

IN THE SUPREME COURT OF APPEALS OF WEST VIRGINIA

No. ~~11-0571~~ 11-0252

(Berkeley County Circuit Court Civil Action No. 10-AA-02)

CRAIG A. GRIFFITH, WEST VIRGINIA STATE
TAX COMMISSIONER,

Petitioner

v.

CONAGRA BRANDS, INC.

Respondent

RESPONDENT'S BRIEF

Respectfully Submitted By

Michael E. Caryl, Esquire
W.Va. Bar No. 662

mcaryl@bowlesrice.com

Floyd M. Sayre, III, Esquire
W.Va. Bar No. 4342

ksayre@bowlesrice.com

Bowles Rice McDavid Graff & Love, LLP
101 South Queen Street
Martinsburg, West Virginia 25401
(304) 263-0836

Petitioner's Counsel

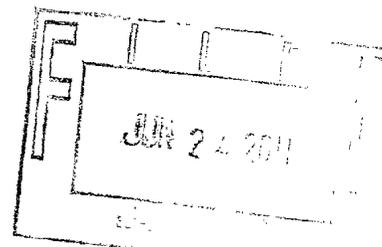


TABLE OF CONTENTS

	<u>Page</u>
I. TABLE OF AUTHORITIES	iii
II. CORRECTIONS TO PETITIONER’S STATEMENT OF THE CASE.....	1
III. SUMMARY OF ARGUMENT	2
IV. STATEMENT REGARDING ORAL ARGUMENT AND DECISION	3
V. STANDARD OF REVIEW	3
VI. ARGUMENT	4
A. THE CIRCUIT COURT COMMITTED NO ERROR IN RULING THAT THE RESPONDENT WAS NOT DOING BUSINESS IN WEST VIRGINIA FOR PURPOSES OF THE CNIT OR THE BFT.	4
1. The Respondent was organized for legitimate business purposes and engaged in operations of significant economic substance as evidenced by the millions of dollars of income taxes it paid to the states in which it actually conducted business.	4
2. The Respondent, itself, does not engage in the privilege of doing business in West Virginia, for purposes of the CNIT or the BFT, merely by virtue of any business that its affiliated or non-affiliated licensees may conduct in this State.....	6
3. Respondent was not doing business in West Virginia, for purposes of the CNIT or the BFT, because none of its income was apportionable to this State under the provisions of the CNIT and BFT governing the determination of the extent to which it was doing business here.....	10
4. Any perceived ambiguity, about whether the Respondent is engaged in business in West Virginia, for purposes of the CNIT or the BFT, must be resolved against the Tax Commissioner.	14
B. THE CIRCUIT COURT COMMITTED NO ERROR IN RULING THAT IMPOSITION OF THE CNIT AND THE BFT ON THE RESPONDENT VIOLATES THE DUE PROCESS CLAUSE OF THE UNITED STATES CONSTITUTION.....	15

C.	THE CIRCUIT COURT COMMITTED NO ERROR IN RULING THAT THE IMPOSITION OF THE CNIT AND THE BFT ON THE RESPONDENT VIOLATES THE "DORMANT" COMMERCE CLAUSE OF THE UNITED STATES CONSTITUTION.	22
1.	Unlike the taxpayer in MBNA, the Respondent has no commercial relations, nor does it do business with <i>any</i> customers in West Virginia, and, thus, it lacks <i>any</i> , much less substantial, economic presence in this State.	22
2.	The imposition of the CNIT and BFT on the Respondent violates the principles established by the Supreme Court in Complete Auto.	27
D.	THE CIRCUIT COURT COMMITTED NO ERROR IN RULING THAT THE RESPONDENT DID NOT HAVE THE SUBSTANTIAL PRESENCE - PHYSICAL, ECONOMIC OR OTHERWISE - CONSTITUTIONALLY REQUIRED FOR IMPOSITION OF THIS STATE'S TAXES.	29
1.	The mere presence, in West Virginia, of an image of the Respondent's intellectual property on the tangible personal property of others, does not constitute the Respondent's use of its intangible property here or give the Respondent the substantial economic presence in this State required by Complete Auto and MBNA.	29
2.	Extension of West Virginia's taxing power to a taxpayer lacking substantial economic presence in this State, such as the Respondent, would, if sustained, lead to the very "balkanization" of the national economy that the Commerce Clause was intended to prevent.	36
VII.	CONCLUSION.	40

I. TABLE OF AUTHORITIES

Cases

A & F Trademark Inc. v. Tolson,
167 N.C. App. 150, 605 S.E.2d 187 (2004)..... 30, 31, 32

Abbott v. Owens-Corning Fiberglas Corp.,
444 S.E.2d 285 (W. Va. 1994)..... 15

Am. Dairy Queen Corp. v. Taxation & Revenue Dep't of N.M.,
93 N.M. 743, 605 P.2d 251 (1979) 30, 32

Asahi Metal Industry Company v. Superior Court of California,
480 U.S. 102 (1987)..... *passim*

Barnett v. Wolfolk,
149 W.Va. 246, 140 S.E.2d 466 (1965)..... 28

Bashaw v. Belz Hotel Management Co.,
872 F.Supp. 323, 326 (S.D.W.Va. 1995)..... 18

Baton Coal Co. v. Battle,
151 W.Va. 519, 153 S.E.2d 522 (1967)..... 14

Bearry v. Beech Aircraft Corp.,
818 F.2d 370 (5th Cir. 1987) 21

Burger King Corp. v. Rudzewicz,
471 U.S. 462 (1985)..... 15, 19, 21

Calhoun County Assessor v. Consolidated Gas Supply Corp.,
178 W.Va. 230, 358 S.E.2d 791 (1987)..... 14, 15

Carothers v. Vogeler,
148 Vt. 316, 532 A.2d 580 (Vt. 1987)..... 21

Chase v. Greyhound Lines, Inc.,
158 W. Va. 382, 211 S.E.2d 273 (1975)..... 16

Commonwealth of Virginia v. Imperial Coal Sales Co., Inc.,
293 U.S. 15 (1934)..... 35

Complete Auto Transit, Inc. v. Brady,
430 U.S. 274, (1977)..... *passim*

Coordinating Council For Independent Living, Inc v Palmer,
209 W.Va. 274, 546 S.E.2d 454 (2001)..... 15

<u>Corliss v. Jefferson Cty. Bd. of Zoning Appeals,</u> 214 W. Va. 535, 591 S.E.2d 93 (2003).....	3
<u>Estes v. Midwest Prods., Inc.,</u> 24 F. Supp.2d 621 (S.D.W. Va. 1998).....	19
<u>Federal Ins. Co. v. Lake Shore, Inc.,</u> 886 F.2d 654 (4th Cir. 1989)	22
<u>Frymier-Halloran v. Paige,</u> 193 W.Va. 687, 458 S.E.2d 780 (1995).....	3
<u>Geoffrey, Inc. v. Comm’r of Revenue,</u> 899 N.E.2d 87 (Mass. 2009).....	20, 30, 31, 32
<u>Geoffrey, Inc. v. Okla. Tax Comm’n,</u> 132 P.3d 632 (Okla. 2005).....	30, 31, 32
<u>Geoffrey, Inc. v. S.C. Tax Comm’n,</u> 437 S.E.2d 13 (S.C. 1993)	30, 31, 32, 35
<u>Hayes v. Wissel,</u> 882 S.W.2d 97 (Tx. Ct. App. 1994).....	21
<u>Helvering v. Gregory,</u> 69 F.2d 809 (2nd Cir. 1934).....	5
<u>Hill by Hill v. Showa Denko, K.K.,</u> 188 W. Va. 654, 425 S.E.2d 609 (1992).....	19
<u>Hughes v. Oklahoma,</u> 441 U.S. 322 (1979).....	36
<u>Insull v. N.Y. World-Telegram Corp.,</u> 273 F.2d 166 (7th Cir.1959)	21
<u>Int’l Shoe Co. v. Washington,</u> 326 U.S. 310 (1945).....	15
<u>Keeton v. Hustler Magazine, Inc.,</u> 465 U.S. 770 (1984).....	15
<u>KFC Corp. v. Iowa Dep’t of Revenue,</u> 792 N.W.2d 308 (Iowa 2010)	<i>passim</i>
<u>Kmart Properties, Inc. v. Taxation & Revenue Dep’t of N.M.,</u> 139 N.M. 177, 131 P.3d 27 (Ct. App. 2001).....	30, 31, 32

<u>Lanco, Inc. v. Dir. Of Taxation,</u> 879 A.2d 1234 (N.J. Super. 2005)	30, 31, 32
<u>Lane v. WSM, Inc.,</u> 575 F.Supp. 1246 (W.D.N.C.1983)	21
<u>Lesnick v. Hollingsworth & Vose Co,</u> 35 F.3d 939 (4th Cir. 1994)	18
<u>Martin v. Randolph Cty Bd. Ed.,</u> 195 W. Va. 297, 465 S.E.2d 399 (1995).....	3
<u>MeadWestvaco Corp. ex rel. Mead Corp.v. Illinois Department of Revenue,</u> 533 U.S. 16 (2008).....	16, 17
<u>Michel v. Rocket Engineer Corp.,</u> 45 S.W.3d 658 (Tx. Ct. App. 2001).....	21
<u>Miller Brothers v. Maryland,</u> 347 U.S. 340 (1954).....	28
<u>Mobil Oil Corp v. Commissioner of Taxes,</u> 445 U.S. 425 (1980).....	29
<u>Nichols v. G.D. Searle & Co.,</u> 991 F.2d 1195 (4th Cir. 1993)	22
<u>Oklahoma Tax Commission v. Jefferson Lines, Inc.,</u> 514 U.S. 175 (1995).....	36
<u>Quill Corp. v. North Dakota,</u> 504 U.S. 298 (1992).....	27, 28
<u>Rostad v. On-Deck, Inc.,</u> 372 N.W.2d 717 (Minn. 1985).....	18
<u>Sec’y, Dep’t of Revenue, State of La. v. Gap (Apparel), Inc.,</u> 886 So. 2d 459 (La App. 1 Cir. 2004)	30, 32
<u>Siemer v. Learjet Acquisition Corp.,</u> 966 F.2d 179 (5th Cir. 1992), <i>cert denied</i> 506 U.S. 1080 (1993).....	21
<u>Southern Case, Inc. v. Mgmt. Recruiters Intern.,</u> 544 F.Supp. 403 (E.D.N.C.1982).....	21
<u>State ex. rel. Agard v. Riederer,</u> 448 S.W.2d 577, 582 (Mo. 1969)	10

<u>State ex rel. CSR Ltd. v. MacQueen,</u> 190 W. Va. 695, 441 S.E.2d 658 (1994).....	16
<u>State ex rel. Lambert v. Carman,</u> 145 W.Va. 635, 116 S.E.2d 265 (1960).....	14
<u>Stover v. O'Connell Associates, Inc.,</u> 84 F.3d 132 (4th Cir.1996)	21
<u>Tax Commr. v. MBNA American Bank, N.A.,</u> 220 W.Va. 163, 640 S.E.2d 226 (2006).....	<i>passim</i>
<u>Touchstone Research Lab, Ltd. v. Anchor Equip. Sales, Inc.,</u> 294 Supp.2d 823 (N.D.W.Va 2003)	16
<u>Tug Valley Recovery Center v. Mingo County Commission,</u> 164 W.Va. 94, 261 S.E.2d 165 (1979).....	10
<u>Wardair Canada, Inc. v. Florida Dept. of Revenue,</u> 477 U.S. 1, 7, 106 S.Ct. 2369, 2372-2373 (1986)	36
<u>Webb v. West Virginia Bd. of Med.,</u> 212 W. Va. 149, 569 S.E.2d 225 (2002) (<i>per curiam</i>)	3
<u>Western Maryland Ry. Co. v. Goodwin,</u> 167 W.Va. 804, 282 S.E.2d 240 (1981).....	6, 16, 17, 23
<u>Wheeling Steel Corp. v. Fox,</u> 298 U.S. 193 (1936).....	35
<u>Wisconsin v. J.C. Penney Co.,</u> 311 U.S. 435 (1940).....	28, 29
<u>World-Wide Volkswagen Corp. v. Woodson,</u> 444 U.S. 286 (1980).....	16, 18, 19, 21

