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IN THE THIRD JUDICIAL DISTRICT COURT IN AND FOR

SALT LAKE COUNTY, STATE OF UTAH

WHENU.COM, INC., a Delaware corporation,

Plaintiff,

vs.

THE STATE OF UTAH, a body politic, OLENE S. WALKER, in her official capacity as Governor of Utah, and MARK SHURTLEFF in his official capacity as Utah Attorney General,

Defendants.

MEMORANDUM IN SUPPORT OF PLAINTIFF WHENU.COM, INC.'S APPLICATION FOR A TEMPORARY RESTRAINING ORDER AND MOTION FOR PRELIMINARY INJUNCTION

Case No. _____

Honorable _____

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SUMMARY

Plaintiff WhenU.com, Inc. ("WhenU") is a marketing company that delivers relevant online advertisements to consumers who have voluntarily downloaded its "SaveNow" software.[1] WhenU delivers these advertisements without collecting any personally identifiable information about its users. Millions of consumers in all 50 states and in over 200 countries have chosen to download SaveNow in order to obtain the money-saving offers it provides, to take advantage of comparison shopping opportunities, and to receive popular software applications for free.

Notwithstanding the valuable service WhenU provides to consumers (who have chosen to install SaveNow) and WhenU's policy and practice of protecting the privacy of its users, WhenU has been unfairly targeted by a recently-enacted Utah statute, the Spyware Control Act, Utah Code Ann. § 13-39-101, *et seq.* (the "Act"). The Act threatens to penalize WhenU $10,000 for each separate violation of the Act (trebled if knowing or willful) beginning May 2, 2004.[2]

The Act appears to be an attempt by the Utah legislature to protect Utah consumers from abusive practices, such as secretly loading programs onto their computers, logging their keystrokes and gathering personal information. However, the Act, as written, does not achieve this objective. Instead, it prohibits certain Internet technologies *whether or not* they install themselves on computers surreptitiously or collect personally identifiable information. At

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1 In some instances, WhenU's software is branded "SAVE!" However, there is no difference between the way "SAVE or "SaveNow" software actually functions. Thus, for convenience, "SaveNow" is used in this Memorandum.

2 For the convenience of the Court, a true and correct copy of the Act is attached to this Memorandum at Exhibit A.

the same time, the Act protects activities of online merchants ("Website Merchants") that involve the collection and use of computer users' personal information without specific consent.

The end result of the Act is to benefit a select group of Website Merchants at the expense of other legitimate Internet businesses, the free market and consumers who purchase goods and services online.

WhenU meets all the criteria for obtaining an injunction preliminarily enjoining the operation and effect of the Act. *First,* WhenU will suffer irreparable harm if an injunction does not issue. If the Act goes into effect, WhenU would be required to make expensive, onerous and unnecessary system-wide changes, with nation-wide effects, in an attempt to comply with the Act. These changes would result in a substantial loss of advertisers, subscribers and revenues, among other damages. Even if WhenU does its best to comply, the draconian penalties imposed by the Act will encourage private plaintiffs to sue WhenU. The cost of simply defending such lawsuits could be enormous, and if the courts interpret the Act to prohibit WhenU advertisements, the staggering penalties could destroy the company. Thus, the Act would force WhenU to choose between foregoing constitutionally-protected, revenue-generating advertising and spending significant sums to comply with the Act (without any guaranty that it will avoid liability in doing so), on the one hand, and inviting millions of dollars of claims by private enforcers, on the other.

Second, the injunction sought would not be adverse to the public interest. In fact, an injunction will serve the public interest. The Act does not provide for state enforcement or private actions by Utahns. Nor does it succeed in protecting consumers' privacy. Instead, it penalizes some software applications that *protect* consumer privacy while carving out exemptions for businesses that do invade consumer privacy. Because the consumers, the

purported beneficiaries of the Act, gain little if any protection from invasions of privacy under the Act, and could lose the benefit of effective comparative advertising under the Act, the public will not be injured if the Act is enjoined pending the determination of its constitutionality. Moreover, if the Act is enjoined, consumers who choose to do so, can continue to receive useful offers from WhenU.

Third, the threatened injury to WhenU if the Act goes into effect outweighs any injury to the defendants from the injunction sought, since WhenU will suffer irreparable harm whereas the State and the public will not suffer any injury.

Fourth, there is a substantial likelihood that WhenU will prevail on the merits of its claims. As discussed below, the Act impermissibly burdens interstate commerce in violation of the Dormant Commerce Clause of the United States Constitution. The Act violates the rights of WhenU to freedom of expression under the First Amendment of the United States Constitution and Article I, Section 15 of the Utah Constitution. By unfairly singling out companies like WhenU, the Act violates the equal protection guarantee of the Utah Constitution, Article 1, Section 24. Finally, significant portions of the Act are preempted by the federal Copyright Act.

STATEMENT OF FACTS

WhenU Provides a Valuable Service to Consumers While Protecting Consumers' Privacy

WhenU is an online "contextual marketing" company. Its SaveNow software delivers relevant and timely advertisements as well as money-saving coupons to participating computer users. (Naider Aff. ¶ 3)[3] WhenU operates across the globe. Its advertisers are located

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[3] "Naider Aff." refers to the Affidavit of Avi Naider. The Naider Affidavit has not been notarized as Mr. Naider is currently in Israel, and notaries are unavailable due to holiday observances. An original notarized affidavit will be provided to the Court as soon as possible.

throughout the United States and abroad, and its software displays advertisements and offers to computer users in all 50 states and more than 200 countries. (Naider Aff. ¶ 9)

Unlike other Internet advertising technologies, the SaveNow software does *not* collect personally identifiable information from its users. SaveNow does not collect its users' names, mailing addresses, gender, email addresses, account information or purchase history. It does not log its users' key strokes. Nor does it use "cookies," devices used by many Website Merchants to track consumers' activities. (Naider Aff. ¶ 34)

WhenU adheres to a strict privacy policy. The SaveNow software follows the users' immediate Internet activity only, and uses that activity to determine the type of product or service in which the user is likely to be interested. Since SaveNow advertisements are *not* determined based on the consumers' personal information or the consumers' past Internet activity, SaveNow *does not* collect, store, compile or use personally identifiable information. To protect user privacy, the software's decisions regarding which ads to retrieve and display are all processed on the user's computer hard-drive, and isolated from WhenU's servers. (Naider Aff. ¶ 33)

WhenU's "contextual marketing" technology is an outgrowth of the decades-old database marketing industry, which relied on the assembly of vast databases containing a wide variety of personal information about potential customers and their past purchasing behavior. Many companies, including American Express, have used database marketing to analyze consumers' past purchasing behavior in an attempt to predict what offers will appeal to them in the future. Thus, WhenU's software represents a revolution in contextual marketing technology because it delivers relevant advertisements *without* collecting consumers' personal information. (Naider Aff. ¶¶ 4-6)

For example, a participating consumer surfing the Internet for information related to a mortgage refinancing might see an ad for a low-cost mortgage provider while accessing the Quicken Loans website. A SaveNow consumer looking online for moving vans might see an ad for a discount moving service while viewing the U-Haul website. Because WhenU's advertisements are contextually relevant and do not require expensive and intrusive compilations of personally identifiable data, they are especially useful and attractive to consumers and effective for advertisers. (Naider Aff. ¶ 21)

How WhenU Distributes Its Software

The use of SaveNow is entirely consensual. Consumers obtain the SaveNow software because they choose to do so. Typically, they decide to download the SaveNow software and to accept the ads it delivers in return for obtaining a popular software application for free. The bundling of revenue-generating, advertising software ("adware") with free software programs ("freeware") is a common practice. (Naider Aff. ¶¶ 14-17)

