to *in rem* jurisdiction in Kentucky. Any action by a Kentucky court with regard to the domain names is void under the Due Process Clause of the Fourteenth Amendment because the names are not located within the jurisdiction of Kentucky courts.

It is well settled that *in rem* jurisdiction is valid within a state only if the property is within that state. "The basis of the jurisdiction is the presence of the subject property within the territorial jurisdiction of the forum State." *Hanson v. Denckla*, 357 U.S. 235, 246 (1958). *See also Durfee v. Duke*, 375 U.S. 106, 107-08 (1963) ("The Nebraska court had jurisdiction over the subject matter of the controversy only if the land in question was in Nebraska."). A state's attempt to exert *in rem* jurisdiction over property outside the state violates due process and is presumptively invalid. *Hanson*, 357 U.S. at 246-50.<sup>22</sup>

Kentucky recognizes that this fundamental principle applies to forfeiture laws. *Hickerson v. Commonwealth*, 140 S.W.2d 841, 843 (Ky. 1940) (holding that a court may

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<sup>22</sup> The Commonwealth cites four federal cases addressing extra-territorial jurisdiction of federal courts. (Appellant's Br. at 35-38.) Authority for such jurisdiction is found in the Due Process Clause of the Fifth Amendment, together with the federal government's power to regulate both interstate and foreign commerce and the Necessary and Proper Clause. This is not relevant to the constitutional limitation on state authority over property not within its territory.

consider whether property has been forfeited "provided the property is found within its jurisdiction"). The trial court here simply has no jurisdiction over the domain names.

The trial court flatly misstated the holding of *Shaffer v. Heitner*, 433 U.S. 186 (1977). It erroneously cited *Shaffer* for the proposition that *in rem* actions only require "minimum contacts" between the forum state and the property (R. 191) and it erroneously held that *Shaffer* somehow abrogated the basic requirement that only property located within the jurisdiction of the court is subject to an *in rem* action. (R. 192.) *Shaffer* actually held that in addition to the fundamental requirement that property subject to *in rem* jurisdiction be located in the state, the state must have an interest in the persons who own the property, as analyzed through *International Shoe's* "minimum contacts" prism. 433 U.S. at 205-12. Thus, *Shaffer* in fact limited *in rem* jurisdiction by holding that physical presence of the property alone does not give the state a *per se* right to seize it.

In *Shaffer*, the state of Delaware attempted to seize non-resident defendants' stock located in Delaware in order to force their consent to personal jurisdiction. *Id.* at 189-92. In finding the action unconstitutional, the Court reasoned, "[I]f a direct assertion of personal jurisdiction over the defendant would violate the Constitution, it would seem that an indirect assertion of that jurisdiction should be equally impermissible." *Id.* Thus *Shaffer* repudiated the very tactic being employed by the Commonwealth in this case.

**B. Domain Name *Situs* Is In The District Of The Registrar.**

The *situs* of intangible property is one of two locations: (1) the domicile of the property owner; or (2) the location of the intangible instrument (i.e., a stock or bond certificate), if there is one. *Commonwealth v. Bingham's Adm'r*, 223 S.W. 999, 1000 (Ky. 1920); *see also, e.g., In re De Lano's Estate*, 315 P.2d 611 (Kan. 1957) (holding that

Kansas courts had no jurisdiction to adjudicate dispute over stock and bond certificates located in Missouri). Congress applied this principle in the Federal Anticybersquatting Consumer Protection Act ("ACPA"), 15 U.S.C. § 1125(d), *et seq.*, as to domain names.

To regulate Internet traffic, the Internet Corporation for Assigned Names and Numbers ("ICANN") was established in 1998. See <http://www.icann.org/tr/english.html> (last visited May 19, 2009). An international, quasi-governmental partnership, ICANN allocates Internet space and oversees the Domain Name System ("DNS"). Internet users may reach Web sites by entering Internet Protocol ("IP") numbers, which might appear as something resembling "192.0.34.163," into their Web browsers, or by entering domain names instead, e.g., "www.icann.org." ICANN licenses domain name "registrars," which in turn grant domain names to applicants, or "registrants." *Mattel, Inc. v. Barbie-club.com*, 310 F.3d 293, 296 n.2 (2d Cir. 2002). For a fee, the registrant obtains the exclusive right to use a domain name for a specified time. The registrar holds, and holds title to, a certificate, which the ACPA establishes is a "document sufficient to establish [a court's] control and authority regarding" the name's use. 15 U.S.C. § 1125(d)(2)(C)(ii).

No Kentucky case or statute addresses domain name *situs*. However, the ACPA allows *in rem* jurisdiction over a domain name only "in the judicial district in which the domain name registrar, domain name registry, or other domain name authority that registered or assigned the domain name is located." *Id.* § 1125(d)(2)(A). Such district is the *situs* of a domain name in an *in rem* action. *Id.* § 1125(d)(2)(C).

In *Mattel*, the trial court dismissed an action brought by Mattel against several domain names under the ACPA in the Southern District of New York. The trial court found lack of *in rem* jurisdiction on the ground that the defendants' registrar was in

Maryland. *See Mattel*, 310 F.3d at 294. The Second Circuit affirmed, stating that allowing an *in rem* action in any federal court against a domain name accessible in every state may offend due process or international comity. *See Mattel*, 310 F.3d at 302. Requiring a "nexus" between the registrar and the court "satisfies due process." *Mattel*, 310 F.3d at 302. This analysis has been followed in nearly all litigation under the ACPA. *See, e.g., Harrods Ltd. v. Sixty Internet Domain Names*, 302 F.3d 214 (4th Cir. 2002) (holding Virginia had *in rem* jurisdiction consistent with due process when domain name was registered there). At least one court has adopted this reasoning in a non-ACPA case. *See Office Depot, Inc. v. Zuccarini*, No. C 06-mc-80356 SI, 2007 WL 2688460, at \*4 (N.D. Cal. Sept. 10, 2007) ("[T]his Court will follow Congress' suggestion in ACPA that a domain name exists in the location of both the registrar and the registry.").

Permitting any court anywhere in the U.S. to claim *in rem* jurisdiction over a domain name, and thus requiring any party that registers a domain name to defend itself in any jurisdiction, would surely "offend traditional notions of fair play and substantial justice" that anchor the due process requirement. *Int'l Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945). Here, the trial court was without *in rem* jurisdiction.

### **C. Domain Names Have Not Consented To Jurisdiction In Kentucky**

The Commonwealth argues that the trial court has jurisdiction over Defendants by virtue of the *ICANN Uniform Domain Name Dispute Resolution Policy* ("UDRP"). (Appellant's Br. at 44-46.) It argues that all domain name holders must comply with the UDRP, and that the UDRP requires they consent to jurisdiction "through any court . . .



that may be available." *Id.*; see also ICANN UDRP § 5.<sup>23</sup> However, this is not the case. The UDRP does not require registrants to submit to jurisdiction in Kentucky.

The UDRP was adopted by ICANN in January, 2000, specifically to "permit the owner of a [trade]mark to initiate an administrative complaint against an alleged cybersquatter." 4 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, § 25:74.75 (4th ed. 2008). Cybersquatting is the act of a person who "registers, traffics in, or uses a domain name that—in the case of a mark that is distinctive at the time of registration of the domain name, is identical or confusingly similar to that mark . . . ." 15 U.S.C. § 1125(d)(1)(A)(ii). Cybersquatting typically occurs when a person registers an unused domain name of a famous person or corporation and attempts to sell the rights to it for substantially more than the standard price.<sup>24</sup>

The UDRP requires all domain name registrants to submit to a mandatory administrative proceeding if a third party alleges that a name infringes upon rights in a trademark or service mark, if the registrant has no "legitimate interests" in the name, and if the registrant's registration and use of the name were in bad faith. UDRP § 4. The UDRP as a whole is concerned only with cybersquatting. It is irrelevant to a state's attempt to seek forfeiture of a domain name for an alleged criminal violation.

Additionally, the Commonwealth does not cite any case or UDRP decision supporting the idea that domain names have assented to jurisdiction in Kentucky. Section 5 states in its entirety that "[a]ll other disputes between you and any party other

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<sup>23</sup> Available at <http://www.icann.org/en/dndr/udrp/policy.htm> (last visited May 19, 2009).

<sup>24</sup> The UDRP and ACPA were specific responses to cybersquatting. For example, in *Charo Rasten v. URLPro*, NAF FA0412000384835 (Feb. 2, 2005), decided under the UDRP, the defendant registered over 900 domain names of famous names and marks and registered *charo.com* shortly after the performer celebrity known as "Charo" inadvertently allowed her own registration of the same domain name to lapse. Defendant's action was a bad faith attempt to prevent "Charo" from re-registering her name.

than us regarding your domain name registration that are not brought pursuant to the mandatory administrative proceeding provisions of Paragraph 4 shall be resolved between you and such other party through any court, arbitration or other proceeding that may be available." UDRP § 5 (emphases added). The ICANN Staff Report<sup>25</sup> stated:

[T]he basic two-part approach of the posted documents is fair to all parties (in the case of accredited registrars, domain-name holders have themselves submitted to jurisdiction in the location of the registrar), but that an additional option should be added so that in all cases the submission to jurisdiction can, at complainant's option, be at the location of the domain-name holder . . . .

ICANN—Second Staff Report on Implementation Documents for the UDRP § 4.9 (emphases added). This makes clear that the intent of the policy is that, when a covered dispute arises, the holder should submit either in the location of the registrar or that of the domain name holder. This provides only two jurisdictional options, and neither one is the Kentucky courts. Thus, if a woman in Frankfort, Kentucky registers a domain name to share pictures with family in other states, it is not plausible that ICANN intends that she submit to jurisdiction in Asia should a dispute emerge there regarding the registration.

Additionally, by its plain language section 5 applies to all other disputes regarding domain name registration. This case does not concern registration; at issue is use. Therefore, the UDRP does not give Kentucky courts a basis for exerting jurisdiction in this action. There is no dispute regarding the domain registrations, and the domain names have not consented to jurisdiction regarding this dispute.

## VII. THE TRIAL COURT'S CLOSINGS VIOLATED THE FIRST AMENDMENT.

The trial court unconstitutionally closed the case file and the proceedings in this action between August 26, 2008 and the issuance of an order unsealing the record on

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<sup>25</sup> See <http://www.icann.org/udrp/udrp-second-staff-report-24oct99.htm> (last visited May 19, 2009.)

September 23, 2008, all in violation of the First Amendment. This rendered the secret, *ex parte* hearing conducted September 18 invalid, and it rendered the trial court's orders of September 18 and October 16 invalid because of their reliance upon the invalid hearing.

The First Amendment right of access is most commonly asserted by representatives of the press. However, the right is one held by any member of the public, with the press commonly exerting the right merely as "the public's representative." *Courier-Journal and Louisville Times Co. v. Peers*, 747 S.W.2d 125, 128 (Ky. 1988). In this case, iMEGA is asserting this right of access as a member of the public.

The United States Supreme Court has made clear that the First Amendment to the United States Constitution mandates a strong presumption of open judicial proceedings and records. *Press-Enterprise Co. v. Superior Court of California*, 478 U.S. 1, 14-15 (1986) ("*Press-Enterprise II*"). "Openness . . . enhances both the basis fairness of the . . . trial and the appearance of fairness so essential to the public confidence in the system." *Richmond Newspapers, Inc. v. Virginia*, 448 U.S. 555, 569-71 (1980).

This Court has reiterated the strong presumption of openness in courts throughout the years and has imposed an extraordinary burden on those who would seek closure. See *Lexington Herald-Leader Co., Inc. v. Meigs*, 660 S.W.2d 658 (Ky. 1983); *Peers*, 747 S.W.2d 125. The presumption is overcome only in the face of an overriding interest. So strong is the presumption of public access to court proceedings and records that this Court in *Meigs* mandated that, before any closure, there must be a public hearing at which the "trial judge should consider the utility of other reasonable methods available to protect the rights of the [party] short of closure." 660 S.W.2d at 663.

If a trial court decides that closure is essential to protect the interest alleged by the party seeking closure, it must make specific written findings as to why the records should be sealed. *See id.* Second, the "burden of proof is on those who would infringe the First Amendment right of access, not on those who assert it." *Id.* (citing *Nebraska Press Ass'n v. Stuart*, 427 U.S. 539, 558-59, 569-70 (1976)). Third, the burden is stringent, requiring:

- (a) specifically identify a fundamental right that so outweighs the public's constitutional and common law rights of access to court records that "in no other way can justice be served" but to seal them, *Lexington Herald-Leader Co., Inc. v. Tackett*, 601 S.W.2d 905, 906 (Ky. 1980);
- (b) "show that the asserted right or interest probably cannot be adequately protected by less restrictive alternatives to closure," *Meigs*, 660 S.W.2d at 663; and
- (c) "show that the right or interest he seeks to protect . . . will be protected by" closure.

*Id.* The U.S. Supreme Court has further held that findings must be "specific enough that a reviewing court can determine whether the closure order" was proper. *Press-Enterprise Co. v. Superior Court of California*, 464 U.S. 501, 510 (1984) ("*Press-Enterprise I*").

Here, the trial court sealed the file by issuance of a perfunctory order signed August 26, 2008. (R. 244-45.) It said simply that the record "shall be kept under seal . . . until further orders of this Court. The Clerk shall allow the record to be reviewed only by parties and counsel of record." (R. 244.) It made no other findings. (*Id.*)

Beyond doubt, the trial court violated the requirements of *Meigs* and related Kentucky cases. The trial court failed to make specific written findings as to why the records should be sealed. It failed to specifically identify any fundamental right that so outweighed the public's constitutional and common law rights of access to court records that "in no other way can justice be served" but to seal them, as set out in *Lexington*

*Herald-Leader Co., Inc. v. Tackett*. It failed to "show that the asserted right or interest probably cannot be adequately protected by less restrictive alternatives to closure," as *Meigs* requires. It also failed to show how the state's interest would be protected by closure, or whether the court considered the utility of other reasonable methods available to protect the rights of the state's claimed interest, as set out in *Meigs*. Nor was the Order of August 26 "specific enough that a reviewing court can determine whether the closure order was properly entered," as *Press Enterprise II* requires.<sup>26</sup>

Therefore, the August 26 order sealing the records was invalid and a violation of the First Amendment and due process rights of the registrants.

Likewise, the closure of the hearing on September 18 was unconstitutional and invalid. The trial court issued no order authorizing the closing or indicating that it had conducted a hearing on any of the related First Amendment issues.

Therefore, both the seizure order issued September 18 and the trial court's order of October 16, 2008 based upon evidence put forth *ex parte* and in secret on September 18 violated the First Amendment and due process rights of the registrants.

#### **VIII. THE TRIAL COURT'S SEIZURE VIOLATED THE DORMANT COMMERCE CLAUSE.**

The trial court's seizure order violated the dormant Commerce Clause. Because a state trial court has no authority to seize Internet domain names used in worldwide commerce, the seizure order represents an ongoing and continuing violation of the Constitution of the United States. iMEGA's members continue to be irreparably harmed by the fact that its domain names continue to be subjected to the unconstitutional order.

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<sup>26</sup> At the secret, *ex parte* hearing on September 18, 2008, the trial court made only one statement regarding the closing of the record. The court asked counsel for the Commonwealth, "Do you still want the record sealed in this?" (Tape, Appellee's App. A at 3:18:40 to 3:18:44 p.m.) The trial court made no inquiry into, and took no testimony regarding, the First Amendment implications of the closing.

**A. The Seizure Order Was *Per Se* Invalid.**

Article 1, Section 8 of the Constitution empowers Congress "[t]o regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes." The dormant Commerce Clause cases decided by the United States Supreme Court generally involve state attempts to regulate interstate commerce. It is also clear that no state can regulate commerce with foreign nations.