Statutes

W.Va. Code §11-23-3(b)(1).....	11
W.Va. Code §11-23-3(b)(8).....	6
W.Va. Code §11-23-5	10
W.Va. Code §11-23-5(a).....	11
W.Va. Code §11-23-5(l)	13

W.Va. Code §11-23-5(m).....	11, 15
W.Va. Code §11-23-5(m)(1).....	13
W.Va. Code §11-23-5(m)(2).....	13
W.Va. Code §11-23-5(m)(3).....	13
W.Va. Code §11-23-5(n).....	12, 13
W.Va. Code §11-23-5a.....	13
W.Va. Code §11-23-6(a).....	6, 10
W.Va. Code §11-24-3a(a)(2).....	6, 11, 14
W.Va. Code §11-24-3a(a)(11).....	6, 10
W.Va. Code §11-24-4(3).....	6, 10
W.Va. Code §11-24-7.....	10
W.Va. Code §11-24-7(e).....	11
W.Va. Code §11-24-7(e)(11).....	13
W. Va. Code §11-24-7(e)(12).....	11, 12, 15
W.Va. Code §11-24-7(e)(12)(A).....	13
W.Va. Code §11-24-7(e)(12)(B).....	13
W.Va. Code §11-24-7(e)(12)(C).....	13
W.Va. Code §11-24-7(f).....	12, 13
W.Va. Code §11-24-7b(b).....	13
W.Va. Code §11-24-13a(j).....	9
W. Va. Code §31D-15-1501.....	16
W.Va. Code §31D-15-1501(d).....	16
W.Va. Code §56-3-33.....	16
W.Va. Code §56-3-33(a)(1).....	16
W.Va. Code §56-3-33(a)(2).....	16

Regulations

26 Code of Federal Regulations §1.355-2(b)..... 5

Title 110, West Virginia Code of State Regulations, Series 24, §7.17.7.3. (April
15, 1992) 14

Title 110, West Virginia Code of State Regulations, Series 24, §7.7.f.4 14

Other

Black's Law Dictionary (Sixth Ed.)..... 10

1 J.R. Hellerstein & W. Hellerstein, *State Taxation* §6.11 (3d ed. 2007)..... 17, 36

Laskin, *Only A Name? Trademark Royalties, Nexus, And Taxing That Which
Enriches*, 22 Akron Tax J. 1. 33, 34

Swain & Snethen, *A Taxing Question: The Nexus Quagmire Strikes Again*, 15
Bus. L. Today 51, 57 (2006)..... 37

The Federalist Nos. 42 (J. Madison), 7 (A. Hamilton), 11 (A. Hamilton)..... 36

II. CORRECTIONS TO PETITIONER'S STATEMENT OF THE CASE

The Statement of the Case in the Petitioner's Brief omits the fact that the Respondent had employees and offices in Nebraska. Appendix (App.), Vol. 1, 7. The Petitioner also inaccurately states that the record contains no evidence that the Respondent paid income taxes to other states. Petitioner's Brief [Ptr. Br.], 3. In fact, the Respondent paid over \$20 million in income taxes to other states during the periods in question. App., Vol. 1, 66. Further, the Petitioner's Brief inaccurately states that the several parties, which transferred trade names and trademarks to the Respondent, did not receive any consideration for such transfers. Ptr. Br., 4. In fact, shares of the Respondent's capital stock were issued to those transferors in consideration of the trademarks and trade names. App., Vol. 5, 797-799, 804-813.

Finally, the Petitioner's Brief inaccurately states that, in this case, the Respondent has only challenged its constitutional nexus with the taxes at issue here, and has not challenged whether those taxes were fairly apportioned, fairly related to the benefits provided by West Virginia or discriminated against interstate commerce. Ptr. Br., 6. In fact, because the Respondent's challenge, to the taxes in question, is based on the threshold question of whether it even had, in the first instance, the minimum contacts with West Virginia to be constitutionally subject to its taxing jurisdiction, the corollary issues of whether it had substantial contacts, was fairly apportioned, was fairly related to benefits provided or discriminated against interstate commerce, were inherently put in question as well. That is so because, while, in logic, a tax's imposition may satisfy the minimum or even substantial nexus requirements and still be unfairly apportioned, or not fairly related to benefits or could still discriminate against interstate commerce, the reverse is not logically possible. See, note 30, *infra*.

III. SUMMARY OF ARGUMENT

The Respondent conducts its business of licensing and protecting the value of its trademarks and trade names entirely outside of West Virginia. Specifically, it performs all of its obligations under its licensing agreements by allowing its licensees to affix, at processing facilities entirely outside of this state, reproduced images of those trademarks and trade names to the licensees' products. In return, the licensees pay royalties to the Respondent measured by a percentage of the licensees' gross receipts from the sale of their products to distributors and wholesalers throughout the United States.

The licensing agreements expressly give the licensees, based on their superior knowledge of their products and markets, the exclusive control of the manner in which, and places where, they market and distribute their products bearing the Respondent's intellectual property. None of the licensees have retail stores in West Virginia. Instead, they sell their products to wholesalers and distributors who, in turn, sell those products to retailers in various states throughout the United States, including West Virginia.

Under those same agreements, the only influence the Respondent may exercise over the licensees' processing of their products is limited to such quality control oversight of their manufacturing operations as may be needed to protect the value of the trademarks and trade names. To the same end, the Respondent oversees a national program of advertising its trademarks and trade names.

The foregoing facts make it abundantly clear that, neither under the terms of this State's statutes imposing the corporation net income tax (CNIT), nor its business franchise tax (BFT), is the Respondent doing business here. Indeed, application of the very provisions of those statutes, designed to measure the extent to which a corporation is doing business in this state, yields the conclusion that it is doing none.

Moreover, given the foregoing facts, under controlling constitutional jurisprudence, the Respondent does not have the minimum contacts with this State, required by due process, to even subject it to personal jurisdiction or taxation here, much less does it have the substantial nexus with this State, required by the Commerce Clause, to allow it to be taxed here. No court, anywhere, on the basis of such facts, has ever ruled otherwise. Thus, the Circuit Court, in reaching such conclusions, committed no error and its Final Order ought to be affirmed.

IV. STATEMENT REGARDING ORAL ARGUMENT AND DECISION

For the all the reasons stated in the Argument below, particularly, those in section 2. of subdivision D., the Respondent joins the Petitioner in requesting oral argument under Rule 20.

V. STANDARD OF REVIEW

This Court reviews the decisions of a circuit court, when the latter was itself sitting as an appellate court, under the same standard by which a circuit court is required to review the decision of the lower tribunal or administrative agency in the first instance. Martin v. Randolph Cty Bd. Ed., 195 W. Va. 297, 465 S.E.2d 399 (1995); Corliss v. Jefferson Cty. Bd. of Zoning Appeals, 214 W. Va. 535, 591 S.E.2d 93 (2003); Webb v. W. Va. Bd. of Med., 212 W. Va. 149, 569 S.E.2d 225 (2002) (*per curiam*). Specifically, in the leading case addressing the standard of review in appeals of this nature, this Court has held that, as a result of a long line of earlier rulings, a circuit court is limited to a clearly erroneous and abuse of discretion standard for review of the administrative law judge's findings, unless the incorrect legal standard was applied. See Frymier-Halloran v. Paige, 193 W.Va. 687, 458 S.E.2d 780 (1995), syl. pt. 3. Moreover, a circuit court's statutory interpretations are reviewed *de novo*. Id.

Contrary to the contentions in the Petitioner's Brief, the Respondent has not, in any manner, challenged the constitutionality of the CNIT or BFT statutes on their face. Ptr. Br., 10-11. Rather, it is only the constitutionality of the Petitioner's applications of those statutes (along

with those statutes' application to the Respondent by their own terms) that are at issue here. Thus, none of the standards for declaring a statute unconstitutional, cited in the Petitioner's Brief, are implicated in this case.

VI. ARGUMENT

A. THE CIRCUIT COURT COMMITTED NO ERROR IN RULING THAT THE RESPONDENT WAS NOT DOING BUSINESS IN WEST VIRGINIA FOR PURPOSES OF THE CNIT OR THE BFT.

1. The Respondent was organized for legitimate business purposes and engaged in operations of significant economic substance as evidenced by the millions of dollars of income taxes it paid to the states in which it actually conducted business.

The opening portion of the Petitioner's brief, contending that the Respondent was doing business in this state for CNIT and BFT purposes, oddly begins by describing an intangible holding company (IHC) arrangement adopted by some corporations — not to do business — but solely to avoid “otherwise valid state income taxes.” Ptr. Br., 11. Indeed, the IHCs, in the cases cited later by the Petitioner, lacked business purpose and economic substance.¹ However, that description bears no resemblance to the facts here.

Specifically, the Administrative Law Judge (ALJ) found that the clear business purpose for the Respondent's formation was the centralized management and protection of the value of trademarks and trade names its parent, ConAgra Foods, Inc., and its other subsidiaries, used. App. Vol. 5, 819. He further found that, pursuant to its business purpose, the Respondent acquired trademarks and trade names, not only from affiliates, but also from unrelated entities. App., Vol. 5, 817. Finally, the ALJ found that the Respondent entered into licensing agreements with unrelated third parties, as well as with its parent and other affiliates. Id.²

¹ See, Subdivision D.1. *infra*.

² Further, the ALJ effectively declined to adopt the Petitioner's characterization (now, apparently abandoned) of the Respondent's formation as a “sham transaction” based on the fact that the consideration for the intellectual property

Moreover, in its operations, the Respondent had employees and offices in Nebraska.³ Indeed, the Respondent conducted business of such a scale that, over the three years at issue here, it paid over \$20 million in income taxes to the states in which it was actually doing business. App., Vol. 1, 66.

Despite such findings and other evidence to the contrary, the Petitioner asserts that “it is undisputed that [the Respondent] was created as a wholly-owned subsidiary of ConAgra Foods as a part of a tax strategy.” Ptr. Br., 11. To the contrary, the only page in the record the Petitioner cites, to purportedly support such a conclusion, says nothing about any tax strategy. App., Vol. 4, 733.

Of course, as any prudent business managers ought to be, the senior management of the Respondent’s parent entity must be presumed to have been aware of the federal, state and local tax consequences of every major step taken in the pursuit of its business planning — including the Respondent’s formation.⁴ Such ordinary prudence, regarding their tax consequences, is hardly incompatible with the existence of the entirely separate and legitimate business objectives on which the formation and operation of the Respondent were based.

Thus, the issue here is not whether the Respondent had a business purpose or economic substance (it clearly did), but whether its business was conducted in West Virginia for CNIT and BFT purposes. As shown below, the Circuit Court did not err in concluding that it was not.

transferred to the Respondent was the issuance of the latter’s capital stock to the transferors. App., Vol. 5, 786. Far from a sham, that is not only the most common way by which corporate subsidiaries are formed and capitalized, but such transactions are required, by federal income tax rules, to have a substantial business purpose. 26 Code of Federal Regulations §1.355-2(b). Thus, as the Respondent explained, that is precisely how it was formed. App., Vol. 5, 797-799, 804-813.

³ App., Vol. 1, 7; Vol. 5, 816. This is in contrast with the establishment of many of the IHCs, in the cases cited by the Petitioner, in Delaware where no tax was imposed on their income. See, Subdivision D.1. *infra*.