During the SaveNow installation process, the consumer always receives a notice stating that SaveNow is part of the download, and explaining what it is. To proceed with installation, the consumer must affirmatively accept a license agreement (the "License Agreement"). The License Agreement is a short agreement deliberately written to be as intelligible as possible to the average computer user. It clearly explains that the software generates contextually relevant advertisements and coupons, utilizing "pop-up" and various other formats. SaveNow *cannot* be installed unless the consumer affirmatively accepts the terms of the License Agreement. (Naider Aff. ¶ 18)

Once SaveNow is installed on a consumer's computer, it generates advertisements through the use of a proprietary directory that is delivered to and saved on the consumer's computer (or "desktop"). The directory contains more than 40,000 search phrases and web

addresses, organized into more than 500 product or service categories (such as "finance") and sub-categories (such as "mortgages") in much the same way as a local Yellow Pages indexes merchants. As a participating consumer browses the Internet, the SaveNow software on his hard drive studies the search terms and web addresses being used, and determines whether any of those terms or addresses match information in the directory. SaveNow also studies the content of webpages the consumer visits for matches with various "keyword algorithms." If the software finds a match, it identifies an associated product or service category and determines whether an appropriate advertisement is available, subject to built-in frequency limits. (Naider Aff. ¶¶ 19-20)

The software also provides consumers with coupons for products and services for use at specific online retail merchants. A SaveNow coupon might remind a consumer, for example, of a free shipping offer that is available by using a particular products code when purchasing the product. (Naider Aff. ¶ 22)

Uninstalling WhenU's Software

Consumers can easily remove WhenU's software from their computers if they no longer wish to have it, and tens of millions of computer users have done just that. Simple directions for uninstalling SaveNow are contained in a link included with every advertisement. Once uninstalled, the software will cease to operate or show advertisements or coupons on the consumer's computer. (Naider Aff. ¶¶ 27-30)

The Spyware Control Act

The Spyware Control Act is, in large part, the culmination of a two-year campaign by a group of Website Merchants to drive WhenU and other Internet marketing companies out of business under the false pretense that they use "spyware" or invade the privacy

of computer users.[4] Utah-based 1-800 Contacts, Inc. ("1-800 Contacts") is one of the most vocal of these Website Merchants.[5] 1-800 Contacts and its representatives proposed the Spyware Control Act, actively participated in drafting the Act, and lobbied intensely for its passage.[6] The Utah legislature passed the Act on March 3, 2004, and it was signed by Governor Walker on March 23, 2004. Unless enjoined by this Court, the Act will go into effect on May 2, 2004.

The Act contains two sweeping prohibitions. Although the Act does not contain any legislative findings or statement of purpose, the Act's first prohibition (the "Spyware Prohibition") is apparently intended to protect consumers from invasion of their privacy over the

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4 For a detailed description of WhenU's business and how it protects consumer privacy, see generally the Naider Affidavit at ¶¶ 3-41.

5 1-800 Contacts has sued WhenU in federal court in New York on the theory WhenU's advertisements infringe 1-800's trademark and copyrights. It has sued two of its competitors, Coastal Contacts, Inc. and Vision Direct, Inc. in federal court in Utah and New York, respectively, based on their use of WhenU or similar technology to distribute online advertisements. In addition, 1-800 Contacts' counsel in these cases has sued WhenU and another online contextual marketing company on behalf of several other Website Merchants in cases across the country. (Naider Aff. ¶ 55 n. 7).

6 Benjamin Edelman, an expert retained by 1-800 Contacts in connection with its lawsuit against WhenU, and Jay Magure, 1-800 Contacts' "Legislative Affairs Director," both testified in favor of the Act and worked directly with the Legislature in drafting it. *See, e.g.*, Minutes of the February 13, 2004 meeting of the Public Utilities & Technology Standing Committee at p.3 (indicating bill was introduced by Mr. Edelman); E-mail from Jay Magure to Representative Stephen Urquhart, dated February 27, 2004. (The minutes and the e-mail are attached to this Memorandum as Exhibit B).

See also Burns, Wyden Told to Focus Anti-Spyware Bill on Action, Not Technology, Washington Internet Daily, Mar. 24, 2004; ("The Utah bill resulted from WhenU triumphing in court over 1-800-Contacts, a Utah company that sued to stop WhenU ads from popping up over its web site."); *Restart,* Salt Lake Tribune, Mar. 22, 2004 (1-800 Contacts "pushed" for the Act); *Tech Companies Lobby Utah Governor Against Broad Anti-Spyware Bill,* Washington Internet Daily, Mar. 22, 2004 ("HB-323 flew through the Utah state legislature recently, driven by a Utah company in a legal fight with a pop-up ad company . . . ."); Brice Wallace, *Spyware Act has detractors*, Deseret Morning News, Mar. 19, 2004 (bill was "prompted" by 1-800 Contacts, Inc.); Michael Warnecke, *Utah House Passes Anti-Spyware Measure That Also Takes Aim at Contextual Marketing, BNA Electronic Commerce & Law Report*, Feb. 24, 2004, at p. 181 ("the impetus for the bill came from a group of Utah-based companies, including 1-800 Contacts . . ."). These articles are attached to this Memorandum as Exhibit C.

Internet. It bars any person from installing "spyware" on another person's computer (or "causing" such installation). Utah Code Ann. § 13-39-201(1)(a) and (b) (2004 supp.). The Act defines "spyware" to include software residing on a computer that meets three requirements:

> (a) The software monitors the computer's usage;
>
> (b) The software ***either*** (i) sends information about usage to a remote server ***or*** (ii) displays ads in response to usage; and
>
> (c) The software ***neither*** (i) obtains the consent of the user ***nor*** (ii) provides simple removal instructions.

Utah Code Ann. § 13-39-102(4). The Act expressly excludes from the "spyware" definition "software or data that solely report to an Internet website information previously stored by the Internet website on the user's computer." Utah Code § 13-39-102(5).

According to the Act's definition of "spyware," therefore, software can apparently be "spyware" even though it does not collect personally identifiable information about consumers. At the same time, pursuant to the exceptions contained in Utah Code Ann. § 13-39-102(5), it appears that Website Merchants are permitted to collect, store and use personal data, without any limitations under the Act, no matter how invasive of privacy.[7]

The second prohibition in the Act, Utah Code § 13-39-201(1)(c) (the "Contextual Based Triggering Mechanism Prohibition"), is aimed at the contextual technology employed by WhenU. The consequence of this provision is to outlaw an effective marketing technology that some Website Merchants such as 1-800 Contacts dislike, even though, in the case of WhenU, the

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[7] SaveNow advertisements are only one of many types of online advertisements. Computer users receive advertisements over the Internet from many other sources. Online advertisements are frequently displayed by the websites that the consumer is visiting or has visited. For example, a consumer viewing an ESPN.com webpage might be shown an advertisement for Labatt beer. Advertisements are also launched by Internet service providers, such as Microsoft Network or AOL, and by search engines, such as Yahoo! and Google. (Naider Aff. ¶ 10; Reinhold Aff. ¶ 29)

technology is highly protective of computer users' privacy. At the same time, the Act does not regulate advertisements by Website Merchants, Internet service providers, search engines and other sources of online contextual advertisements. Nor does it regulate non-contextual advertisements, even if they obscure the content of a webpage that the computer user is viewing.