The Supreme Court has made clear that the dormant Commerce Clause prohibits states from discriminating against interstate commerce in order to favor in-state economic interests over out-of-state economic interests. See *Am. Trucking Ass'n v. Mich. Pub. Service Comm'n*, 545 U.S. 429, 433 (2003); *Okla. Tax Comm'n v. Jefferson Lines, Inc.*, 514 U.S. 175, 179 (1995). Since *Gibbons v. Ogden*, 9 Wheat. 1, 188, 6 L. Ed. 23 (1824), the Court has recognized the implied power of the Commerce Clause to strike down regulations interfering with interstate commerce, especially a state's practice of economic protectionism. In addition, foreign commerce is afforded even broader protection than is interstate commerce. *Japan Line, Ltd. v. County of Los Angeles*, 441 U.S. 434, 435-36 (1979). States are restrained from excessive interference in foreign affairs. *Id.* at 448-51.

As the Supreme Court recently explained in *United Haulers Association v. Oneida-Herkimer Solid Waste Management Authority*, 127 S. Ct. 1786, 1792 (2007), a state law or action motivated by economic protectionism is subject to a "virtually *per se* rule of invalidity" that can "only be overcome by a showing that the state has no other means to advance a legitimate local purpose." See also *Brown-Forman Distillers v. New York State Liquor Authority*, 476 U.S. 573 (1986). Thus, a state action motivated by protectionism is subject to the "strictest scrutiny" that is "so heavy that 'facial

discrimination' by itself may be a fatal defect." *See Camps Newfoundland/Owatonna, Inc. v. Harrison, Me.*, 520 U.S. 564, 581-82 (1997).

Accordingly, "in all but the narrowest circumstances, state laws violate the Commerce Clause if they mandate 'differential treatment of in-state and out-of-state economic interests that benefits the former and burdens the latter.'" *Granholm v. Heald*, 544 U.S. 460, 472 (2005), (quoting *Or. Waste Sys., Inc. v. Dep't of Env'tl. Quality of Or.*, 511 U.S. 93, 99 (1994)). In *Granholm*, the Supreme Court struck down under the "virtually *per se* rule of invalidity" statutes enacted by Michigan and New York that allowed in-state wineries to sell their wares directly to those state's consumers but—by mandating separate licensure and distribution networks for out-of-state producers—deliberately made it economically difficult for out-of-state wine producers to do so.

Here the Commonwealth's own pronouncements in press conferences and to the media have made it clear that the Governor's motivation for this seizure action is to protect Kentucky's own gaming operations, both now and in the future, while at the same time collecting tax revenues. Governor Beshear, when referring to Internet gambling websites, has called them "leeches on our communities." (Stephenie Steitzer, *Beshear Wins Web Site Round*, Courier-Journal (Louisville, Ky.), Oct. 17, 2008, at B1.) (R. 239-240.) But the real reason for attempting to seize the domain names is to "protect the signature industry," namely horse racing. (*Id.* at R. 239.) Reacting to the trial court's ruling, Beshear stated, "Closer to home, we know they siphon off ten of millions of dollars from legal gaming efforts in Kentucky, such as horse racing, the lottery, and charitable gaming . . . ." (Governor Steve Beshear, "About Kentucky" Radio

Commentary (Oct. 17, 2008).)<sup>27</sup> The motive behind this action is to shore up the state's economic interests. The Commonwealth's action amounts to economic protectionism.

If the Commonwealth were truly worried about the dangers of gambling, an easier way would be simply to outlaw gambling among its citizens, including pari-mutuel betting and the lottery, which it has chosen not to do. Moreover, Governor Beshear is supportive—by his own admission—of expanding gambling within the Commonwealth.

State action of this sort constitutes a *per se* violation of the Commerce Clause if done to protect private sector in-state economic interests. Where, as here, the Commonwealth itself is or plans to be an industry actor on its own behalf, this *per se* violation only becomes even more aggravated. The Court of Appeals order granting the writ properly enjoined the trial court.

**B. The Order's Burdens On Commerce Outweigh Local Benefits.**

Even if the trial court's seizure were not a *per se* violation of the dormant Commerce Clause by virtue of economic protectionism, it would be invalid under the *Pike v. Bruce Church* balancing test because of burdens it places on interstate commerce.

Where a statute regulates evenhandedly "to effectuate a legitimate local public interest," Courts may still find a constitutional violation where "the burden imposed on such commerce is clearly excessive in relation to the putative local benefits." *Pike v. Bruce Church, Inc.*, 397 U.S. 137, 142 (1970). "In balancing the burden versus benefit, 'the extent of the burden that will be tolerated will of course depend on the nature of the local interest involved, and on whether it could be promoted as well with a lesser impact

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<sup>27</sup> Available at <http://governor.ky.gov/media/commentary.htm> ("Internet Gaming" link) (last visited May 19, 2009). A transcript of the speech is at R. 242.



on interstate activities." *Id.* In *American Libraries Association v. Pataki*, 969 F. Supp. 160 (S.D.N.Y. 1997),

the court invalidated a New York statute criminalizing the dissemination of material harmful to minors, ruling that the statute violated the Commerce Clause in three particulars: (1) it sought to regulate conduct occurring wholly outside New York state, (2) its burden on interstate commerce far exceeded the benefits of the statute and (3) any regulation of the Internet by the states exposed users to inconsistent regulations.

*Am. Booksellers Found. for Free Expression v. Strickland*, 512 F. Supp. 2d 1082, 1102 (S.D. Ohio 2007) (quoting *Pataki*, 969 F. Supp. at 169). In other words, state regulation has been deemed violative of the dormant Commerce Clause where it "reached to all Internet communications." *Am. Booksellers*, 512 F. Supp. 2d at 1103.

The application by the trial court of KRS 528.100 to Internet domain names falls well within the *Pataki* test, and in turn the *Pike* test. If this action succeeds, 141 Internet domain names will be forfeited to the Commonwealth. It is unlikely that the Commonwealth plans to proceed against every gaming domain name created on the Internet around the world.<sup>28</sup> It has neither the time, money, nor manpower to do so. If the General Assembly were to outlaw all gambling within the state, it would have a finite population to regulate, and would likely be more effective in achieving its purported objective. It could then police actions in Kentucky instead of attempting to police the entire world. Through the seizure of domain names, the court beyond question has reached to, and has blocked, Internet communications entirely outside of Kentucky and throughout the world. The burden on those affected communications is absolute, and excessive, far exceeding the benefit of the application of the statute. The chilling effect on interstate commerce is quite real. Subjecting Internet "business transactions to

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<sup>28</sup> The Commonwealth asserts that there are 2,500 such Web sites. (Appellant's Br. at 2.)

restrictive state regulation threaten[s] its continued development as a means of interstate commerce." Kenneth D. Bassinger, *Note: Dormant Commerce Clause Limits on State Regulation of the Internet: The Transportation Analogy*, 32 Ga. L. Rev. 889 (1998). Clearly the burdens of this action on interstate commerce outweigh any potential benefits to the state, and the application of KRS 528.100 in this manner fails the test under *Pike*.

#### **IX. THE TRIAL COURT WRONGLY RESTRAINED COMMERCIAL SPEECH.**

Domain names are commercial speech protected by the First Amendment. The trial court thus has imposed an unconstitutional prior restraint upon protected speech.

The First Amendment protects commercial speech from unwarranted governmental regulation. *Central Hudson Gas & Elec. Corp. v. Public Service Commission of New York*, 447 U.S. 557, 561 (1980) (citing *Virginia Pharmacy Board v. Virginia Citizens Consumer Council*, 425 U.S. 748 (1976)). "If the communication is neither misleading nor related to unlawful activity," restrictions by a state are subjected to intermediate scrutiny. *Central Hudson*, 447 U.S. at 564. The state must (1) assert "a substantial interest to be achieved by" any restriction on commercial speech; (2) assure that the regulation is "in proportion to that interest," and (3) assure that "the limitation on expression must be designed carefully to achieve the State's goal." *Id.* The restriction on commercial speech "must directly advance the state interest involved," and "if the governmental interest could be served as well by a more limited restriction on commercial speech, the excessive restrictions cannot survive." *Id.*

Domain names constitute commercial speech. "Commercial expression not only serves the economic interest of the speaker, but also assists consumers and furthers the societal interest in the fullest possible dissemination of information." *Id.* at 561-62. "The

rooftops of our past have evolved into the internet domain names of our present. We find that the domain name is a type of public expression, no different in scope than a billboard or a pulpit . . . ." *Taubman Co. v. Webfeats*, 319 F.3d 770, 778 (6th Cir. 2003). Domain names "could be used for 'an expressive purpose such as commentary, parody, news reporting or criticism,' comprising communicative messages by the author and/or operator of the website in order to influence the public's decision to visit that website, or even to disseminate a particular point of view." *Name.Space, Inc. v. Network Solutions, Inc.*, 202 F.3d 573, 586 (2d Cir. 2000); see also *Sunlight Saunas, Inc.; v. Sundance Sauna, Inc.*, 427 F. Supp. 2d 1032, 1057 (D. Kan. 2006).

Domain names are protected commercial speech if they are "part of a communicative message" and do not infringe on trademark rights. *Planned Parenthood Federation of America, Inc. v. Bucci*, 1997 WL 133313, 10-11 (S.D.N.Y. 1997);<sup>29</sup> *Yankee Publishing, Inc. v. News America Publishing, Inc.*, 809 F. Supp. 267 (S.D.N.Y. 1992).

A state may not "bar a citizen of another State from disseminating information about an activity that is legal in that State." *Bigelow v. Virginia*, 421 U.S. 809, 825 (1975). Billboards that advertise casinos in Indiana and Illinois, for example, are commonly seen in Kentucky, even though casino gambling is illegal in Kentucky.

Domain names serve an expressive purpose, make clear communicative statements about the websites they advertise, and seek to persuade people to visit them. They enjoy First Amendment protection. The trial court seized the names without conducting the intermediate scrutiny analysis required by *Central Hudson*. The government interest is not sufficiently substantial, the restriction is not in proportion to that interest, and the limitation is not properly drawn.

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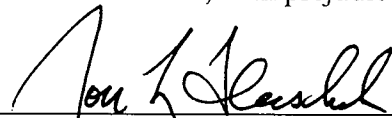
<sup>29</sup> Attached hereto as Appellee's App. E.

## CONCLUSION

The trial court acted without jurisdiction because Internet domain names cannot be "gambling devices" as defined in KRS 528.010. It acted without jurisdiction because an "*in rem* civil" action cannot be brought under the Kentucky Penal Code, and no forfeiture can occur absent a conviction. It acted without jurisdiction because the Commonwealth has not shown that any elements of the Kentucky statutory offenses of promoting gambling have occurred, and because domain names are not located within the territorial jurisdiction of the trial court.

Despite all of that, the Commonwealth persists in asking this Court to legitimize what it has done. It is asking this Court to legislate a new definition of "gambling device," to legislate a new, civil forfeiture procedure lacking due process protections, and to legislate a prohibition on Internet gambling in Kentucky. The Commonwealth excuses its lack of legal authority. It declares, in so many words, that Internet gambling is a massive social blight, and therefore the ends justify the means. However, the ends are not proper and the means are not authorized.

The Order of the Court of Appeals granting the petition for a writ of prohibition should be affirmed and the Commonwealth's action should be dismissed, with prejudice.

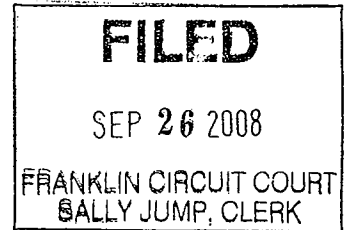


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## APPENDIX

- A. Tape of September 18, 2008, Circuit Court Hearing
- B. iMEGA's Motion to Dismiss
- C. iMEGA's Memorandum in Support of Motion to Dismiss
- D. *Louisville/Jefferson County Metro Government and Lexington-Fayette Urban County Government v. Hotels.com, LP, et al.*
- E. *Planned Parenthood Federation of America, Inc. v. Bucci*, 1997 WL 133313, 10-11 (S.D.N.Y. 1997)

COMMONWEALTH OF KENTUCKY  
FRANKLIN CIRCUIT COURT  
DIVISION II  
CIVIL ACTION NO.: 08-CI-1409



COMMONWEALTH OF KENTUCKY  
ex rel. J. Michael Brown, Secretary,  
Justice and Public Safety Cabinet

PLAINTIFF

v.

141 INTERNET DOMAIN NAMES

DEFENDANTS

**NOTICE-MOTION-ORDER**

PLEASE TAKE NOTICE that Interactive Media Entertainment & Gaming Association, Inc. ("Interactive Media"), by counsel, on Friday, September 26, 2008, at 3:30 p.m., in the above courtroom, will make the following motion pursuant to CR 12.02(f) and will tender the attached order.

**MOTION TO DISMISS**

Interactive Media respectfully moves that this Court dismiss the Second Amended Complaint of Plaintiff Commonwealth of Kentucky entered in the above-styled action on September 18, 2008. The complaint fails to state a claim upon which relief can be granted, and therefore should be dismissed pursuant to CR 12.02(f).

The Commonwealth's assertion that "Internet domain names" are "gambling devices"<sup>1</sup> as set forth in KRS 528.010(4) is without foundation, without precedent, and without basis in Kentucky law. Kentucky's 34-year-old statute by its plain language does not permit the interpretation that Internet domain names are "gambling devices," and

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<sup>1</sup> "Each Domain Defendant is a gambling device such as is ordinarily used for gambling money or property . . . ." (Second Amended Complaint at 5.)

domain names are not of a character permitting such a reading. Thus, there can be no basis for an *in rem* civil action against domain names pursuant to KRS 528.100. Such a complaint simply does not state a claim that is cognizable under Kentucky law.

Under KRS 528.010(4), a "gambling device" means:

(a) Any so-called slot machine or any other machine or mechanical device an essential part of which is a drum or reel with insignia thereon, and which when operated may deliver, as a result of the application of an element of chance, any money or property, or by the operation of which a person may become entitled to receive, as the result of the application of an element of chance, any money or property; or

(b) Any other machine or any mechanical or other device, including but not limited to roulette wheels, gambling tables and similar devices, designed and manufactured primarily for use in connection with gambling and which when operated may deliver, as the result of the application of an element of chance, any money or property, or by the operation of which a person may become entitled to receive, as the result of the application of an element of chance, any money or property.

KRS 528.010(4) (emphases added).

The statute was enacted in 1974, long before the Internet was a fixture of American life. The legislature could not have intended such a vastly expansive application of the definition as the Commonwealth seeks to apply in this action.

By its clear language, the definition of "gambling device" in KRS 528.010(4) encompasses nothing other than mechanical devices.

As to sub-paragraph (a), it is beyond dispute that Internet domain names are not slot machines, and that "a drum or reel with insignia thereon" cannot be found as essential parts of Internet domain names. Therefore, Internet domain names cannot conceivably be deemed as falling within the definition of (a).

Under sub-paragraph (b), a "gambling device" is "any other machine or any mechanical or other device, including but not limited to roulette wheels, gambling tables and similar devices." The second use of the word "device" clearly is a reference to other mechanical gambling devices "similar" to roulette wheels and gambling tables. The legislature clearly envisioned its definition encompassing tangible gambling equipment and could not have intended to include such intangible concepts as Internet domain names.

The language of KRS 528.010(4) is more than critical to the Commonwealth's complaint. Indeed, its claim under KRS 528.100 is hinged entirely upon its broad and unsupported interpretation of the definition to encompass domain names. Without such reading of the definition, the Commonwealth has no claim.

The Commonwealth cites no case supporting such a broad reading of KRS 528.010(4). In fact, while ample cases can be found in Kentucky finding that such devices as slot machines<sup>2</sup> and pinball machines<sup>3</sup> are "gambling devices," there are no Kentucky cases finding anything so remote, intangible and insubstantial as "domain names" to fall under the statutory definition. In essence, without any support in the law whatsoever, the Commonwealth is asking this Court to vastly expand state law into a realm the legislature clearly did not intend.