⁴ As the Circuit Court recognized, “[a]ny person may so arrange his affairs that his taxes shall be as low as possible; he is not bound to choose that path which will best pay the treasury; there is not even a patriotic duty to increase one’s taxes.” [Quoting Judge Learned Hand in Helvering v. Gregory, 69 F.2d 809 (2nd Cir. 1934)]. App., Vol. 5, 969.

2. The Respondent, itself, does not engage in the privilege of doing business in West Virginia, for purposes of the CNIT or the BFT, merely by virtue of any business that its affiliated or non-affiliated licensees may conduct in this State.

The statutory test,⁵ for whether the Respondent was subject to the CNIT, is simply whether it was “engaging in business in this State or deriving income from property, activity or other sources in this State.” W.Va. Code §11-24-4(3). The term “engaging in business” for CNIT purposes is defined as “any activity of a corporation which enjoys the benefits and protection of government and laws in this state.” W.Va. Code §11-24-3a(a)(11).

Further, the term “business income” is defined, in pertinent part, as:

income arising from transactions and activity in the regular course of the taxpayer’s trade or business and includes income from tangible and intangible property if the acquisition, management and disposition of the property or the rendering of services in connection therewith constitute integral parts of the taxpayer’s regular trade or business operations... W.Va. Code § 11-24-3a(a)(2).

The statutory basis for imposition of the BFT on the Respondent is whether it was “owning or leasing real or tangible personal property located in this State or doing business in this State.” W.Va. Code §11-23-6(a). As with the term “engaging in business” as used in the CNIT, “doing business” is defined for BFT purposes as: “any activity of a corporation or partnership which enjoys the benefits and protection of government and laws of this state.” W.Va. Code §11-23-3(b)(8). Both statutes’ references to whether a corporation “enjoys the benefits and protection of government and laws in this state,” must be read as merely recognizing the result whereby a corporation’s business activity in the state, once proven, may constitutionally support the imposition of taxation. Western Maryland Ry. Co. v. Goodwin, 167

⁵ While Point A. of the Argument in the Petitioner’s Brief, addressed to the state statutory issues, contains references to the federal constitutional issues also implicated by this case, and the statutory definition of “business income” expressly “includes all income apportionable under the Constitution of the United States,” the Respondent will confine its points here to an analysis of those separate state statutory issues, and will address, in the subsequent subdivisions of this Brief, all the federal constitutional issues and authorities also discussed by the Petitioner.

W.Va. 804, 282 S.E.2d 240 (1981). Thus, it does not provide an independent basis for determining whether a corporation is doing business in a particular state in the first instance.

Clearly, a corporation, engaged in any business activity “in this state,” would have implicitly enjoyed the benefits of this state’s laws and government. Likewise, having no business activity here would, inherently, mean that the corporation did not enjoy those benefits and protections. Here, by the terms of its licensing agreements, and the nature of its enterprise (the licensing and protection of intellectual property), the Respondent neither used, nor ever contemplated using, the laws, courts, infrastructure or other benefits of this State’s government.⁶

Clearly, the Respondent’s activities do constitute engaging in the business of acquiring and managing its intangible property in the regular course of its trade or business, as those terms are used in the CNIT. However, as the evidence shows, none of the Respondent’s activities occurred in West Virginia, nor can it be said that the Respondent derived its income from sources in West Virginia.

As stipulated, the Respondent has none of its property, office or employees in West Virginia. App., Vol. 4, 735. That is because, given the nature of its business, it has no reason to be in this state. Rather, under its licensing agreements, the performance required of the Respondent is to allow the licensees to affix its trademarks and trade names to labels on products the licensees manufacture for sale throughout the United States. App., Vol. 5, 817-820. In consideration of their use of the trademarks and trade names, the licensees pay the Respondent royalties measured by a percentage of the invoiced price of such products sold by the licensees throughout the United States, less any early payment discounts. Id.

⁶ App., Vol. 2, 370-374, 409; Vol. 3, 429, 434, 437, 459, 476, 496, 513, 530, 548, 565, 582, 602, 619; Vol. 4, 636, 653, 671,690; Vol. 5, 964, 969.

It is not disputed that all of the licensees are domiciled outside of West Virginia. Id. Moreover, it not disputed that the images of the subject trademarks and trade names are affixed by the licensees to the labels of the products they manufacture at facilities outside of West Virginia. Id. Further, all those products, to which the labels are affixed, are manufactured and processed by the licensees outside of West Virginia. Id. Likewise, those out-of-state processing facilities are where the ingredients, used in those products, and the containers, used to distribute such products, are delivered by third party suppliers to, and used by, the licensees. Id.

Finally, it is not disputed that, once those ingredients for the products were delivered and processed, the resulting products were placed in those containers and the labels, bearing an image of the trademarks and trade names, were affixed to the containers, the finished products, in those containers, with those labels, were distributed by the licensees to their customers throughout the United States. Id.

The Respondent's income from the payment of royalties by the licensees is measured by the prices for which the licensees sell the subject products, regardless of where or to whom those products are sold. Thus, the Respondent's income is unaffected by whether its licensees' customers arrange for subsequent resale of those products in Ohio, California, Nebraska, West Virginia or any other particular state. Indeed, the licensing agreements expressly provide that it is entirely up to the licensees to determine the selection of products "to be developed and marketed, and the extent of the marketing efforts for each of the [products] shall be made by the Licensee using its best business judgment and discretion."⁷

Accordingly, whether and to what extent any of the licensees' products are marketed for sale in West Virginia is a function of the licensees' conduct of their businesses — not of the

⁷ App., Vol. 3, 486, 503, 520, 538, 555, 592, 609; Vol. 4, 626, 643, 663.

Respondent's. Because, as to the promotion of sales of the licensees' products, the parties' interests are in harmony, the Respondent defers to the licensees' decision-making. To that end, the licensing agreements include a warranty by each licensee that it possesses "superior knowledge," of its own business (i.e. making and selling its products), and, thus, will be the party responsible for the "development, manufacture, promotion, distribution, marketing and sale" of the subject products bearing the trademarks and trade names. Id.⁸

Thus, to the extent that the licensees' sales of their products, bearing the trademarks and trade names, are made in West Virginia, that is the licensees' conduct of their businesses in this state — not the Respondent's conduct of its business. The same can be said of the suppliers of ingredients and containers for the licensees' products. Thus, the licensees' sales of their products in West Virginia is the licensees' conduct of their own businesses in this state — not the suppliers conduct of theirs.⁹

In claiming error in the Circuit Court's ruling, the Petitioner emphasizes, in the statutory phrase "any activity ... which enjoys the benefits and protections of government," the expansive implications of the statutes' use of the word "any" and avoids any focus on the word "activity" which "any" modifies. *Ptr. Br.*, 13-14. However, such emphasis on the modifier cannot

⁸ Under the licensing agreements, the only constraint on the licensees' conduct, exercised by the Respondent, is in the area of manufacturing where the Respondent has the right to exercise certain quality control oversight to promote product quality and to protect the value of its trademarks and trade names. *App.*, Vol. 3, 488, 505, 522, 540, 557, 594, 611; Vol. 4, 628, 645, 664.

⁹ It is also important to note that none of the Petitioner's contentions, in avoidance of the foregoing conclusions, are premised on the basis of common ownership, or integration of ultimate management functions, that may exist between the Respondent and some, but not all, of the licensees. Although the concept of "unitary business," which does consider such factors, was recently enacted for CNIT and BFT reporting purposes starting in 2009, it does not apply to this case. *W.Va. Code* §11-24-13a(j), Acts 2007, Chapter 247. Moreover, no "unitary business" contentions have been raised by the Petitioner, nor has the necessary analysis of the same been performed. Rather, the assessments of CNIT and BFT the Petitioner issued against the Respondent here is based on the nature of the Respondent's conduct of its business of licensing trademarks and trade names to all its licensees, without consideration of a corporate relationship, if any, between the parties.

override the concept embodied in the term modified.¹⁰ Furthermore, since both statutes also repeatedly require that, to be a taxpayer, a corporation must either have taxable activity or sources of income “in this state,” that substantive qualifier is also an essential prerequisite to the imposition of taxation. W.Va. Code §§ 11-23-6(a), 11-24-4(3) and 11-24-3a(a)(11).

Thus, however an expansive use of “any” one may adopt, it cannot conjure up “activity” “in this state” where, as explained above in the case of the Respondent, none exists. That is so because the taxable “activity” in West Virginia, manifested by the licensees’ sales of their products to parties in West Virginia, is the licensees’ — not the Respondent’s.

Therefore, the mere facts: (1) that the Respondent’s royalty income is measured by the amount of the products its licensees sell everywhere, and (2) that, due entirely to the business decisions of the licensees and their customers, some of those products are sold in West Virginia, do not yield a conclusion that the Respondent is doing business in West Virginia for CNIT and BFT purposes. Having thus ruled, the Circuit Court committed no error.

3. Respondent was not doing business in West Virginia, for purposes of the CNIT or the BFT, because none of its income was apportionable to this State under the provisions of the CNIT and BFT governing the determination of the extent to which it was doing business here.

If a corporation is doing business, both in West Virginia and elsewhere, the CNIT and BFT contain specific rules to determine the extent to which its business is done here. W.Va. Code §§ 11-24-7 and 11-23-5. Specifically, those rules govern allocation of the non-business

¹⁰ Since, as with “any,” the Legislature did not expressly define the term “activity,” one is remitted to using its “common, ordinary and accepted meaning.” Syl. Pt. 1, Tug Valley Recovery Center v. Mingo County Commission, 164 W.Va. 94, 261 S.E.2d 165 (1979). Turning to *Black’s Law Dictionary* (Sixth Ed.), one finds that the common, ordinary and accepted meaning of the term “activity” to be: “[a]n occupation or pursuit in which person is active.” p. 33. State ex. rel. Agard v. Riederer, 448 S.W.2d 577, 582 (Mo. 1969). “Active” is, in turn, defined as “[t]hat is in action; that demands action; actually subsisting; the opposite of passive.” *Black’s*, p. 32. “Action” is, in turn, defined as: “[c]onduct, behavior, something done.” *Id.*, p. 28. Thus, the key element in the foregoing definitions is the actor doing something and engaging in conduct or behavior — as compared to one who is passive.

income and apportionment of business income and capital, respectively, of corporations doing business both here and elsewhere.

Indeed, for CNIT purposes, the definition “business income” includes “all income which is apportionable under the Constitution of the United States.” W.Va. Code §11-24-3a(a)(2).¹¹ Thus, based on the definition of “business income,” and to measure the extent which a corporation, operating in other states, may also be doing business in West Virginia, the CNIT and BFT statutes provide that the corporation’s business income shall be apportioned as follows:

All net income, after deducting those items specifically allocated under subsection (d) of this section, shall be apportioned to this state by multiplying the net income by a fraction, the numerator of which is the property factor plus the payroll factor plus two times the sales factor and the denominator of which is four, reduced by the number of factors, if any, having no denominator. W.Va. Code §11-24-7(e).¹²

Since, it is undisputed that Respondent has no property or payroll in West Virginia, and, further, because the Respondent makes no sales of tangible personal property in this State, the only remaining measure of the extent, to which it was doing any business here for purposes of either the CNIT or the BFT, is in W. Va. Code § 11-24-7(e)(12)¹³ which directs:

Allocation of other sales. -- Sales, other than sales of tangible personal property, are in this state if:

(A) The income-producing activity is performed in this state; or

(B) The income-producing activity is performed both in and outside this state and a greater proportion of the income-producing activity is performed in this state than in any other state, based on costs of performance; or

¹¹ Curiously, the BFT statute’s definition of “business income” omits this clause. See, W.Va. Code §11-23-3(b)(1).

¹² The tax base (i.e. capital) of such a corporation is apportioned for BFT purposes pursuant to essentially identical terms. See, W.Va. Code §11-23-5(a).