The Act Will Cause Irreparable Harm to WhenU

If the Act is allowed to become effective, the possibility that WhenU would face millions of dollars in statutory damages would require WhenU to change the way it does business in an effort to comply with the Act's requirements. Each of these changes would have to be implemented on a nation-wide basis, since the Act does not require any nexus to activity occurring in Utah. Even if a court could read a requirement of such a nexus into the Act, it would be of little help to WhenU because WhenU cannot reliably determine where individual users are located or where its advertisements are being delivered. Thus, to comply with a Utah statute, WhenU would have to change the way it operates its business across the board. (Naider Aff. ¶ 52; *see also* Reinhold Aff. ¶¶ 31-32)

Some of these changes would cause WhenU to lose advertisers, subscribers and revenues. Other changes would decrease the ability of WhenU to distribute its software or adversely affect the rates that WhenU can charge its advertisers. The consent requirements imposed by the Act (Section 102(c)(i)(A)-(E)), for example, would make WhenU's software more cumbersome to download and therefore less attractive to the freeware providers who are the principal means by which WhenU distributes its software. As a result, WhenU's user base would be diminished with severe consequences to WhenU, since its appeal to advertisers and its revenues are determined in part by its user base. The Act will also force WhenU to abandon some advertising formats, diminishing the options it can offer to advertisers and reducing the overall effectiveness of WhenU's services. (Naider Aff. ¶¶ 50-51)

The Act would also threaten WhenU with a patchwork of inconsistent local regulatory schemes. One jurisdiction might require license agreements to be presented in "plain language;" another might require the use of particular technical terms. One jurisdiction might require license agreements to be in large type; another might require them to fit on a single screen. Each new statute would require WhenU to review 50 states' laws to make sure that complying with the new statute would not create a compliance issue with respect to a previously enacted statute. (Naider Aff. ¶ 53; Reinhold Aff. ¶ 40)

Regardless of what WhenU does to comply with the Act, the staggering penalties of $10,000 to $30,000 for each separate violation of the Act, the Act's definition of a "separate violation" as "each individual occurrence that results in the display of an advertisement", the fact that it is a strict liability statute, and the provision for attorneys' fees will cause private plaintiffs to sue WhenU. *See* Utah Code Ann. § 13-39-301. The cost of defending numerous, protracted lawsuits would be prohibitive for a fledgling company like WhenU, even if it is ultimately successful. If WhenU is not successful, however, it will face staggering penalties -- penalties that could bankrupt the business.

The Act has already had detrimental effects on WhenU. The prospect that the Act might be interpreted to prohibit WhenU's advertising has already caused a WhenU download distribution partner to remove SaveNow, costing WhenU tens of thousands of new subscribers per month. (Naider Aff. ¶ 57) Other current download distribution partners have expressed concerns to WhenU and have indicated that they may discontinue downloading SaveNow if the Act goes into effect. The same is true for companies that sell WhenU advertising. If the Act goes into effect, an exodus of key business partners may take place. (Naider Aff. ¶ 58)

ARGUMENT

"A preliminary injunction serves to preserve the status quo pending a final determination of the case on the merits. 'In issuing a preliminary injunction, a court is primarily attempting to preserve the power to render a meaningful decision on the merits.'" *Keirnan v. Utah Transit Auth.*, 339 F.3d 1217, 1220 (10th Cir. 2003) (citations omitted). Where, as here, the moving party seeks a preliminary injunction to enjoin the operation of a new government regulation, the status quo is the state of events prior to its implementation. *See O Centro Espirita Beneficiente Uniao Do Vegetal v. Ashcroft*, 342 F.3d 1170, 1178 (10th Cir. 2003).[8]

Under Rule 65A(e) of the Utah Rules of Civil Procedure, an applicant must satisfy four elements to obtain a temporary restraining order or preliminary injunction:

> (1) the applicant will suffer irreparable harm unless the order or injunction issues;
>
> (2) the threatened injury to the applicant outweighs whatever damage the proposed order or injunction may cause the party restrained or enjoined;
>
> (3) the order or injunction, if issued, would not be adverse to the public interest; and
>
> (4) there is a substantial likelihood that the applicant will prevail on the merits of the underlying claim, or the case presents serious issues on the merits which should be the subject of further litigation.

Utah R. Civ. P. 65A(e) (2004); *Hunsaker v. Kersh*, 991 P.2d 67, 69 (Utah 1999). Because WhenU clearly satisfies these four requirements, its application should be granted.

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[8] The advisory committee note accompanying Rule 65A(e) of the Utah Rules of Civil Procedure explains that "[t]here is little case law in Utah interpreting the grounds for injunctive orders" and that the standards are derived from two Tenth Circuit cases. The note further explains that the "substantial body of federal case authority in this area should assist the Utah courts in developing the law under paragraph (e)." Utah R. Civ. P. 65A(e) (advisory committee note).

I. WHENU WILL SUFFER IRREPARABLE HARM UNLESS THE COURT ISSUES A TEMPORARY RESTRAINING ORDER AND PRELIMINARY INJUNCTION

Irreparable harm is "the most important" basis for granting injunctive relief. *System Concepts, Inc. v. Dixon,* 669 P.2d 421, 427 (Utah 1983). Irreparable harm is presumed from the violation of First Amendment commercial speech rights. *See e.g., Elrod v. Burns,* 427 U.S. 347, 373 (1976) ("The loss of First Amendment freedoms, for even minimal periods of time, unquestionably constitutes irreparable injury."). *Accord Utah Licensed Beverage Ass'n v. Leavitt*, 256 F.3d 1061, 1076 (10th Cir. 2001). Courts have also found that a violation of the Commerce Clause is presumed to cause irreparable injury. *See, e.g., American Library Ass'n. v. Pataki,* 969 F. Supp. 160, 168 (S.D.N.Y. 1997) ("deprivation of rights guaranteed under the Commerce Clause constitutes irreparable injury"); *ACLU v. Johnson*, 194 F.3d 1149, 1163 (10th Cir. 1999) (citing *Pataki*); *Allen v. Minnesota*, 867 F. Supp. 853, 859 (D. Minn. 1994) (holding that, since Minnesota statute, as enforced, violated the Commerce and Contract Clauses of the United States Constitution, the impairment of plaintiffs' constitutional rights constituted irreparable harm). *See generally,* 11A C. Wright & A. Miller, Federal Practice and Procedure § 2948.1, at 161 (1995) ("When an alleged deprivation of a constitutional right is involved, most courts hold that no further showing of irreparable injury is necessary."); *Mitchell v. Cuomo,* 748 F. 2d 804, 806 (2d Cir. 1984) (same).

Even if WhenU were not entitled to the presumption of irreparable harm, WhenU has shown that the Act would actually cause it irreparable harm. "When enforcement actions are imminent -- and at least when repetitive penalties attach to continuing or repeated violations and the moving party lacks the realistic option of violating the law once and raising its federal defenses -- there is no adequate remedy at law." *Morales v. Trans World Airlines*, 504 U.S. 374,

381 (1992). Given the enormous incentives offered by the Act, it is clear that many parties will attempt to bring actions under the Act. Although WhenU believes that its software is not "spyware" -- even as that term is broadly defined by the Act (Naider Aff. ¶ 38) -- given the ambiguities of the Act (*see generally,* Naider Aff. ¶¶ 48, 50 and Reinhold Aff. ¶ 39*)*, it is impossible to know how courts will ultimately rule. With strict liability, a draconian fine of $10,000 for each separate violation, and the possibility of treble damages, it is certainly not a "realistic option" for WhenU to wait until it is sued before challenging the Act's constitutionality. (Naider Aff. ¶¶ 47,54)

A plaintiff is also deemed to suffer irreparable injury "when the court would be unable to grant an effective monetary remedy after a full trial because such damages would be inadequate or difficult to ascertain." *Dominion Video Satellite, Inc. v. Echostar Satellite Corp.*, 269 F.3d 1149, 1156 (10th Cir. 2001). WhenU satisfies this standard as well. If the Act goes into effect but is eventually declared unconstitutional, WhenU will have suffered damages for which it cannot be recompensed. Indeed, WhenU has already begun to sustain injury because of the Act. The mere prospect the Act will go into effect has prompted one WhenU download distribution partner to discontinue the distribution of WhenU's software. (Naider Aff. ¶ 57) Based on the past performance of that partner and the business plans it had agreed to pursue before the Act passed, the loss of this relationship alone will cost WhenU tens of thousands of new subscribers each month. (Naider Aff. ¶ 57)[9] As a result, WhenU's user base will be diminished with severe ramifications to WhenU, whose attractiveness to advertisers and revenues depend on the size of its user base. (Naider Aff. ¶ 59)