Statutory interpretation is a matter of law. *Floyd County Bd. of Educ. v. Ratliff*, 955 S.W.2d 531 (Ky. 1997). Statutes are to be construed according to "the common and approved usage of language." KRS 446.080(4). "A court may not interpret a statute at

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<sup>2</sup> See, e.g., *14 Console Type Slot Machines v. Commonwealth*, 273 S.W.2d 582 (Ky. 1954); *Pace Mfg. Co. v. Milliken*, 70 F.Supp. 740 (W.D. Ky. 1947).

<sup>3</sup> See, e.g., *Three One-Ball Pinball Machines v. Commonwealth*, 249 S.W.2d 144 (Ky. 1952); *A.B. Long Music Co. v. Commonwealth*, 429 S.W.2d 391 (Ky. 1968).



variance with its stated language." *SmithKline Beecham Corp. v. Revenue Cabinet*, 40 S.W.3d 883, 885 (Ky. App. 2001). The first principle of statutory construction is to use the plain meaning of the words used in the statute. *See Revenue Cabinet v. O'Daniel*, 153 S.W.3d 815 (Ky. 2005). "[S]tatutes must be given a literal interpretation unless they are ambiguous and if the words are not ambiguous, no statutory construction is required." *Commonwealth v. Plowman*, 86 S.W.3d 47, 49 (Ky. 2002). The courts should lend words of a statute their normal, ordinary, everyday meaning, and is "not at liberty to add or subtract from the legislative enactment or discover meanings not reasonably ascertainable from the language used." *Commonwealth v. Harrelson*, 14 S.W.3d 541, 546 (Ky. 2000).

Additionally, a domain name does not have a character permitting it to fall within KRS 528.020(4), any more than does a simple telephone number or a simple house address. A domain name is nothing more than a series of letters and characters.

The Commonwealth has extensively cited the Internet Corporation for Assigned Names and Numbers ("ICANN") as an authority in the complaint. However, even a cursory look at ICANN's glossary provides a definition of the Domain Name System ("DNS") that simply does not fit within the definition of 528.010(4). The DNS

[H]elps users to find their way around the Internet. Every computer on the Internet has a unique address—just like a telephone number—which is a rather complicated string of numbers. It is called its "IP address" (IP stands for "Internet Protocol"). IP Addresses are hard to remember. The DNS makes using the Internet easier by allowing a familiar string of letters (the "domain name") to be used instead of the arcane IP address.

ICANN Glossary—Domain Name System, *available at* <http://www.icann.org/en/general/glossary.htm> (last visited Sept. 26, 2008); *see also Am. Girl, LLC v. Nameview, Inc.*, 381 F. Supp. 2d 876, 879 (E.D. Wis. 2005) (similarly defining domain names). Basically, calling a domain name a gambling device under the definition of 528.010(4) is

akin to calling a telephone number a gambling device. A telephone number could not conceivable fit within the definition as written. A domain name is no different. The Commonwealth's characterization of a domain name as a "gambling device" strains credulity and clearly contradicts the plain language of the statute.

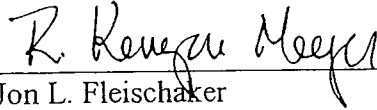
It is no different from the analogy of an overseas bookmaker conducting business with a Kentucky resident via telephone. If the Commonwealth were interested in shutting down that handbook, it might proceed against the bookmaker or *in rem* against his gambling devices. But it would be illogical for the Commonwealth to proceed *in rem* against the bookmaker's telephone number itself as the "gambling device" under 528.010(4). That, however, is precisely what the Commonwealth here is characterizing as the "gambling device."

In sum, an Internet domain name under Kentucky law simply cannot be a "gambling device," and that deficiency renders the entire claim of the Commonwealth invalid.

For the foregoing reasons, the Defendants respectfully request this Court dismiss the action with prejudice. A tendered order is attached hereto.

Respectfully submitted,

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**CERTIFICATE OF SERVICE**

It is hereby certified that a copy of the foregoing Notice-Motion-Order was delivered by hand delivery this 25th day of September, 2008 upon:

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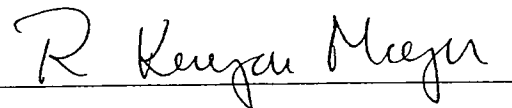
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COMMONWEALTH OF KENTUCKY  
FRANKLIN CIRCUIT COURT  
DIVISION II  
CIVIL ACTION NO.: 08-CI-1409

COMMONWEALTH OF KENTUCKY  
ex rel. J. Michael Brown, Secretary,  
Justice and Public Safety Cabinet

PLAINTIFF

v.

141 INTERNET DOMAIN NAMES

DEFENDANTS

**ORDER**

Interactive Media Entertainment & Gaming Association, Inc. ("Interactive Media"), having moved that the Second Amended Complaint of the Commonwealth of Kentucky filed September 18, 2008, be dismissed pursuant to CR 12.02(f), the Court having heard argument on said motion, and the Court being otherwise sufficiently advised,

**IT IS HEREBY ORDERED** that the motion of Interactive Media is **GRANTED** and the Second Amended Complaint is **DISMISSED**.

\_\_\_\_\_  
JUDGE

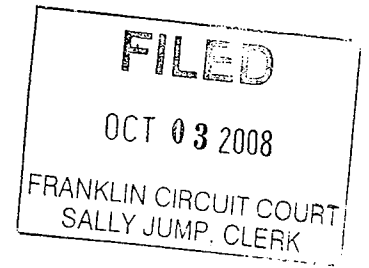
Entered \_\_\_\_\_

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Entertainment & Gaming Association,  
Inc.*

COMMONWEALTH OF KENTUCKY  
FRANKLIN CIRCUIT COURT  
DIVISION II  
CIVIL ACTION NO.: 08-CI-1409



COMMONWEALTH OF KENTUCKY  
ex rel. J. Michael Brown, Secretary,  
Justice and Public Safety Cabinet

PLAINTIFF

v.

141 INTERNET DOMAIN NAMES

DEFENDANTS

**INTERACTIVE MEDIA ENTERTAINMENT AND GAMING ASSOCIATION, INC.'S  
MEMORANDUM IN SUPPORT OF MOTION TO DISMISS**

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Interactive Media Entertainment and Gaming Association, Inc. ("Interactive Media"), by counsel, in support of its motion to dismiss and, in accordance with the briefing schedule established by this Court, states as follows.

The Second Amended Complaint should be dismissed for the following reasons: (1) *in rem* subject matter jurisdiction cannot be established because the subject domain names are not property within the state of Kentucky, and the Second Amended Complaint is fatally defective because it does not allege that the domain names are within Kentucky; (2) the Second Amended Complaint is fatally defective and fails to state a claim upon which relief can be granted because a domain name is not a "gambling device" under KRS 528.010(4), and therefore cannot be the subject of a civil forfeiture action; (3) the Plaintiff's seizure of domain names unconstitutionally burdens interstate commerce in violation of the dormant Commerce Clause of the United States Constitution; and (4) the elements of a public nuisance claim cannot be met and a domain name is not a proper defendant to such an action.

Further, Interactive Media hereby adopts and incorporates by reference the arguments of all other filings made in this action on behalf of the 141 Internet Domain Names defendants.

**I. THE COURT LACKS JURISDICTION TO HEAR THIS ACTION, AND TO DO SO WOULD VIOLATE THE DUE PROCESS CLAUSE OF THE FOURTEENTH AMENDMENT**

**A. Property Subject to *In Rem* Jurisdiction Must Be Located in Kentucky.**

Plaintiff's misguided attempt to seize Defendant 141 Internet Domain Names fails, as the domain names are not subject to *in rem* jurisdiction in Kentucky, and any action by a Kentucky court with regard to them is void under the Due Process Clause of the Fourteenth Amendment. It is well settled that *in rem* jurisdiction only is valid within a state if the property is located within that state. *See Durfee v. Duke*, 375 U.S. 106, 107–08 (1963) ("The Nebraska court had jurisdiction over the subject matter of the controversy only if the land in question was in Nebraska."); *see also* 20 Am. Jur. 2d *Courts* § 72 ("A decision *in rem* can be rendered by a state court only with reference to a *res* situated in the state . . ."). A state's attempt to use *in rem* jurisdiction with respect to property not within the state is a violation of the Due Process Clause of the Fourteenth Amendment. *See Hanson v. Denckla*, 357 U.S. 235, 246–50 (1958).

In *Hanson*, the state of Florida attempted to exercise *in rem* jurisdiction over a trust established in Delaware by a settlor who later became domiciled in Florida. *Id.* at 238–39. The Court, in overturning the Florida Supreme Court's determination that the state could exercise jurisdiction over the trust, limited the reach of *in rem* jurisdiction to situations in which "the presence of the subject property [was] within the territorial jurisdiction of the forum State." *Id.* at 246. Moreover, the Court detailed the resulting Fourteenth Amendment violation:

With the adoption of that Amendment, any judgment purporting to bind the person of a defendant over whom the court had not acquired *in personam* jurisdiction was void within the State as well as without. *Pennoyer v. Neff*, 95 U.S. 714, 24 L. Ed. 565. Nearly a century has passed without this Court being called upon to apply that principle to an *in rem* judgment dealing with property

outside the forum State. The invalidity of such a judgment within the forum State seems to have been assumed—and with good reason. Since a State is forbidden to enter a judgment attempting to bind a person over whom it has no jurisdiction, it has even less right to enter a judgment purporting to extinguish the interest of such a person in property over which the court has no jurisdiction. Therefore, so far as it purports to rest upon jurisdiction over the trust assets, the judgment of the Florida court cannot be sustained.

*Id.* at 250. Because the domain names at issue are property not located within Kentucky, this Court has no jurisdiction over the subject matter at issue and therefore no constitutional basis with which to adjudicate this case. Accordingly, jurisdiction is absent.

**1. Domain Name *Situs* Has Been Deemed by Congress to be Located in the District of the Registrar, and Therefore, the 141 Domain Names Are Not Subject to *In Rem* Jurisdiction in Kentucky**

The *situs* of intangible property is one of two locations: (1) the domicile of the property owner; or (2) the location of the intangible instrument (i.e., a stock or bond certificate), if there is one. Fletcher R. Andrews, *Situs of Intangibles in Suits Against Nonresident Claimants*, 49 Yale L.J. 241, 242–43 (1939) (collecting historical cases); *see also, e.g., In re De Lano's Estate*, 315 P.2d 611 (Kan. 1957) (holding that Kansas courts had no jurisdiction to adjudicate dispute over stock and bond certificates located in Missouri, as intangible property is located in the state of its certificate). This principle remains true for Internet domain names, and Congress has followed this tradition when enacting the Federal Anticybersquatting Consumer Protection Act ("ACPA"), 15 U.S.C. § 1125(d), *et seq.* However, a brief discussion of the domain name registration process is in order to elucidate this point.

To regulate the problem of directing traffic over the Internet, the Internet Corporation for Assigned Names and Numbers ("ICANN") was established in 1998. *See* ICANN, <http://www.icann.org/tr/english.html> (last visited Oct. 1, 2008). An international, quasi-governmental, non-profit partnership, ICANN has as its exclusive mission and purpose the task



of addressing Internet space allocation and Domain Name System assignment. ICANN organizes and directs traffic over the Internet. *Id.* The Domain Name System ("DNS") was established to make it easier for people to find their way around the Internet by allowing users to use a familiar string of letters (a "domain name") instead of a string of archaic numbers, thus making Internet usage easier for the public. *Id.* Instead of typing the Internet Protocol address to visit a website, a user can type a familiar phrase to visit the same website (e.g., typing "www.icann.org" instead of "192.0.34.163"). This makes the Internet more user friendly.

Domain names are issued to holders through a domain name registrar. A domain name registrar is one of several entities licensed by ICANN to grant domain names to applicants, or "registrants." *Mattel, Inc. v. Barbie-club.com*, 310 F.3d 293, 296 n.2 (2d Cir. 2002). For a fee, a domain name registrant obtains the exclusive right to use a domain name for a specified time, while the registrar holds title to the certificate, which the ACPA establishes is a "document sufficient to establish [a court's] control and authority regarding . . . the use of a domain name." 15 U.S.C. § 1125(d)(2)(C)(ii). This certificate is located in the headquarters of the registrar.

While the issue of a domain name's *situs* has not been addressed by the Kentucky courts or the General Assembly, Congress studied the issue exhaustively when enacting the ACPA. This analysis is relevant to the issue before this Court. Applying traditional notions of intangible property location and adapting these concepts to the Internet age, Congress found a constitutional mechanism permitting *in rem* jurisdiction over domain names. The ACPA allows *in rem* jurisdiction over a domain name only "in the judicial district in which the domain name registrar, domain name registry, or other domain name authority that registered or assigned the domain name is located." *Id.* § 1125(d)(2)(A). Subsection (d)(2)(C) states that the *situs* of a domain name in an *in rem* action shall be deemed to be

in the judicial district in which (i) the domain name registrar, registry or other domain name authority that registered or assigned the domain name is located; or (ii) documents sufficient to establish control and authority regarding the disposition of the registration and use of the domain name are deposited with the court.

*Id.* § 1125(d)(2)(C). The *Mattel* court expresses why Congress established *situs* in this manner. Mattel brought an action against several domain names under the ACPA in the U.S. District Court for the Southern District of New York. The trial court dismissed the action for lack of *in rem* jurisdiction on the ground that the defendants' registrar was in Maryland. *See Mattel*, 310 F.3d at 294. The Second Circuit upheld the district court's dismissal, stating that Congress recognized that allowing an *in rem* action against a domain name, accessible in every state in the U.S., in any federal court may offend due process or principles of international comity. *See Mattel*, 310 F.3d at 302. Requiring a "nexus" between the registrar and the court lessens these concerns as the domain name, the subject of the action, is most connected with the jurisdiction where the registrar resides. *Id.* at 302; *see also* H.R. Rep. No. 106-412, at 14 (1999). The presence of the domain name in the judicial district of the registrar "anchors the *in rem* action and therefore satisfies due process." *Mattel*, 310 F.3d at 302. This analysis has been followed in nearly all litigation under the ACPA. *See, e.g., Harrods Ltd. v. Sixty Internet Domain Names*, 302 F.3d 214 (4th Cir. 2002) (holding that when Internet domain name was registered in Virginia, Virginia had *in rem* jurisdiction consistent with due process).

This Court should follow the traditions of intangible property *situs* analysis, and the lead of Congress, in refusing to find jurisdiction. Much like traditional intangible property, domain names have consistently been recognized as having a *situs* at the location of the registry, or in the location of the domain holder. *See* ICANN—Second Staff Report on Implementation Documents for the Uniform Dispute Resolution Policy § 4.9 (discussed further *infra*).

Further, domain names are accessible in every state in the U.S. If any court within the U.S. can claim *in rem* jurisdiction over a domain name, domain names could be taken from their holders for a multitude of potential reasons. The result would stifle the dynamic and important function of the Internet as an outlet for national and international commerce. Only jurisdictions with a "nexus" to the domain name should properly adjudicate these disputes. Otherwise, any party that registers a domain name could be required to defend itself in any jurisdiction in the country. Such a notion would surely "offend traditional notions of fair play and substantial justice" that anchor the due process requirement. *International Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945). Accordingly, this Court lacks jurisdiction.

**2. The Authority Cited by Plaintiff in Support of Domain Name Seizure Does Not Address the Issues Before the Court**

Plaintiff cites *People ex rel. Vacco v. World Interactive Gaming Corporation*, 714 N.Y.S.2d 844 (N.Y.S. 1999), as support for its position. *Vacco* does not address any of this issues before this Court, and is therefore inapplicable. In *Vacco*, the New York Attorney General brought an action seeking to enjoin a corporation from offering to residents of New York State gambling over the Internet. *Id.* at 846. However, the *Vacco* court had *in personam* jurisdiction over the defendant, as World Interactive, a registered Delaware corporation, maintained its headquarters and operated in Bohemia, New York. *Id.* at 849. The defendant also did business with other companies within the state, downloaded software from its New York headquarters, and engaged in a prolific advertising campaign targeting New York residents. *Id.* On this basis, the court found *in personam* jurisdiction.