¹³ Except for one cross-reference to another part of their respective articles, the words of both tax laws are identical for purposes of this particular rule. See, W.Va. Code §11-23-5(m).

(C) The sale constitutes business income to the taxpayer, or the taxpayer is a financial organization not having its commercial domicile in this state, and in either case the sale is a receipt described as attributable to this state in subsection (b), section seven-b of this article. W. Va. Code 11-24-7(e)(12).

In applying the foregoing sales apportionment factor rule to the facts of this case, the statutory definition of “income-producing activity” must be considered. That definition is:

The term ‘income-producing activity’ applies to each separate item of income and means the transactions and activity directly engaged in by the taxpayer in the regular course of its trade or business for the ultimate purpose of obtaining gain or profit. The activity does not include transactions and activities performed on behalf of the taxpayer such as those conducted on its behalf by an independent contractor. ‘Income-producing activity’ includes, but is not limited to, the following:

- (1) The rendering of personal services by employees with utilization of tangible or intangible personal property by the taxpayer in performing a service;
- (2) The sale, rental, leasing, licensing or other use of real property;
- (3) The sale, rental, leasing, licensing or other use of tangible personal property; or
- (4) The sale, licensing or other use of intangible personal property.

The mere holding of intangible personal property is not, in itself, an income-producing activity: Provided, That the conduct of the business of a financial organization is an income-producing activity. W.Va. Code §11-24-7(f).¹⁴ (Emphasis added.)

As described earlier, under the licensing agreements, the performance required of the Respondent (i.e. its income-producing activity) consists of allowing its licensees to affix its trademarks and trade names to the labels of items the licensees produce. In all such cases, the Respondent’s income-producing activity occurs, and is completed, entirely outside of West Virginia. When the licensees, or the customers of the licensees, then sell some of those products in West Virginia, those sellers are subject to the provisions of the CNIT and BFT sales factor

¹⁴ The language of the BFT defining the same term is identical. See, W.Va. Code §11-23-5(n).

apportionment rules applicable to sales of tangible personal property. W.Va. Code §§11-24-7(e)(11) and 11-23-5(l). However, even if the licensees were regarded as acting on the Respondent's "behalf" in making those sales (which they clearly are not), the statutory language highlighted above makes it clear that those licensees' sales of their own products are not treated as the income-producing activity of the Respondent. W.Va. Code §§11-24-7(f); 11-23-5(n).

Moreover, even if the Circuit Court had misapplied the sales factor sourcing rule to determine that some portion of the Respondent's income-producing activity occurred in this state (e.g. the small amount of its national advertising campaign that may reach in-state media outlets), clearly, the greater proportion of any such activity takes place outside this state W.Va. Code §§11-24-7(e)(12)(B); 11-23-5m(2). App., Vol. 4, 734.

Therefore, upon applying the rules for the only factor, even potentially relevant for determining the extent of the Respondent's income-producing activity in West Virginia, to-wit: the sales factor, it is clear that there was no such activity. W.Va. Code §§11-24-7(e)(12)(A) and (B) or 11-23-5(m)(1) and (2). Moreover, since, as the Circuit Court found, the Respondent is not a financial organization, the third subdivision of the sourcing provisions is also inapplicable.¹⁵

Finally, if an out-of-state corporation is doing business in West Virginia, but, if certain of the business income it receives, from, *inter alia*, royalties on the use of copyrighted intellectual property, cannot otherwise be sourced to any state, that income is excluded from the sales factor altogether according to the Petitioner's regulation stating:

¹⁵ Although not written with great precision, the final item listed in the respective statutes as a sale assigned to West Virginia for sales factor apportionment purposes, as being one that merely "constitutes business income to the taxpayer, or the taxpayer is a financial organization not having its commercial domicile in this state, and in either case the sale is a receipt described as attributable to this state in [W.Va. Code §§11-24-7b(b) or 11-23-5a, respectively]" is inherently limited in its application to financial organizations which are the exclusive subjects of the cross-referenced code sections. See, W.Va. Code §§11-24-7(e)(12)(C) and 11-23-5(m)(3). That is the case because, read any other way, it literally "proves too much" because it would thus make the business income of any non-financial organization a sale assigned to West Virginia for sales factor apportionment purposes — regardless of where the sale was actually made under all other applicable rules.

Where the business income from intangible property cannot be readily attributed to any particular income producing activity of the taxpayer other than a banking or financial institution, such income cannot be assigned to the numerator of the sales factor for any state and shall be excluded from the denominator of the sales factor. For example, where business income in the form of dividends received on stock, royalties received on patents or copyrights, or interest received on bonds or debentures or government securities results from the mere holding of intangible personal property by the taxpayer, such dividends and interest shall be excluded from the denominator of the sales factor. Title 110, West Virginia Code of State Regulations, Series 24, §7.7.f.4.¹⁶

Thus, upon application of the statutory rules for determining the extent of any foreign corporation's conduct of business in West Virginia, it is clear that the Respondent had no such business income apportionable to West Virginia. W.Va. §11-24-3a(a)(2).¹⁷

4. Any perceived ambiguity, about whether the Respondent is engaged in business in West Virginia, for purposes of the CNIT or the BFT, must be resolved against the Tax Commissioner.

Finally, even if the Court perceives the slightest ambiguity as to whether, under the facts here, the Respondent is doing business in this state by the terms of the CNIT or BFT statutes, pursuant to its well-settled rules of statutory construction, it must resolve any such ambiguity in favor of the conclusion that the Respondent is not. "Laws imposing a license or tax are strictly construed and when there is doubt as to the meaning of such laws they are construed in favor of the taxpayer and against the State." Syl. pt. 1, State ex rel. Lambert v. Carman, 145 W.Va. 635, 116 S.E.2d 265 (1960). Accord Syl. Pt. 2, Baton Coal Co. v. Battle, 151 W.Va. 519, 153 S.E.2d 522 (1967) ("As a general rule, statutes imposing taxes are construed strictly against the taxing authority and liberally in favor of the taxpayer."). Calhoun County Assessor v. Consolidated

¹⁶ Formerly found in Title 110, West Virginia Code of State Regulations, Series 24, §7.17.7.3. (April 15, 1992).

¹⁷ This conclusion is asserted here in support of the threshold argument raised by the Respondent from the inception of this litigation, to-wit: that it was not doing business in West Virginia under the express terms of the CNIT and BFT statutes. It is equally applicable to the Respondent's related but separate points that it was not subject to taxation here under the Due Process and Commerce Clauses of the United States Constitution. Those latter points would also support a contention that, as to the Respondent's business income, it was not fairly apportioned to West Virginia in the assessment.

Gas Supply Corp., 178 W.Va. 230, 358 S.E.2d 791 (1987) (“Statutes governing the imposition of taxes are generally construed against the government and in favor of the taxpayer.”) Coordinating Council For Independent Living, Inc v Palmer, 209 W.Va. 274, 546 S.E.2d 454 (2001).¹⁸

Thus, for the above reasons, the Circuit Court did not err in concluding that, under the terms of the CNIT and BFT statutes, the Respondent was not doing business in West Virginia.

B. THE CIRCUIT COURT COMMITTED NO ERROR IN RULING THAT IMPOSITION OF THE CNIT AND THE BFT ON THE RESPONDENT VIOLATES THE DUE PROCESS CLAUSE OF THE UNITED STATES CONSTITUTION.

To subject a non-resident defendant to the personal jurisdiction of the courts of this State, the Due Process Clause of the United States Constitution requires that the defendant must have “minimum contacts” with West Virginia such that the exercise of jurisdiction would not offend “traditional notions of fair play and substantial justice.” Int’l Shoe Co. v. Washington, 326 U.S. 310, 316 (1945). Abbott v. Owens-Corning Fiberglas Corp., 191 W. Va. 198, 444 S.E.2d 285 (1994). Further, as the Supreme Court has explained, those minimum contacts must be “purposeful contacts” to satisfy the Due Process Clause. Burger King Corp. v. Rudzewicz, 471 U.S. 462, 474 (1985). The purposefully directed requirement protects a defendant from being “haled into a jurisdiction ‘solely as a result of ‘random,’ ‘fortuitous,’ or ‘attenuated’ contacts.’” Burger King, 471 U.S. at 474-75 (quoting Keeton v. Hustler Magazine, Inc., 465 U.S. 770 (1984)). Moreover, this Court has acknowledged that personal jurisdiction cannot be asserted

¹⁸ Indeed, in his brief, the Petitioner recognizes the foregoing principles of construction but cautions the Court against an inadequate application of “intellectual vigor” in determining the Legislature’s intent. Ptr. Br., 15, n. 8. Here, the Circuit Court carefully considered the specific provisions of the CNIT and BFT statutes describing the basis for imposition of those taxes and applied the same to the facts of this case. App., Vol. 5, 960-971. Moreover, as explained above, given the Legislature’s clear intent, not to apportion any of the Respondent’s receipts to this State for purposes of the CNIT or BFT, it must be said that both the rationales and results of the Circuit Court’s ruling readily reflect sufficient intellectual vigor. See, W.Va. Code §§ 11-24-7(e)(12), 11-23-5(m).

over a defendant “with which the State has no contacts, ties, or relations.” State ex rel. CSR Ltd. v. MacQueen, 190 W. Va. 695, 441 S.E.2d 658, 661 (1994) (quoting World-Wide Volkswagen Corp. v. Woodson, 444 U.S. 286, 294 (1980)).¹⁹ Thus, under West Virginia’s “long-arm statutes,” its courts are permitted to exercise personal jurisdiction over a nonresident defendant “transacting business” here only to the extent permitted by the Due Process Clause. W. Va. Code §§ 31D-15-1501 and 56-3-33; Touchstone Research Lab, Ltd. v. Anchor Equip. Sales, Inc., 294 F. Supp.2d 823, 827 (N.D.W.Va 2003).²⁰

For a state to have the jurisdiction to tax a foreign company, due process also “demands that there exist some definite link, some minimum connection, between the state and the person, property or transaction it seeks to tax as well as a rational relationship between the tax and the values connected with the taxing State.”²¹ Thus, in this Court’s opinion in Western Maryland

¹⁹ Although the existence of minimum contacts is analyzed on a case-by-case basis, and no mechanical tests apply, the courts of West Virginia generally refuse to exercise personal jurisdiction over an out-of-state defendant if the defendant: (1) was not authorized to do business in this state, (2) had no representatives in this state, (3) had not done or maintained a place of business in this state, (4) was not a party to a contract to be performed in whole or in part in this state by any party to such contract, (5) did not own property in this state, (6) had committed no tort in whole or in part in this state, (7) had no servants, agents or employees in this state, (8) had not manufactured, sold, offered for sale or supplied a product to any party in this state, and (9) had not appointed anyone to accept service of process in this state. Chase v. Greyhound Lines, Inc., 158 W. Va. 382, 211 S.E.2d 273, 276 (1975).

²⁰ Specifically, those statutes grant personal jurisdiction over a non-resident defendant if it is: (1) transacting any business in this state, or (2) contracting to supply services or things in this state. W.Va. Code §56-3-33(a)(1) & (2). Further, West Virginia Code §31D-15-1501(d), elaborating on how the “transacting business” provision is specifically applied to foreign corporations, states in part:

A foreign corporation is deemed to be transacting business in [West Virginia] if (1) the corporation makes a contract to be performed, in whole or in part, by any party thereto in this State, (2) the corporation commits a tort, in whole or in part, in this State, or (3) the corporation manufactures, sells, offers for sale or supplies any product in a defective condition and that product causes injury to any person or property within this State notwithstanding the fact that such corporation had no agents, servants or employees or contacts within this State at the time of the injury. Id.