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9 Four other WhenU download distribution partners have expressed concern to WhenU about the potential implications of the Act. (Naider Aff. ¶ 58)

Endeavoring to ensure compliance with the Act would impose a substantial and costly burden on WhenU. WhenU would be required to make changes in the way it does business on a nation-wide basis -- even for advertisements that are not transmitted to or from Utah, have no effect on Utah consumers or businesses, or any other connection with Utah. (Naider Aff. ¶ 52; *see also* Reinhold Aff. ¶ 31) These changes will reduce the overall effectiveness of WhenU's services. (Naider Aff. ¶¶ 51, 53)

The harm to WhenU in the absence of an injunction -- from the required changes to its business, the loss of subscribers, advertisers and revenue and the accompanying diminution in the effectiveness and attractiveness of its marketing services -- would be devastating. (Naider Aff. ¶ 65) *See Tri-State Generation & Transmission Assoc. v. Shoshone River Power, Inc.*, 805 F.2d 351, 356 (10th Cir. 1986) (explaining that a threat to a business's viability may constitute irreparable harm).

The Act thus presents WhenU with the terrible choice to either: (i) forego constitutionally-protected advertising, spend significant sums to comply with the Act (if WhenU can divine what the Act proscribes) and have a less effective and less attractive product or (ii) invite millions of dollars of claims by private enforcers. There can be no doubt that WhenU satisfies the requirement of irreparable harm.

II. THE PROPOSED ORDER WOULD NOT BE ADVERSE TO THE PUBLIC INTEREST

Where the party to be enjoined is the government, the second prong of the preliminary injunction standard (weighing the harm to the plaintiff against the harm to the party to be enjoined) is essentially the same as the third (public interest). *Heideman v. South Salt Lake City*, 348 F.3d 1182, 1191 (10th Cir. 2003). These factors strongly weigh in favor of WhenU,

since there would be no harm to the State or the public interest as a result of an injunction, whereas WhenU would suffer irreparable injury absent injunctive relief.

The Act contains no legislative findings or statement of purpose explaining what public interest the Act is intended to serve or what harm the Act is intended to address. The legislative history indicates that some supporters of the Act believed it would protect consumers from invasions of their privacy.[10] However, the Act does not give consumers a right of action; nor does it provide for State enforcement. The only parties with standing to bring an action under the Act are website owners, trademark and copyright holders and certain advertisers. Utah Code Ann. §13-39-301(1)(b). In addition, the Act is not well-designed to protect consumers; it seeks to regulate WhenU, for example, even though WhenU is highly protective of consumer privacy. At the same time it permits certain Website Merchants to collect and use consumers' personal information without restriction.

To whatever extent the Act may protect the public from actual spyware, the citizens of Utah are already protected under Utah's criminal and civil laws.[11] Utahns also enjoy an array of diagnostic tools, pop-up blockers and other software to protect their computers from spyware or to block unwanted programs or advertisements. (Reinhold Aff. ¶ 43 n. 1). Thus, if

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10 At the House debate on the Act (HB323), Representative Urquhart stated that the software applications which are the subject of the Act may "hijack" computers or "steal your information and deplete your bank account." The relevant excerpts of the House debate are provided in the Affidavit of Marisa L. Megur, executed April 12, 2004 ("Megur Aff."), at ¶ 7. *See also* Megur Aff. ¶ 4 (testimony of Benjamin Edelman). SaveNow does none of these things. *See* Naider Aff. ¶ 38.

11 For example, under Utah Code Ann. § 76-6-703, a person who gains access to a computer without authorization, and obtains information without a legal right is guilty of a misdemeanor. *See also* Utah Code Ann. § 76-6-1101 *et seq.* (identity fraud act); Utah Code Ann. § 76-9-401 *et seq.* (offenses against privacy). Several federal laws, such as the Electronic Communications Privacy Act, 18 U.S.C. § 2510 *et seq.* (2003 supp.) could likely be used to attack invasive software that collect and transmit personal data including user names, passwords, and account numbers.

the Court maintains the status quo, Utahns will still enjoy these considerable protections against true spyware. Finally, the public includes millions of WhenU users who choose to download SaveNow in order to obtain free software, benefit from WhenU's money-saving offers, and comparative shop with the aid of WhenU's relevant advertisements. These individuals will not be harmed if the Act is enjoined.

For all these reasons, an injunction against the implementation and enforcement of the Act will not have any adverse impact on the public.

III. PLAINTIFF WHENU IS LIKELY TO PREVAIL ON THE MERITS OF THE UNDERLYING CLAIMS

"When a party seeking a preliminary injunction satisfies the first three requirements, the standard for meeting the fourth 'probability of success' prerequisite becomes more lenient. The movant need only show 'questions going to the merits so serious, substantial, difficult and doubtful, as to make them a fair ground for litigation.'" *Kiernan,* 339 F.3d at 1221 (citation omitted). WhenU would satisfy this factor even if the more demanding "likelihood of success on the merits" standard were applied. As discussed below, however, WhenU easily satisfies the fourth prong of the preliminary injunction standard because it has raised serious questions as to the constitutionality of the Act.

A. WhenU Is Entitled to Seek a Declaratory Judgment

"The Declaratory Judgment Act grants a district court jurisdiction to determine any question of construction or validity of a statute that affects the rights, status, or other legal relations of any person and to declare that person's rights, status, or legal relations under the statute." *Miller v. Weaver*, 66 P.3d 592, 597 (Utah 2003); Utah Code Ann. § 78-33-2 (2004 supp.). The Declaratory Judgment Act is "remedial" and its purpose "is to settle and to afford relief from uncertainty and insecurity with respect to rights, status and other legal relations."

Accordingly, it is "liberally construed and administered." *Salt Lake County Comm'n v. Short*, 985 P.2d 899, 903 (Utah 1999); *see also Parker v. Rampton*, 497 P.2d 848, 851-52 (Utah 1972) ("[T]he very purpose of [the declaratory judgment statute] was to provide a means for securing an adjudication without the necessity of someone having to suffer damage or get into serious difficulty before he could seek to have his rights determined in court.").

Four elements must be met in order for the court to proceed with a declaratory judgment action: "(1) a justiciable controversy, (2) parties whose interests are adverse, (3) a legally protectible interest residing with the party seeking relief, and (4) issues ripe for judicial determination." *Miller* 66 P. 3d at 597. Each element is met in this case.

WhenU satisfies the first element because the relief it seeks, a declaration that the Act is unconstitutional, would terminate WhenU's present uncertainty about the application of the Act to its business. *Parker,* 497 P.2d at 851-52. A declaration that the Act is invalid would determine WhenU's rights without WhenU having to risk violation of an ambiguous Act and hence millions of dollars in damages. The second and third elements represent the traditional test for standing and merely require the plaintiff to "be able to show that he has suffered some distinct and palpable injury that gives him a personal stake in the outcome of the legal dispute" as opposed to a "general interest he shares in common with members of the public at large." *Jenkins v. Swan,* 675 P.2d 1145, 1148 (Utah 1983). As already discussed, WhenU is a specific target of this legislation.[12] It faces the potential for huge fines or substantial compliance costs, as well as the loss of revenue, advertisers and subscribers. Thus, WhenU must either forego its constitutional rights and spend large sums in an effort to comply with the onerous requirements

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12 *See, e.g.,* Megur Aff. ¶¶5-6. *Cf.* "Request for Legislation," dated Jan. 13, 2004, attached to this Memorandum at Exhibit D.

of the Act (with no guaranty of success given the vagaries of the Act) or risk an onslaught of lawsuits.