Plaintiff in the instant case is not filing an *in personam* action but an *in rem* action. The *Vacco* case does not address two central issues before this Court: whether *in rem* jurisdiction exists, and whether the domain names fit within the definition of "gambling device" in KRS

528.010(4). Moreover, most of the analysis by the *Vacco* court dealt with whether there were "minimum contacts" sufficient to subject defendants to *in personam* jurisdiction. Thus, *Vacco* is irrelevant to this case.

**B. The Uniform Domain Name Dispute Resolution Policy Does Not Require the Domain Names to Consent to Jurisdiction in Kentucky**

Plaintiff also appears to assert in its Second Amended Complaint that this Court has jurisdiction over Defendants by virtue of the *ICANN Uniform Domain Name Dispute Resolution Policy* ("UDRP"). (See Second Am. Compl. ¶ 35.) Specifically, Plaintiff argues that since all domain name holders must comply with the UDRP as a condition of their registration, that the UDRP requires they consent to jurisdiction "through any court . . . that may be available." (See Second Am. Compl. ¶ 35); see also ICANN Uniform Domain Name Dispute Resolution Policy § 5. Plaintiff grossly misinterprets both the purpose of the UDRP and its specific language. The UDRP in no way requires the Defendants submit to jurisdiction in Kentucky.

**1. The Purpose of the UDRP Is Only to Combat Cybersquatting or Bad Faith Registrations**

The UDRP was adopted by ICANN in January, 2000 specifically to "permit the owner of a [trade]mark to initiate an administrative complaint against an alleged cybersquatter." 4 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, § 25:74.75 (4th ed. 2008). The ACPA defines cybersquatting as being performed by a person who "registers, traffics in, or uses a domain name that—in the case of a mark that is distinctive at the time of registration of the domain name, is identical or confusingly similar to that mark . . . ." 15 U.S.C. § 1125(d)(1)(A)(ii). In lay terms, cybersquatting is the practice of a party registering an unoccupied or abandoned domain name of a famous person or corporation and attempting to sell the rights to the domain name to the person or corporation for substantially more than the

standard price.<sup>1</sup> Because the practice became so widespread as popularity of the Internet grew, the UDRP was adopted to furnish "a simple, quick and inexpensive method of determining if a domain name has been the subject of cybersquatting." See 4 McCarthy at § 25:74.45.

Section 4 is the heart of the UDRP and effectuates the purpose and intent of the policy as a whole. Section 4 requires all domain name registrants to submit to a mandatory administrative proceeding for domain name disputes between the registrant and a third party. The most critical provision is section 4(a):

- (a) Applicable Disputes.** You are required to submit to a mandatory administrative proceeding in the event that a third party (a "complainant") asserts to the applicable Provider, in compliance with the Rules of Procedure, that
- (i) your domain name is identical or confusingly similar to a trademark or service mark in which the complainant has rights; and
  - (ii) you have no rights or legitimate interests in respect of the domain name; and
  - (iii) your domain name has been registered and is being used in bad faith.

ICANN Uniform Domain Name Dispute Resolution Policy § 4, *available at* <http://www.icann.org/en/dndr/udrp/policy.htm> (last visited Oct. 1, 2008) (emphasis added).

Clearly this section, and thus the policy as a whole, is concerned only with cybersquatting and certainly not with a state agency suing a domain name *in rem* for an alleged criminal violation.

## 2. **Nothing in the UDRP Requires Jurisdictional Consent by Domain Name Registrants**

An examination of the UDRP language belies Plaintiff's claim that Defendants assented to jurisdiction in the Kentucky courts. Plaintiff does not cite, and counsel for Interactive Media cannot find, any case or UDRP decision interpreting section 5 in this manner. Moreover, comparing the mandatory provision of section 4(a) with section 5 shows there is no requirement

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<sup>1</sup> The UDRP and ACPA were specific responses to cybersquatting. For example, in *Charo Rasten v. URLPro*, NAF FA0412000384835 (Feb. 2, 2005), decided under the UDRP, defendant registered over 900 domain names of famous names and marks and registered *charo.com* shortly after the performer celebrity known as "Charo" inadvertently allowed her own registration of the same domain name to lapse. Defendant's action was a bad faith attempt to prevent "Charo" from re-registering her name.

under section 5 for Defendant to consent to jurisdiction. Finally, the language in section 5 is still subject to conventional jurisdictional doctrines, discussed *supra*, which clearly hold that Kentucky lacks jurisdiction to adjudicate this dispute.

a. **Section 5 Does Not Require Defendant to Consent to Jurisdiction in this Dispute**

As discussed *supra*, section 4(a), by its plain language, requires domain name holders to submit to a mandatory administrative proceeding upon complaint by a third party regarding cybersquatting. Presumably, this shows that the drafters of the UDRP were aware of how to require jurisdictional consent as a condition of domain name registration. Such language is absent from section 5. Section 5 states in its entirety:

**5. All Other Disputes and Litigation.** All other disputes between you and any party other than us regarding your domain name registration that are not brought pursuant to the mandatory administrative proceeding provisions of Paragraph 4 shall be resolved between you and such other party through any court, arbitration or other proceeding that may be available.

ICANN Uniform Domain Name Dispute Resolution Policy § 5 (emphases added). Noticeably lacking in this section is similar language to section 4(a)s, "You are required to submit to a mandatory administrative proceeding . . . ." ICANN Uniform Domain Name Dispute Resolution Policy § 4(a) (emphases added). In contrast to the exacting, rigorous and binding language of section 4(a), section 5 exhibits no intent by the drafters to require domain name holders to consent to jurisdiction in any court regardless of the nature of the dispute.

In fact, the intent is quite the opposite. In the Second Staff Report on Implementation Documents for the Uniform Dispute Resolution Policy,<sup>2</sup> section 4.9, the drafters address the jurisdictional issue. They concluded:

Based on comments received, the staff has concluded that the basic two-part approach of the posted documents is fair to all parties (in the case of accredited

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<sup>2</sup> See <http://www.icann.org/udrp/udrp-second-staff-report-24oct99.htm>.

registrars, domain-name holders have themselves submitted to jurisdiction in the location of the registrar), but that an additional option should be added so that in all cases the submission to jurisdiction can, at complainant's option, be at the location of the domain-name holder as shown in the registrar's Whois data.

ICANN—Second Staff Report on Implementation Documents for the Uniform Dispute Resolution Policy § 4.9 (emphases added). This makes clear that the intent of the policy, to the extent that the domain holder was required to submit to jurisdiction, would be to submit either in the location of the registrar or the location of the domain name holder. There are only two jurisdictional options available to Plaintiff, and neither option is the Kentucky courts.

Additionally, Plaintiff's reading of section 5 leads to absurd results that contradict the purpose behind the policy. Plaintiff would have this Court believe that the drafters of the UDRP, while making sure to carefully craft section 4(a)'s parameters, would then in section 5 coerce domain name holders, for "all other disputes" to submit to jurisdiction in "any court, arbitration or other proceeding." Considering that ICANN is an international body it is highly unlikely that, for example, if a housewife in Frankfort, Kentucky registered a domain name to share pictures with family in other states, the UDRP would require her to submit to jurisdiction in Madagascar should a non-section 4(a) dispute emerge. Such a result would be outrageous, yet this is what Plaintiff is arguing before this Court. Clearly the purpose of this section is to limit the application of the policy to section 4(a)'s substantive measures, while acknowledging that the UDRP is not the exclusive remedy for any and all disputes that might arise.<sup>3</sup>

**b. Section 5 Does Not Pertain to the Subject Matter of this Dispute**

Again, analyzing the section 5 provision shows that it does not even address the subject matter of this dispute. By its plain language section 5 applies to "[a]ll other disputes between you and any party other than us regarding your domain name registration . . . ." ICANN

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<sup>3</sup> This is especially true since a substantial number of complainants under the UDRP would likely have a concurrent cause of action for cybersquatting under the ACPA. *See* 15 U.S.C. § 1125(d).

Uniform Domain Name Dispute Resolution Policy § 5. The issue in this case has nothing to do with registration. At issue is use.<sup>4</sup> As discussed *supra*, the purpose of the UDRP is to adjudicate disputes with the actual registration name itself; the policy does not address any use of the website associated with the domain name. McCarthy makes this point clearly:

[T]he ICANN UDRP policy covers only a rather limited class of domain name disputes. A dispute may be resolved under ICANN's policy only if it involves a bad faith registration of a domain name made with intent to profit commercially from another's trademark. This is the kind of conduct known as cyber-squatting or cyber-piracy. Thus, unlike the previous NSI procedure, the UDRP procedure does not cover domain name disputes where each of the parties has some legitimate legal claim to the use of the domain name, as where both of the contesting parties have longstanding trademark rights in the word which comprises the domain name. This narrower dispute resolution procedure was consciously chosen by ICANN to be "minimalist" in coverage.

4 McCarthy, *supra*, at § 25:74.75.<sup>5</sup> Because there is no genuine dispute as to the domain names themselves, the subject matter of the case at issue does not fall under the UDRP, and any argument made by Plaintiff to the contrary must fail.

**D. Plaintiff's Complaint is Fatally Defective Because It Fails to Allege that the 141 Internet Domain Names Are Located in Kentucky**

An *in rem* action generally may be brought in Kentucky courts if the property at issue is located in the Commonwealth. For example, "[g]enerally, state courts of general jurisdiction

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<sup>4</sup> The action Plaintiff attempts to bring is related to the use of the website associated with the domain name, not the domain name itself. The Commonwealth has no dispute with the names, e.g. *123bingo.com* or *casinoclassic.com*. Its issue deals with the use of the website connected with the domain name.

<sup>5</sup> See also Second Staff Report on Implementation Documents for the Uniform Dispute Resolution Policy § 4.1(c) (Oct. 25, 1999), available at <http://www.icann.org/udrp/udrp-second-staff-report-24oct99.htm> ("In contrast to the policy currently followed by NSI, the policy adopted by the Board in Santiago, as set forth in the final WIPO report and recommended by the DNSO and registrar group, calls for administrative resolution for only a small, special class of disputes. Except in cases involving "abusive registrations" made with bad-faith intent to profit commercially from others' trademarks (e.g., cybersquatting and cyberpiracy), the adopted policy leaves the resolution of disputes to the courts (or arbitrators where agreed by the parties) and calls for registrars not to disturb a registration until those courts decide. The adopted policy establishes a streamlined, inexpensive administrative dispute-resolution procedure intended only for the relatively narrow class of cases of "abusive registrations." Thus, the fact that the policy's administrative dispute-resolution procedure does not extend to cases where a registered domain name is subject to a legitimate dispute (and may ultimately be found to violate the challenger's trademark) is a feature of the policy, not a flaw. The policy relegates all "legitimate" disputes—such as those where both disputants had longstanding trademark rights in the name when it was registered as a domain name—to the courts; only cases of abusive registrations are intended to be subject to the streamlined administrative dispute-resolution procedure.").



have *in rem* subject matter jurisdiction over real property in the state." *Hisle v. Lexington-Fayette Urban County Government*, 258 S.W.3d 422, 431 (Ky. App. 2008).

However, "[w]henver it appears that the court lacks jurisdiction of the subject matter, the court shall dismiss the action." CR 12.08.

Plaintiff's Second Amended Complaint fails to set forth any fact establishing that the "141 Internet Domain Names" are located in Kentucky. In fact, the complaint utterly fails to allege their presence in Kentucky. Plaintiff alleges only that subject matter jurisdiction is proper in this Court because "property was used in the commission of multiple crimes and statutory violations within Kentucky and the use of said property constitutes a public nuisance and otherwise violates Kentucky law." (Second Am. Compl. at ¶ 11, "Jurisdiction and Venue.")

The "commission of multiple crimes and statutory violations within Kentucky" alleges only the commission of crimes within Kentucky. This is woefully insufficient as to *in rem* jurisdiction. Nowhere in the complaint does Plaintiff state, allege, or explain how it is that the domain names at issue can be deemed to be in Kentucky themselves and therefore within the jurisdiction of this Court. A complaint must contain "a short and plain statement of the claim showing that the pleader is entitled to relief." CR 8.01. Because the Second Amended Complaint is silent as to the *situs* of the 141 Domain Names, it fails to state a claim.

**II. AN INTERNET DOMAIN NAME IS NOT A "GAMBLING DEVICE" UNDER KENTUCKY STATUTES. THEREFORE, DOMAIN NAMES ARE NOT PROPER DEFENDANTS AND THE CLAIMS ARE NOT COGNIZABLE UNDER KENTUCKY LAW**

Plaintiff's assertion that "Internet domain names" are "gambling devices"<sup>6</sup> as set forth in KRS 528.010(4) is without foundation, without precedent, and without basis in Kentucky law.

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<sup>6</sup> "Each Domain Defendant is a gambling device such as is ordinarily used for gambling money or property . . . Each Domain Defendant is a device designed primarily for use in connection with gambling, . . ." (Second Am. Compl. at 5.)

The assertion that domain names are "gambling devices" is the foundation upon which both claims in Plaintiff's complaint stand.<sup>7</sup> Because the assertion has no validity under Kentucky law, both Count I, asserting grounds for forfeiture under KRS 528.100, and Count II, asserting "Public Nuisance," cannot be maintained.

By its plain language, and by common rules of construction, Kentucky's 34-year-old statute defining "gambling device," KRS 528.010(4), does not permit the interpretation that Internet domain names are "gambling devices." Additionally, domain names simply are not of a character permitting such a reading. Thus, there can be no basis for an *in rem* civil action against domain names pursuant to KRS 528.100. Such a complaint simply does not state a claim that is cognizable under Kentucky law.

Under KRS 528.010(4), a "gambling device" means:

(a) Any so-called slot machine or any other machine or mechanical device an essential part of which is a drum or reel with insignia thereon, and which when operated may deliver, as a result of the application of an element of chance, any money or property, or by the operation of which a person may become entitled to receive, as the result of the application of an element of chance, any money or property; or

(b) Any other machine or any mechanical or other device, including but not limited to roulette wheels, gambling tables and similar devices, designed and manufactured primarily for use in connection with gambling and which when operated may deliver, as the result of the application of an element of chance, any money or property, or by the operation of which a person may become entitled to receive, as the result of the application of an element of chance, any money or property.

KRS 528.010(4) (emphases added).

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<sup>7</sup> "Each Domain Defendant is a registered internet domain and is a gambling device, and as such, is subject to this *in rem* action under KRS 528.100." (*Id.* at ¶ 44, Count I.) "By virtue of the actions as more specifically alleged above, the Domain Domains (*sic*) have been used as a gambling device in the Commonwealth." (*Id.* at ¶ 51, Count II.)

The statute was enacted in 1974, long before the Internet was a fixture of American life. The legislature could not have intended such a vastly expansive application of the definition as Plaintiff seeks to apply in this action.

By its clear language, the definition of "gambling device" in KRS 528.010(4) encompasses nothing other than mechanical devices.

As to sub-paragraph (a), it is beyond dispute that Internet domain names are not slot machines, and that "a drum or reel with insignia thereon" cannot be found as essential parts of Internet domain names. Therefore, Internet domain names cannot conceivably be deemed as falling within the definition of (a).

Under sub-paragraph (b), a "gambling device" is "any other machine or any mechanical or other device, including but not limited to roulette wheels, gambling tables and similar devices." The second use of the word "device" clearly is a reference to other mechanical gambling devices "similar" to roulette wheels and gambling tables. The legislature clearly envisioned its definition encompassing tangible gambling equipment and could not have intended to include such intangible concepts as Internet domain names.