Because our statute provides that a foreign entity’s privity of contract with an in-state party will constitute transacting business here, the absence of such privity is at least a relevant indication that the foreign entity is not transacting business here. Thus, the Circuit Court did not err in relying, in part, on the absence of privity between the Respondent and any in-state parties to hold that the Respondent was not doing business in West Virginia. App., Vol. 5, 969.

²¹ Curiously, for this principle, the Petitioner cites MeadWestvaco Corp. ex rel. Mead Corp. v. Illinois Department of Revenue, 553 U.S. 16 (2008), a case where the Supreme Court ruled that, because one division of an out-of-state

Railway Co. v. Goodwin, *supra.*, it unequivocally held that only “purposive, revenue generating activities in the State” are sufficient contacts to impose taxes on an out-of-state corporation.

In his brief, the Petitioner, while fully acknowledging those due process limitations on the reach of state taxing power, nonetheless, either fails to apply, or misapplies, them to the facts of the present case. Thus, although he quotes from a leading treatise that, under due process, the minimum contacts needed, to subject a physically remote person to a state’s taxing authority, are “essentially about ‘personal jurisdiction’ over such persons,” he engages in none of the analysis required to actually determine the conclusion to which he aspires. 1 J.R. Hellerstein & W. Hellerstein, *State Taxation* §6.11 (3d ed. 2007), *Ptr. Br.*, 17-18.

Moreover, to fit the facts of this case within the minimum contacts standard, the Petitioner cites the ALJ’s erroneous observation that the Respondent’s “licensing contracts anticipate the sale of the licensed products in West Virginia.” *App.*, Vol. 5, 823. As explained above, at most, the Respondent’s licensing agreements anticipate that its non-resident licensees will exercise their own discretion, based upon their warranted “superior knowledge,” to decide how and where to market their own products which bear the licensed trademarks and trade names.²² That some of those products may have ended up being sold, either by the licensees or the licensees’ customers, to third parties in West Virginia — as opposed to somewhere else — was not within the Respondent’s control.

The error of the conclusions, the Petitioner would have the Court draw from such a finding, is further reflected in the judicial authority he then cites wherein a forum state had personal jurisdiction over “a corporation that delivers its products into the stream of commerce

corporation was found by the lower state court not to be engaged in a unitary business with the rest of the corporation, the income realized by the sale of the division was not business income for income tax apportionment purposes (and, thus, not taxable) in a state in which the corporation was otherwise doing business. *Ptr. Br.*, 17.

²² See, note 7, *supra.*

with the expectation that they will be purchased by consumers in the forum State.” Ptr. Br., 18, citing World-Wide Volkswagen. By contrast, here, the only products involved are those of the Respondent’s licensees the latter of whom are the parties who “deliver them into the stream of commerce.” Likewise, again, the Respondent’s only “expectation” is that the licensees will exercise their own discretion, based upon their warranted “superior knowledge,” to decide how and where to market their own products.²³

The Fourth Circuit and a West Virginia federal district court have, however, specifically rejected such a broad “stream of commerce” theory and have, instead, adopted Justice O’Connor’s approach in Asahi Metal Industry Company v. Superior Court of California, 480 U.S. 102 (1987). See Lesnick v. Hollingsworth & Vose Co, 35 F.3d 939, 945-46 (4th Cir. 1994); Bashaw v. Belz Hotel Management Co., 872 F.Supp. 323, 326 (S.D.W.Va. 1995) (holding that the plaintiff could not solely rely upon the “stream of commerce” theory, but must establish that the defendant had sufficient “minimum contacts” which were “purposefully directed” to the forum state). Specifically, Justice O’Connor, in Ashai stated that the placement of a product into the stream of commerce -- without more -- is not an act purposefully directed at the forum state. See Asahi, *supra*. 480 U.S. 102, 112 (1987) (O’Connor, J., plurality, joined by Rehnquist, C.J., Powell, Scalia, JJ.).

In his brief, the Petitioner argues that Circuit Court was “wrong” to rely on that holding from Asahi based on the fact that it merely represents a plurality view. Ptr. Br., 21. Nevertheless, the view, that due process requires more than merely placing a product into the

²³ The Petitioner’s reliance on a Minnesota case is equally inapposite. See, Rostad v. On-Deck, Inc., 372 N.W.2d 717 (Minn. 1985). There, in great contrast to the Respondent’s limited role (of simply licensing the use of reproduced images of its trademarks and trade names), the out-of-state defendant in Rostad not only owned the trademark and trade name, but it manufactured the products and distributed and sold them both through contracted distributors and directly to national retailers with outlets in the forum state. *Id.* That, under the facts before it, the Minnesota court found the defendant corporation to be subject to personal jurisdiction there, despite its physical absence from the state, is hardly surprising, much less relevant to resolution of the same issue here.

stream of commerce, is fully supported by the Supreme Court's prior rulings in Burger King and World-Wide Volkswagen. Indeed, the mere "[f]oreseeability" of its product being present in another state is not a "'sufficient benchmark' for exercising personal jurisdiction." Burger King, 471 U.S. at 474 (quoting World-Wide Volkswagen Corp., 444 U.S. at 295.)

Likewise, the United States District Court for the Southern District of West Virginia has interpreted the Supreme Court's ruling in Asahi as stating, in effect, that "the Justices . . . unanimously agree that the defendant must have the purpose and intent to reach the forum state in order for a court to assert jurisdiction over him." Estes v. Midwest Prods., Inc., 24 F. Supp.2d 621, 627 (S.D.W. Va. 1998). (Emphasis added.)

To the extent that this Court has adopted the stream of commerce theory for establishing minimum contacts in a products liability setting, it defined that theory as being applicable:

When a manufacturer voluntarily chooses to sell his product in a way in which it will be resold from dealer to dealer, transferred from hand to hand and transported from state to state, he cannot reasonably claim that he is surprised at being held to answer in any state for the damage the product causes. Hill by Hill v. Showa Denko, K.K., 188 W. Va. 654, 657, 425 S.E.2d 609, 612 (1992) (internal citations omitted).

In contrasting the facts of that case with Asahi, this Court emphasized that Showa Denko K.K., unlike the physically absent defendant in Asahi, exercised complete power and control over its in-state affiliate in selling the defective product. Showa Denko, K.K., 425 S.E.2d at 61. Also, unlike Showa Denoko, the Respondent here does not exercise any control over the marketing decisions of manufacturers and distributors who license the use of its trademarks and trade names. That distinction is all the more compelling in the context of this case, involving sufficient contacts to support the jurisdiction to impose taxation (instead of exercise personal jurisdiction in a products liability case), because the fact of the corporate affiliation between the parties here is not a relevant consideration. See, note 9, *supra*. Rather, far more like the facts in

Asahi, the Respondent here did not “create, control, or employ the distribution system” that, due to the decisions of others, brought the products of others, bearing its trademarks and trade names, into West Virginia. See, Asahi, 480 U.S. 102, 109–10 (1987).

Even more inapposite and misleading, in terms of the Petitioner’s due process analysis, is the quote contained in his brief, employing his own parenthetical inserts to apply, to the purportedly comparable facts of this case, the principles stated in a ruling by another state’s court. Ptr. Br., 19. Specifically, the Petitioner asserts that the Respondent:

encouraged [West Virginia] consumers to shop at [licensee stores] through an implicit promise, manifested by the trademarks, that the products of those stores were of good quality and value; [it] relied on [licensee] employees ... to maintain a positive *retail* environment, including store cleanliness and proper merchandise display.’ *Id.* at 93. Id. (Emphasis added).

While, upon first reading, the original source of the foregoing passage was a mystery, the fact that it had nothing to do with the actual facts of this case was abundantly clear.²⁴ First, the highlighted word “retail” was an obvious clue that the facts being addressed were not from this case. Moreover, it was equally certain that, unlike the taxpayer in the quoted passage, the Respondent did nothing to encourage West Virginia consumers to shop at any particular store, much less at those of its licensees — none of which owned or operated any stores here.²⁵

Purposeful contacts occur when they “proximately result from” actions by the defendant himself that create a ‘substantial connection’ with the forum state” or when the defendant’s

²⁴ The undersigned counsel’s inquiry about the judicial ruling to which the “*Id.* at 93” at the end of the quoted passage referred, led to the disclosure that the case from which the quotation was taken, and extensively massaged for persuasive effect, via parenthetical replacement, was Geoffrey, Inc. v. Commissioner of Revenue, 453 Mass. 17, 899 N.E.2d 87, at 93 (2009). A more complete discussion of the sharp distinctions, between all of the Geoffrey cases cited by the Petitioner and this case, will be presented in subdivision D., *infra*.

²⁵ Later, the Petitioner rewrote and further convoluted the quotation to claim that the Respondent “encouraged [West Virginia] consumers to shop at [retailers of licensee goods] through an implicit promise, manifested by the trademarks, that the products of those stores would be of good quality and value; [it] relied on [retailer] employees ... to maintain a positive retail environment, including store cleanliness and proper merchandise display.” Petitioner’s Letter to the Clerk, dated June 9, 2011. Of course, beyond the fact that the cited court did not actually discuss the facts here, the Petitioner’s corrections merely serve to emphasize how tenuous (indeed, constitutionally unrecognizable) is the Respondent’s connection with the conduct of any business here.

efforts are “purposefully directed” at the state. Burger King, *supra*. For example, the United States Court of Appeals for the Fourth Circuit has held that even a non-resident defendant, who reached out to the forum state by occasionally initiating telephone calls to businesses in that state requesting services to be performed there, lacks the necessary purposeful contacts between himself and the forum state. Stover v. O’Connell Associates, Inc., 84 F.3d 132, 136 (4th Cir.1996) (citing Burger King Corp., 471 U.S. at 475).

Here, contrary to the Petitioner’s contentions, the Respondent’s national advertising activities, alone, were not enough to satisfy the minimum contacts requirement. Many jurisdictions have held that a non-resident defendant’s national advertising, without any other minimum contacts, is simply not enough for any particular state to exercise personal jurisdiction.²⁶ Further, a non-resident defendant does not purposefully avail himself of the privileges of the state by merely advertising in a national publication. Carothers v. Vogeler, 148 Vt. 316, 532 A.2d 580, 582 (1987).

To hold otherwise would subject all advertisers in nationally distributed publications to jurisdiction in each state in which the publications are distributed. Insull v. N.Y. World-Telegram Corp., 273 F.2d 166 (7th Cir. 1959). Such limited “contact” is simply too attenuated to constitute a minimum contact for due process purposes. Further, the United States Court of

²⁶ See Michel v. Rocket Engineer Corp., 45 S.W.3d 658 (Tx. Ct. App. 2001) (holding that advertising in national or even international media—as compared to state or local publications—did not provide sufficient minimum contacts and advertising in national publication was not activity purposefully directed at forum state); Hayes v. Wissel, 882 S.W.2d 97, 98 (Tx. Ct. App. 1994) (holding that Colorado seller’s advertisement in international magazine read by Texas buyer was not a sufficient minimum contact); Siemer v. Learjet Acquisition Corp., 966 F.2d 179, 183–84 (5th Cir. 1992) (holding advertisements in national journals, together with mailing information to Texas customers and Texas sales insufficient for general jurisdiction), cert. denied, 506 U.S. 1080 (1993); Beary v. Beech Aircraft Corp., 818 F.2d 370, 376 (5th Cir. 1987) (holding nationwide advertisements, together with other contacts with Texas, insufficient for general jurisdiction where defendant made no effort to limit states in which product marketed); Lane v. WSM, Inc., 575 F.Supp. 1246 (W.D.N.C.1983) (national magazine advertising and direct mail campaigns in North Carolina alone insufficient; but with continuous broadcasts from Tennessee soliciting customers minimum contacts existed); Southern Case, Inc. v. Mgmt. Recruiters Intern., 544 F.Supp. 403 (E.D.N.C.1982) (advertising, together with ongoing franchise contracts, visits by representatives, training, and royalty collection sufficient); World-Wide Volkswagen Corp. v. Woodson, 444 U.S. 286 (1980) (advertising is only one of several factors).