Regarding the fourth requirement, the issues are ripe for judicial determination. WhenU's compliance obligations would be triggered if the Act goes into effect. The Utah Website Merchants who lobbied for the Act undoubtedly intend to enforce it. Website Merchants located outside Utah (but who nonetheless may attempt to file suit under the Act) and who have previously sued WhenU or other online marketing companies are also likely to attempt to avail themselves of the Act's enforcement provisions and lucrative remedies.[13] *See Salt Lake County Comm'n,* 985 P.2d at 903 (an issue is ripe for judicial determination when there is an "actual controversy," or "there is a substantial likelihood that one will develop so that the adjudication will serve a useful purpose in resolving or avoiding controversy or possible litigation.")

B. WhenU Is Likely to Succeed on the Merits of Its Commerce Clause Claim

The Commerce Clause grants Congress the power to regulate interstate commerce. U.S. Const. Art. I, § 8, cl. 3. The "dormant implication" of the Commerce Clause (the "Dormant Commerce Clause") prohibits states from enacting any regulation "that discriminates against or unduly burdens interstate commerce and thereby 'imped[es] free private trade in the national marketplace.'" *General Motors Corp. v. Tracy,* 519 U.S. 278, 287 (1997). (citation omitted).

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13 U-Haul International, Wells Fargo & Co. and Quicken Loans Inc., for example, sued WhenU under the federal trademark and copyright laws in an unsuccessful effort to keep WhenU from delivering advertisements to consumers who access their websites. (Naider Aff ¶ 44). Website Merchants have attacked software-based contextual advertising of other marketers under the federal trademark and copyright laws. *See, e.g., In re The Gator Corp. Software Trademark and Copyright Litigation,* MDL No. 1517 (N.D. Ga.)

A state law can run afoul of the Dormant Commerce Clause in several ways. A state law is a *per se* violation of the Dormant Commerce Clause if it applies to commerce "'that takes place wholly outside of the State's borders, whether or not the commerce has effects within the State.'" *Healy v. Beer Inst.*, 491 U.S. 324, 336 (1989) (citation omitted); *ACLU v. Johnson*, 194 F.3d 1149, 1160 (10th Cir. 1999). Under these circumstances, the legislature's intent in enacting the statute is irrelevant. *Healy,* 491 U.S. at 336. A state law also violates the Dormant Commerce Clause if it could subject interstate commerce to inconsistent state regulations. *See, e.g., ACLU,* 194 F.3d at 1161-62. Finally, a state law is invalid under the Dormant Commerce Clause if it imposes a burden on interstate commerce that exceeds any local benefit. *PSINet, Inc. v. Chapman*, 2004 WL 584355, at *12 (4th Cir. 2004)[14]; *ACLU,* 194 F.3d at 1161. Although WhenU need only show that the Act violates the Commerce Clause in one of these ways, the Act is unconstitutional for all of these reasons.

First, the Act is a *per se* violation of the Dormant Commerce Clause because it regulates commerce occurring entirely outside of Utah's borders. *See, e.g., Brown-Forman Distillers Corp. v. New York State Liquor Auth.*, 476 U.S. 573 (1986) (striking down statute on Commerce Clause grounds because New York could not regulate out-of-state transactions); *see also Healy,* 491 U.S. at 366; *ACLU,* 194 F. 3d at 1161. Since the Act does not require any nexus to activity occurring in Utah, the Act, on its face, applies to conduct having nothing to do with Utah.

Even if a court could read a requirement of a Utah nexus into the Act, the impact of the Act cannot be limited to conduct within Utah. If the Act were to go into effect, it would impose substantial burdens on Internet commerce throughout the United States and the world

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[14] For the convenience of the Court, a copy of the *PSINet* decision is attached to this Memorandum as Exhibit E.

and would retard the growth of the software industry and Internet commerce. *See generally* Reinhold Aff. ¶¶ 33-40. The nature of the Internet forecloses the argument that the Act does not have an impermissible extraterritorial reach. *ACLU,* 194 F.3d at 1161. In *ACLU*, for example, the Court of Appeals for the Tenth Circuit invalidated a New Mexico statute which sought to regulate the dissemination of harmful information to minors over the Internet. The Court held that the statute was a *per se* violation of the Dormant Commerce Clause because it attempted to regulate interstate commerce outside New Mexico. The Court rejected defendants' arguments that the statute only applied within the state because "'purely intrastate communications over the Internet' do not exist. *Id.* (citing *American Libraries Ass'n v. Pataki*, 969 F. Supp. 160, 171 (S.D.N.Y. 1997)).

The Court of Appeals for the Fourth Circuit recently adopted the same reasoning in striking down a similar Virginia statute. The Court explained:

> The content of the Internet is analogous to the content of the night sky. One state simply cannot block a constellation from the view of its own citizens without blocking or affecting the view of the citizens of other states. Unlike...materials disseminated in brick and mortar space, electronic materials are not distributed piecemeal. The Internet uniformly and simultaneously distributes its content worldwide.

PSINet, Inc., 2004 WL 584355, at *13 (striking down statute regulating Internet dissemination of indecent and obscene materials to minors on Commerce Clause grounds and noting that "[g]iven the broad reach of the Internet, it [was] difficult to see how a blanket regulation of Internet material [could] be construed to have only a local effect."). *See also Pataki,* 969 F. Supp. at 177 (striking down New York statute that prohibited the Internet dissemination of obscene materials to minors because it did not require that the communication take place entirely within New York and there was no way to limit the reach of the statute to New York); *Cyberspace Communs., Inc.*

v. Engler, 142 F. Supp. 2d 827, 831 (E.D. Mich. 2001) (holding statute prohibiting individuals from using the Internet to disseminate sexually explicit materials violated the Dormant Commerce Clause because they attempted to control commerce outside the state's boundaries).

Second, if the Act is permitted to go into effect, online advertisers such as WhenU could become subject to conflicting regulations, as each state implements its own law. *See* Naider Aff. ¶ 53; Reinhold Aff. ¶ 40.[15] Where, as here, a statute could subject interstate commerce to inconsistent regulations, it violates the Dormant Commerce Clause. *See, e.g., CTS Corp. v. Dynamics Corp. of Am.*, 481 U.S. 69, 88 (1987); *ACLU,* 194 F. 3d at 1162-1163. In *Pataki*, for example, the court noted that a law regulating the dissemination of obscene materials over the Internet could subject Internet users to inconsistent burdens if other states adopted their own versions of the statute, and therefore held that it violated the Dormant Commerce Clause. 969 F. Supp. at 181-183.

