State Regulation of Keyword Advertising: A Lesson From the Utah Legislature

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# STATE REGULATION OF KEYWORD ADVERTISING: A LESSON FROM THE UTAH LEGISLATURE

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I. INTRODUCTION

After graduating from business school a very ambitious graduate decides to start her own insurance company. However, the graduate is unable to attract clients to her new company. After much debate, the graduate decides she needs to engage in intensive advertising for her new company. Therefore, she pays for television commercials, billboard displays, and newspaper advertisements. However, the insurance company continues to struggle with attracting new clients. Eventually the graduate realizes that her best chance of reaching the greatest number of people with her advertisements is to advertise on the Internet. She contacts a popular search engine that allows her to pick “keywords” that will prompt her advertisements to display on search result pages. Because of her limited budget, she decides to pick only one keyword. She picks the term “GEICO” as her keyword. Therefore, when search engine users type in the term GEICO, the graduate’s insurance company will appear as an advertisement on the search results page.

The above example poses many questions: Has the graduate engaged in trademark infringement by using the term GEICO as a keyword? Where will the graduate’s advertisement appear in relation to the search results for the term GEICO? Will the graduate’s advertisement mislead consumers into believing the graduate’s insurance company is somehow connected to the GEICO insurance company? The confusion caused by the above scenario and countless other similar situations is at the heart of the debate between trademark owners and search engines regarding advertising on the Internet, specifically advertising known as “keyword advertising.”

The legality of keyword advertising under the Lanham Act has been heavily debated for the past few years with no clear answer emerging. However, while the legal issues are being resolved, trademark owners are left empty-handed, and search engines continue to make millions with the keyword advertising model. Trademark owners’ cries for help finally resonated enough in Utah to prompt legislation concerning the practice. In 2007, the Utah legislature passed a statute known as the Trademark Protection Act (Utah Act), which restricted the use and


2 See Lauren Troxclair, Note, Search Engines and Internet Advertisers: Just One Click Away From Trademark Infringement?, 62 WASH. & LEE L. REV. 1365, 1374 (2005) (noting that advertising sales made up 99% of Google’s 2004 total revenue).
purchase of trademarks as keywords. While the case law on the topic of keyword advertising and whether the use of trademarked terms as keywords constitutes trademark infringement is unclear and many questions are left unanswered, it appears that the Utah Act was not an appropriate fix to a complex problem because the law remained in a state of flux during its brief enactment. The Utah Act was signed into law, but its implementation was dependent on the completion of a registry, which the legislature put on hold after protests by search engines and others. A year later, the law was amended by S.B. 151, which deleted the substantive provisions under the original Utah Act that would have regulated keyword advertising.

This Note argues that the Utah Legislature was correct to repeal the Utah Act because it was unconstitutional under the Dormant Commerce Clause. Part II provides background information on keyword advertising, discusses the arguments rendered by both sides on the legality of selling trademarks for keyword advertising, examines provisions of the Utah law, addresses the current state of the case law on the topic, and summarizes for comparison purposes other Internet-related statutes passed by various states. Part III analyzes the constitutionality of the Utah law by examining whether the law violated the Dormant Commerce Clause. This part compares and contrasts the Utah Act with other Internet-related state statutes that are discussed in Part II. This part argues that the Utah Act was unconstitutional because, although it was not facially discriminatory, it favored local economic interests to the detriment of out-of-state competitors and placed an undue burden on interstate commerce.

II. BACKGROUND

This Part will begin by providing a brief introduction to keyword advertising, discussing the arguments put forth by both sides of the debate and reviewing the current state of the law. Next, a summary of the Utah Act will be presented. Finally, this part will conclude with a short overview of the Dormant Commerce Clause and a discussion of several cases involving conflicts between state-enacted Internet regulations and the Dormant Commerce Clause.

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A. WHAT IS KEYWORD ADVERTISING?

Keyword advertising is a recent form of online advertising that has proven to be extremely lucrative for search engine companies. In the Internet's early days, advertising was largely considered a hit or miss proposition because the advertisers could not have their advertisements connected to specific search terms. As a result, the advertisements were randomly displayed in hopes that the advertisement displayed on the search results page would occasionally relate to the terms that were being searched by the search engine user.

Eventually keyword technology was invented, which allowed advertisements to be directly tied to specific terms. This type of advertising is called keyword advertising and allows advertisers to choose "keywords" that, when entered into a search engine, will trigger the advertisers' ads and then display them on the search results page. Keywords are merely terms or phrases that are entered into a search engine by a person wanting to find an Internet website pertaining to the particular words entered. After the keywords have been entered into the search engine, the results page appears and contains the advertisements for those advertisers who have purchased the keywords. The advertisements are set apart from the search results and labeled titles such as "sponsored links" (Google) or "sponsored sites" (MSN).

This form of advertising, used by search engine companies such as Yahoo! and Google, is a fairly simple method. The search engine companies use an auction process in which the highest bidders are awarded the opportunity to buy specific search terms. The majority of keyword advertising services allow multiple advertisers to bid on a specific keyword. An advertiser's bid consists of the

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7 Id.
8 Id.
9 Id.
12 Id.
13 Id.
15 Id.
maximum price the advertiser will pay for each instance a search engine user clicks on the advertisement, since generally the advertiser only pays each time the advertisement is clicked on. The process has resulted in huge profits for the search engine companies and has become a multibillion dollar industry. For example, Google earns over 90% of its total revenue from its keyword advertising program, which includes hundreds of thousands of participants.

B. THE PROBLEM WITH KEYWORD ADVERTISING

At first glance, keyword advertising appears to be a legitimate advertising program that provides more benefits for consumers because they are given choices when viewing products and services on the Internet. However, the problem with keyword advertising lies in the manner in which the keyword advertising programs have shifted away from the use of merely generic terms as keywords and towards a program in which generic and trademarked terms are used as keywords. Search engine companies have allowed advertisers to buy third-party trademarks as keywords. For example, Dell could purchase the keyword “Toshiba” so that when a person searches the terms “Toshiba computer,” a Dell computer advertisement would appear on the search results page. The Dell computer advertisement could potentially attract the person away from the Toshiba computer results and toward the Dell computer website.

As a result of this possibility, trademark owners have voiced their concerns and raised objections to the selling of trademarks by search engines as keywords. However, because of the large revenues that keyword advertising generates, search engine companies have held strong to their stance that keyword advertising does not infringe trademark owners’ rights.

index.cfm?fa=legalUpdateDisp&content_id=836.

18 Shea, supra note 10, at 532.
19 Klein, supra note 16.
20 See Servodidio, supra note 14 (noting that keyword searches connect consumers and advertisers in a way that “enhances the functionality of the Internet as a resource locator”).
21 Hendelman, supra note 17.
22 See id. (using an example involving a Ford truck dealer purchasing the term “Chevy trucks” as a keyword to result in advertisements on the “Chevy truck” results page).
23 See Garrity, supra note 11 (discussing litigation brought by trademark owners in response to keyword advertising).
24 Klein, supra note 16.
C. TRADEMARK OWNERS' ARGUMENTS

Trademark owners advance several arguments against the legality of search engine companies allowing third-party trademarks to be bought for keyword advertising. The basic claim trademark owners make is that search engines are being unjustly enriched by exploiting trademarks without permission in order to earn substantial profits. The specific claims include trademark infringement, unfair competition, and dilution under the Lanham Act and state law. The trademark owners argue that because the search engines are using the marks in commerce in connection with the selling or advertising of goods and services in such a way that is likely to cause confusion, all elements needed to constitute trademark infringement and unfair competition are met. The owners argue that keyword advertising can result in confusion for the consumers because most of the advertisements are placed on the search results page as “sponsored links,” and it is not clear who sponsors the advertisement.