Appeals for the Fourth Circuit has also held that advertising and solicitation activities without more do not constitute the “minimum contacts” required for personal jurisdiction. Nichols v. G.D. Searle & Co., 991 F.2d 1195, 1199-1200 (4th Cir. 1993); Federal Ins. Co. v. Lake Shore, Inc., 886 F.2d 654, 659 (4th Cir. 1989).

Therefore, as the Respondent’s only contact with the West Virginia market is through its national advertising campaign, and such contact has been judicially declared too tenuous to constitute the minimum contact necessary to satisfy requirements for personal jurisdiction, it has not purposefully directed its business activities to this state for due process purposes.

Accordingly, upon application of the foregoing constitutional standards for personal jurisdiction to the present facts, it is clear that the Respondent did not have sufficient minimum (indeed, any) contacts with West Virginia to make it subject to the State’s exercise of personal jurisdiction over it. Because application of those standards, to determine the limits of state tax authority, yield the same conclusion reached by the Circuit Court, it did not commit error in holding that due process barred imposition of the CNIT and BFT on the Respondent.

C. THE CIRCUIT COURT COMMITTED NO ERROR IN RULING THAT THE IMPOSITION OF THE CNIT AND THE BFT ON THE RESPONDENT VIOLATES THE “DORMANT” COMMERCE CLAUSE OF THE UNITED STATES CONSTITUTION.

1. Unlike the taxpayer in MBNA, the Respondent has no commercial relations, nor does it do business, with *any* customers in West Virginia, and, thus, it lacks *any*, much less substantial, economic presence in this State.

The Petitioner claims the Circuit Court erred by failing to apply the “substantial economic presence test,” recognized by this Court in Tax Commr. v. MBNA American Bank, N.A., 220 W.Va. 163, 640 S.E.2d 226 (2006), to the Respondent’s business activities. Ptr. Br., 22. In doing so, the Petitioner both overlooks the legally conclusive factual distinctions between

MBNA and this case, and misstates the Circuit Court's application of the Commerce Clause jurisprudence which this Court also followed in MBNA.

First, the taxpayer in MBNA, an issuer and servicer of credit cards, "continuously and systematically engaged in direct mail and telephone solicitation and promotion in West Virginia" as the essential nature of its enterprise. MBNA, 220 W.Va. 164, 172 (Emphasis added). That is precisely why this Court found that it had the substantial economic presence in West Virginia required to satisfy the substantial nexus standard under controlling Commerce Clause jurisprudence and, thus, was taxable due to "its significant gross receipts attributable to its West Virginia customers." MBNA, 220 W.Va. 172-173 (citing Complete Auto Transit, Inc. v. Brady, 430 U.S. 274 (1977) and Western Maryland Ry. Co. v. Goodwin, 167 W.Va. 804, 282 S.E.2d 240 (1981) (Emphasis added.)).

In sharp contrast to the taxpayer in MBNA, the Respondent had no customers or contracting parties in West Virginia nor was it a party to any contract any part of the performance of which occurred here. It certainly did not engage in any solicitation of West Virginia customers, whether by direct mail, telephone or otherwise.²⁷

In seeking a contrary conclusion, the Petitioner argues that, if the Respondent were not "purposefully directing its trademarks to West Virginia," it should have excluded this state "as a potential market" for its licensees' products bearing its trademarks and trade names. Ptr. Br., 22. Of course, that view ignores both the facts surrounding the terms of the Petitioner's licensing agreements and the clear case law applying the "purposeful availment" standard.

Specifically, as explained above, given the essential nature of its enterprise, and the express terms of its licensing agreements, the Respondent was legally and economically

²⁷ Of course, as explained above, as to whether it is exploiting a particular jurisdiction's economic market for Due Process or Commerce Clause purposes, the Respondent's national advertising activities are not treated as constitutionally meaningful by the apparently unanimous weight of judicial authority. See, pp. 21-22, *supra*.

indifferent as to whether its licensees' customers did business in West Virginia or in any other particular state, *per se*. Furthermore, the "mere foreseeability," that its licensees' products, bearing its trademarks and trade names, might end up being sold by others in West Virginia, is not sufficient to find that the Respondent was doing business here. The same is true of the suppliers of the ingredients and packaging containers used by the Respondent's licensees (only at facilities outside of West Virginia) to process and distribute their products. Thus, there can be no such affirmative duty on the Respondent (as there is none on those suppliers of ingredients and containers) to prohibit the sale, by its licensees or the licensees' customers, of their products bearing its trademarks and trade names in West Virginia, in order to not be ensnared by the unconstitutional reach of this State's taxing power.

Moreover, given the sharp contrast between such facts and those surrounding the business of the taxpayer in MBNA, the Petitioner's attempt to conflate the same must also fail. Specifically, the Petitioner claims that because both the Respondent and the taxpayer in MBNA depend, for their income, on the "sale of someone else's product" in West Virginia, they both do business here. *Ptr. Br.*, 28. The problems with such a comparison are manifold.

First among those are the profound legal, economic and regulatory distinctions between the nature of the Respondent's business relationship with its licensees (licensing the use of intangible personal property) and the nature of the business between the taxpayer in MBNA and its customers (extending credit). That the Respondent earned its income by charging royalties to licensee/manufacturers for the use of its intangible personal property, while the taxpayer in MBNA earned its income by charging interest and service fees to retail consumers for the use of money, hardly makes their businesses comparable for any purpose. Moreover, what is most meaningful to the issue of their respective taxability here is the fact that none of the parties with

which the Respondent conducts its business were in West Virginia, while all of the customers, with which MBNA conducted its taxable business here, were in West Virginia.

Further, and perhaps most importantly, the Petitioner's comparison proves far too much because if any indirect economic advantage a business enjoys, as a result of the economic activity of others, is the test of taxable nexus, then every business in the national or even global marketplace could be subject to tax everywhere for its profit from the conduct of every other business anywhere. Avoiding such state-level impositions on the free flow of multi-jurisdictional economic activity is exactly why our nation's founders reserved to Congress the exclusive power to regulate foreign and interstate commerce.²⁸

Thus, when the Petitioner, in asserting comparable taxability due to the Respondent's and MBNA's purportedly shared need "for the sale of someone else's product," points out that "without a turkey to attach the Butterball trademark to, [the Respondent] receives no revenue," he effectively also asserts that an out-of-state farmer, who supplies the turkey to the Respondent's licensee, was taxable anywhere the turkey is sold. Proper analysis, as applied in MBNA, would, instead, focus on the fact that MBNA had customers in West Virginia while the Respondent and the farmer did not.

The Petitioner likewise distorts the Circuit Court's construction of, and adherence to, this Court's application of the constitutional standards in MBNA. Specifically, in its opinion, the Circuit Court correctly recognizes that, effectively, this Court declared in MBNA, that the rebuttable statutory nexus presumption, applicable in that case for financial organizations, was constitutional, notwithstanding that it did not require physical presence for the imposition of the CNIT and BFT. App., Vol. 5, 968. Thus, the Circuit Court recognized the constitutionality of

²⁸ See, Section D., *infra*.

the Legislature's action in establishing such a standard for financial organizations based on the "quantitative degree of [MBNA's] systematic and continuous activity of soliciting and/or conducting business with customers in West Virginia." Id.

Contrary to the Petitioner's contentions, the Circuit Court did not purport to create a rebuttable presumption for non-financial service corporations, nor did it purport to require that the Legislature do so before the Respondent could be taxed. *Ptr. Br.*, 25. Moreover, despite the Petitioner's recognition that financial organizations "conduct their business in a manner unlike other business entities," if a comparable presumption, for other, ordinary corporations, were enacted, based on the nexus standards recognized by this Court in MBNA, it would, likewise, look to the "quantitative degree of [the corporations'] systematic and continuous activity of soliciting and/or conducting business with customers in West Virginia." Id. (Emphasis added.)

That, the Circuit Court further concluded that the Legislature had not, to date, exercised its authority to establish such a rebuttable presumption for nexus in the case of taxpayers in other businesses, hardly supports the Petitioner's contention that the effect of the Circuit Court's legal conclusion in that regard was erroneous or, in any way, at odds with this Court's holding in MBNA that constitutional nexus did not require physical presence. Thus, it was not the absence of a rebuttable nexus presumption in the tax statutes, or just the physical absence of the Respondent from West Virginia, but the absence of any customers of the Respondent in this state on which the Circuit Court relied in making its conclusions.

Finally, the Petitioner would also distort this Court's express rejection, in MBNA, of comparisons of the issues in that case to those in Geoffrey and its progeny, as somehow implying the astounding view that the mere presence in a state of reproduced images of intellectual property "as providing a more substantial tax nexus [with the owner of such property] than that

under review in MBNA.” Ptr. Br., 23-24. Rather, in MBNA, this Court rejected the Petitioner’s attempts, to justify the imposition of taxes on the taxpayer there on the basis of the rulings in Geoffrey, etc., because the latter relied on the fact that physically absent taxpayers used their trade names in the taxing states to establish sufficient nexus for tax purposes. Id., n. 11. This Court was justified in distinguishing MBNA from those cases because, instead of having intangibles in West Virginia, the taxpayer before it in MBNA had customers here.²⁹

2. The imposition of the CNIT and BFT on the Respondent violates the principles established by the Supreme Court in Complete Auto.

As this Court recognized in MBNA, the so-called “dormant” or “negative” Commerce Clause of the United States Constitution operates to limit (but not preclude) the power of the states to impose taxation on businesses conducted in interstate commerce. Tax Commr. v. MBNA American Bank, N.A., 220 W.Va. 163, 640 S.E.2d 226 (2006). That undeniably valid conclusion naturally arises from that provision’s exclusive grant of power to regulate foreign and interstate commerce to the Congress. Id.

Moreover, when it comes to limitations on state taxing power, the Commerce Clause is said to impose a similar but more rigorous standard than that of the Due Process Clause. Quill Corp. v. North Dakota, 504 U.S. 298 (1992). Specifically, “[a]lthough [we] might suggest that every tax that passes contemporary Commerce Clause analysis is also valid under the Due Process Clause, it does not follow that the converse as well is true: A tax may be consistent with due process and yet unduly burden interstate commerce.” Quill Corp. 504 U.S. at 313-14 n. 7.

That is the case because, as recognized by this Court in MBNA, to authorize state taxation of a non-resident business, due process only requires “some definite link, some

²⁹ As Subdivision D. of this Brief explains, the Geoffrey line of cases are, also, readily distinguishable from the present matter on their facts and, thus, do not speak to how Commerce Clause jurisprudence applies here.

minimum connection, between a state and the person, property or transaction it seeks to tax.” MBNA, at p. 10 (citing Quill, 501 U.S. at 306) (quoting Miller Brothers v. Maryland, 347 U.S. 340, 344-345 (1954)). On the other hand, under the Commerce Clause, state taxes unconstitutionally interfere with interstate commerce when they fail to meet any part of a four-prong test established in Complete Auto Transit, Inc. v. Brady, 430 U.S. 274 (1977).

There, the Supreme Court prescribed a four-prong test for analyzing whether the Commerce Clause bars a state from taxing an out-of-state actor. That test requires that, to be valid, “the tax [1] is applied to an activity with a substantial nexus with the taxing State, [2] is fairly apportioned, [3] does not discriminate against interstate commerce, and [4] is fairly related to the services provided by the State.” Complete Auto, 430 U.S. at 279. In this case, the Petitioner’s attempt to tax the Respondent, notwithstanding the fact that, as the Circuit Court held, Respondent has no presence in West Virginia, fails all four prongs — leaving no conclusion other than that the imposition of the taxes here is unconstitutional.³⁰ However, in claiming error in the Circuit Court’s Commerce Clause holding, the Petitioner cites various other Supreme Court decisions also addressing constitutional limits on state taxation of interstate commerce, but only in the context of facts readily distinguishable from those here.