The language of KRS 528.010(4) is more than critical to Plaintiff's complaint. Indeed, both of its claims in this action are hinged entirely upon its broad and unsupported interpretation of the definition to encompass domain names. Without such reading of the definition, Plaintiff has no claim. Plaintiff cites no case supporting such a broad reading of KRS 528.010(4). In fact, while ample cases can be found in Kentucky finding that such devices as slot machines<sup>8</sup> and pinball machines<sup>9</sup> are gambling devices under the predecessor of KRS 528.010(4), there are no

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<sup>8</sup> See, e.g., *14 Console Type Slot Machines v. Commonwealth*, 273 S.W.2d 582 (Ky. 1954); *Pace Mfg. Co. v. Milliken*, 70 F. Supp. 740 (W.D. Ky. 1947).

<sup>9</sup> See, e.g., *Three One-Ball Pinball Machines v. Commonwealth*, 249 S.W.2d 144 (Ky. 1952); *A.B. Long Music Co. v. Commonwealth*, 429 S.W.2d 391 (Ky. 1968).

Kentucky cases finding anything so remote, intangible and insubstantial as "domain names" to fall under the statutory definition. In essence, without any support in the law, Plaintiff is asking this Court to vastly expand state law into a realm the legislature clearly did not intend.

Statutory interpretation is a matter of law. *Floyd County Bd. of Educ. v. Ratliff*, 955 S.W.2d 531 (Ky. 1997). Statutes are to be construed according to "the common and approved usage of language." KRS 446.080(4). "A court may not interpret a statute at variance with its stated language." *SmithKline Beecham Corp. v. Revenue Cabinet*, 40 S.W.3d 883, 885 (Ky. App. 2001). The first principle of statutory construction is to use the plain meaning of the words used in the statute. *See Revenue Cabinet v. O'Daniel*, 153 S.W.3d 815 (Ky. 2005). "[S]tatutes must be given a literal interpretation unless they are ambiguous and if the words are not ambiguous, no statutory construction is required." *Commonwealth v. Plowman*, 86 S.W.3d 47, 49 (Ky. 2002). The courts should lend words of a statute their normal, ordinary, everyday meaning, and is "not at liberty to add or subtract from the legislative enactment or discover meanings not reasonably ascertainable from the language used." *Commonwealth v. Harrelson*, 14 S.W.3d 541, 546 (Ky. 2000).

The United States District Court for the Western District of Kentucky in recent days addressed a question of legislative intent nearly identical to that raised by the case now before this Court. The federal court dismissed the complaint in *Louisville/Jefferson County Metro Government and Lexington-Fayette Urban County Government v. Hotels.com, LP, et al*, Case No. 3:06-CV-480-R (attached hereto as Exhibit A.). The case presented the question of whether a tax levied by local ordinance against hotels and motels of 7.5% of room charges could be assessed against the full price collected by companies that market the hotel rooms on the Internet. The ordinance at issue assessed the tax upon room charges collected by "motor courts,

motels, hotels, inns or like or similar accommodations businesses." The determinative question was whether the Internet companies facilitating the renting of rooms could be deemed "accommodations businesses." The Louisville ordinance was promulgated under KRS 91A.350, *et seq.* The federal court observed that Internet room-rental businesses

were truly creatures of the future at the time the statute and ordinance originally were enacted. Such businesses have long since made the leap from a capitalist's imagination to reality, however, and both pieces of legislation have been amended more than once since then. The Court will not now stop in to do what the state and local legislative bodies—both of whom can be expected to be fully aware of the intent of their legislative forbears—either failed or chose not to do.

Ex. A, *Hotels.com* Mem. Op. at 9. The legislature in Kentucky now meets annually. If the General Assembly had ever desired to re-write the definition of "gambling device" as stated in KRS 528.010(4) to encompass Internet gaming sites, it has had ample opportunity to do so. This Court should not accept Plaintiff's invitation to do what the legislature has elected not to do.

The federal court in *Hotels.com* also called attention to reasoning expressed by Kentucky's highest court that

[t]he judiciary is but one of three component parts of our form of government. Its duty is to interpret and construe laws, not to enact them, and if a plainly warranted construction of a statute should result in a failure to accomplish in the fullest measure that which the Legislature had in view, the remedy is a legislative action, and not judicial construction.

*Id.* (quoting *Western & Southern Life Ins. Co. v. Weber*, 208 S.W. 716, 718 (1919)).

Plaintiff cannot escape the clear fact that a domain name does not have a character permitting it to fall within KRS 528.020(4), any more than does a simple telephone number, a simple house address, or a number assigned to a checking account.

Plaintiff has extensively cited ICANN as an authority in the complaint. However, even a cursory look at ICANN's glossary provides a definition of the Domain Name System that simply does not fit within the definition of 528.010(4). The DNS:

[H]elps users to find their way around the Internet. Every computer on the Internet has a unique address—just like a telephone number—which is a rather complicated string of numbers. It is called its "IP address" (IP stands for "Internet Protocol"). IP Addresses are hard to remember. The DNS makes using the Internet easier by allowing a familiar string of letters (the "domain name") to be used instead of the arcane IP address.

ICANN Glossary—Domain Name System, *available at* <http://www.icann.org/en/general/glossary.htm> (last visited Oct. 2, 2008); *see also Am. Girl, LLC v. Nameview, Inc.*, 381 F. Supp. 2d 876, 879 (E.D. Wis. 2005) (similarly defining domain names). Basically, calling a domain name a gambling device under the definition of 528.010(4) is akin to calling a telephone number a gambling device. A telephone number could not conceivably fit within the definition as written. A domain name is no different. Plaintiff's characterization of a domain name as a "gambling device" strains credulity and clearly contradicts the plain language of the statute.

It is no different from the analogy of an overseas business communicating with a Kentucky resident via telephone. If the Commonwealth were interested (for whatever reason) in moving against that business on a gambling claim, it would be illogical for the Commonwealth to proceed *in rem* against the business's telephone number itself as the "gambling device." That, however, is precisely what Plaintiff here is characterizing as the "gambling device."

In sum, an Internet domain name under Kentucky law simply cannot be a "gambling device," and that deficiency renders the entire claim of Plaintiff invalid.

### **III. PLAINTIFF'S ATTEMPTED SEIZURE OF DOMAIN NAMES UNCONSTITUTIONALLY BURDENS INTERSTATE COMMERCE**

While Interactive Media disputes that jurisdiction exists, assuming, *arguendo*, this Court finds jurisdiction, the action still fails on constitutional grounds. The attempted seizure of Internet domain names used nationwide and worldwide by Plaintiff, and its attempt to persuade

this Court to command forfeiture of those names, impedes interstate commerce in violation of the dormant Commerce Clause of the United States Constitution.

The Supreme Court has been clear that the dormant Commerce Clause prohibits states from discriminating against interstate commerce in order to favor in-state economic interests over out-of-state economic interests. See *American Trucking Association v. Michigan Public Service Commission*, 545 U.S. 429, 433 (2003); *Oklahoma Tax Commission v. Jefferson Lines, Inc.*, 514 U.S. 175, 179 (1995).

Indeed, as the Supreme Court recently explained in *United Haulers Association v. Oneida-Herkimer Solid Waste Management Authority*, 127 S.Ct. 1786, 1792 (2007), a state law or action motivated by economic protectionism is subject to a “virtually *per se* rule of invalidity” that can “only be overcome by a showing that the state has no other means to advance a legitimate local purpose.” Thus, a state action motivated by protectionism is subject to the “strictest scrutiny” that is “so heavy that ‘facial discrimination’ by itself may be a fatal defect.” See *Camps Newfoundland/Owatonna, Inc. v. Harrison, Me.*, 520 U.S. 564, 581-82 (1997).

Accordingly, “in all but the narrowest circumstances, state laws violate the Commerce Clause if they mandate ‘differential treatment of in-state and out-of-state economic interests that benefits the former and burdens the latter.’” *Granholm v. Heald*, 544 U.S. 460, 472 (2005), quoting *Oregon Waste Systems, Inc. v. Department of Environmental Quality of Oregon*, 511 U.S. 93, 99 (1994). In *Granholm*, the Supreme Court struck down under the “virtually *per se* rule of invalidity” certain statutes enacted by Michigan and New York State, respectively, that allowed in-state wineries to sell their wares directly to those state’s consumers but — by mandating separating licensure and distribution networks for out-of-state producers — deliberately made it economically difficult for out-of-state wine producers to do so.

Here the Commonwealth's own pronouncements in press conferences and to the media have made it clear beyond meaningful dispute that the Governor's motivation for this seizure action is to protect Kentucky's own gaming operations, both now and in the future, while at the same time collecting marginal tax revenues. State action of this sort would constitute a *per se* violation of the Commerce Clause if done to protect *solely* private sector in-state economic interests. Where, as here, the Commonwealth, itself, is or plans to be an industry actor on its own behalf, this *per se* violation only become even more aggravated.

Where a statute regulates evenhandedly "to effectuate a legitimate local public interest," Courts may still find a constitutional violation where "the burden imposed on such commerce is clearly excessive in relation to the putative local benefits." *Pike v. Bruce Church, Inc.*, 397 U.S. 137, 142 (1970). "In balancing the burden versus benefit, 'the extent of the burden that will be tolerated will of course depend on the nature of the local interest involved, and on whether it could be promoted as well with a lesser impact on interstate activities.'" *Id.* In *American Libraries Association v. Pataki*, 969 F. Supp. 160 (S.D.N.Y. 1997),

the court invalidated a New York statute criminalizing the dissemination of material harmful to minors, ruling that the statute violated the Commerce Clause in three particulars: (1) it sought to regulate conduct occurring wholly outside New York state, (2) its burden on interstate commerce far exceeded the benefits of the statute and (3) any regulation of the internet by the states exposed users to inconsistent regulations.

*American Booksellers Foundation for Free Expression v. Strickland*, 512 F. Supp. 2d 1082, 1102 (S.D. Ohio 2007) (quoting *Pataki*, 969 F. Supp. at 169). In other words, state regulation has been deemed violative of the dormant Commerce Clause where the state regulation's "scope reached to all Internet communications." *American Booksellers*, 512 F. Supp. 2d at 1103.

The application by Plaintiff of KRS 528.100 to Internet domain names falls well within the *Pataki* test, and in turn the *Pike* test. Through the seizure of domain names, the state beyond



question has reached to, and has blocked, Internet communications entirely outside of Kentucky, and in fact throughout the entire world. The burden on those affected communications is absolute, and excessive, far exceeding the benefit of the application of the statute. And, Plaintiff's action certainly exposes Internet users to inconsistent regulation.

Therefore, in balancing the burden and the excessive scope of the actions of the Commonwealth against their benefits, the application of KRS 528.100 clearly fails the *Pike* balancing test — particularly in the absence of any adversarial proceeding leading to a factual finding by this Court of illegal conduct. The Commonwealth thus has acted unconstitutionally.

**IV. THE PUBLIC NUISANCE CLAIM SHOULD BE DISMISSED BECAUSE THE ELEMENTS CANNOT BE MET AND A DOMAIN NAME IS NOT A PROPER DEFENDANT**

Under the law of Kentucky, a public nuisance is a tort consisting of

the doing of or failure to do something that injuriously affects the safety, health, or morals of the public, or works some substantial annoyance, inconvenience, or injury to the public, although it is not, of course, essential that the injury, annoyance, or inconvenience should affect the whole body of the public.

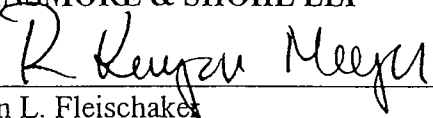
*Commonwealth v. South Covington & C.S.R. Co.*, 205 S.W. 581, 583 (Ky. 1918.)

The complaint utterly fails to identify any acts or failures to act on the part of anyone constituting the tort of public nuisance. The *in rem* Domain Name Defendants are legally incapable of committing a tort. The injunctive relief sought under this claim is a legal impossibility, as there is no named person or entity to enjoin. Therefore, as a matter of law, the complaint fails to state a claim upon which relief can be granted, and the claim of public nuisance should be dismissed.

**WHEREFORE**, for the foregoing reasons, the Defendants respectfully request this Court dismiss the action with prejudice.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by U.S. Mail on this 3rd day of October, 2008 upon:

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UNITED STATES DISTRICT COURT  
WESTERN DISTRICT OF KENTUCKY  
LOUISVILLE DIVISION  
CASE NO.: 3:06-CV-480-R

LOUISVILLE/JEFFERSON COUNTY  
METRO GOVERNMENT

PLAINTIFF

and

LEXINGTON-FAYETTE URBAN  
COUNTY GOVERNMENT

INTERVENING PLAINTIFF

V.

HOTELS.COM, LP, et al.

DEFENDANTS

MEMORANDUM OPINION

On August 10, 2007, this Court entered an Opinion & Order denying a Motion to Dismiss filed by the Defendants (*see* docket no. 60). Defendants promptly filed a Motion for Reconsideration (docket no. 88) pursuant to FED. R. CIV. P. 59(e). After careful review of Defendants' Motion and Plaintiff's response, the Court finds part of it to be well-taken. Specifically, the Court finds that the Defendants have established that the court erred in its construction of the taxing ordinances at issue. *See Roger Miller Music, Inc. v. Sony/ATV Publishing, LLC* 447 F.3d 383, 395 (6<sup>th</sup> Cir. 2007) ("a motion under Rule 59(e) must either establish a manifest error of law or must present newly discovered evidence" (internal citations omitted)). Unfortunately for Plaintiff, the revised ruling is dispositive of the action. Accordingly, for the reasons stated herein, the Court will supersede its prior Opinion & Order in



its entirety and order that the case be dismissed.<sup>1</sup>

I.

Louisville/Jefferson County Metro Government filed this lawsuit seeking to recover what it believes are unpaid transient room taxes that are due it pursuant to Chapter 121 of the Louisville/Jefferson County Code of Ordinances (the "Metro Ordinances"), which imposes transient room taxes totaling 7.5% of the rent of rooms "charged by all persons, companies, corporations, or other like or similar persons, groups or organizations doing business as motor courts, motels, hotels, inns or like or similar accommodations businesses."

The Defendants are internet travel companies whose businesses assist on-line customers with the rental of hotel<sup>2</sup> rooms across the world, including those in Louisville, Kentucky. The Defendants agree to pay local hotels a certain negotiated fixed amount per room if the Defendants are able to find persons to rent the hotels' rooms. (Plaintiff refers to this as the "wholesale price.") Customers then book rooms on-line for a rate that is higher than the negotiated amount (Plaintiff refers to this as the "retail price"), and pay the Defendants that rate, plus an amount that includes applicable taxes and a service fee. Defendants then remit to the hotels the original negotiated amount (the "wholesale price"), plus any taxes due on that amount. The rest they keep. The hotels then remit to the taxing authority the tax due on the amount they actually received (*i.e.*, the "wholesale price"). Defendants remit nothing to the taxing authority.

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<sup>1</sup>Because the same issue of statutory construction is also dispositive of Defendants' Motion to Dismiss the Lexington-Fayette Urban County Government's Intervening Complaint (docket no. 141), the Court will also grant that motion for the reasons articulated in this Memorandum Opinion.

<sup>2</sup>The Court will use the term "hotel" generically to refer not only to hotels, but also motels, motor courts, and inns.

Therein lies the crux of the parties' dispute.

Plaintiff alleges that the amount of tax due the taxing authority should not be calculated on the basis of the negotiated amount (*i.e.*, the "wholesale price"), but on Defendants' higher advertised rate (*i.e.*, the "retail price"), which they construe to also include the service fee. For example, if Defendants and the hotels agree upon a negotiated amount of \$60 per room, but then Defendants advertise those rooms for the rate of \$90, plus a \$10 service fee, Defendants allegedly remit to the hotels only 7.5% of \$60, instead of 7.5% of \$90 (the advertised rate) or \$100 (the advertised rate, plus the service fee), a difference of \$2.75 or \$3.50 per room. There has been no allegation that the hotels are not properly remitting the tax collected on the "wholesale price." Rather, the dispute is concerned solely with the tax putatively due on the "retail price" and the service fee. Depending on the typical amount of the difference between the "wholesale price" and the total cost to the on-line consumer, this constitutes a potentially significant loss of tax revenue for Metro Government. Hence this lawsuit.