D. SEARCH ENGINES' ARGUMENTS

The search engines' basic argument in support of their position is that their keyword advertising is not any different from other forms of non-online advertising in which consumers are presented with a choice of products from various competitors. The search engines argue that “deliberately targeting an ad to customers who are buying, considering buying, or seeking information about a competitor's product or service does not constitute a trademark violation.” In response to the trademark infringement claim, the search engines argue that their service does not qualify as a “use” of the trademark. Additionally, the search engines argue that, because advertisers use their own names in the advertisements when referring to the identity of the source of their goods or services, the likelihood of confusion argument fails.

25 Id.
27 Klein, supra note 16.
28 Id.
29 Id.
30 Id.
31 Id.
32 Id.
E. THE LANHAM ACT AND CURRENT CASE LAW CONCERNING KEYWORD ADVERTISING

1. Lanham Act. Trademark disputes are governed by the federal statute known as the Lanham Act and state trademark law. Originally, trademark law in the United States was derived from common law and state statutes. In the late nineteenth century, in the “now-famous Trade-Mark Cases,” the Court stated that Congress’s power to enact federal trademark legislation is not derived from the Patent and Copyright Clause but instead must be derived from the Commerce Clause of the Constitution. Because the Court declared that Congress must derive its trademark legislating power from the Commerce Clause, the Lanham Act only applies where there is a “use in commerce.” When enacting the Lanham Act, Congress intended to utilize the fullest extent of its power available under the Commerce Clause; therefore, the Act is interpreted broadly.

When trademark law was first established, the purpose of trademarks was to serve as “identifier[s] of the particular source of particular goods.” Therefore the central purpose of trademark law since its inception has been to prevent confusion. This central purpose is embodied by the Lanham Act, which was enacted to prohibit trademark uses in commerce that were “likely to cause confusion, or to cause mistake, or to deceive.” Another main purpose of trademark law is to protect the owner’s investment in the mark and the associated goodwill of a mark that has been developed by the mark’s holder.

The Lanham Act defines a trademark to include “any word, name, symbol, or device, or any combination thereof used by a person . . . to identify and

38 Id.
40 Id.
42 Buckman, supra note 37, at 31.
The Lanham Act defines the term “use in commerce” as “the bona fide use of a mark in the ordinary course of trade.” After a mark is registered, the trademark owner can prevent appropriation of the mark if one important qualification is met: the owner “must have used or intend to use the mark in interstate commerce.” As discussed above, because trademark law evolved from common law, adoption of a mark is not enough to qualify for rights under the Lanham Act. The right of a mark is derived from its “use in commerce.”

The Lanham Act provides two main forms of protection for trademark owners from subsequent users who attempt to infringe on the trademark by confusing the public as to the source of the goods or services. First, a person becomes liable for trademark infringement if he “uses a similar mark in commerce that is likely to cause confusion among consumers without the consent of the registrant.” Second, a civil cause of action is available under the federal unfair competition statute “against anyone who perpetuates a false designation of the origin of a product or any false or misleading descriptions likely to cause confusion in the marketplace.”

2. Current Case Law. Several cases have been recently decided that explore the effect of the Lanham Act on the issue of keyword advertising. For example, Playboy Enterprises, Inc. v. Netscape Communications Corp. involved a suit by Playboy against the search engines Netscape and Excite for including the keywords “playboy” and “playmate” in the list of keywords these search engines used for adult entertainment advertisers to trigger their advertisements. The defendants maintained a list of over 400 terms that triggered adult entertainment advertisements. Playboy argued that the advertisements were likely to be confusing to consumers because the advertisements were not clearly labeled as to the sponsor, and therefore the ads resulted in “initial interest confusion” that took advantage of the goodwill associated with the trademark. The lower court

44 Id. See the statute for the full definition of the term “use in commerce.”
45 Spence, supra note 35, at 524.
46 Id.
47 Id. at 525.
48 Id.
49 Id.
50 Playboy Enter., Inc. v. Netscape Commc’n Corp., 354 F.3d 1020 (9th Cir. 2004).
51 Id. at 1023 (stating the term “playboy” is trademarked by Playboy Enterprises).
52 Id. (stating the term “playmate” is trademarked by Playboy Enterprises).
53 Id.
54 Id.
55 Id. at 1024–25.
granted summary judgment in favor of the defendants, but the Ninth Circuit reversed, finding that there was a genuine issue of material fact at to Playboy’s trademark infringement and dilution claims. However, the Ninth Circuit did note that if the source of the advertisements was clearly ascertainable, this “might eliminate the likelihood of initial interest confusion that exists in [the] case.” After the Ninth Circuit’s decision, the parties settled on undisclosed terms.

Another case involving the issue of keyword advertising is Government Employees Insurance Co. v. Google, Inc. This case is an important decision in the keyword advertising debate because it was the first to state explicitly that the process of keyword advertising constitutes “use” of the mark as required under the Lanham Act. The case involved a suit in which the plaintiff GEICO asserted a claim against Google alleging that the use of the terms “GEICO” and “GEICO DIRECT” as keywords constituted trademark infringement, unfair competition, and dilution. The district court denied in part Google’s motion to dismiss, stating that Google did use plaintiff’s trademark for purposes of the Lanham Act, although not necessarily improperly. The court stated that “[t]he complaint clearly allege[d] that defendants use plaintiff’s trademarks to sell advertising, and then link that advertising to results of searches.” The court felt the defendants’ process of selling the plaintiff’s trademarks for purposes of linking advertisements was a use in commerce that could imply the defendants had received permission from the trademark owners to run these ads. In a later opinion concerning the likelihood of confusion claim, the court found that the plaintiff failed to show that Google’s use of GEICO’s trademark as a keyword created a sufficient likelihood of confusion to violate the Lanham Act.

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57 Playboy Enterprises Inc., 354 F.3d at 1034.
58 Id. at 1030 n.43.
59 Klein, supra note 16.
61 See Klein & Huffnagle, supra note 26, at 1 (discussing keyword-triggered search engine advertising).
62 Gov’t Employees Ins. Co., 330 F. Supp. 2d at 702 n.2 (stating that plaintiff received federal trademark registration for the term “GEICO”).
63 See id. (stating that plaintiff received federal trademark registration for the term “GEICO DIRECT”).
64 Id. at 701.
65 Id. at 704. The court did grant Google’s motion to dismiss the state law counts of tortious interference with prospective economic advantage and statutory civil business conspiracy. Id. at 705–06.
66 Id. at 703–04.
67 Id. at 704.
A third important case involving keyword advertising is *Rescuecom Corp. v. Google, Inc.* 69 This case represents the united stance that the Second Circuit district courts are taking in the keyword advertising debate regarding "use in commerce." 70 In *Rescuecom*, the plaintiff, a computer services franchising company, sued Google for allowing competitors to bid on Rescuecom’s trademark as a keyword and recommending the plaintiff’s trademark as a potential keyword to make the competitors’ advertising more successful. 71 The U.S. District Court for the Northern District of New York granted Google’s motion to dismiss all counts of the complaint filed by Rescuecom. 72 The court held that the alleged sale of Rescuecom’s mark to the plaintiff’s competitors through Google’s keyword advertising program was not actionable because it did not qualify under the the Lanham Act as a “use” of the trademark. 73 The court found that the use requirement was not met because “there [was] no allegation that defendant places plaintiff’s trademark on any goods, containers, displays, or advertisements, or that its internal use is visible to the public.” 74

F. UTAH ACT

In response to the above cases and the abundance of other ongoing, conflicting case law on the topic of keyword advertising, Utah decided to pass its own law dealing with the topic of keyword advertising. 75 On March 19, 2007, the Utah legislature passed a law, known as the Trademark Protection Act, which restricted the use and purchase of trademarks as keywords. 76 Utah was the first state to pass such legislation. 77 The Utah Act created a new kind of intellectual property right known as the “electronic registration mark.” 78 The Utah Act applied to any term that was used in connection with a business and included existing trademarks and service marks, regardless of whether or not they are registered with the federal government or

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72 *Id.* at 404.
73 *Id.* at 403.
74 *Id.*
75 Trademark Protection Act, S.B. 236, 2007 Gen. Sess., 2007 Utah Laws 365 (codified in scattered sections of Title 70, ch. 3a).
77 *Id.*
78 UTAH CODE ANN. § 70-3a-103(1)(e) (Supp. 2007).
with any state. Any of these types of terms could be registered as electronic registration marks, provided the terms were used in connection with goods, services, or advertising in the state of Utah.

