

IN THE OREGON TAX COURT
MAGISTRATE DIVISION
Corporate Excise Tax

HARLEY-DAVIDSON, INC.,)	
)	
Plaintiff,)	TC-MD 040897A
)	
v.)	
)	
DEPARTMENT OF REVENUE,)	
State of Oregon,)	
)	
Defendant.)	ORDER

This matter is before the court on Plaintiff’s Motion for a Protective Order, filed September 27, 2006, seeking an Order protecting the confidentiality of certain of Plaintiff’s business records to be submitted in response to Defendant’s three requests for production. Plaintiff further requests an award of attorney’s fees, costs and expenses incurred in relation to the motion pursuant to Tax Court Rule (TCR) 46 A(4). Defendant opposes the motion.

Oral argument on the motion was heard November 15, 2006, in the courtroom of the Oregon Tax Court in Salem. Plaintiff was represented by David L. Canary, attorney at law, Garvey, Schubert & Barer. Defendant was represented by Melisse S. Cunningham, Assistant Attorney General. With her on brief was Douglas M. Adair, Assistant Attorney General.

I. INTRODUCTION AND OVERVIEW

Plaintiff has appealed Defendant’s Notices of Determination and Assessment for tax years 1995 through 2002, contending that it is not subject to tax by this state because its activities in Oregon are protected by Public Law 86-272.¹ Plaintiff did not file Oregon corporate excise tax returns for the years at issue and Defendant’s assessments were based on the best information

¹ Public Law 86-272 (Title I, § 101, 73 Stat 555 (1959) is codified as 15 USC section 381.

available at the time the assessments were made. Plaintiff appealed Defendant's assessments and on July 27, 2005, the court issued an order allowing Defendant to pursue discovery.

After Plaintiff largely resisted Defendant's first two formal requests for discovery, Defendant served Plaintiff with requests for admissions in an attempt to resolve at least some of the factual issues and potentially avoid further discovery. (Def's Resp at 3.) Plaintiff denied or objected to 20 of the 24 questions. (Def's Ex F.)

Defendant then filed a third request for production, to which Plaintiff responded by filing a Motion to Suspend Discovery. (Def's Resp at 3.) The court denied that motion. Plaintiff then forwarded to Defendant a proposed Confidentiality Agreement in Protective Order (Agreement), which Defendant refused to sign. (Def's Resp at 4-5.) Plaintiff now moves the court for a protective order.

A. *The Production Requests*

Plaintiff has concerns with each of Defendant's three formal discovery requests, but advised the court during oral argument that it is particularly concerned with Defendant's Third Request for Production.² That request seeks documents related to: sales training materials and other communications; procedures for sharing sales information between Plaintiff and its dealers;

² Among the 16 enumerated items sought by Defendant in Defendant's First Request for Production are: documents related to employee activities in Oregon, "including * * * Oregon payroll or withholding tax returns or reports"; Plaintiff's "federal consolidated tax returns * * * including all related schedules and workpapers"; documents related to Plaintiff's "property * * *, payroll and sales in all states as reflected [in those] consolidated returns"; documents "identifying any of plaintiff's subsidiaries * * * not included in [Plaintiff's] federal consolidated tax return[s]"; all federal audit reports; documents "related to state income and franchise taxes for each state, as claimed on line 17 of plaintiff's federal Form 1120"; "documents reflecting any inter-company income and expenses * * * including but not limited to sales of products between companies, interest payments, rental payments, royalty payments, management fees and any other deductions allocated among the companies"; and, "[a]ll of plaintiff's corporate minutes and committee reports, including but not limited to audits, investment, and finance reports, for the relevant tax years." (Ptf's Ex 2 at 6-8.)