## II.

Plaintiff alleges that Defendants are required to remit the tax due on the advertised room cost pursuant to Metro Ord. §§ 121.01 and 121.02. Because Defendants have not remitted anything directly to the taxing authority, and have only remitted to the hotels the tax due on the "wholesale price," Plaintiff asserts that Defendants not only have violated the transient room tax ordinances, but are also liable under common law theories of unjust enrichment, money had and received, and conversion. The Plaintiff therefore has asked the Court to impose a constructive trust on Defendants and to hold the amount in dispute as a constructive trustee for the Plaintiff. Plaintiff also requests a declaratory judgment that the Defendants' business practices are

unlawful, deceptive, and illegal. Finally, Plaintiff asks the Court to certify a class of counties and cities throughout Kentucky it asserts are owed money by the Defendants and requests damages not only for Metro Government, but the class as well.

Defendants have asked the Court to dismiss Plaintiff's claims because they have failed to state a cause of action upon which relief may be granted. *See* Mot. to Dismiss (docket no. 10). Defendants first argue that Chapter 121 of the Metro Ordinances does not apply to them because they are not "doing business as motor courts, motels, hotels, inns or like or similar accommodations businesses." Metro Ord. § 121.01 (A) -(D) and § 121.02(A), (B). They also assert (1) that any extension of the transient room tax to their services fees constitutes an excise tax that is violative of Kentucky's constitution; (2) that imposing the tax on their service fees constitutes impermissible double taxation; (3) that Plaintiff lacks standing to bring this lawsuit; (4) that Plaintiff has failed to exhaust its administrative remedies; (5) that Plaintiff's common law claims fail as a matter of law; and, because of the foregoing assertions, (6) that declaratory judgment is improper.

In its original Opinion & Order (docket no. 60), the Court disagreed with all of Defendants' arguments in their Motion to Dismiss, and denied the Motion. In all candor, however, the Opinion was not as detailed as some of the Court's typical memorandum opinions. Perhaps this was because the Court was not irrevocably wedded to its decision in a way that was reflected in its exposition, and the case presents some issue of first impression. Whatever the reason, after reviewing Defendants' Motion for Reconsideration and all responses and replies thereto, the Court agrees with Defendants that it erred on one significant point: Read with an appropriate eye toward Kentucky's jurisprudence regarding statutory construction, the taxing



ordinances do not apply to Defendants.

### III.

Chapter 121 of the Metro Ordinances imposes a transient room tax totaling 7.5% of “the rent for every occupancy of a suite, room or rooms, charged by all persons, companies, corporations, or other like or similar persons, groups, or organizations, doing business as motor courts, motels, hotels, inns or *like or similar accommodations businesses*.” Metro Ord. § 121.01 (A)-(D) and § 121.02(A), (B) (emphasis added). The parties disagree about whether the Defendants are subject to the aforementioned ordinances. Whether they are depends on whether they are properly considered to be “like or similar accommodations businesses” to motor courts, motels, hotels, or inns.

In construing a piece of legislation, the Court must first try to give effect to the intent of the legislature. “To determine legislative intent, a court must refer to the words used in enacting the statute rather than surmising what may have been intended but was not expressed.” *Hale v. Combs*, 30 S.W.3d 146, 151 (Ky. 2000)(internal citations omitted); *see also* Ky. Rev. Stat. 446.080(1)(“All statutes of this state shall be liberally construed with a view to promote their objects and carry out the intent of the legislature.”). Yet, as Kentucky’s highest court has noted with respect to the type of statute and ordinance at issue in this case,

Taxing laws should be plain and precise, for they impose a burden upon the people. That imposition should be explicitly and distinctly revealed. If the Legislature fails so to express its intention and meaning, it is the function of the judiciary to construe the statute strictly and resolve doubts and ambiguities in favor of the taxpayer and against the taxing powers.

We do not overlook the concomitant and equally as firm rule ... that an intention of the Legislature to grant an exemption from taxation will not be presumed or implied, since taxation of all is the rule and

exemption is the exception. But the rule calls for no strained construction adverse to the apparent intention of the Legislature. It requires a normal and reasonable construction.

*George v. Scent*, 346 S.W.2d 784, 789 (Ky. 1961)(emphasis added)(internal citations omitted); *see also Esbeco Distilling Co. v. Shannon*, 129 S.W.2d 172, 175 (Ky. 1939)(noting the “well-recognized rule that statutes imposing license or privilege taxes be strictly construed against the state or taxing power and may not be extended beyond their clear import” and that “[d]oubts as to the construction of such statutes must be resolved in favor of the taxpayer”). Accordingly, this court must attempt to steer the ship of statutory construction between the Scylla of attempting to discern legislative intent and the Charybdis of having any “reasonable and normal” construction of a statute’s words drown in the whirlpool of presumed intent.

The sections that comprise Chapter 121 of the Metro Ordinances were promulgated pursuant to the authority granted by Ky. Rev. Stat. § 91A.350, *et. seq.*, which permit local governing bodies to establish tourist and convention commissions “for the purpose of promoting convention and tourist activity,” and directs the local governing bodies that have done so to impose transient room taxes to fund the commissions. As stated therein, the intent of Ky. Rev. Stat. §91A.390, which establishes the transient room tax at issue here, is “the attraction and promotion of tourist and convention business.” Similarly, in Metro Ord. § 121.01, which Louisville promulgated pursuant to the authority granted it by Ky. Rev. Stat. § 91A.390, the stated intent, repeated in every subsection is “the promotion of tourist and convention business.” As Kentucky’s highest court has wisely observed, however, “legislative intent is at best a nebulous will-o’-the-wisp,” *Gateway Construction Co. v. Wallbaum*, 356 S.W.2d 247, 249 (Ky. 1962), and while “the promotion of tourist and convention business” is a helpful generality, it

does not exactly definitively clarify whether the intent of the legislatures that enacted the statute and ordinance was to impose the tax on businesses such as the defendants.

The Court must therefore attempt to interpret the precise words of the statute. In so doing, the Court will first attempt to interpret those words in terms of their “plain and commonly accepted meaning.” *Barnes v. Dep’t of Revenue*, 575 S.W.2d 169, 171 (Ky. App. 1978); *see also* Ky. Rev. Stat. 446.480(4) (“All words and phrases shall be construed according to the common and approved usage of language ...”). At issue here generally are the words “doing business as motor courts, motels, hotels, inns or like or similar accommodations businesses,” but more specifically the words “like or similar accommodations businesses,” since the Defendants clearly are not motor courts, motels, hotels, or inns, as those words are commonly and plainly understood. As the Court noted in its original Opinion & Order, one view of the Defendants’ businesses, is that they are engaged in the process of subletting living quarters and accommodations. Viewed in that light, they might reasonably be thought of as accommodations businesses, and the Court will assume, for the sake of argument only, that they are. The Court’s focus now is on the words that precede “accommodations businesses” in the statute and ordinance – namely the phrase “like or similar” – to which the Court previously did not give sufficient consideration.

Even if one accepts as true that the nature of Defendants’ businesses is properly characterized as “subletting living quarters and accommodations,” that does not necessarily mean that their businesses are “like or similar” to “motor courts, motels, hotels, or inns.” To determine whether they are, the Court must be guided by the rule of statutory interpretation known as *ejusdem generis*. As Kentucky’s highest court has noted, when employing the rule as

an aid to statutory construction:

The rule of *ejusdem generis* (of the same kind) is that where, in a statute, general words follow or precede a designation of particular subjects or classes of persons, the meaning of the general words ordinarily will be presumed to be restricted by the particular designation, and to include only things or persons of the same kind, class, or nature as those specifically enumerated, unless there is a clear manifestation of a contrary purpose.

*See, e.g., Steinfeld v. Jefferson County Fiscal Court*, 229 S.W.2d 319, 320 (Ky. 1950)(internal citations omitted). The things specifically enumerated in both Ky. Rev. Stat. 91A.350 and Metro Ord. §§ 121.01 and 121.02 are physical establishments that actually contain the rooms rented by transient visitors and whose occupancy is subject to the tax. That being said,

the rule of *ejusdem generis* does not necessarily require that the general provision be limited in its scope to the identical things specifically named, nor does it apply when the context manifests a contrary intention. The maxim is only an illustration of the broader rule of *noscitur a sociis* which is that the meaning of a word is known from the accompanying words.

*Robinson v. Ehrler*, 691 S.W.2d 200, 207 (Ky., 1985). Nevertheless, the Court is also guided by the maxim that “no intention must be read into the statute not justified by the language,” *Gateway Construction*, 356 S.W.2d at 249, and the ruling in *George*, that it must “construe the statute strictly and resolve doubts and ambiguities in favor of the taxpayer and against the taxing powers,” 346 S.W.2d at 789. With those guideposts in mind, the Court cannot find a principled basis for determining (whatever the proper characterization of the precise nature of Defendants’ businesses may be) that internet businesses that have neither ownership, nor physical control, of the rooms they offer for rent are “like or similar” to “motor courts, motels, hotels, or inns.” *Cf. Lexington Relocation Services, LLC v. Lexington-Fayette Urban County Gov’t*, 2004 WL 1418184 (Ky. App. 2004)(The appellate court determined that the intent of the legislature was to

authorize the taxation of businesses that “supply” short-term lodgings suitable for visitors to the area and interpreting the statute to include a company that leased apartments, assumed physical control of them, and then rented them fully-furnished for periods of time generally shorter than the term of the leases.)

In making this determination, the Court recognizes that the intent of the legislature was to promote tourism and convention business through revenue generated by the transient room tax. The Court is also fully aware that businesses’ such as Defendants’ were truly creatures of the future at the time the statute and ordinance originally were enacted. Such businesses have long since made the leap from a capitalist’s imagination to reality, however, and both pieces of legislation have been amended more than once since then. The Court will not now step in to do what the state and local legislative bodies – both of whom can be expected to be fully aware of the intent of their legislative forebears – either failed or chose not to do.

#### IV.

In conclusion, the Court finds that the words of Justice Thomas of the former Court of Appeals of the Commonwealth of Kentucky (now known as the Kentucky Supreme Court) best sum up the philosophy underpinning this Court’s reasoning:

The judiciary is but one of the three component parts of our form of government. Its duty is to interpret and construe laws, not to enact them, and if a plainly warranted construction of a statute should result in a failure to accomplish in the fullest measure that which the Legislature had in view, the remedy is legislative action, and not judicial construction.

*Western & Southern Life Ins. Co. v. Weber*, 208 S.W. 716, 718 (1919). As noted previously, the Court is of the opinion that this is a circumstance where an ordinance and the statutes permitting its promulgation have simply failed to keep up with the times. The appropriate response to that

is legislation, not litigation. The Court will therefore order this case dismissed.

DATE:

*Thomas B. Russell*

Thomas B. Russell, Judge  
United States District Court

cc: counsel of record

P

United States District Court, S.D. New York.  
PLANNED PARENTHOOD FEDERATION OF  
AMERICA, INC., Plaintiff,

v.

Richard BUCCI, d/b/a Catholic Radio Defendant.  
No. 97 Civ. 0629 (KMW).

March 24, 1997.

OPINION & ORDER

KIMBA M. WOOD, District Judge.

\*1 Plaintiff Planned Parenthood Federation of America, Inc. ("Planned Parenthood") has moved to preliminarily enjoin defendant Richard Bucci ("Bucci"), doing business as Catholic Radio, from using the domain name "plannedparenthood.com," and from identifying his web site on the Internet under the name "www.plannedparenthood.com." The Court held a hearing on February 20, 1997 and February 21, 1997,<sup>FN1</sup> and now issues the preliminary injunction sought by Planned Parenthood.

FN1. The Court held a hearing on plaintiff's request for a temporary restraining order on February 5, 1997.

*I. Undisputed Facts*

The parties do not dispute the following facts. Plaintiff Planned Parenthood, founded in 1922, is a non-profit, reproductive health care organization that has used its present name since 1942. Plaintiff registered the stylized service mark "Planned Parenthood" on the Principal Register of the United States Patent and Trademark Office on June 28, 1955, and registered the block service mark "Planned Parenthood" on the Principal Register of the United States Patent and Trademark Office on September 9, 1975. Plaintiff's 146 separately incorporated affiliates, in 48 states and the District of Columbia, are licensed to use the mark "Planned

Parenthood." Plaintiff expends a considerable sum of money in promoting and advertising its services. The mark "Planned Parenthood" is strong and incontestable.

Plaintiff operates a web site at "www.ppfa.org," using the domain name "ppfa.org." Plaintiff's home page offers Internet users resources regarding sexual and reproductive health, contraception and family planning, pregnancy, sexually transmitted diseases, and abortion, as well as providing links to other relevant web sites. In addition, plaintiff's home page offers Internet users suggestions on how to get involved with plaintiff's mission and solicits contributions.<sup>FN2</sup>

FN2. Plaintiff's Houston affiliate owns the domain name "plannedparenthood.org," and is in the process of transferring that domain name to plaintiff. Tr. 2/20/97 at 14.

Defendant Bucci is the host of "Catholic Radio," a daily radio program broadcast on the WVOA radio station in Syracuse, New York. Bucci is an active participant in the anti-abortion movement. Bucci operates web sites at "www.catholicradio.com" and at "lambsofchrist.com." On August 28, 1996, Bucci registered the domain name "plannedparenthood.com" with Network Solutions, Inc. ("NSI"), a corporation that administers the assignment of domain names on the Internet. After registering the domain name, Bucci set up a web site and home page on the Internet at the address "www.plannedparenthood.com."

Internet users who type in the address "www.plannedparenthood.com," or who use a search engine such as Yahoo or Lycos to find web sites containing the term "planned parenthood," can reach Bucci's web site and home page. Once a user accesses Bucci's home page, she sees on the computer screen the words "Welcome to the PLANNED PARENTHOOD HOME PAGE!"



These words appear on the screen first, because the text of a home page downloads from top to bottom. Tr. 2/20/97 at 47. Once the whole home page has loaded, the user sees a scanned image of the cover of a book entitled *The Cost of Abortion*, by Lawrence Roberge ("Roberge"), under which appear several links: "Foreword," "Afterword," "About the Author," "Book Review," and "Biography."

FN3. The text of defendant's home page is part of the record before the Court, as Pl.Ex. 2.

\*2 After clicking on a link, the user accesses text related to that link. By clicking on "Foreword" or "Afterword," the Internet user simply accesses the foreword or afterword of the book *The Cost of Abortion*. That text eventually reveals that *The Cost of Abortion* is an anti-abortion book. The text entitled "About the Author" contains the curriculum vitae of author Roberge. It also notes that "Mr. Roberge is available for interview and speaking engagements," and provides his telephone number. The "Book Review" link brings the Internet user to a selection of quotations by various people endorsing *The Cost of Abortion*. Those quotations include exhortations to read the book and obtain the book. "Biography" offers more information about Roberge's background.

## II. Disputed Facts

The parties dispute defendant's motive in choosing plaintiff's mark as his domain name. Plaintiff alleges that defendant used plaintiff's mark with the "specific intent to damage Planned Parenthood's reputation and to confuse unwitting users of the Internet." Pl. Rep. Mem. at 2. Discussing the difference between the domain name at issue here and defendant's other web sites, defendant's counsel states that "[t]he WWWPLANNEDPARENTHOOD.COM [sic] website ... enables Defendant's message to reach a broader audience." Def. Mem. in Opp. at 3. Defendant's counsel made the follow-

ing statement to the Court regarding defendant's use of plaintiff's mark to designate his web site:

My belief is that it was intended to reach people who would be sympathetic to the proabortion position.... [I]t is an effort to get the ... political and social message to people we might not have been otherwise able to reach. I think it's analogous to putting an advertisement in the New York Times rather than The National Review. You are more likely to get people who are sympathetic to the proabortion position, and that's who you want to reach. I believe that is exactly what Mr. Bucci did when he selected Planned Parenthood. Tr. 2/5/97 at 23.