By paying an annual fee, a company or a person could register both new words, terms, or names, as well as existing trademarks. After a trademark owner registered its trademark as an electronic registration mark, search engines were prohibited from selling the mark to advertisers to generate search results that would trigger advertising that was either: (1) "of the same class" or (2) "likely to cause confusion between the business, goods, or service of the registrant of the electronic registration mark and the business, goods, or service advertised." The law required the registrations to be updated annually.

The law was only applicable to situations when the Internet user viewing the ad, the advertiser, or the advertisement provider was located in Utah. The holder of the electronic registration mark could bring claims against both the search engine and the advertiser if there was an improper use of the mark. The remedies available for a violation of the Utah Act included injunctive relief and damages.

G. DORMANT COMMERCE CLAUSE

As discussed above, Utah attempted to fix the keyword advertising trademark infringement problem by passing its own act restricting keyword advertising. In order to analyze the constitutionality of the Utah Act under the Dormant Commerce Clause, it is important to understand the framework of Dormant Commerce Clause analysis.

There is no explicit language in the Constitution outlining the Dormant Commerce Clause (DCC). The idea of the Dormant Commerce Clause has been created by courts based on "the negative implications of the grant of power to Congress to regulate interstate commerce." Congress's power to regulate

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79 Id. § 70-3a-103(1)(e)-(f).
80 Id. § 70-3a-103(2)(a)-(b).
81 Id. § 70-3a-203(1).
83 See § 70-3a-402(1)(c)(i)-(ii).
84 Id. § 70-3a-305(a)-(b).
85 Id. § 70-3a-402(3)(a)-(b).
86 Id.
87 Id. § 70-3a-404; see also Parry, supra note 82 (noting that damages might include all profits made from the illegal advertising or the lost profits of the mark's registrant).
88 KATHLEEN M. SULLIVAN & GERALD GUNThER, CONSTITUTIONAL LAW 175 (16th ed. 2007).
89 Id.
interstate commerce is found in Article I of the Constitution, which states “[t]he Congress shall have Power . . . To regulate Commerce with foreign Nations, and among the several States . . . .” From this affirmative grant of power to Congress, the Court “has read judicially enforceable limits on state legislation when Congress has not acted.” To support the notion of the Dormant Commerce Clause, the Court has looked to history and the structure of the federal government. Based on the notion of the Dormant Commerce Clause, the Court has decided that some forms of protectionist state legislation are invalid. As a result of the Dormant Commerce Clause, states “generally may not interfere with interstate commerce by discriminating against it, the persons engaged therein, or the citizens of, or property originating in, another state.”

During the nineteenth century, the Court focused on several different categorical distinctions in order to decide when a state had overreached its power and violated the Dormant Commerce Clause. However, today those distinctions are no longer used by the Court in its Dormant Commerce Clause analysis. Today, the Court has three modern categories of Dormant Commerce Clause analysis. The first category consists of state laws that facially discriminate against out-of-state commerce. If a state law is facially discriminatory, then the Court has generally subjected the law to a “virtually per se rule of invalidity, and will virtually always be struck down.” The best example of a state law that facially discriminates against out-of-state commerce is a law that “overtly blocks the flow of interstate commerce at a State's borders.” Because of the Court’s

90 U.S. CONST. art. I, § 8, cl. 3.
91 SULLIVAN & GUNTHER, supra note 88, at 175.
92 Id.
93 Id.
95 See Gibbons v. Ogden, 22 U.S. (9 Wheat.) 1 (1824) (establishing in dicta the distinctions between state police powers, which allowed the state to enact legislation regarding inspection laws, quarantine laws, and health laws, and Congress’s commerce power, which allowed Congress to enact legislation regulating interstate commerce); Cooley v. Board of Wardens, 53 U.S. (12 How.) 299 (1851) (developing the distinction between subjects that are “of such a nature” that they require a national rule, which would result in a “single uniform rule,” and subjects that are of a local concern and require only a local rule, which would allow local necessities that greatly vary from state to state to be addressed); Smith v. Alabama, 124 U.S. 465 (1888) (creating the distinction between the burdens on interstate commerce that were merely indirect and the burdens on interstate commerce that had a direct impact).
96 SULLIVAN & GUNTHER, supra note 88, at 183.
97 Id.
98 Id. at 183–84.
99 Id. at 184.
100 Philadelphia v. New Jersey, 437 U.S. 617 (1978) (describing Welton v. Missouri, 91 U.S. 275 (1875), where the Court invalidated a Missouri license requirement because it was facially
essentially blanket ban on laws that facially discriminate against interstate commerce, it is rare that states attempt to pass such legislation.\footnote{SULLIVAN & GUNTER, supra note 88, at 206.}

The second category of modern Dormant Commerce Clause analysis involves state laws that are facially neutral but, when applied, act to directly regulate or discriminate against interstate commerce, or favor local economic interests to the detriment of out-of-state competitors.\footnote{Id. See Hunt v. Wash. State Apple Adver. Comm'n, 432 U.S. 333, 350 (1977) (holding a state law invalid that prohibited closed containers of apples to bear a "grade other than the applicable U.S. grade or standard" when shipped into the state because the law had "the practical effect of not only burdening interstate sales of [ ] apples, but also discriminating against [the other states]").} The court has also found this category of laws to be per se invalid under the Dormant Commerce Clause.\footnote{See id. at 581 (discussing that the Court had previously examined a New York statute that had "extraterritorial effects").} The Court has labeled the state laws that directly regulate interstate commerce as "extraterritoriality" laws,\footnote{SULLIVAN & GUNTER, supra note 88, at 184.} while laws that favor local interests to the detriment of out-of-state interests are labeled as "protectionist" laws.\footnote{Pike v. Bruce Church, Inc., 397 U.S. 137 (1970) (invalidating an Arizona statute that required all cantaloupes grown in Arizona to advertise the state of origin on the cantaloupes' packages).} However, because the discrimination is not explicitly stated, the discriminatory purpose is often hard to detect based merely on the text and history of the statute.\footnote{See id. (stating that these types of laws are generally struck down without further inquiry).} For these reasons, the Court has looked beyond the text and history of the statute and attempted to detect discriminatory protectionist and extraterritoriality laws by evaluating the effects of the state rule.\footnote{Id. See id. at 581 (discussing that the Court had previously examined a New York statute that had "extraterritorial effects").}

The third category of Dormant Commerce Clause analysis involves state laws that are facially neutral but have a disproportionate adverse effect on interstate commerce based on the court's application of a balancing approach.\footnote{Pike v. Bruce Church, Inc., 397 U.S. 137 (1970) (invalidating an Arizona statute that required all cantaloupes grown in Arizona to advertise the state of origin on the cantaloupes' packages).} The balancing approach that is used in this category was developed in the case \textit{Pike v. Bruce Church, Inc.}\footnote{Supra note 88, at 206.} The balancing test was quoted in the case as:

\begin{quote}
Where the statute regulates even-handedly to effectuate a legitimate local public interest, and its effects on interstate commerce are only incidental, it will be upheld unless the burden imposed on such commerce is clearly excessive in relation to the putative local benefits. [If] a legitimate local purpose is found, then the question becomes one of degree. And 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.\textsuperscript{110}

Generally when applying the balancing test, the Court has been deferential to state legislatures that pass regulations having an effect on public health and safety.\textsuperscript{111} However, as the Court noted in \textit{Kassel v. Consolidated Freightways Corp.}, "[r]egulations designed for [such a] salutary purpose nevertheless may further the purpose so marginally, and interfere with commerce so substantially, as to be invalid under the Commerce Clause."\textsuperscript{112}