Specifically, in support of his contention that the Circuit Court disregarded the “economic realities of trademark licensing transactions,” he quotes Wisconsin v. J.C. Penney Co., 311 U.S. 435 (1940), for the proposition that “[t]he fact that a tax is contingent upon events

³⁰ In a footnote in his brief, the Petitioner mistakenly claims that the only basis of the Respondent’s challenge of the imposition of the subject taxes on it is, effectively limited to, the first (substantial nexus) prong of the Complete Auto test. Ptr. Br., n. 6. Such a contention is mistaken because: (1) it ignores the Respondent’s arguments below [App., Vol. 4, 768, 771; Vol. 5, 870, 879]; and (2) it ignores the doctrinal interplay among the four prongs. See, p. 1, *supra*. Moreover, the Petitioner’s attempt to thus limit the scope of this Court’s analysis here is ill-conceived because, as this Court reiterated in MBNA, “[i]t is axiomatic that ‘[t]his Court may, on appeal, affirm the judgment of the lower court when it appears that such judgment is correct on any legal ground disclosed by the record, regardless of the ground, reason or theory assigned by the lower court as the basis for its judgment.’” MBNA, n. 19 [citing Syl. Pt. 3, Barnett v. Wolfolk, 149 W.Va. 246, 140 S.E.2d 466 (1965)].

brought to pass without a state does not destroy the nexus between such tax and transactions within a state for which the tax is an exaction.” Id. at 445, Ptr. Br. 27. Unlike the Respondent, the taxpayer in J.C. Penney had not only customers, but numerous stores in the taxing state, and the issue was whether the taxpayer’s declaration of dividends by its board at its New York offices was subject to Wisconsin’s tax on the portion of those dividends related to the company’s income admittedly earned in that state.

Similarly, the Petitioner quotes the Supreme Court in Mobil Oil Corp v. Commissioner of Taxes, 445 U.S. 425 (1980), for the proposition that “[w]hile a business has numerous ‘taxable events’ that occur outside [West Virginia][,] [t]hat fact alone does not prevent the State from including income earned from those events in the preapportionment tax base.’ [Id.] at 440.” Ptr. Br., 27. Beyond the misleading parenthetical insertion of “West Virginia,” the highly edited quote hardly speaks to the circumstances here where the Circuit Court found that the Commerce Clause barred the imposition of the CNIT and BFT on the Respondent, not because of the taxable events that occurred as a result of its activities outside of West Virginia, but because of the complete absence of the conduct of the Respondent’s business inside of West Virginia. That is in stark contrast to the facts of Mobil Oil where the taxpayer did extensive business in the taxing state, on which it readily acknowledged it was subject to tax there, but was trying to exclude its income earned overseas from the apportionable base it used to pay taxes to that state.

Therefore, the Circuit Court committed no error in ruling that imposition of the CNIT and BFT violated the four-prong Commerce Clause test under Complete Auto.

D. THE CIRCUIT COURT COMMITTED NO ERROR IN RULING THAT THE RESPONDENT DID NOT HAVE THE SUBSTANTIAL PRESENCE - PHYSICAL, ECONOMIC OR OTHERWISE - CONSTITUTIONALLY REQUIRED FOR IMPOSITION OF THIS STATE’S TAXES.

1. The mere presence, in West Virginia, of an image of the Respondent’s intellectual property on the tangible personal property of others, does not

constitute the Respondent's use of its intangible property here or give the Respondent the substantial economic presence in this State required by Complete Auto and MBNA.

In his attempt to conjure up error in the Circuit Court's holding, the Petitioner contends that, at the Respondent's urging, the Circuit Court imposed "a requirement of contractual privity that, in effect, serves as a proxy for the physical presence requirement." Ptr. Br., 29. In doing so, the Petitioner distorts the substance of the Circuit Court's holding.

Specifically, the Circuit Court simply held, in effect, that, absent a showing of physical presence (which, alone would suffice), for a taxpayer to have the substantial nexus with West Virginia to be taxed here, as required by Complete Auto, it had to have sufficient economic relationships (i.e. "privity") with customers in this state's market. App., 969.

In challenging that conclusion, the Petitioner cites the holdings of various other state courts addressing the application of the first (substantial nexus) prong of the Complete Auto test to the circumstances of physically absent IHCs.³¹ As described in section 1., of subdivision A. above, the business purposes for which the Respondent was organized, and the economic substance of its operations, contrast sharply with the lack of such features in the taxpayers involved in the cases cited by the Petitioner. Moreover, the absence of the Respondent's economic relationships with parties and transactions in West Virginia belies any comparison to the business activities of the IHCs in the states taxing them in those cases.

³¹ A & F Trademark Inc. v. Tolson, 167 N.C. App. 150, 605 S.E.2d 187 (2004); Am. Dairy Queen Corp. v. Taxation & Revenue Dep't of N.M., 605 P.2d 251 (N.M. App. 1979); Geoffrey, Inc. v. S.C. Tax Comm'n, 437 S.E.2d 13 (S.C. 1993) (hereinafter, Geoffrey [SC]); Geoffrey, Inc. v. Okla. Tax Comm'n, 132 P.3d 632 (Okla. 2005) (hereinafter, Geoffrey [OK]); Geoffrey, Inc. v. Comm'r of Revenue, 899 N.E.2d 87 (Mass. 2009) (hereinafter, Geoffrey [MA]); KFC Corp. v. Iowa Dep't of Revenue, 792 N.W.2d 308 (Iowa 2010); Kmart Properties, Inc. v. Taxation & Revenue Dep't of N.M., 139 N.M. 177, 131 P.3d 27 (Ct. App. 2001); Lanco, Inc. v. Dir. Of Taxation, 879 A.2d 1234 (N.J. Super. 2005) and Sec'y, Dep't of Revenue, State of La. v. Gap (Apparel), Inc., 886 So. 2d 459 (La App. 1 Cir. 2004). Ptr. Br., 30-37

Specifically, the Respondent had offices, employees and paid significant taxes on the income produced by its business activities outside of West Virginia. The Respondent's business activities consisted exclusively of: (1) allowing its licensees to affix reproduced images of its trademarks and trade names to products manufactured by the licensees at facilities entirely outside of West Virginia; and (2) in order to protect and promote the value of those trademarks and trade names, engaging in product quality control activities at those facilities, in legal activities in courts outside of West Virginia and in overseeing national advertising. The Respondent's only "connection" with the West Virginia economic market, *per se*, on which the Petitioner would justify the State's taxation of such business activities is based on the combination of: (1) the fact that the Respondent's income is measured by varying percentages of the gross receipts of its licensees from the latter's sale of their own products bearing the reproduced images of the Respondent's trademarks and trade names throughout the United States and (2) the fact that, as a result of marketing and commercial decisions made by the licensees or the licensees' customers and not by the Respondent, a relatively small portion of those products find their way into the West Virginia market.

By contrast, the circumstances surrounding the taxpayers in the cases cited by the Petitioner, involve both far less economic substance in their business operations and far more meaningful relationships with the economic markets of the states that taxed them. For example: in each of the cases cited, (1) the IHC was determined to lack economic substance and/or had tax avoidance as its only apparent purpose, (e.g. Geoffey [S.C.] Geoffrey [OK.] and Geoffey [MA.]: no employees, no taxes paid elsewhere; A&F Trademark: no employees, no taxes paid elsewhere, no unrelated licensees, no change in day-to-day operations or cash flow of the in-state operating affiliates as a result of the licenses; Kmart, and Lanco: no taxes paid elsewhere);

and/or (2) the IHC's only licensees were its parent company or another controlled affiliate which directly operated brick-and-mortar retail sales establishments within the taxing state, where tradenames were physically displayed on signage and utilized to generate retail sales in those retail stores (e.g. Geoffrey [S.C.] , Geoffrey [OK.], Geoffey (MA.), Kmart, Lanco, A&F Trademark and Gap (Apparel) or, at the least, (3) the IHC licensed trademarks directly to entities, or the entities' customers, who operated brick-and-mortar retail stores in the taxing state, which were unaffiliated with it, but over which it exerted extensive operational control and to which it sold large volumes of goods and services. (e.g. KFC, supra.) or (4) the IHC licensed franchise rights to unrelated third parties for the operation of brick-and-mortar retail stores that were specific to the taxing state (e.g. Amer. Dairy Queen, supra.).

Thus, unlike the IHCs in the other state court cases cited by the Petitioner, the Respondent has economic substance and a business purpose independent of tax savings, the Respondent's licensees do not operate retail stores within West Virginia, nor was its intellectual property displayed and used by the Respondent in West Virginia to generate sales of anything, nor were its licensing agreements specific to use at brick-and-mortar retail stores in this state. Therefore, unlike the IHCs in the cited cases, the Respondent's purported use of its intangible property in West Virginia, otherwise necessary to create substantial nexus, does not exist.

To the extent they make sales into West Virginia, the Respondent's licensees have substantial nexus in, and pay tax to, West Virginia based on their business activities in West Virginia, including the sale of products they make in West Virginia. The crux of the issue here, however, is the determination of what constitutes "the Respondent's use of its intangible property in the state" sufficient to create substantial nexus for it in West Virginia.

The Respondent contends that the mere presence of its trademarks or trade names on products, which have been sold by its licensees to retailers, who, in turn, place the products on their store shelves in this state, does not, in and of itself, constitute the Respondent's usage of intangible property in West Virginia, sufficient to create substantial nexus here. Rather, the trademarks and trade names on the labels of the licensees' finished products reflect the quality and value inherent in those products as a result of the licensees' use of the recipes and processes in their production (which recipes and production processes constituting the usage of intellectual property by the licensees.) occurring at the licensees' manufacturing facilities all of which are entirely outside of West Virginia. To that point, the treatise, the Petitioner cites (Laskin, *Only A Name? Trademark Royalties, Nexus, And Taxing That Which Enriches*, 22 Akron Tax J. 1.) confirms the view that the Respondent lacks substantial nexus with West Virginia.³²

As that author's analysis shows, when a licensor has neither a legal nor a contractual relationship with the retailers in a taxing state, but only has such a relationship with an intervening licensee, then only the licensee is properly subject to an appropriately apportioned income tax on the income it derives from sales to the retailers of the licensee's products in or on which licensed reproductions of the licensed intellectual property is found. Specifically, in plumbing the parameters of substantial economic presence via the use of a physically absent party's intellectual property in a taxing state, Mr. Laskin offers the following example.

The licensor of intellectual property has at least a contractual, and often a legal, relationship with the licensee using the intellectual property in the taxing state. On the other hand, the author of a book typically has neither a legal nor a contractual relationship with the retailers who sell the books. Instead, “[b]ook authors usually contract with book publishers for the publication of their works,

³² This authority has special significance in that Mr. Laskin is the general counsel of the Multi-State Tax Commission (MTC) - the agency which conducted the audit that led to the instant assessments and, even more critically, provided the primary legal rationales on which their validity exclusively relies.

the publisher taking title to all rights in the work subject to the provisions of the contract.” For example, the books of noted legal thriller author John Grisham are published by Random House. Random House, not John Grisham, has the contractual relationship with each retailer for the sale of Grisham's books. As such, Random House is properly subject to an appropriately apportioned income tax on the income it derives from sales of the books in each state in which the books are sold. Random House would apportion its receipts from the book sales on the basis of a formula, the numerator of which is its total receipts in the taxing state during the tax period, and the denominator of which is the publisher's total receipts everywhere during the tax period.