Defendant did not dispute that his counsel was correct in that statement. Tr. 2/21/97 at 35. Defendant's counsel also admitted that Bucci was trying to reach Internet users who thought, in accessing his web site, that they would be getting information from plaintiff. *Id.* at 23-24.

Defendant stated that his motive in using plaintiff's mark as his domain name was "to reach, primarily, Catholics that are disobedient to the natural law." *Id.* at 21. In an affidavit submitted to the Court, defendant stated that he wanted his "anti-abortion message to reach as many people as possible, and particularly the people who do not think that abortion has an inimical effect on society." Def. Aff. at ¶ 3.<sup>FN4</sup> Defendant conceded that he was aware that by using plaintiff's mark to identify his web site, he was likely to draw in Internet users who are "pro-abortion." Tr. 2/21/97 at 36.<sup>FN5</sup> Defendant demonstrated full knowledge of plaintiff's name and activities, and admitted to an understanding that using plaintiff's mark as his domain name would attract "pro-abortion" Internet users to his web site because of their misapprehension as to the site's origin. *Id.*<sup>FN6</sup> I therefore now make the factual finding that defendant's motive in choosing plaintiff's mark as his domain name was, at least in part, to attract to his home page Internet users who sought *plaintiff's* home page.



FN4. In light of defendant's sworn affidavit, the Court does not find Bucci's statement that he "never gave [his] audience a thought," Tr. 2/21/97 at 26, credible.

FN5. The Court notes that defendant has submitted, as Exhibit 1 to his affidavit, a statement by his "spiritual adviser," Father Norman Weslin, that defendant wants to place on "www.plannedparenthood.com" web site. In that statement, Father Weslin explains that the web site "is considered a highly effective instrument by the Roman Catholic Church in exposing [plaintiff's] efforts which seek to impose the culture of death upon the culture of life and to inform not only the Roman Catholic faithful *but also those who are opposed to God's "planned parenthood ...."* (emphasis added).

FN6. In addition, after plaintiff contacted defendant about the use of its mark as a domain name, defendant made the following statement on his radio show, Catholic Radio: "Of course, we knew this would happen. We knew we would draw the fire of Planned Parenthood.... So we've got ourselves into a real fight. Hey listen, we're asking for it." Pl.Ex. 6A at 1.

### III. Analysis

#### A. Standard for Preliminary Injunction

\*3 In order to obtain a preliminary injunction, a movant must demonstrate "(a) irreparable harm and (b) either (1) likelihood of success on the merits or (2) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly toward the party requesting the preliminary injunction." *Hasbro, Inc. v. Lanard Toys, Ltd.*, 858 F.2d 70, 73 (2d Cir.1988) (internal citations omitted). In cases brought under the Lanham Act, a showing of likeli-

hood of confusion establishes both a likelihood of success on the merits and irreparable harm, once the plaintiff has established that it has a protectible mark. *Id.* at 73. Because defendant concedes that plaintiff's mark is protectible, the inquiry before me is twofold: (1) whether the Lanham Act is applicable here, and (2) is there a likelihood of confusion? I now address these questions.

#### B. Whether the Lanham Act is Applicable

Defendant argues that his use of plaintiff's mark cannot be reached under the Lanham Act because it is non-commercial speech. Planned Parenthood has brought suit under §§ 1114, 1125(a), and 1125(c) of the Lanham Act, Title 15, United States Code. Section 1114 of the Lanham Act forbids a party to "*use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive.*" (Emphasis added). An injunction under § 1125(c) is proper to stop "*commercial use in commerce of a mark or trade name*" if that use causes dilution of a famous mark. (Emphasis added). Finally, with respect to § 1125(a), defendant may be liable if he has used the plaintiff's mark "*in commerce*" in a way that either "is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her *goods, services, or commercial activities* by another person," § 1125(a)(1)(A), or "*in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities,*" § 1125(a)(1)(B). (Emphasis added). Section 1125(c)(4)(B) specifically exempts from the scope of all provisions of § 1125 the "*noncommercial use of a mark.*" (Emphasis added).

As a preliminary matter, I note that although the

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parties agreed at a hearing before me on February 21, 1997 that defendant's use of plaintiff's mark is "in commerce" within the meaning of the Lanham Act, Tr. 2/21/97 at 77, defendant now argues that his activities are not subject to the Lanham Act because they are not "in commerce." I find this argument meritless. The "use in commerce" requirement of the Lanham Act is a jurisdictional predicate to any law passed by Congress. It is well settled that the scope of "in commerce" as a jurisdictional predicate of the Lanham Act is broad and has a sweeping reach. *Steele v. Bulova Watch Co.*, 344 U.S. 280, 283, 73 S.Ct. 252, 97 L.Ed. 319 (1952). The activity involved in this action meets the "in commerce" standard for two reasons. First, defendant's actions affect plaintiff's ability to offer plaintiff's services, which, as health and information services offered in forty-eight states and over the Internet, are surely "in commerce." Thus, even assuming, *arguendo*, that defendant's activities are not in interstate commerce for Lanham Act purposes, the effect of those activities on plaintiff's interstate commerce activities would place defendant within the reach of the Lanham Act. *See Franchised Stores of New York, Inc. v. Winter*, 394 F.2d 664, 669 (2d Cir.1968). Second, Internet users constitute a national, even international, audience, who must use interstate telephone lines to access defendant's web site on the Internet. The nature of the Internet indicates that establishing a typical home page on the Internet, for access to all users, would satisfy the Lanham Act's "in commerce" requirement. *See Intermatic v. Toeppen*, 947 F.Supp. 1227, 1239 (N.D.Ill.1996), quoting 1 Gilson, Trademark Protection and Practice, § 5.11(2), p. 5-234 ("there is little question that the 'in commerce' requirement would be met in a typical Internet message"). Therefore, I conclude that defendant's actions are "in commerce" within the meaning of that term for jurisdictional purposes.<sup>FN7</sup> I now turn to the specific language of each provision of the Lanham Act under which plaintiff has brought suit.

FN7. Defendant argues that the Court

should define "use in commerce" as it is defined in 15 U.S.C. § 1127. There, Congress defines the "use [of a mark] in commerce" as, *inter alia*, its use "on services when it is used or displayed in the sale or advertising of services and the services are rendered in commerce, or the services are rendered in more than one State or in the United States and a foreign country and the person rendering the services is engaged in commerce in connection with the services."

Plaintiff notes that the narrower definition of "use in commerce" as set out in § 1127 has been used by the Patent and Trademark Office in initially determining whether a mark qualifies for federal registration. *See, e.g., ConAgra, Inc. v. George A. Hormel & Co.*, 990 F.2d 368, 371 (8th Cir.1993); 3 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, § 25:57 (3d ed. 1996) ("It is difficult to conceive of an act of infringement which is not 'in commerce' in the sense of the modern decisions.... However, the Patent and Trademark Office still appears to adopt a higher standard of use in commerce for purposes of qualifying for federal registration in the first instance.")

In any event, I note that defendant satisfies the requirements of § 1127. First, his activities over the Internet occur everywhere that Internet users may access his web site. Testimony has shown that Internet users in Texas, Tr. 2/20/97 at 17, Massachusetts, *id.* at 46, and Delaware, *id.* at 52, have accessed defendant's home page. Second, defendant is "engaged in commerce" in connection with his web site due to his use of the Internet and his effect on plaintiff's activities, because those activities constitute

commerce within the meaning of § 1127, which defines "commerce" as "all commerce which may lawfully be regulated by Congress."

#### 1. Section 1114

\*4 Notwithstanding its jurisdictional "in commerce" requirement, Section 1114 contains no commercial activity requirement; rather, it prohibits any person from, without consent of the registrant of a mark, using the mark "in connection with the sale, offering for sale, distribution, or advertising of any good or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive." The question the Court must decide, then, is whether defendant's use of plaintiff's mark is properly viewed as in connection with the distribution or advertising of goods or services.

Defendant's use of plaintiff's mark satisfies the requirement of § 1114 in a variety of ways. First, defendant has stated that he chose to place materials about *The Cost of Abortion* on the "www.plannedparenthood.com" web site because he wanted to help Roberge "plug" his book. Tr. 2/21/97 at 25. In addition, defendant agreed that he, by this activity, was helping the author sell his book. *Id.* at 30. Although defendant receives no money from any sales of the book that result from its exposure on his home page, there is no personal profit requirement in § 1114. The materials on the home page, which are similar to a publisher's publicity kit, certainly relate to the advertisement and distribution of *The Cost of Abortion*.

Second, defendant's home page is merely one portion of his, and Catholic Radio's, broader effort to educate Catholics about the anti-abortion movement. With respect to that effort, defendant solicits funds and encourages supporters to join him in his protest activities. *Id.* at 16. Much like plaintiff, defendant has a practical as well as a political motive. While plaintiff seeks to make available what it terms "reproductive services," including, *inter alia*,

birth control and abortion services, defendant offers informational services for use in convincing people that certain activities, including the use of plaintiff's services, are morally wrong. In this way, defendant offers his own set of services, and his use of plaintiff's mark is in connection with the distribution of those services over the Internet. *See MGM-Pathé Communications v. Pink Panther Patrol*, 774 F.Supp. 869 (S.D.N.Y.1991) (holding that a group formed to offer the free service of protecting gay individuals from assault was subject to § 1114).

In addition, defendant's use of plaintiff's mark is "in connection with the distribution of services" because it is likely to prevent some Internet users from reaching plaintiff's own Internet web site. Prospective users of plaintiff's services who mistakenly access defendant's web site may fail to continue to search for plaintiff's own home page, due to anger, frustration, or the belief that plaintiff's home page does not exist. One witness explained, "We didn't resume the search [for plaintiff's web site] after [finding defendant's web site] because ... we were pretty much thrown off track." Tr. 2/20/97 at 49. Therefore, defendant's action in appropriating plaintiff's mark has a connection to plaintiff's distribution of its services. For these reasons, § 1114 is applicable to defendant's use of plaintiff's mark.

#### 2. Section 1125(c)

\*5 Section 1125(c), the Lanham Act's anti-dilution provision, provides that the owner of a famous mark is entitled to an injunction against another person's "commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark." The provision has no requirement that there be advertising or a sale of goods or services. Defendant argues that his use is not "commercial" within the meaning of § 1125(c). I hold, however, that defendant's use of plaintiff's mark is "commercial" for three reasons: (1) defendant is engaged in the promotion of a book, (2) defendant is, in essence, a non-profit political activist

who solicits funds for his activities, and (3) defendant's actions are designed to, and do, harm plaintiff commercially.

First, as discussed above, defendant's home page is a showcase for *The Cost of Abortion*, offering excerpts of the book, information about the author (specifically including how to contact the author for speaking engagements), and endorsements of the book (including statements such as "I want to see this book in the hands of EVERY Catholic priest and Protestant minister in the country"). This showcase is surely commercial in nature, despite the fact that defendant derives no monetary gain from these activities. Although defendant does not seek a profit from his actions, § 1125(c) carries no "for-profit" requirement. Therefore, defendant's use of plaintiff's mark to further his self-styled effort to "plug" *The Cost of Abortion* falls within the purview of the commercial use requirement of § 1125(c).

Second, defendant's use of plaintiff's mark to identify his web site is one part of defendant's sustained effort, through his radio show and other means, to achieve his end of persuading the public to eschew birth control and abortion. Defendant is a vocal supporter of the anti-abortion movement. Tr. 2/21/97 at 14. Defendant also opposes the use of contraceptives. *Id.* at 15. Through his radio program, he seeks to educate his listeners about the teachings of the Catholic church, specifically trying to discourage his audience from using birth control and obtaining abortions. *Id.* at 14-15. In this connection, defendant is a vocal critic of plaintiff and plaintiff's activities. *Id.* at 15-16.

In *MGM-Pathe*, 774 F.Supp. 869, Judge Leval considered whether a non-profit group that uses another's trademark in support of its own non-profit aims is subject to the Lanham Act. Specifically, he examined whether a group whose aim was to provide protection to the gay community and to educate the general public about violence against that community could appropriate a part of the name of a movie produced by plaintiff ("Pink Panther"). After

finding that there was a likelihood of confusion, Judge Leval concluded that defendant's goal of political activism did not confer immunity from the Lanham Act, noting that "[t]he seriousness and virtue of a cause do not confer any right to the use of the trademark of another." *Id.* at 877. Defendant attempts to distinguish *MGM-Pathe* from the case now before the Court on the ground that defendant in this action has used plaintiff's mark in an effort to criticize plaintiff, while the *MGM-Pathe* defendants had no intent to criticize the Pink Panther movies. The Court finds this distinction unhelpful. The mere fact that defendant seeks to criticize plaintiff cannot automatically immunize a use that is otherwise prohibited by the Lanham Act.

\*6 Additionally, defendant has testified that he solicits contributions on his "Catholic Radio" radio show and has solicited contributions on the air in connection with the instant lawsuit. Tr. 2/21/97 at 16. Defendant's ownership of the domain name "plannedparenthood.com" is part and parcel of Catholic Radio's broader efforts in the anti-abortion movement. Specifically, defendant has told his radio listeners that "Catholic Radio owns the name 'Planned Parenthood.'" Pl.Ex. 6A.<sup>FN8</sup>Courts have found that fund-raising activities may bring a defendant's actions within the scope of the Lanham Act. See *Cancer Research Institute, Inc. v. Cancer Research Society, Inc.*, 694 F.Supp. 1051 (S.D.N.Y.1988) (enjoining defendant from using plaintiff's name for soliciting funds for cancer research), *Girls Club of Am., Inc. v. Boys Clubs of Am., Inc.*, 683 F.Supp. 50, 53 (S.D.N.Y.), *aff'd*, 859 F.2d 148 (2d Cir.1988) (enjoining defendant from adding plaintiff's name to its own for broad range of non-profit activities including fundraising); *Branch van Houten Holding v. Save Brach's Coalition*, 856 F.Supp. 472 (N.D.Ill.1994) (enjoining defendant from use of plaintiff's name in soliciting funds); *American Diabetic Assoc. v. National Diabetic Assoc.*, 533 F.Supp. 16, 20 (E.D.Pa.1981) (enjoining defendant from use of similar name in relation to its non-profit fund-raising). I find that defendant's use of plaintiff's mark is sufficiently tied to defendant's

fund-raising efforts for the use to be deemed "commercial" within the meaning of § 1125(c).

FN8. Plaintiffs' Exhibit 6A is a transcript of a cassette tape, Pl.Ex. 6, labeled "Bucci Catholic Radio January 9, 1997." That tape contains a portion of defendant's Catholic Radio broadcast describing Catholic Radio's ownership of the domain name "plannedparenthood.com." Defendant, on that broadcast, asks his audience for "suggestions on how to make the most of this Web site," and says, "if any of you folks out there have any, any ideas how we can make the most of this Web site, please contact me." Pl.Ex. 6A at 1-2.

Finally, defendant's use is commercial because of its effect on plaintiff's activities. First, defendant has appropriated plaintiff's mark in order to reach an audience of Internet users who want to reach plaintiff's services and viewpoint, intercepting them and misleading them in an attempt to offer his own political message. Second, defendant's appropriation not only provides Internet users with competing and directly opposing information, but also prevents those users from reaching plaintiff and its services and message. In that way, defendant's use is classically competitive: he has taken plaintiff's mark as his own in order to purvey his Internet services-his web site-to an audience intending to access plaintiff's services.