The court has developed several exceptions to the Dormant Commerce Clause.\textsuperscript{113} One of these exceptions involves quarantine laws.\textsuperscript{114} Although a quarantine law may be facially discriminatory against outsiders, the Court has upheld such laws because they provide special health-protective measures.\textsuperscript{115} The Court has also carved out an exception to the Dormant Commerce Clause when the state is acting not as a "regulator" but as a "market participant."\textsuperscript{116} When the state is in the role of market participant, the state may discriminate in favor of its residents.\textsuperscript{117} In \textit{Hughes v. Alexandria Scrap}, one of the first cases to discuss the idea of the market participant exception, the court stated that "[n]othing in the purposes animating the Commerce Clause prohibits a State, in the absence of congressional action, from participating in the market and exercising the right to favor its own citizens over others."\textsuperscript{118}

\textsuperscript{110}Id. at 142 (citation omitted).
\textsuperscript{111}See \textit{SULLIVAN & GUNTHER}, supra note 88, at 219 (citing cases in which Court deferred to state's interest in safety of transportation).
\textsuperscript{113}See \textit{SULLIVAN & GUNTHER}, supra note 88, at 191.
\textsuperscript{114}Id. Quarantine laws are special laws aimed at preventing the transportation of noxious articles, such as diseased livestock, because the movement of such articles poses risks of "contagion and other evils." Philadelphia v. New Jersey, 437 U.S. 617, 628–29 (1978).
\textsuperscript{115}See \textit{Philadelphia}, 437 U.S. at 628 (stating that "it is true that certain quarantine laws have not been considered forbidden protectionist measures, even though they were directed against out-of-state commerce").
\textsuperscript{116}15 C.J.S. Commerce § 51 (2002). For example, in \textit{Reeves, Inc. v. State}, the Court found no Dormant Commerce Clause violation in a South Dakota policy of selling cement from a state-owned plant solely to South Dakota residents. 447 U.S. 429 (1980). The policy facially discriminated against out-of-state residents; however, since South Dakota was participating in the market as a manufacturer, not as a regulator, the Court recognized the state's ability to freely choose the parties with whom it would deal. Id. at 440.
\textsuperscript{117}See \textit{Reeves, Inc.}, 447 U.S. at 438–39 ("[W]hen acting as proprietors, States should similarly shave existing freedoms from . . . the inherent limits of the Commerce Clause.").
H. INTERNET-ISSUE-RELATED CASES INVOLVING DORMANT COMMERCE CLAUSE ANALYSIS

Because no other state has attempted to pass a similar trademark protection act and the Utah Act was never officially implemented and therefore never challenged in court, it is necessary to look at other analogous cases involving state statutes that attempted to regulate the Internet. The first set of cases discusses state statutes that attempted to regulate Internet communications involving sexually explicit materials with minors. The next set of cases involves state statutes that sought to regulate Internet-related "spam." The final group of cases discusses state statutes enacted for the purpose of regulating business-related Internet communications.119

1. Statutes Regulating Internet-based Communication of Sexually Explicit Materials to Minors. The court in American Libraries Ass'n v. Pataki20 held that a New York penal law was unconstitutional under the Dormant Commerce Clause because it unduly burdened interstate commerce.21 The law made it a crime to use electronic mail to send sexually explicit materials to minors.22 Nothing in the statute stated that the restricted communication must occur entirely within the state of New York.23

After an in-depth discussion of the borderless nature of the Internet,24 the court concluded that the statute reached conduct that occurred beyond the state line of New York; therefore the law needed to be analyzed under traditional


120 Am. Libraries Ass'n v. Pataki, 969 F. Supp. 160 (S.D.N.Y. 1997). The plaintiffs, all of whom used the Internet inside and outside the state of New York for a broad range of communication purposes, were a group that consisted of libraries, book and magazine publishers, electronic and print booksellers, software sellers, Internet service providers, artists, the American Civil Liberties Union, and others that banded together to protect the right of freedom of speech. Id at 161–62.

121 Id . at 167.

122 See id. at 163 (stating that the statute prohibited the use of a computer for communication with a minor that depicted "actual or simulated nudity, sexual conduct or sado-masochistic abuse, and which [was] harmful to minors" and applied to "any computer communication system allowing the input, output, examination or transfer, of computer data or computer programs from one computer to another").

123 See id. at 169–70 (stating that the actual text of the Act did not limit the criminal communication to that occurring solely within the state of New York and that the legislative history of the Act clearly showed that the legislators understood and intended for the Act to extend to communication between residents of New York and persons located outside the state).

124 See id. at 170 (describing the Internet as being "wholly insensitive to geographic distinctions").
Dormant Commerce Clause principles. The court initially examined the New York law under the second category of the Dormant Commerce Clause analysis—laws that directly discriminate against out-of-state commerce. The court stated that due to the unique nature of the Internet, it was impossible to limit the effect of the New York law to those Internet communications taking place solely within the state of New York. The court found that New York had "deliberately imposed its legislation on the Internet and, by doing so, projected its law into other states whose citizens use the Net." Consequently, the court found the New York law to be a per se violation of the Dormant Commerce Clause.

The court extended its analysis by also examining the New York law under the Pike balancing test. With respect to the Pike balancing test, the court weighed the local benefits of the statute against the effects on interstate commerce. The court felt the state interest in protecting children from pornography was a "quintessentially legitimate state objective." However, when the court looked to the local benefits to be gained from the New York law, the court found the benefits not overwhelming. The court reasoned that the law would not apply to communications that originated outside the United States, and thus children could still potentially be exposed to pornography. Also weighing against the local benefits of the statute was the fact that New York already had in place several other statutes that were designed to protect children from obscenity and child pornography. Therefore, the court concluded that the only local benefits to be gained from the statute were limited to those few rare cases that did not qualify under any of the other relevant statutes. The court further found that New York would have practical problems prosecuting parties from out of state that had violated the law because of jurisdictional issues.

125 Id. at 173.
126 Id. at 169.
127 See supra notes 102–03 and accompanying text.
128 Am. Libraries Ass'n, 969 F. Supp. at 177.
129 Id.
130 Id.
131 Id.
132 Id.
133 Id.
134 Id. at 178.
135 See id. (stating that almost half of Internet communications stem from locations outside the United States).
136 See id. at 179 (stating that "the State is able to protect children through vigorous enforcement of the existing laws criminalizing obscenity and child pornography").
137 Id.
138 Id. at 178.
While finding the local benefits of the New York statute to be small, the court found the burdens on interstate commerce to be clearly excessive. The court felt the New York law would have a “chilling effect” because Internet users were likely to reduce their activities greatly in order to avoid engaging in actions prohibited under the law. Also, the court argued that this effect would greatly exceed the actual number of cases that were prosecuted under the New York law. The court also discussed how the law was likely to have a broad reach and could possibly even prohibit the artwork that museums or academic institutions post on the Internet because such images could be found harmful to minors. The court argued that an impossible choice ensued when Internet users wanting to communicate images that could possibly fall within the confines of the Act had to either self-censor or face the potential of prosecution, thus an unjust restriction on interstate commerce was created. Therefore, the court found that the New York law placed an excessive burden on interstate commerce which was not justifiable because of the limited local benefits that would result from it. The court’s opinion noted that it felt that national, uniform regulation, as opposed to state-by-state regulation, was needed to govern the Internet.

In American Booksellers Foundation v. Dean, the court found a per se violation of the Dormant Commerce Clause. The Vermont statute at issue in the case prohibited Internet communications with minors that involved distribution of sexually explicit materials that were deemed harmful to minors. The challengers of the statute were out-of-state operators of Internet websites that provided sexual health advice. The court found that the practical effect of the statute was that it projected Vermont law into other states, thus directly regulating commerce

139 Id. at 179.
140 Id.
141 Id.
142 See id. at 180 (discussing that many famous nude artworks by Botticelli, Manet, Matisse, and Cezanne can be found on the Internet).
143 Id.
144 Id. at 181.
145 See id. (stating that “inconsistent regulatory schemes could paralyze the development of the Internet altogether”).
146 Am. Booksellers Found. v. Dean, 342 F.3d 96 (2d Cir. 2003).
147 Id.
148 Id. at 99.
149 See id. at 98–99. One plaintiff, a Delaware corporation whose principal place of business was in Connecticut, provided a website that consisted of sexually-related information. Id. The second plaintiff was a local Vermont chapter of the ACLU, and although the local chapter’s website did not contain sex-related materials, the national organization’s website did include such topics as birth control, safe sex, and sex education. Id. at 99.
within those states. Therefore, the statute was a per se violation of the Dormant Commerce Clause because, although the statute on its face did not apply to Internet website operators located outside the state of Vermont that were disseminating information via the Internet, the statute’s effect was to directly regulate commerce within other states.