The risk of inconsistent state regulation in the context of the Internet is so great that many courts have suggested it may be an area that can only be regulated by the federal government. *See, e.g., American Booksellers Found. v. Dean,* 342 F.3d 96, 104 (2d Cir. 2003) (stating that "it likely that the internet will soon be seen as falling within the class of subjects that are protected from State regulation because they 'imperatively demand[] a single uniform rule.'") (quoting *Cooley v. Bd. of Wardens,* 53 U.S. 299 (1852)). "The [United States] Supreme Court has long recognized that certain types of commerce are uniquely suited to national, as opposed to state, regulation." *ACLU,* 194 F.3d at 1160. Analogizing the Internet to the railway and highway systems, the *Pataki* court reasoned that the Internet "requires a cohesive national

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15 Although Utah is the first state to enact legislation of this type, a bill entitled the "Consumer Protection Against Computer Spyware Act" has already been introduced into California's legislature. S.B. No. 1436, 2004 Gen Leg. (Cal. 2004). Other states are likely to follow suit. *See, e.g.,* S.F. 2200 (Iowa 2004).

scheme of regulation so that users are reasonably able to determine their obligations." *Pataki*, 969 F. Supp. at 182 (stating that, absent some form of national regulation, online advertisers will be "lost in a welter of inconsistent laws, imposed by different states with different priorities" and users will be unable to determine their obligations). *See also Cyberspace Communs., Inc. v. Engler*, 55 F. Supp. 2d 737, 752 (E.D. Mich. 1999) (granting preliminary injunction when statute at issue would subject the Internet to inconsistent regulations across nation). In fact, Congress and the Federal Trade Commission are considering federal measures at this time.[16]

Third, the Act violates the Dormant Commerce Clause because the burdens the Act imposes on interstate commerce are excessive in relation to any local benefits it may confer. *See Pike v. Bruce Church, Inc.*, 397 U.S. 137, 142 (1970); *PSINet* at *12. *Cf. State v. Sterkel*, 933 P.2d 409, 414-415 (Utah Ct. App. 1997) (relying on *Pike*). The Act imposes substantial burdens on interstate commerce via the Internet, and would force many different companies to alter their business methods on a national basis. *See, e.g.*, Reinhold Aff. ¶¶ 31-40. These burdens are excessive in light of the expected local benefits.

Courts have found that even benefits as important as the protection of children against pedophilia and from sexually explicit materials are insufficient to justify a state statute that burdens communication over the Internet. *See, e.g., Pataki,* 969 F. Supp. at 177-78; *PSINet,* 2004 WL 584355 at *12. The presumptive purpose of the Act, to protect consumer privacy, though important, is plainly less weighty than the purposes of the statutes in *Pataki* and *PSINet.* If burdens on interstate commerce cannot be justified by the laudable goal of protecting children

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16 The federal government is considering "SPYBLOCK" legislation "to regulate the unauthorized installation of computer software, to require clear disclosure to computer users of certain computer software features that may pose a threat to user privacy." (Naider Aff. ¶ 40 n. 6) *See also* Naider Aff. ¶40 (referencing Mr. Naider's forthcoming testimony at an April 19, 2004 FTC workshop on spyware issues).

from pedophiles and pornography, these burdens cannot be justified by the goal of protecting consumer privacy or banning a particular form of advertising.[17]

This case also poses a greater burden on interstate commerce than did the statutes at issue in *Pataki* and *PSINet,* since the Act applies to a useful form of comparative advertising. By delivering a relevant advertisement to a consumer's computer screen at the same time the user is accessing a Website Merchant's site, SaveNow is informing consumers of options they may not have been aware of, in the same way that comparative advertising provides valuable information to consumers. There can be no doubt that comparative advertising is in the public interest. As one court explained in refusing to preliminarily enjoin WhenU's advertising:

> Plaintiffs' objection to WhenU's advertising is that it presents customers with alternative choices for procuring the services offered by plaintiffs, increasing the chance that prospective customers will entertain more attractive offers. Federal policy has long favored such comparative advertising and disfavored restrictions on such advertising.

Wells Fargo & Co. v. WhenU.com, Inc., 293 F.Supp.2d 734, 772 (E.D. Mich. 2003) (citing 16 C.F.R. § 14.15(c) (2003)) (comparative advertising is "a source of important information to consumers [that] assists them in making rational purchase decisions, ... encourages product improvement, and can lead to lower prices in the marketplace.").

The *Pataki* and *PSINet* courts also noted that the states had not proven that the statutes would achieve the purported local benefits. *Pataki*, 969 F. Supp. at 178-80; *PSINet*, 2004 WL 584355 at 12. The same is true in the case of the Spyware Control Act. In fact, the exceptions written into the Act for Website Merchants and others virtually ensure that the Act

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17 Moreover to the extent the purpose of the Act was to protect website merchants from competitive advertisements – a purpose that is nowhere stated in the Legislation – such advertisements are protected activity under the First Amendment of the United States Constitution. *See, infra,* III. C.

will do little to protect consumers from the collection and use of their personal data without their explicit consent.

Finally, in examining the burden on interstate commerce, courts look to see whether the state's interests could be achieved through less burdensome means. *See Dorrance v. McCarthy*, 957 F.2d 761, 764-765 (10th Cir. 1992). As noted above, Utah already protects the privacy of its consumers through its civil and criminal laws, such as Utah Code Ann. § 76-6-703 Utah Code Ann. § 76-6-1102 and Utah Code Ann. § 76-9-401 *et seq.* The existence of these laws demonstrates that Utah has alternative, less burdensome, means for achieving any purported objective in protecting consumer privacy, *i.e.,* the enforcement of existing laws.

In sum, the Act is unconstitutional under the Commerce Clause of the United States Constitution. The Act unlawfully burdens interstate commerce by, among other things, regulating commerce wholly outside of Utah and subjecting interstate commerce to the likelihood of inconsistent regulations. These burdens render the Act unconstitutional *per se,* and also substantially outweigh the benefits, if any, conferred by the Act.

C. Plaintiff is Likely to Succeed on the Merits of its First Amendment Claim

The Act is also an impermissible affront to WhenU's constitutionally protected free speech rights. Restrictions on advertising, such as the advertising provided by WhenU, are subject to scrutiny under the First Amendment as potential violations of protected free speech. *Central Hudson Gas & Elec. Corp. v. Public Service Comm'n*, 447 U.S. 557, 561-62 (1980). Under *Central Hudson*, commercial speech is protected from government regulation if it is "neither misleading nor related to unlawful activity," *i.e.*, if the speech in question "accurately inform[s] the public about lawful activity." *Id.* at 563. The state may not regulate such truthful commercial speech unless it further demonstrates that: (1) the governmental interest in regulating the speech is "substantial," (2) "the regulation directly advances the governmental interest

asserted," and (3) the regulation "is not more extensive than is necessary to serve that interest." *Id.* at 566.[18] The Utah State Constitution also protects against governmental regulation of speech. Utah Const. Art. I, § 15. Indeed, Article I, Section 15 of the Utah Constitution is at least as protective of speech as the First Amendment of the United States Constitution. *KUTV, Inc. v. Conder*, 668 P.2d 513, 521 (Utah 1983).

A facial challenge may be asserted against a statute for violation of the First Amendment either because the statute "could never be applied in a valid manner" or because the statute is "written so broadly that [it might] inhibit the constitutionally protected speech of protected third parties." *Members of City Council v. Taxpayers for Vincent*, 466 U.S. 789, 798 (1984). Under either standard, the Act is unconstitutional on its face.

As a preliminary matter, the Act does not purport to regulate speech that is illegal or misleading. *See Association of Nat'l Advertisers, Inc. v. Lundgren*, 809 F. Supp. 747, 755 (N.D. Cal. 1992), *aff'd*, 44 F.3d 726 (9th Cir. 1994) (holding that in analyzing whether advertising is illegal or misleading for First Amendment purposes, courts are to look at the content of the advertising, and not how the legislation labels that advertising). The contextual triggering provisions simply ban the use of all advertisements delivered by contextual triggering mechanisms, regardless of whether the advertisements are illegal or misleading. Similarly, the so-called spyware provisions are addressed solely to the manner in which software is distributed

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18 Even in the case of a statute purporting to regulate illegal or misleading advertisements, the law "may be no broader than reasonably necessary to prevent the deception." *In re R. M. J.*, 455 U.S. 191, 203 (1982). Thus, the general preference is not to issue an absolute prohibition on potentially misleading speech, but to require disclaimers along the lines of those that WhenU already includes in its own advertisements. *Id. See* Naider Aff. ¶ 24 (each WhenU advertisement is prominently labeled with a notice and disclaimer which states, "***This is a WhenU offer and is not sponsored or displayed by the website you are visiting. More...***").

and are not directed in any way to illegal or misleading speech. Thus, on its face, the Act regulates constitutionally protected, truthful commercial speech.

