

SUPERIOR COURT OF ARIZONA
MARICOPA COUNTY

TX 2005-050288

08/14/2007

HON. THOMAS DUNEVANT, III

CLERK OF THE COURT
L. Nixon
Deputy

R R DONNELLEY & SONS COMPANY, et al.

PATRICK DERDENGER

v.

ARIZONA STATE DEPARTMENT OF
REVENUE

KIMBERLY J CYGAN

MOTION FOR RECONSIDERATION DENIED

The Court has considered Plaintiffs' Motion For Reconsideration.

With respect to placing its trademark on its products, any item produced by Donnelley and *entitled* to bear the Donnelley trademark can be said to carry that trademark, whether or not it is physically placed on the product. (Plaintiff would no doubt vigorously deny the converse of its own argument, that as long as no physical trademark is placed on the finished product, another printer may legally claim that its products are printed by Donnelley.) Plaintiff does not suggest that the goods produced for other publishers are inferior work unworthy of bearing the Donnelley name, and therefore distinguished by Donnelley from worthy output that it allows to carry a physical identifier (an argument which in any event would go only to apportionment and not whether a unitary business exists). The presence or absence of that physical identifier is therefore immaterial.

Plaintiff is correct in making the distinction in trademark law between an assignment and a license, but its analysis does not go far enough. *Donnelley* can license its trademark, as long as it maintains adequate control over the licensee's product to insure that its quality standards, on which the public relies, are maintained. That right, however, is exclusive to Donnelley. The Court is unaware of any case law to support the proposition that an assignee or licensee can sublicense the trademark, substituting its oversight for that of the historical user. Heritage is not

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the historical user. The Donnelley trademarks are not fixed in the public mind with the quality standards of Heritage. Thus, in (sub-)licensing the trademarks, it may not substitute its control for that of Donnelley. A license to Donnelley does not create a problem: Donnelley's status as the historical user constitutes the required assurance to the customer. As a common-sense matter, products made by Donnelley as trademark licensee are no different in quality from products made by Donnelley as historical user. But were Heritage (or, more precisely, a Heritage distinct from Donnelley) to license non-Donnelley entities, no such assurance would exist. The trademark would then be divorced from the quality standards of the historical user. Such a divorce is not permitted: Heritage must irrevocably remain married to Donnelley, and its income cannot be put asunder. It is part of a unitary business.

As for the request for factor relief, Plaintiff has not shown that the State's apportionment of the income of Donnelley (including Heritage) is inconsistent with Arizona law, nor has it shown "clear and cogent evidence" that the tax levy is "out of all appropriate proportion" to the business transacted in Arizona. *Container Corp. of America v. Franchise Tax Bd.*, 463 U.S. 159, 170 (1983). The cases cited by Plaintiff, *Crocker Equipment Leasing, Inc. v. Dept. of Revenue*, 838 P.2d 552 (Or. 1992), and *Miami Corp. v. Illinois Dept. of Revenue*, 571 N.E.2d 800 (Ill. App. 1991), are fact-intensive (in *Miami*, for instance, the apportionment was distorted because a heavily disproportionate share of income was derived from oil and gas extracted from Louisiana) and are therefore not especially helpful. The factor relief issue is integrally related to the combination issue and thus not foreclosed by the closing agreement.

THEREFORE, IT IS ORDERED denying Plaintiff's Motion For Reconsideration. With respect to the factoring issue, the Motion is denied without prejudice, to Plaintiff to establish genuine issues of material fact exists as to whether there is "clear and cogent" evidence that the levy is "out of all appropriate proportion" to the business transacted in Arizona.