In contrast to the above cases, the court in People v. Hsu held a California penal law involving the Internet to be constitutional under the Dormant Commerce Clause. The statute provided that any person who knowingly distributed “harmful matter” through the Internet to a minor with the purpose of “appealing” to and “seducing” the minor would be criminally liable. Like the court in American Libraries Ass’n, this court applied the Pike balancing test in analyzing whether the statute was constitutional. However, this court’s analysis under the Pike test reached a different result from that in American Libraries Ass’n. The California court found that the local state interest in protecting minors from harm outweighed any incidental effect the statute might have on interstate commerce.

The defendant in Hsu relied heavily on the arguments from American Libraries Ass’n; however, the California court rejected the argument that the enforcement of the statute would cause inconsistent regulations on Internet users. Instead the court found that the knowledge and intent elements of the statute narrowly

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150 See id. at 103 (stating that when a person in Connecticut posts materials on the Internet intending for the materials to be seen by other people in Connecticut, the person must also consider that someone from Vermont could view the material, thus meaning that persons located outside of Vermont must comply with the statute or face potential prosecution by Vermont).

151 Id. at 104.

152 People v. Hsu, 82 Cal. App. 4th 976 (1st Dist. 2000). This case was the result of an undercover operation that involved the arrest of a California man who sent sexually suggestive photos to a California boy he knew to be fourteen years old, offered to participate in sexual acts with the boy, and encouraged the boy to come to his house. Id. at 981.

153 Id. at 985.

154 See id. at 982 (defining harmful matter as matter that “appeals to the prurient interest” and “depicts or describes in a patently offensive way sexual conduct” and “lacks serious literary, artistic, political, or scientific value for minors”).

155 Id.

156 Id. at 983.

157 See id. at 984. The court stated that it is a compelling state interest to protect minors from harm in general, so it is an especially compelling interest to protect them from being seduced to engage in sexual activities. Id. However, the court found it nearly impossible to imagine “any legitimate commerce that would be burdened by penalizing the transmission of harmful sexual material to known minors in order to seduce them.” Id.

158 See supra notes 120–23 and accompanying text.

159 Hsu, 82 Cal. App. 4th at 984–85.
restricted the scope of the statute’s effect on Internet communications. Thus the court concluded that the limiting language of the statute prevented Internet users from being subjected to inconsistent regulations and therefore the statute did not burden interstate commerce.

The challengers of the statute further argued that it regulated conduct that occurred outside the state of California, thus qualifying as a per se violation of the Dormant Commerce Clause. However, the court also rejected this argument. The court examined the entire California penal scheme and found that only criminal acts that occur wholly or partially within the state of California can be prosecuted under the statute. The court reasoned that because the statute did not refer to any specific place of performance, the legislature did not intend for the law to regulate activity occurring outside the state. Because the statute did not regulate conduct outside the state, it did not burden interstate commerce.

2. Statutes Regulating Spam. Spam is “unsolicited commercial bulk electronic mail.” Spam is considered a nuisance by many users of the Internet who have electronic mail service. As a result of spam, many Internet users find their inboxes overcrowded with emails regarding “pornography, services or products of dubious legality, or outright scams such as work at home opportunities, chain letters, credit repair, and loan grants.” Internet users, especially companies that use email services as their employees’ main communication tool, complain of the time associated with deleting spam, the likelihood of unintentionally deleting legitimate emails, and the extra burden the mass amounts of spam places on Internet servers. In response to these complaints, state legislatures across the nation passed a variety of statutes aimed at regulating spam. It is important to note that Congress took notice of these various state statutes attempting to

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160 Id.
161 Id.
162 Id. at 985.
163 Id.
164 Id.
165 See id. (noting that statutes are to be construed with respect to the general notion that a state ordinarily does not impose penalties under a statute for acts that take place outside its borders).
166 Id.
169 Zitter, supra note 167.
170 See id. (stating that “e-mail users have to spend precious time sorting out the few legitimate messages from a sea of junk”); Ochoa, supra note 168, at 459 (noting the costs spam imposes on infrastructure).
171 Ochoa, supra note 168, at 459–60.
regulate spam and responded with the Can-Spam Act of 2003,\footnote{172} which established national standards for the sending of commercial email.\footnote{173}

In \textit{Ferguson v. Friendfinders, Inc.},\footnote{174} the court held that a California Business and Professions Code law did not violate the Dormant Commerce Clause.\footnote{175} The law regulated the transmission of unsolicited commercial emails by persons or entities doing business in California.\footnote{176} The statute applied to unsolicited documents that were received by California residents through an “electronic mail service provider’s”\footnote{177} service or equipment located in [the] state.\footnote{178} The plaintiff in this case, a California resident, complained that the defendants engaged in the practice of sending unsolicited emails that failed to meet the requirements set forth in the statute.\footnote{179}

The challengers of the law argued that because the Internet does not have territorial boundaries, states should not be able to regulate it.\footnote{180} However, the court rejected this argument. The court found that the statute did not regulate the Internet in general but only applied to email users engaged in sending unsolicited email to California residents using equipment located in California.\footnote{181}

Having found no per se violation of the Dormant Commerce Clause, the court then applied the \textit{Pike} balancing test.\footnote{182} The court thoroughly discussed the costs associated with eliminating unsolicited emails and found that recipients of unsolicited emails incur substantial costs due to the time required to sort, read, and discard the unsolicited materials.\footnote{183} The court concluded that the state interest of preventing the expense of deceptive, unsolicited email from falling on the state’s citizens was a “legitimate local purpose.”\footnote{184} In its examination of the

\begin{footnotesize}
\footnote{172} 15 U.S.C. §§ 7701-7713. \\
\footnote{173} Zitter, supra note 167. \\
\footnote{174} Ferguson v. Friendfinders, Inc., 94 Cal. App. 4th 1255 (1st Dist. 2002). \\
\footnote{175} Id. at 1269. \\
\footnote{176} Id. at 1258. The law required that: persons sending unsolicited emails must provide a toll-free number or valid return email address for recipients to notify the sender to stop sending further unsolicited materials; the sender must inform the recipient of the opportunity to use the toll-free number or email address to stop the unsolicited materials; the sender must not send further unsolicited materials if the recipient requests such; and the subject line of the emails must contain “ADV:” as the first four characters or “ADV:ADLT” for materials that contain adult material. \textit{Id.} \\
\footnote{177} See \textit{id.} (defining this term as a business or organization qualified to conduct business in the state of California that provides entities the capabilities needed to send or receive electronic mail). \\
\footnote{178} \textit{Id.} \\
\footnote{179} \textit{Id.} at 1259. \\
\footnote{180} \textit{Id.} at 1260. \\
\footnote{181} \textit{Id.} at 1263. The court stated that it did not accept the holding that any State regulation aimed at activities on the Internet violated the Dormant Commerce Clause. \textit{Id.} \\
\footnote{182} \textit{Id.} at 1262. \\
\footnote{183} \textit{Id.} at 1267-68. \\
\footnote{184} \textit{Id.} at 1268.
\end{footnotesize}
burdens the statute placed on interstate commerce, the court stated that the statute actually facilitated commerce because it helped eliminate fraud and deception. In addition, the court found that the time required to place letters in the subject lines of emails was “appreciably zero,” thus not burdening senders of unsolicited email or interstate commerce. Consequently, the court concluded that the local purpose of the statute outweighed the minimal burden the statute placed on interstate commerce.