Under *Central Hudson*, the state must advance a "substantial" governmental interest before it can lawfully regulate commercial speech. 447 U.S. at 566. As noted above, the Act itself does not contain any recital of public policy purpose, much less a "substantial" state interest. Further, the statute grants rights only to "website owners" and trademark and copyright holders. On its face, therefore, the Act reflects an arbitrary decision by the state to give special rights to certain kinds of companies as against others. Such preferential treatment does not constitute a valid, substantial governmental interest justifying restrictions of speech. *See Cincinnati v. Discovery Network, Inc.*, 507 U.S. 410, 428-31 (1993) (holding that a selective ban on news racks for commercial handbills that exempted news racks for newspapers was an unconstitutional regulation of commercial speech).

The use of the term "spyware" in the title of the statute suggests a concern with consumer privacy. While "privacy *may* rise to the level of a substantial state interest, . . . the government cannot satisfy the *Central Hudson* test by merely asserting a broad interest in privacy." *U.S. West, Inc. v. FCC*, 182 F.3d 1224, 1234-35 (10th Cir. 1999) (emphasis added). (Citation omitted). It is not sufficient for the state to point to "[a] general level of discomfort from knowing that people can readily access information about us ..." *Id.* at 1235. Rather, "the government must show that the dissemination of the information desired to be kept private would inflict specific and significant harm on individuals, such as undue embarrassment or ridicule, intimidation or harassment, or misappropriation of sensitive personal information for the purposes of assuming another's identity." *Id.* The State of Utah has not identified any such particularized harm to privacy that it will prevent by enacting this statute.

The statute also does not meet the second *Central Hudson* prong that the regulation "directly advance[]" the government interest. 447 U.S. at 556. A state seeking to restrict commercial speech bears the burden of proving the restrictions directly advance the stated government interest. *Edenfield v. Fane*, 507 U.S. 761, 770 (1993). The state's burden "is not satisfied by mere speculation or conjecture; rather, [the state] must demonstrate that the harms it recites are real, and that its restriction will in fact alleviate them to a material degree." *Id.* at 770-71.

The Act does not "directly advance" consumer privacy interests. Instead, the Act places significant restrictions on the rights of contextual marketers such as WhenU to distribute their software and to communicate useful information about goods and services over the Internet. For example, the Act prohibits advertisers from using a "context based triggering mechanism" to display certain classes of advertisements, and prohibits any person from distributing certain broadly-defined categories of software, unless the software provider meets burdensome and impractical disclosure requirements. The Utah Legislature has not articulated any reason, nor is there any reason, to believe that the companies targeted by the Act are not protective of consumer privacy. WhenU, in particular, is highly protective of consumer privacy. (Naider Aff. ¶¶ 31-36)

The State's vague hope that the Act will have some positive impact on consumer privacy is entirely speculative and therefore is not a legitimate ground for regulating commercial speech. *U.S. West, Inc. v. FCC*, 182 F.3d at 1237. *See also Rubin v. Coors Brewing Co.*, 514 U.S. 476, 488-90 (1995) (holding that purported government justification for regulation was "irrational" and insufficient where the regulation would still permit significant activity that undermined the alleged legislative purpose).

Even assuming the Act did directly impact consumer privacy – which it does not – the State cannot satisfy the last prong of the *Central Hudson* test, that the regulation "is not more extensive than is necessary to serve that interest." 447 U.S. at 566. The last prong requires that "if the Government could achieve its interests in a manner that does not restrict commercial speech, or that restricts less speech, the Government must do so." *Thompson v. Western States Med. Ctr.*, 535 U.S. 357, 371 (2002). The State of Utah cannot meet this test. The privacy interests allegedly served by the statute could be far more effectively served by a statute that does not regulate speech at all: namely, a statute that restricts the information that companies can collect about computer users, but places no restrictions on communications.

Moreover, in this case, the burdens placed on commercial speech by the challenged statute are particularly onerous. The Act seeks to eliminate entire channels of communication that have proven uniquely effective for marketing purposes.[19] *See City of Ladue v. Gilleo*, 512 U.S. 43, 55 (1994) (noting that "laws that foreclose an entire medium of expression" are cause of "particular concern" of the Supreme Court); *Linmark Assocs., Inc. v. Willingboro*, 431 U.S. 85, 93 (1977) (striking down regulation on grounds that important channel of communication was cut off). In addition, the Act is fundamentally premised on an illegitimate distinction between the content of comparative advertisements delivered by software companies like WhenU and the content of advertisements delivered to users by Website Merchants and

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19 The speech interests threatened by the Act are brought into particularly sharp relief when the statute is applied to the specific case of WhenU. Advertisers rely on WhenU because WhenU's services provide a particularly effective way to inform consumers of products and services at a time when consumers are most interested in obtaining information about those products and services. Thus, WhenU's advertising services promote the core First Amendment values of promoting the "free flow of commercial information" to increase the likelihood that consumers will make "well informed" purchasing decisions, rather than making decisions to purchase without exposure to pertinent information about alternatives. *Virginia State Bd. of Pharmacy v. Virginia Citizens Consumer Council*, 425 U.S. 748, 764-65 (1976).

certain search engines. *Cincinnati*, 507 U.S. at 428-31 (holding that regulation restricting commercial handbills but favoring newspapers was an unlawful restriction on commercial speech rights).

D. Plaintiff is Likely to Succeed on the Merits of its Claim Under Article I, Section 24 of the Utah Constitution.

Article I, section 24 of the Utah Constitution states: "All laws of a general nature shall have uniform operation." Utah Const. Art. I, § 24. Section 24 prevents the Legislature from engaging in the "fundamentally unfair practice of classifying persons in such a manner that those who are similarly situated with respect to the purpose of the law are treated differently by that law, to the detriment of some of those so classified." *Gallivan v. Walker*, 54 P.3d 1069, 1085 (Utah 2002) (internal quotation marks omitted). "A law does not operate uniformly if persons similarly situated are not treated similarly or if persons in different circumstances are treated as if their circumstances were the same." *Id.* (internal quotation marks omitted). Whether a classification created by the Legislature operates equally is a judicial determination. *Id.*

When a court considers a challenge to a state statute under Section 24, "the broad outlines of the analytical model used in determining compliance with the uniform operation of laws provision remains the same in all cases, [but] the level of scrutiny [the court] give[s] legislative enactments varies. . . ." The general rule is that the (1) "a law must apply equally to all persons within a class," and (2) "the statutory classifications and the different treatment given the classes must be based on differences that have a reasonable tendency to further the objectives of the statute." *Malan v. Lewis*, 693 P.2d, 661, 670 (Utah 1984). However, where a legislative enactment implicates a "fundamental or critical right," a heightened degree of scrutiny applies. *Gallivan v. Walker*, 54 P.3d 1069, 1085 (Utah 2002).

The Act creates at least three classifications that violate the Utah Constitution. As set forth below, each of these classifications is unfair. Accordingly, the Act violates Section 24.

The Act's Enforcement Provision -- The Act differentiates between persons who can sue for a violation of the statute – "website owners," trademark or copyright owners, and a website's "authorized" advertisers -- and those who cannot sue, including Utah's many computer users. If the purpose of the Act is to protect the public from "spyware," then the class of people who the statute should protect is the public. But the Act does not provide for State enforcement or a private right of action. Instead, the statute creates a remedy for website owners, trademark and copyright owners, and some advertisers. The Act's failure to protect the general public from "spyware" does not further the presumable objective of the Act of protecting the public from "spyware." *See Allen v. Trueman*, 110 P.2d 355 (Utah 1941) (invalidating state statute on the ground that it amounted to special legislation in favor of a certain group or class of persons).