I note that although defendant relies on the holding of *Panavision Int'l, L.P. v. Toeppen*, 945 F.Supp. 1296 (C.D.Cal.1996) for the proposition that registering a domain name is not a commercial use within the meaning of the anti-dilution provision of the Lanham Act, *Panavision* is not controlling in this case. Defendant simply ignores the fact that he has done more than merely register a domain name; he has created a home page that uses plaintiff's mark as its address, conveying the impression to Internet users that plaintiff is the sponsor of defendant's web site. The *Panavision* court noted that the "exception for noncommercial use of a famous mark is inten-

ded to prevent courts from enjoining constitutionally-protected speech." *Id.* at 1303. However, whether defendant's use of the mark is commercial within the meaning of the Lanham Act is a distinct question from whether defendant's use of the mark is protected by the First Amendment; I reach the latter question below. The holding of *Panavision* does not suggest that defendant's use of plaintiff's mark is not commercial.

3. Section 1125(a)(1)(A)

\*7 In relevant part, § 1125(a)(1)(A) prohibits a person from using in commerce any term or false designation of origin which "is likely to cause confusion ... as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person." Section 1125(a)(1) is also limited by § 1125(c)(4)(B), which states that "noncommercial use of a mark" is not actionable under the Lanham Act.

Here, as discussed above, defendant offers informational services relating to the anti-abortion and anti-birth control movement, specifically providing his audience with relevant literature and the means to contact Roberge. In addition, defendant's solicitation of funds in relation to his anti-abortion efforts are commercial in nature. Therefore, because defendant's labelling of his web site with plaintiff's mark relates to the "origin, sponsorship, or approval" by plaintiff of defendant's web site, I find that § 1125(a)(1)(A) may govern defendant's actions in this case.

4. Section 1125(a)(1)(B)

With respect to § 1125(a)(1)(B), defendant can be liable only if he has used the plaintiff's mark "in commercial advertising or promotion." Courts have disagreed as to the scope and meaning of "commercial advertising and promotion." *Compare Seven-Up Co. v. Coca-Cola Co.*, 86 F.3d

1379, 1384 (5th Cir.1996) (defining commercial advertising as commercial speech, by a defendant in commercial competition with plaintiff, for purpose of influencing consumers to buy defendant's goods or services) with *Semco, Inc. v. Amcast, Inc.*, 52 F.3d 108, 111-12 (6th Cir.1995) (noting conflicting legislative history of § 1125(a)(1)(B) as to whether commercial advertising is merely coextensive with commercial speech, or includes all speech that is not political). Because I have concluded that defendant's activity is subject to the provisions of the Lanham Act discussed above, I need not reach the issue of whether his activity is subject to § 1125(a)(1)(B). I therefore do not address the issue of the meaning of "commercial advertising and promotion."

I therefore determine that § 1114, § 1125(c), and § 1125(a)(1)(a) of the Lanham Act are applicable here. I turn now to whether defendant's use of plaintiff's mark results in a likelihood of confusion.

### C. The Likelihood of Confusion

#### 1. The Polaroid Factors

The Second Circuit set out the factors a court must consider in determining the likelihood of consumer confusion in *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir.1961). Those factors include: the strength of plaintiff's mark, the degree of similarity between the two marks, the competitive proximity of the products or services, the likelihood that the plaintiff will bridge the gap between the two markets, the existence of actual confusion, the defendant's good faith in adopting the mark, the quality of the defendant's product, and the sophistication of the purchasers.

#### a. The Strength of the Mark

\*8 The strength of plaintiff's mark is conceded by defendant, which is reasonable in light of plaintiff's trademark registration of the mark and plaintiff's continued use of the mark for over 50 years. Tr.

2/20/97 at 7-9. The strength of plaintiff's mark weighs in favor of likelihood of confusion.

#### b. The Degree of Similarity Between the Marks

The two marks, "Planned Parenthood" and "plannedparenthood.com" are nearly identical; the only distinctions are the latter's lack of initial capitalization, the lack of a space between words, and the ".com" that is necessary to designate a domain name. The degree of similarity between defendant's domain name and the domain name owned by plaintiff's affiliate, Planned Parenthood of Houston, "plannedparenthood.org," is even stronger.<sup>FN9</sup> Plaintiff was originally under the impression that according to Internet usage, it could operate using only a ".org" designation. Tr. 2/20/97 at 14. Currently, however, NSI allows non-profit corporations, as well as for-profit businesses and individuals, to use the ".com" designation. *Id.* The ".com" designation is commonly used by businesses. *Id.* at 48. The degree of similarity between the marks thus increases the likelihood of confusion among Internet users.

FN9. In comparing plaintiff's product with defendant's product, the Court looks to the "www.ppfa.org" web site and the "www.plannedparenthood.com" website.

#### c. The Competitive Proximity of the Products or Services

The web sites of plaintiff and defendant are both located on the World Wide Web. Therefore, defendant's web site at "www.plannedparenthood.com" is close in proximity to plaintiff's own web site, "www.ppfa.org." Both sites compete for the same audience—namely, Internet users who are searching for a web site that uses plaintiff's mark as its address. The degree of competitive proximity, therefore, increases the likelihood of confusion among Internet users.

#### d. The Likelihood that Plaintiff Will Bridge the Gap

*Between the Markets*

Because plaintiff's web site and defendant's web site are both on the Internet, the parties are vying for users in the same "market." Where the market for competing goods or services is the same, there is no need to consider whether plaintiff will bridge the gap between the markets. *Paddington Corp. v. Atiki Importers & Distributors, Inc.*, 996 F.2d 577, 586 (2d Cir.1993). I therefore do not consider this factor in determining the likelihood of confusion.

*e. The Existence of Actual Confusion*

Plaintiff has produced testimony demonstrating that actual confusion has occurred among Internet users. Tr. 2/20/97 at 47-49, 54-57. The confusion has occurred both in a user who attempted to go directly to "www.plannedparenthood.com," thinking that it was likely to be plaintiff's web address, *Id.* at 46, and in a user who used a search engine to find web sites containing, or designated by, plaintiff's mark. *Id.* at 53-54.

This specific testimony exemplifies the likelihood of confusion due to the nature of domain names and home page addresses. First, because ".com" is a popular designation for Internet domain names, an Internet user is likely to assume that ".com" after a corporation's name will bring her to that corporation's home page, if one exists.<sup>FN10</sup> Second, an Internet user cannot immediately determine the content of a home page maintained by the owner of a particular domain name or located at a specific address. Only after a user has seen or entered "plannedparenthood.com" can she access the web site; such access occurs after at least a temporary delay. In addition, there is a delay while the home page "loads" into the computer. Because the words on the top of the page load first, the user is first greeted solely with the "Welcome to the Planned Parenthood Home Page!" It is highly likely that an Internet user will still believe that she has found plaintiff's web site at that point.

FN10. A vast number of corporations use their corporate name, or some easily recognizable variant thereof, followed by ".com," as a domain name and home page address. Therefore, a typical Internet user who wants to go to a corporation's home page may attempt to find the page by simply typing into her computer "www.[corporation name].com". Examples of such home page addresses include: "www.nytimes.com," "www.mtv.com," "www.randomhouse.com," "www.sony.com," "www.harrys-shoes.com," and "www.mercuryvehicles.com."

\*9 Even when the picture of *The Cost of Abortion* finally does appear on the screen, the user is unlikely to know that she is not at plaintiff's home page. *Id.* at 19, 47, 55-56. The book's ambiguous title "The Cost of Abortion," alone, cannot disabuse every Internet user of the notion that she has found plaintiff's home page. The Internet user must actually click on a link to read excerpts from the book, biographical information about the author, or book endorsements. Only in the course of reading those items can the user determine that she has not reached plaintiff's home page. Depending on which link the user has chosen to access, there may be an additional delay before the user can grasp that plaintiff is not the true provider of the home page.<sup>FN11</sup> This lengthy delay between attempting to access plaintiff's home page and learning that one has failed to do so increases the likelihood of consumer confusion.

FN11. Defendant himself agreed that after clicking on the first link listed on the home page, the "Foreword," a user would not ascertain the anti-abortion message until the middle of the second paragraph. Tr. 2/21/97 at 42-43.

Similarly, the "Book Review" link contains endorsements that are ambiguous. "The concerns which [the author] raises affect EVERY American who cares

about this country's future prosperity," reads one quote; another notes, "This well reasoned exposition should be read by thoughtful people on both sides of the issue."

*f. The Defendant's Good Faith in Adopting the Mark*

Defendant's testimony, and his counsel's admission at the hearing before this Court on the temporary restraining order, show that defendant chose his domain name and home page name with full knowledge and intent that some Internet users seeking to find *plaintiff's* home page would instead encounter *his*. However, defendant may have acted under the good faith assumption that his actions were protected by the First Amendment. I need not conclude that defendant acted in bad faith to conclude that there is a likelihood of confusion, and I therefore make no such finding at this time.

*g. The Quality of Defendant's Product*

A comparison of the quality of plaintiff's and defendant's products-their web sites-is irrelevant; the Court cannot compare the two web sites in terms of superior or inferior quality. However, I note that the two products are vastly different and convey quite divergent messages. Plaintiff's web site offers educational resources, suggests ways to get involved in plaintiff's activities, to join plaintiff in its advocacy mission, and to contribute to plaintiff, and offers links to plaintiff's local affiliates, related organizations, and job listings. In sum, plaintiff's web site provides Internet users with an array of information and services related to Planned Parenthood's mission of providing reproductive choice for women. Defendant's home page bearing plaintiff's mark offers users information, including an advertisement for a book, and ways to contact a vocal anti-abortion advocate. Any ensuing confusion resulting from defendant's use of plaintiff's mark as his domain name and home page address is likely to be destructive to the image that plaintiff, the senior

user of the mark, has established. See *MGM-Pathé*. 774 F.Supp. at 876.

*h. The Sophistication of the Purchasers*

Plaintiff argues that its primary purchasers are low income, relatively unsophisticated women. I note that those with access to the Internet may not be co-extensive with the segment of the population to whom plaintiff normally offers its services; those with Internet access may be more sophisticated. However, testimony has shown that even sophisticated Internet users were confused by defendant's web site. Although the sophisticated Internet user may discover, after reading the text of one of the links on defendant's home page, that she has not reached plaintiff's web site, some users may not be so immediately perspicacious. Because the sophistication of the user is no guarantee, here, that the consumer will not be confused, I find that this factor is of limited value in determining whether the consumer is likely to be confused.

\*10 In sum, I find that the bulk of the *Polaroid* factors demonstrate that there is a significant likelihood of confusion that warrants the granting of a preliminary injunction.

*D. Defendant's Additional Defenses*

Defendant also argues that his use of plaintiff's mark is protected from injunction because (1) it is a parody, and (2) it is protected speech under the First Amendment. I consider these arguments in turn.

*1. The Parody Exception*

Defendant argues that his use of the "planned parenthood" mark is not likely to confuse because it is similar to a parody. A parody "depends on a lack of confusion to make its point," and "must convey two simultaneous-and contradictory-messages: that it is the original, but also that it is not the original



thorized use of the trademark is for the purpose of a communicative message, rather than identification of product origin." *Id.* Defendant argues that his use of the "Planned Parenthood" name for his web site is a communicative message.

However, *Yankee Publishing* carefully draws a distinction between communicative messages and product labels or identifications:

When another's trademark ... is used without permission for the purpose of source identification, the trademark law generally prevails over the First Amendment. Free speech rights do not extend to labelling or advertising products in a manner that conflicts with the trademark rights of others.

*Id.* at 276. Defendant offers no argument in his papers as to why the Court should determine that defendant's use of "plannedparenthood.com" is a communicative message rather than a source identifier. His use of "plannedparenthood.com" as a domain name to identify his web site is on its face more analogous to source identification than to a communicative message; in essence, the name identifies the web site, which contains defendant's home page. The statement that greets Internet users who access defendant's web site, "Welcome to the Planned Parenthood Home Page," is also more analogous to an identifier than to a communication. For those reasons, defendant's use of the trademarked term "planned parenthood" is not part of a communicative message, but rather, serves to identify a product or item, defendant's web site and home page, as originating from Planned Parenthood.

Defendant's use of plaintiff's mark is not protected as a title under *Rogers v. Grimaldi*, 875 F.2d 994, 998 (2d Cir.1989). There, the Court of Appeals determined that the title of the film "Ginger and Fred" was not a misleading infringement, despite the fact that the film was not about Ginger Rogers and Fred Astaire, because of the artistic implications of a title. The Court of Appeals noted that "[f]ilmmakers and authors frequently rely on word-

play, ambiguity, irony, and allusion in titling their works." *Id.* The Court of Appeals found that the use of a title such as the one at issue in *Rogers* was acceptable 'unless the title has no artistic relevance to the underlying work'; even when the title has artistic relevance, it may not be used to "explicitly mislead[ ] [the consumer] as to the source or content of the work." *Id.* Here, even treating defendant's domain name and home page address as titles, rather than as source identifiers, I find that the title "plannedparenthood.com" has no artistic implications, and that the title is being used to attract some consumers by misleading them as to the web site's source or content. Given defendant's testimony indicating that he knew, and intended, that his use of the domain name "plannedparenthood.com" would cause some "pro-abortion" Internet users to access his web site, Tr. 2/21/97 at 36, he cannot demonstrate that his use of "planned parenthood" is entitled to First Amendment protection.

\*12 Because defendant's use of plaintiff's mark is subject to the Lanham Act, because the *Polaroid* factors demonstrate that there is a likelihood of confusion arising from defendant's use of plaintiff's mark, and because defendant has not raised a defense that protects his use of the mark, plaintiff has met its burden of demonstrating that a preliminary injunction against defendant's use of plaintiff's mark is warranted. *Hasbro*, 858 F.2d at 73.

#### *E. Whether A Disclaimer Will Cure the Confusion*

Defendant argues that a disclaimer, rather than an injunction, is the appropriate remedy here. I disagree. Due to the nature of Internet use, defendant's appropriation of plaintiff's mark as a domain name and home page address cannot adequately be remedied by a disclaimer. Defendant's domain name and home page address are external labels that, on their face, cause confusion among Internet users and may cause Internet users who seek plaintiff's web site to expend time and energy accessing defendant's web site. Therefore, I determine that a disclaimer on defendant's home page would

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not be sufficient to dispel the confusion induced by his home page address and domain name.

#### *F. Attorneys' Fees*

Plaintiff has requested costs, including attorneys' fees. When an injunction is granted pursuant to 15 U.S.C. § 1125, the court may award the relief provided in §§ 1117(a), including reasonable attorneys' fees in "exceptional cases" under 15 U.S.C. § 1117(a). According to the Second Circuit, "exceptional" circumstances include cases of willful infringement. *Bambu Sales, Inc. v. Ozark Trading Inc.*, 58 F.3d 849, 854 (2d Cir.1995).

There is insufficient evidence and/or legal briefing before me to determine that defendant's use of plaintiff's mark constitutes willful infringement. I therefore order plaintiff to submit to the Court, no later than April 7, 1997, any memorandum of law or factual submissions in support of its request for attorneys' fees. Defendant shall reply to that submission no later than April 21, 1997. Plaintiff's response, if any, is due on May 5, 1997. The parties are, of course, encouraged to settle the costs issue between themselves, if possible.

#### *IV. Conclusion*

For the foregoing reasons, I grant plaintiff's motion for a preliminary injunction. I hereby enjoin defendant, his agents, servants, employees, representatives, attorneys, related companies, successors, assigns, and all others in active concert or participation with him, (1) from using to identify defendant's web site, home page, domain name or in any other materials available on the Internet or elsewhere the Planned Parenthood® mark, any colorable imitation of the Planned Parenthood® mark, and any thing or mark confusingly similar thereto or likely to cause dilution of the distinctiveness of the Planned Parenthood® mark or injury to the business reputation of the Planned Parenthood Federation of America, Inc. or any of its affiliates; and (2) from representing by any means whatsoever that defendant, or any

products or services offered by defendant, including information services provided via defendant's web site or the Internet, are associated in any way with plaintiff or its products or services, and from taking other action likely to cause confusion or mistake on the part of Internet users or consumers.

\*13 The remaining relief sought by plaintiff will be the subject of further proceedings herein.

SO ORDERED:

S.D.N.Y., 1997.

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