Another case to find an anti-spam state statute constitutional under the Dormant Commerce Clause was *MaryCLE, LLC v. First Choice Internet, Inc.* The statute, the Maryland Commercial Electronic Mail Act (MCEMA), required commercial email that was sent to email addresses held by Maryland residents or sent using computers located in Maryland to be truthful and non-deceptive. The court held that the act did not violate the Dormant Commerce Clause as applied to an Internet marketing company located outside the state of Maryland that had engaged in the conduct of sending unsolicited emails to a Maryland resident.

The court reasoned that the act was facially neutral because it applied to all email advertisers equally, regardless of whether they were located in Maryland or outside the state. The court noted that the statute merely regulated emails that were sent to Maryland residents or from equipment located in Maryland. Thus the court reasoned that the statute did not thrust Maryland’s laws into other states because email advertisers were not restrained with regard to sending emails to other states.

Finding the law facially neutral, the court next proceeded to apply the *Pike* balancing test. The court found the local benefits of the statute were the reduction of the financial and social burdens imposed by unsolicited commercial email. The court also focused on the benefit of preventing consumers from falling victim to fraudulent schemes due to false and misleading emails. With regard to the burden imposed on interstate commerce, the court found the burden was merely to disseminate truthful, non-deceptive emails, which it

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185 *Id.* at 1269.
186 *Id.*
187 *Id.*
189 *Id.* at 827, 835.
190 *Id.* at 840.
191 *See id.* at 842 (stating that the statute was not discriminatory towards out-of-state commercial email senders).
192 *Id.* at 843.
193 *Id.* at 835–36. The court noted that a recent University of Maryland study found the costs associated with deleting unwanted emails resulted in annual lost productivity of nearly $22 billion. *Id.*
194 *Id.* at 836.
concluded was not a great burden to meet. The court noted that the focus was not determining the location of the email recipients because this burden focused on noncompliance with the statute, which was contrary to the analysis of the Pike balancing test. The court concluded that the burden imposed on interstate commerce was not clearly excessive when viewed in light of the local benefits.

3. Other Cases Evaluating State-level Regulation of Business-related Internet Communications. In Consolidated Cigar Corp. v. Reilly, the First Circuit held a portion of the Massachusetts Regulations Code violated the Dormant Commerce Clause. The regulation made it unlawful “for any persons to advertise or cause to be advertised within Massachusetts any cigar or little cigar unless the advertising bears one of the warning statements . . . .” The court stated that all parties agreed that the statute applied not only to advertisements in magazines sold in Massachusetts but also to advertisements that appeared on the Internet if viewed from a computer in Massachusetts.

The court also applied the Pike balancing test and found that the state interest of ensuring that consumers were informed of the health risks related to the use of cigars was undoubtedly a legitimate local benefit. The court nevertheless determined that the burden on interstate commerce was clearly excessive. With respect to the issue surrounding advertisements on the Internet, the court felt the language of the statute would require all advertising on the Internet that could possibly be viewed from a computer in Massachusetts to carry the required Massachusetts warning. Because of this effect, the court felt the statute imposed a great burden on interstate commerce. It is important to note that in this case the court held the statute imposed a clearly excessive burden on interstate commerce even though that burden could potentially be merely incidental.

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195 Id. at 835.
196 See id. at 841 (stating that the United States Supreme Court developed the Pike balancing test to assess the cost associated with complying with a challenged statute).
197 Id. at 841–42.
199 Id. at 58.
200 Id. at 55.
201 Id.
202 Id. at 56.
203 Id.
204 Id.
205 Id.
206 See id. (stating that “even accepting the Attorney General’s further position that any effect on interstate commerce is only incidental, the resulting burden on interstate commerce is clearly excessive, even in relation to [Massachusetts’] strong interest in informing consumers of health
However, a different Dormant Commerce Clause result was reached in *Ford Motor Co. v. Texas Dept.' of Transportation*. In this case, the Fifth Circuit found that a Texas law, which prohibited auto manufacturers from any form of marketing and sales of automobiles inside the state of Texas, did not violate the Dormant Commerce Clause. The plaintiffs in the case argued that the statute violated the Dormant Commerce Clause because the statute had a discriminatory effect on out-of-state interests. However, the court found this argument to be unpersuasive.

The court stated that the United States Supreme Court's jurisprudence with respect to out-of-state discrimination finds discriminatory practices only when similarly situated in-state and out-of-state interests are treated differently. The court argued that the statute did not discriminate against similarly situated automobile dealers; rather the statute discriminated against all automobile manufacturers regardless of their domicile and whether they conducted business via the Internet. Thus, the court found that the statute did not protect Texas automobile dealers from out-of-state automobile dealers; it protected Texas automobile dealers from competition from manufacturers in general.

The above cases illustrate the divergence of opinion on how statutes attempting to regulate the Internet should be classified with regard to an undue burden on interstate commerce. Some courts reason that statutes regulating the Internet will always impose an undue burden on interstate commerce merely because of the borderless nature of the Internet. These courts feel the solution is national (rather than state-by-state) regulation. Nevertheless, there are other courts that feel Internet regulations can be upheld under a Dormant Commerce risks*.

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207 *Ford Motor Co. v. Texas Dept.' of Transp.*, 264 F.3d 493 (5th Cir. 2001).
208 See id. at 498 (stating that the statute made it unlawful to engage in the business of an automobile dealership without first obtaining a license; however, the statute prohibited manufacturers from being eligible to receive a license for any activities related to the operation of a dealership).
209 Id.
210 Id. at 499.
211 Id. *passim*.
212 Id. at 500.
213 See id. at 502 (domicile), 505 (Internet).
214 Id. at 502.
215 See, *e.g.*, Am. Libraries Ass'n v. Pataki, 969 F. Supp. 160 (S.D.N.Y. 1997); *supra* 120 and accompanying text.
216 See, *e.g.*, Am. Libraries Ass'n v. Pataki, 969 F. Supp. 160 (S.D.N.Y. 1997); *supra* 120 and accompanying text.
Clause analysis because the effects of the varying state statutes only reach within the specific states enacting the statutes.\textsuperscript{217}

The courts are also divided in their approach to weighing local interests against the burdens placed on interstate commerce. The above cases demonstrate that some courts are willing to find an undue burden on interstate commerce, even though the statute would further legitimate state interests.\textsuperscript{218} However, the cases also show that other courts feel that local interests can be strong enough to outweigh any potential burden on interstate commerce.\textsuperscript{219} In all, these cases represent a heavily divided judiciary as to the topic of Internet regulations and the effect of the Dormant Commerce Clause.

III. ANALYSIS

By using the cases discussed in Part II.H as guidelines, this Part of the Note will analyze the Utah Act under the Dormant Commerce Clause jurisprudence. The statutes from the above cases will be compared and contrasted with the Utah Act to determine how a court would have likely ruled on the constitutionality of the Utah Act. The constitutional jurisprudence utilized includes the three modern categories of Dormant Commerce Clause analysis discussed above.\textsuperscript{220} This Part will assess the Utah Act with regard to each of the three categories to determine if the Utah Act would have operated in such a manner as to place an undue burden on interstate commerce.

A. FIRST CATEGORY OF DCC ANALYSIS: STATE LAWS THAT FACIALLY DISCRIMINATE AGAINST OUT-OF-STATE COMMERCE

State statutes that facially discriminate against out-of-state commerce are per se invalid under the Dormant Commerce Clause.\textsuperscript{221} Because facially discriminatory laws are nearly always struck down, states rarely enact these types of statutes.\textsuperscript{222} Consequently, none of the above cases involved facially discriminatory statutes.\textsuperscript{223} However, this issue was discussed in American
Booksellers Foundation. In that case, when examining the statute, which sought to regulate Internet communications with minors involving sexually explicit materials, the court found the law was not facially discriminatory because the statute on its face did not apply to those individuals located outside the state. Similarly, the Utah Act, on its face, did not attempt to regulate individuals outside the state. Section 70-3a-402(3) provided that:

For a violation of Subsection (1)(c), the person whose business, goods, or service is advertised, and the person who sells or displays the advertisement are liable if: (a) the advertisement is at any time displayed in the state, or (b) the advertiser or person selling the advertisement is located in the state.