The Act's Exclusion for Contextual Advertising Displayed by Website Owners -- The Act differentiates between two forms of online advertising which display advertisements on the basis of a computer user's activity: it *prohibits* such advertising when it is generated by a software application – even when the user consents to the download of the software and to the monitoring of his computer usage – but, it *permits* the same advertising when it is generated by a website owner -- irrespective of whether the user knows that his computer usage is being monitored or consents to it.

If the purpose of the Act is to protect the public from "spyware" then its prohibitions should also apply to website owners, such as Website Merchants who use their websites to collect personal information about users who visit the site. There can be no doubt that there are Website Merchants who collect personal information without getting the user's

prior consent. In some cases, the collection and dissemination of personal data by Website Merchants may be very intrusive and carried out without informed consumer consent. *See generally* Reinhold Aff. ¶ 42.

This classification implicates the commercial speech rights of WhenU and similar software-based contextual advertisers and is therefore subject to "heightened scrutiny." *Gallivan* 54 P.3d at 1085. Thus, the Act's classification may be upheld only if it "(1) is reasonable, (2) has more than speculative tendency to further the legislative objective and, in fact, actually and substantially furthers a valid legislative purpose, and (3) is reasonably necessary to further a legitimate legislative goal." *Id.* (citation omitted).

Excluding "website owners" from the prohibitions of the Act and therefore, permitting them to engage in the very practices that the Legislature has defined as "spyware" cannot "actually and substantially" furthers the legislative purpose of protecting the public from spyware, nor is it "reasonably necessary to further that goal." Accordingly, the statute is unconstitutional.

The Act's Inclusion of Contextual Advertising Which Is Not "Spyware" -- To the extent that the Legislature's purpose was not to protect the public from spyware, but to protect Website Merchants (who generally own websites and hold trademarks and copyrights) from the use of "spyware" to deliver competitive advertising to consumers when they were visiting a particular website, the Act must still be held unconstitutional because, under the Act, persons "in different circumstances are treated as if their circumstances were the same." *Gallivan*, 54 P.3d at 1085. The Act prohibits contextual advertising whether or not it is "spyware." Even if the Legislature's purpose in enacting the Act was to protect Website Merchants from "spyware", this classification is unreasonable because prohibiting contextual

advertising which is not "spyware" does not actually and substantially further the legislative goal of protecting website owners from "spyware" delivered advertising; nor, therefore, is reasonably necessary to further that goal.

E. Plaintiff is Likely to Succeed on the Merits of its Claim of Preemption Under Federal Copyright Law

Section 13-39-201 of the Act prohibits the display of an advertisement as a result of a "context based triggering mechanism," in a way that "covers or obscures" the display of "paid advertising or other content on an Internet website." Section 13-39-301 of the Act provides a private right of action to a copyright owner when the display of its copyrighted work is "covered or obscured" under these circumstances. Because these provisions would expand the rights otherwise available to a copyright holder under federal copyright law, they are preempted by the Copyright Act, 17 U.S.C. § 301(a) and are therefore void and unenforceable.

Congress reserved to the federal government all responsibility and authority for shaping our country's copyright law and policy. Section 301(a) of the Copyright Act states that "all legal or equitable rights that [1] are equivalent to any of the exclusive rights within the general scope of copyright . . .in [2] works of authorship that are fixed in a tangible medium of expression and [3] come within the subject matter of copyright . . . are governed exclusively by this title."

The Act clearly satisfies the Statutory Requirements for preemption. Websites are subject to copyright protection and the Act pertains to a "right within the general scope of copyright," that is, one or more of the exclusive rights of the copyright holder under 17 U.S.C. § 106, by purporting to expand these rights to prohibit contextually triggered advertisements from appearing "in front" of their web pages. Federal copyright law does not provide for such expansive protection. *See 1-800 Contacts, Inc. v. WhenU.com, Inc.*, 2003 U.S. Dist. LEXIS

22932 (S.D.N.Y. December 22, 2003)[20]; *U-Haul Int'l, Inc. v. WhenU.com, Inc.*, 279 F. Supp. 2d 723, 730-31 (E.D. Va. 2003). *Cf. Wells Fargo & Co. v. WhenU.com, Inc.*, 293 F. Supp. 2d 734 (E.D. Mich. 2003). Wholly apart from the preemption of the Spyware Control Act required under Section 301 of the Copyright Act, the Spyware Control Act is preempted under general principles of conflict preemption because it seeks to alter the Copyright Act's careful balancing of the rights protected under the Copyright Clause of the Constitution against the rights protected under the First Amendment.[21] *Cf. Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480 (1974) ("if the scheme of protection developed by [a state] 'clashes with the objectives of the federal [laws]' then the state law must fail").

In determining whether state common law or a particular state statue is preempted by federal copyright law, it is irrelevant whether federal copyright law itself prohibits the conduct that would offend the state law. A state law is preempted whether it "creates, grants, or destroys" rights that are "equivalent" to the exclusive rights of copyright. *Allied Artists Pictures Corp. v. Rhodes,* 496 F. Supp. 408, 443 (S.D. Ohio 1980), *aff'd*, 679 F.2d 656 (6th Cir. 1982). In fact, many state laws that are ultimately preempted have been enacted precisely because federal copyright law does not prohibit the conduct that private parties and responsive legislators wish to prevent. However, it is uniquely a task for federal copyright law to determine whether such conduct is prohibited or permitted. *See* Nimmer, § 1.01[B] at 1-12. *See also Allied Artists Pictures* at 443 ("A state statute creating rights which could be violated by the mere act of reproduction, performance, distribution or display is preempted by the [Copyright Act.]")

Accordingly, these provisions of the Act are preempted by the Copyright Act.

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20 A copy of the *1-800 Contacts* decision is attached to this Memorandum as Exhibit F.

21 The existence of an express preemption provision in a federal statute does not bar application of generally applicable conflict preemption principles. *Geier v. American Honda Motor Co.*, 529 U.S. 861, 869-74 (2000).

IV. WHENU SHOULD NOT BE REQUIRED TO POST ANY SECURITY

Under Rule 65A of the Utah Rules of Civil Procedure, the plaintiff in an injunction action is not required to post a bond if the Court determines "that none of the parties will incur or suffer costs, attorney fees or damage as the result of any wrongful order or injunction," or if "there exists some other substantial reason for dispensing with the requirement of security." Utah R. Civ. P. 65A(c)(1). Utah courts have "wide discretion in the matter of requiring security, and if there is an absence of proof showing a likelihood of harm, certainly no bond is necessary." *Corporation of the President of the Church of Jesus Christ of Latter-day Saints v. Wallace*, 573 P.2d 1285, 1287 (Utah 1978) (citing *Continental Oil Co. v. Frontier Refining Co.*, 338 F.2d 780, 782 (10th Cir. 1964). In addition "a court could dispense with the security requirement if the granting of the injunction carried no risk of monetary loss to the enjoined party." *Envirotech Corp. v. Callahan*, 872 P.2d 487, 498 (Utah Ct. App. 1994) (citation omitted).

There is no evidence demonstrating that the State of Utah or the citizens of Utah will suffer any monetary harm from the issuance of an injunction. Moreover, the plaintiff has demonstrated that it is likely to prevail on the merits of its constitutional challenges to the Act. Accordingly, WhenU submits that this court should exercise its discretion to waive any requirement that WhenU post a bond in connection with its application for a temporary restraining order and preliminary injunction motion.

CONCLUSION

For all of the foregoing reasons, WhenU requests that this Court enjoin the operation and effect of the Spyware Control Act until the Court has reached a decision on the merits of plaintiff's claims that the Act violates the Constitution and laws of the United States and the Constitution of the State of Utah.

Dated this 12th day of April, 2004

SNELL & WILMER L.L.P.

Alan L. Sullivan
James D. Gardner

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