Unlike the publisher, John Grisham derives no income from the sale of his books merely because of their association with his copyrights. While the measure of his compensation is undoubtedly based on the total volume or price of books sold, the fact remains that he is neither the seller of the books nor in any way affiliated with or contractually linked to the seller. Grisham is entitled to royalty compensation solely under his contract with Random House. Therefore, his liability for state income tax on his royalty income is determined without regard to where the books are sold. *Id.*, p. 25-26.

Thus, like Mr. Grisham, the Respondent only has contracts with the licensees, which produce their products outside of West Virginia. Just as the author usually contracts with a publisher for the publication of his book, with the publisher having all rights in it, the Respondent only contracts with its licensees, which, alone, produce and own the product. Just as the publisher, not the author, has the contractual relationship with the bookseller, the Respondent's licensees, or the licensee's customers, not the Respondent, have the contractual relationships with the retail sellers, including those in West Virginia.

Accordingly, just as Mr. Grisham, as author/licensor, would not, according to the general counsel of the MTC, be subject to taxation in West Virginia merely because he has protected intellectual property rights in the covers and contents of books he writes, some of which are sold here, the Respondent is not subject to taxation in West Virginia merely because of the presence of its protected trademarks and trade names on the labels of the products of others if they enter this state. Thus, the mere presence of trademarks and trade names on products in interstate

commerce does not constitute the use of such intellectual property in West Virginia sufficient to create substantial nexus for Respondent any more than the presence of Mr. Grisham's intellectual property, on the books brought into the state, create it for him.

Yet, the Petitioner cites the foregoing article and a 1936 property tax case (involving an early recognition of the concept of "business or operational situs" for intangibles) for the proposition that "[w]hen we deal with intangible property ... we encounter the difficulty that by reason of the absence of physical characteristics they have no situs in the physical sense, but have the situs attributable to them in legal conception." Id. (quoting Wheeling Steel Corp. v. Fox, 298 U.S. 193 (1936)). However, the article's author, Mr. Laskin, general counsel of the MTC, had no trouble in his example of determining where intangible property did not have a legal or economic situs for Commerce Clause purposes. Likewise, the Circuit Court here committed no error in determining that, under these facts, the Respondent's intangible personal property did not acquire a situs in West Virginia sufficient to constitute a substantial presence here.

The Petitioner correctly states that it is settled law that intangible property may, for purposes of taxation, be treated as having a situs other than in the domiciliary state of its owner. Geoffrey [S.C.], *supra.*, citing Commonwealth of Virginia v. Imperial Coal Sales Co., Inc., 293 U.S. 15 (1934). However, it is precisely by virtue of the essentially unlimited mobility of intangibles that, if taxable situs is to have any objective legal dimensions, the Commerce Clause parameters described in Complete Auto must be applied. Otherwise, as explained below, the evils, of a "balkanized" economy this nation's founders sought to avoid, will emerge.³³

³³ As Professor Hellerstein observes about Geoffrey [S.C.], in his treatise cited by the Petitioner:

Finally, the South Carolina court's suggestion that its finding of a constitutionally sufficient nexus was independently justified by the "presence" of Geoffrey's intangible property in South

2. Extension of West Virginia's taxing power to a taxpayer lacking substantial economic presence in this State, such as the Respondent, would, if sustained, lead to the very "balkanization" of the national economy that the Commerce Clause was intended to prevent.

The Framers of the United States Constitution intended, by the Commerce Clause, to prevent the states from retreating into economic isolation, or jeopardizing the welfare of the Nation as a whole, by putting discriminatory burdens on the free flow of goods across their borders, because, "to succeed, the new Union would have to avoid the tendencies toward economic Balkanization that had plagued relations among the Colonies and later among the States under the Articles of Confederation." Oklahoma Tax Commission v. Jefferson Lines, Inc., 514 U.S. 175, 180 (1995); Wardair Canada, Inc. v. Florida Dept. of Revenue, 477 U.S. 1, 7 (1986) (quoting Hughes v. Oklahoma, 441 U.S. 322, 325-326 (1979)); see also The Federalist No. 42 (James Madison) and Nos. 7, 11 (Alexander Hamilton).

In his brief, the Petitioner notes the "thorough and scholarly review of Dormant Commerce Clause jurisprudence of taxation in interstate commerce, in particular, taxation of proceeds from the use of intangible personal property" by the Iowa Supreme Court in KFC Corp v. Iowa Dept. of Revenue, 792 N.W. 2d 308 (2010); Ptr. Br., 37, n. 14. There, "on the precise issue of whether licensing of intangibles for use in a state that produces income within a state for an out-of-state corporation is subject to income tax," the Iowa Supreme Court expressed a cautionary tone about any reliance on the weight of various other state court rulings "that

Carolina is dubious. The theory of in rem jurisdiction on which the suggestion is based—that the presence of a nonresident defendant's property in the state automatically provides a predicate for asserting jurisdiction over the nonresident—was repudiated by the U.S. Supreme Court in *Shaffer v. Heitner*. ... Accordingly, even if the fiction were embraced that Geoffrey's intangible property is "located" in South Carolina for some purposes, that conclusion would not establish jurisdiction to tax under modern constitutional analysis. *State Taxation, supra*. §6.11[2], pp. 6-58 and 6-59.

expansively applied the ‘substantial nexus test’ of Complete Auto through economic impact analysis.” Id. at 322. Noting the reversals of state court judgments based on such an approach in Bellas Hess and Quill, the Iowa Court recognized “that state supreme courts are inherently more sympathetic to robust taxing powers of states than is the United States Supreme Court.” Id.³⁴

Clearly, if the Respondent can be said to have “substantial nexus” with West Virginia merely because its royalty income is measured by the gross receipts of its licensees from the sale (due solely to the latter’s marketing decisions) of their own products, bearing the Respondent’s trademarks and trade names, to wholesalers and distributors, who, in turn, sell such products to retailers in West Virginia, then the “balkanization” of the United States economy is upon us and the restraints, intended by the Commerce Clause, have failed.

The Court need not look beyond the four corners of the Petitioner’s brief for confirmation that that is precisely the direction in which his theory of state taxing power would take this State. Specifically, the Petitioner has contended that, if the Respondent did not want to be exposed to the extraterritorial reach of West Virginia’s taxing power, it should have prohibited, in its licensing agreements, the flow of its licensees’ goods into this state. Of course, the reason those licensing agreements do not contain such a draconian provision is the Respondent’s reliance on long-settled constitutional jurisprudence broadly defining the limits of state taxing power. Doubtless, the agreements between the licensees and their suppliers of product ingredients and packing containers are similarly void of any such prohibition for the same reasons.

³⁴ Likewise, as another article cited in the Petitioner’s brief concluded: “Most important (indeed, this is the elephant in the room), courts must eventually address whether economic nexus impermissibly burdens interstate commerce.” Swain & Snethen, *A Taxing Question: The Nexus Quagmire Strikes Again*, 15 Bus. L. Today 51, 57 (2006). Ptr. Br., 12.

In the face of such settled expectations, on which all actors in the economy surely rely, the Petitioner notes, with obvious encouragement, what another court effectively characterized as this Court's groundbreaking decision in MBNA that physically absent businesses, deriving income from their use of intangibles in a state, had the substantial nexus constitutionally required to allow that state to tax that income. Ptr. Br., 37, n. 14, citing KFC, 792 N.W.2d at 321-322. Of course, the source of that characterization (the Iowa Supreme Court in KFC) was the same "thorough and scholarly review of Dormant Commerce Clause jurisprudence" that expressly cautioned against reliance on other state court rulings "that expansively applied the 'substantial nexus test' of Complete Auto through economic impact analysis."

More importantly, as explained above, neither the Respondent's position nor the Circuit Court's ruling, rest, to any degree, on the Respondent's lack of physical presence in West Virginia. Rather, the Respondent's position is that, based on settled constitutional jurisprudence, it did not have minimum, much less substantial, nexus with West Virginia because it was not the party using its trademarks and trade names to do business in this state.

Nevertheless, here, the Petitioner urges this Court to adopt a far more elastic concept of substantial nexus than heretofore judicially attributed to the Founders' vision of what was appropriate for the marketplace of the Eighteenth Century when the Commerce Clause was authored. Thus, to the Petitioner, substantial economic presence should, in today's far more complex, technology-driven economy, be based on nothing more than the economic benefits accruing indirectly to a remote taxpayer as a result of "a sale of someone else's product."

That is necessary, the Petitioner argues, because, given the intangible nature of property such as the Respondent's trademarks and trade names, the place of use by others, rather than where its owner is economically, much less physically, present, should be a jurisdiction where

income from it can be taxed. Thus, if such indirect economic benefit were to become the touchstone of taxation, the activities of not only second parties, but third, fourth and all parties beyond, become relevant to the taxation, not only of the first party, but of each of the others.

Furthermore, there is nothing in the Petitioner's theory of "indirect economic benefit" which confines its application to those dealing in intangible personal property or would preclude the tax from reaching any party anywhere their indirect economic benefits can be said to have accrued. Thus, all of this would apply, not only to those in the trademark and trade name licensing business, but to all other players in an integrated, dynamic market where ever they are providing goods or services, throughout the entire raw material/container producing and supplying, product manufacturing, wholesaling, distributing and retailing continuum.

In reality, here, unlike MBNA, none of this expansive concept of the scope of state taxing authority is necessitated by the manner in which sophisticated modern business methods may have altered the fundamental nature of economic life in a market-driven economy. Rather, the essential processes and relationships found in the functioning of that farm-to-local-store-shelf continuum (including the labeling of products with protected trademarks and trade names) were at work when, and, indeed, long before, the rulings of the United States Supreme Court, establishing the current contours of the dormant Commerce Clause, were issued. On those concepts, the Respondent, and all other participants in that continuum today, have relied in arranging their business operations and in entering into their commercial obligations.

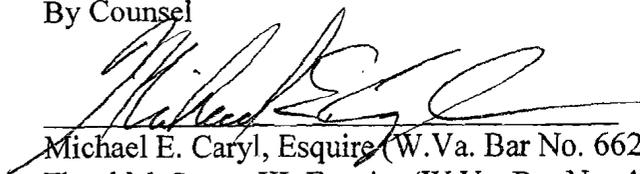
That is what the Founders' vision, for a robust national, and even global, economy, grounded on free trade, intended by adopting the Commerce Clause principles now embraced in our constitutional jurisprudence. To honor that intent, and the wealth and human progress that implementation of those principles have fostered, this Court should affirm the Circuit Court.

VII. CONCLUSION

Based on the evidence in the record of this matter, and on the foregoing points and authorities, it is respectfully submitted that the Circuit Court committed no error and its Final Order should be affirmed.

CONAGRA BRANDS, INC., Respondent

By Counsel



Michael E. Caryl, Esquire (W.Va. Bar No. 662)

Floyd M. Sayre, III, Esquire (W.Va. Bar No. 4342)

Bowles Rice McDavid Graff & Love, LLP

101 South Queen Street

Martinsburg, West Virginia 25401

(304) 264-4225

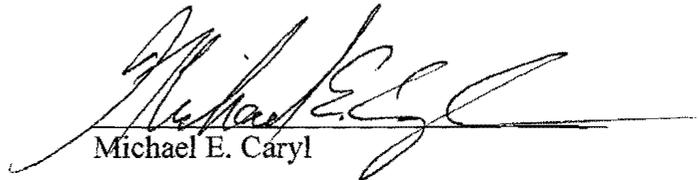
Petitioner's Counsel

CERTIFICATE OF SERVICE

I, Michael E. Caryl, Esquire, do hereby certify that a true and exact copy of the foregoing Respondent's Brief has been served, by United States mail, postage prepaid, upon the following:

Katherine A. Schultz, Esquire
Senior Deputy Attorney General
Charli Fulton, Esquire
Senior Assistant Attorney General
1900 Kanawha Boulevard, East
Building 1, Room W-435
Charleston, West Virginia 25305

this 24th day of June, 2011.



Michael E. Caryl