This section demonstrates that the Utah Act, on its face, limited the scope of its reach to only those advertisers located in the state or advertisements displayed in the state. Because the Utah Act facially attempted to limit its scope to apply only within the state boundaries of Utah, a court would have likely found, just as in American Booksellers Foundation, that the statute was not facially discriminatory against out-of-state commerce. Thus, the Utah Act would have survived the first prong of Dormant Commerce Clause analysis.

224 See supra notes 144–49 and accompanying text.
225 See supra note 151 and accompanying text.
226 This section of analysis involving only the first category of DCC assumes arguendo that search engines and other advertising entities on the Internet can geographically limit the placement of ads.
227 Section 70-3a-402(1)(c) stated any person is liable in a civil action brought by the registrant . . . if that person: uses an electronic registration mark to cause the delivery or display of an advertisement for a business, goods, or a service: (i) of the same class, as defined in Section 70-3a-308, other than the business, goods, or service of the registrant of the electronic registration mark; or (ii) if that advertisement is likely to cause confusion between the business, goods, or service of the registrant of the electronic registration mark and the business, goods, or service advertised.

UTAH CODE ANN. § 70-3a-402(1)(c) (Supp. 2007).
228 Id. § 70-3a-402(3) (emphasis added).
229 Id.
B. SECOND CATEGORY OF DCC ANALYSIS: STATE LAWS THAT ARE FACIALLY NEUTRAL BUT DIRECTLY REGULATE OR DISCRIMINATE AGAINST INTERSTATE COMMERCE OR FAVOR LOCAL ECONOMIC INTERESTS TO THE DETRIMENT OF OUT-OF-STATE COMPETITORS

As Part III.A determined that the Utah Act was not facially discriminatory, it follows that the Utah Act would have been labeled facially neutral. Therefore, it must be determined whether the Utah Act favored local economic interests to the detriment of out-of-state competitors or directly regulated or discriminated against interstate commerce. As noted above in Part II.G, courts often look to the effects of the state statute to determine whether the statute discriminates against out-of-state competitors or interstate commerce.

Because the Utah Act was never officially implemented, the effects of the statute are mere speculation. However, unlike the Ford Motor Co. case, in which the Fifth Circuit found that under the statute at issue similarly situated in-state and out-of-state automobile dealers were treated equally, the Utah Act would not have resulted in equal treatment of similarly situated in-state and out-of-state interests. The likely effects of the statute would have tended to favor local economic interests to the detriment of out-of-state competitors. The Utah Act allowed only those marks that were in use in the state of Utah to be registered as an electronic registration mark. Therefore, it was possible that local businesses would have been able to register their marks, while out-of-state competitors would have been left with no protection.

This left the door open for an out-of-state competitor (C1) to buy another out-of-state competitor’s (C2) trademark as a keyword. This scenario would have then allowed C1 to advertise with C2’s trademark as a keyword in Utah, since the Utah Act would not have applied either to C1 or C2 because they are both out-of-state businesses. Neither C1 nor C2 would have been able to register their marks, and thus the Utah Act had no bearing on their situation. But C1 would not have been allowed to buy the mark of a Utah competitor (U1) to advertise within the state of Utah if U1 had registered its mark as an electronic registration mark. As a result, U1 would have been uninhibited by competitor’s ads when reaching Internet users in Utah, while C2’s Internet advertising in Utah would have been limited because of C1’s purchase of C2’s mark. This scenario embodies the type of complicated situation that would have occurred if the Utah Act had stood and been implemented. This example shows that it is likely the Utah Act would have failed under the second category of Dormant Commerce Clause analysis because

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230 See supra note 4 and accompanying text.
231 See supra note 213 and accompanying text.
232 See supra note 80 and accompanying text.
the Utah Act would have most likely been viewed as favoring local economic interests to the detriment of out-of-state competitors.

In addition, there is another strand under the second category of Dormant Commerce Clause analysis that needs to be addressed. States also may not directly regulate or discriminate against interstate commerce. This section of analysis creates the dividing point for many courts because of a divergence in opinion regarding whether the nature of the Internet automatically leads to a conclusion that Internet-based regulations directly regulate interstate commerce. In People v. Hsu, the court found that the statute aimed at Internet communications with minors involving sexually explicit materials only regulated conduct that occurred within the state of California. However, the court did not discuss the impact of limiting the statute to apply only to those acts occurring in California. Limiting the statute to acts only in California would mean that individuals located outside the state could still send sexually explicit materials to California minors without being prosecuted. Notwithstanding that the state interest in protecting minors would be dampened, it would still be plausible only to prosecute those individuals in California that sent sexually explicit materials to minors within the state. Conversely, the court in American Booksellers Foundation reasoned that the statute at issue in that case would in effect apply to Internet website operators located outside the state of Vermont that were involved with disseminating information via the Internet, since a person outside Vermont cannot prevent people within Vermont from looking at material posted on a website.

The effect of the Utah Act would have been most similar to the effect of the statute in the American Booksellers Foundation case. The Utah Act provided that marks registered as electronic marks could not be purchased by third parties as keywords for advertising purposes. Although the statute attempted to limit its scope to apply only within the state of Utah, such a limitation was not feasible like it was in People v. Hsu, because the statute provided for liability if an advertisement of a third party containing the electronic registration mark was at any time displayed in the state. This implied that out-of-state search engines and advertising entities would have had to ensure that either they did not sell any of the Utah electronic registration marks or that they developed a method to limit the geographical scope of advertisements so that any electronic registration mark that was bought by a third party for advertising outside the state of Utah was not displayed to any Utah Internet user. Either way, the Utah Act would have directly

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233 See supra note 102 and accompanying text.
234 See supra note 164 and accompanying text.
235 See supra note 151 and accompanying text.
236 UTAH CODE ANN. § 70-3a-402(1)(c), (3)(a) (Supp. 2007).
regulated interstate commerce because it would have had an effect on out-of-state individuals. Therefore, just as the court in American Booksellers Foundation concluded, a court would have likely found that the Utah Act's effect was to directly regulate commerce within other states.

C. THIRD CATEGORY OF DCC ANALYSIS: STATE LAWS THAT ARE FACIALLY NEUTRAL BUT HAVE A DISPROPORTIONATE ADVERSE EFFECT ON INTERSTATE COMMERCE WHEN A BALANCING TEST IS APPLIED

Most courts appear to apply the Pike balancing test in almost all cases of Dormant Commerce Clause analysis. The cases also demonstrate that there is much conflicting opinion as to whether state Internet regulations unduly burden interstate commerce.

When applying the Pike balancing test, it is important to examine the local public interests that the statute seeks to effectuate. The local interests that the Utah Act attempted to protect were the rights that trademark owners possess in the value of their trademarks. As a result of keyword advertising practices, many trademark owners are having their trademarks exploited and their rights infringed. Unlike the statute at issue in American Libraries Ass'n, there are no other statutes in place in Utah that are designed to deal with the topic of keyword advertising. The court in American Libraries Ass'n concluded that because there were other statutes in place that could deal with the problems related to child pornography, the local benefits of the statute were weakened. Using this reasoning, perhaps a court might have concluded that because Utah has no other statutes in place to deal with the issue of keyword advertising, more weight could have been given to the local interests the Utah Act attempted to further.

When examining the cases that found no Dormant Commerce Clause violation under a Pike balancing test, the trend emerges that the local interests that were held to outweigh the effects on interstate commerce were those of minors.

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237 See supra Part II.H.
238 Compare supra notes 180–81 and accompanying text (interstate commerce not unduly burdened), with supra notes 150–51 and accompanying text (state Internet regulations directly regulate interstate commerce).
239 See supra note 110 and accompanying text.
241 See supra Part II.C.
242 See supra note 136 and accompanying text.
243 See supra note 136 and accompanying text.
and private citizens of the state. Unlike the statute in People v. Hsu, the Utah Act did not attempt to provide protection to minors from harmful sexually explicit materials. Likewise, in contrast to the statute in Ferguson v. Friendfinders, Inc., the Utah Act did not prevent the local harm of expenses from falling on the state’s citizens. Instead, the Utah Act sought to provide protection for those who hold trademark rights.

Typically, those who hold trademark rights are businesses and other large companies who are actually engaged in commerce since the Lanham Act requires a trademark to be at use in commerce to qualify for protection. Unlike minors and state citizens, large companies and businesses often do not require special protection because they are able to provide for themselves. It is plausible that trademark owners could have used the reasoning from MaryCLE, LLC, which found that preventing consumer fraud was an important local interest, to argue that the Utah Act would have helped protect the state citizens from deception that results from keyword advertising. However, this argument could have proven fatal because many courts that are faced with likelihood of confusion claims in keyword advertising are finding that keyword advertising does not result in confusion on the part of Internet users.

A case that severely hindered a finding of a legitimate local interest under the Utah Act is Consolidated Cigar Corp. This case illustrates a court finding a statute invalid under the Dormant Commerce Clause even though a legitimate public interest was served by the statute. The local interest was ensuring that state citizens were informed of health risks associated with the consumption of cigars. The Utah Act provided no similar health protection for its citizens. Clearly the local public interest in the Consolidated Cigar Corp. case was greater than the interest under the Utah Act, because the interest in Consolidated Cigar Corp. involved the health and well-being of the state citizens.

The second factor under the Pike balancing approach that needs to be addressed is the burden imposed on interstate commerce. The impact on interstate commerce is debatable. As demonstrated in Consolidated Cigar Corp., many courts feel the nature of the Internet makes it inherently difficult, if not

244 See, e.g., supra notes 157, 183 and accompanying text.
245 See supra note 155 and accompanying text.
246 See supra note 184 and accompanying text.
247 Eastman, supra note 240.
248 See supra note 46 and accompanying text.
249 See supra note 194 and accompanying text.
250 See supra note 68 and accompanying text.
251 See supra note 198 and accompanying text.
252 See supra note 202 and accompanying text.
253 See supra notes 109–10 and accompanying text.
impossible, to distinguish among the states in which a particular advertisement is being viewed. Therefore, many courts feel the burden on interstate commerce imposed by individual state Internet regulations is clearly excessive. As the Utah Act was a state statute that imposed restrictions on Internet advertising, it would appear that it could have fallen under the reasoning of Consolidated Cigar Corp., since that case involved an advertising regulation.

However, at least one legal commentator felt the Utah Act might not have imposed an undue burden on interstate commerce because of the ability of search engine companies to geographically limit the placement of advertisements “down to a neighborhood level.” This commentator posed the question: “If search engines are already restricting searches based on the searcher’s geographic location, then what is the additional burden preventing them from complying with Utah’s law?” Predictably, the legal commentator’s answer is that there would have been no additional burden and therefore there would have been no undue burden imposed by the Utah Act. However, if search engines do not have the current capability of limiting advertisements, it might have been nearly impossible for these companies to have complied with the requirements of the Utah Act without having adopted a universal practice of not allowing any advertiser to bid on a third party trademark. If this would have been the result the search engines must have had to eventually yield to, then the Utah Act would have been directly regulating interstate commerce and therefore would have placed an undue burden on interstate commerce.

Furthermore, other legal commentators argued that the technology has not been developed that would have allowed search engine companies to have reliably identified Utah Internet users. As a result, the search engine companies would have had to develop ways in which such users could have been readily identified so as to ensure that such users were not presented with advertisements that had been linked by keywords that had been classified under the Utah Act as electronic registration marks. It is likely that a court would have found imposing this responsibility on search engine companies placed an undue burden on interstate commerce.

Comparing both sides under the Pike balancing test shows that the local benefits that could have been gained by the statute were small because they were

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254 See supra note 204 and accompanying text.
255 See supra notes 128–30 and accompanying text.
256 See supra note 199 and accompanying text.
258 Id.
259 Id.
260 Parry, supra note 82.
directed at trademark owners, not the general citizens of Utah. In addition, the burden that would have been placed on interstate commerce was likely to have been excessive because outside search engines would have had to comply with the act to avoid liability for advertisements displayed in Utah that were keyed to electronic registration marks. When both sides are weighed under the balancing test, it is likely that a court would have found the burden on interstate commerce outweighed any local interests that might have been served by the Act and therefore would have held that the Act was unconstitutional under the third category of Dormant Commerce Clause analysis.

D. EXCEPTIONS TO DORMANT COMMERCE CLAUSE

Because the Utah Act would have likely failed to pass constitutional standards under the Dormant Commerce Clause, the exceptions the Dormant Commerce Clause need to be examined to determine if they could have saved the Utah Act. As discussed in Part II, the first exception is quarantine laws.261 The Utah Act clearly did not involve any type of quarantine issues because it addressed trademarks and not any type of disease or contagious particle. Also, the Act did not further any underlying purpose of this exception, such as providing special health-protective measures for the citizens of the state.

The Act also would have failed to qualify under the second exception of market participant.262 Through the passage of the Act, the state of Utah was clearly attempting to address a problem and therefore was acting as a regulator and not as a market participant. Thus, the Utah Act would not have been salvaged through either of these exceptions.

E. RECOMMENDED SUGGESTIONS FOR STATES WANTING TO REGULATE KEYWORD ADVERTISING

There are not many suggestions regarding the regulation of keyword advertising that can be made that would help states keep such statutes within the realm of constitutionality under the Dormant Commerce Clause. As demonstrated by the Utah Act, such statutes are likely to directly regulate interstate commerce, favor local economic interests to the detriment of out-of-state competitors, and weigh heavily in favor of the undue burden side of the Pike balancing test. Therefore, for statutes to comply with the requirements of the Dormant Commerce Clause, states would need to ensure that all these constitutional concerns were addressed.

261 See supra notes 112–14 and accompanying text.
262 See supra notes 112–14 and accompanying text.
To remedy the favoring of local interests, perhaps states could allow anyone, regardless of the location of their goods or services, to register their mark as an electronic mark, thus guaranteeing outsiders protection within the particular state. However, in order to cure the other two Dormant Commerce Clause issues, a change would have to be made to the way search engines display advertisements. Search engines would need to be able to geographically limit advertisements before a state could be found not to directly regulate or place an undue burden on interstate commerce. The best suggestion that can be recommended is for concerned states and trademark owners that are experiencing Internet infringement to lobby Congress and urge a national regulation similar to the Can-Spam Act that would prohibit trademarks from being used as keywords by third parties.

IV. CONCLUSION

Keyword advertising is a hugely profitable revenue source for search engines. However, this type of advertising comes at a cost to some trademark owners. The practice of selling trademark terms to third parties for the purpose of advertisement has created much controversy. Courts have been divided in their approach to the problem. It is unclear at this point whether the Lanham Act will provide any protection for trademark owners in these circumstances. The debate about whether the practice results in a “use in commerce” and if so, whether the practice then leads to a likelihood of confusion, continues to become more convoluted with each case that goes to court.

In response to the matter, Utah enacted its own statute to deal with the problem. The Trademark Protection Act was passed in 2007 in an attempt to regulate keyword advertising. The Act created a new type of intellectual property right known as the “electronic registration mark.” After a mark was registered, search engines were not allowed to sell the mark to third party advertisers.

However, the Utah Legislature voted to repeal the substantive portions of the Act. This decision to repeal the Utah Act was the correct decision because it was likely that a court would have deemed the Act unconstitutional. The Act violated the Dormant Commerce Clause, which prohibits a state from discriminating against interstate commerce. Although not facially discriminatory, the Act nevertheless favored local economic interests to the detriment of out-of-state competitors by allowing only trademarks that were in use in the state of Utah to gain protection. The Act also placed an undue burden on interstate commerce by requiring search engines to geographically limit advertisements to ensure that no trademark registered as an electronic registration mark inside the state of Utah was displayed on search pages for those keywords by Utah Internet users. For
these reasons, the Act would have likely been found unconstitutional for violating the Dormant Commerce Clause.

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