Defendant's Second Request for Production seeks among other things: documents explaining the legal structure and Plaintiff's relationship with the Harley Ownership Group; documents "explaining the 'Ride and Fly' program" and the use of that program in Oregon during the relevant years, including related transaction documents; and documents explaining the actual or intended use of any of Plaintiff's property in Oregon, including income and expenses associated with that property. (Ptf's Ex 3 at 6.)

methods or mechanisms of capturing, retaining, and using customer information; factory recall documents; warranty claim tracking methods; financing documents; employee performance evaluation materials; Oregon customers issued Harley-Davidson Chrome Visa cards; extended service plan, warranty, or mechanical breakdown insurance; Oregon promotional, advertising, solicitation, and sales activities; each instance of service work performed by an Oregon dealer, regardless of where the motorcycle was purchased. (Ptf's Ex 4 at 6-8.)³

B. *The Scope of Plaintiff's Proposed Order*

Plaintiff's objective in seeking a protective order is that "defendant not make plaintiff's confidential documents available to the public or anyone not connected with this litigation[.]" or utilize such documents in any manner unrelated to the instant appeal. (Ptf's Memo⁴ at 5;⁵

³ Defendant's Third Request for Production contains 16 separate requests including the following: all sales training materials and other communications "intended for or directed to dealers and their sales staff [or to plaintiff's] employees who deal with the dealers"; documents describing procedures and instructions for dealers to transmit information to Plaintiff pertaining to sales of motorcycles and accessories, including purchaser names and addresses, etc.; documents, including computer system manuals, related to the "methods or mechanisms of capturing and retaining customer information regarding retail sales of [Plaintiff's] products for any purpose including warranty, product recall, marketing, or otherwise"; factory recall related documents during the relevant years; "[d]ocuments describing the uses to which [Plaintiff] put retail customer information"; documents describing warranty claim tracking methods; financing documents reflecting transactions between Plaintiff (and its subsidiaries) and its Oregon dealers or other persons in Oregon during the relevant years; employee performance evaluation materials covering "sales, service, and management representatives assigned to Oregon during the relevant years"; "[d]ocuments related to the issuance to or use by Oregon customers of the Harley-Davidson Chrome Visa Card during the relevant years"; "[d]ocuments related to any extended service plan, extended warranty, mechanical breakdown insurance, or any other insurance plans or services created, underwritten, administered, or managed by [Plaintiff] or [Plaintiff's] subsidiaries and offered in Oregon by [Plaintiff] or [Plaintiff's] dealers during the relevant years"; Oregon promotional, advertising, solicitation, and sales related action documents, and documents evidencing actions in Oregon to enforce tangible and intangible property rights by Plaintiff and its subsidiaries; "[d]ocuments regarding each instance of service work performed by an Oregon dealer under [Plaintiff's] manufacturers' warranty during the relevant years"; and sales documents related to products serviced in Oregon showing the date and location of the sale. (Ptf's Ex 4 at 6-8.)

⁴ Memorandum in Support of Plaintiff's Motion for a Protective Order (Ptf's Memo).

⁵ Plaintiff makes a similar statement on page 2 of its memorandum, where it declares that "[t]he only restriction placed upon defendant by the terms and conditions of plaintiff's proposed Confidentiality Agreement and Protective Order (Exhibit 1) is to maintain the confidentiality of plaintiff's business records and tax returns by not providing them to anyone outside the Department of Revenue or to anyone not connected with this litigation."

Ptf's Ex 1 at 2.)⁶ In other words, Plaintiff does not want Defendant to keep the information for use against Plaintiff for other tax years, or to share the information with other states or the Multistate Tax Commission (MTC).

Under the terms of the proposed agreement and order:

- 1) Plaintiff will provide Defendant with documents it has in good faith marked as "confidential," and Defendant will treat those documents as confidential (Ptf's Ex 1 at 1);
- 2) Disclosure of the confidential information will be limited to Defendant and its counsel, including Defendant's experts and employees⁷ "directly associated with the trial, or subsequent appeal[]" of this case, and the Tax Court, absent prior written consent from Plaintiff, or court order allowing more extensive disclosure (Ptf's Ex 1 at 1-2);
- 3) Documents marked confidential may only be used for purposes of this litigation (Ptf's Ex 1 at 2);
- 4) Neither the confidential documents Plaintiff provides Defendant, nor the information contained therein, "shall be used in papers filed with the court unless * * * appropriately marked and filed under seal with the court[]" (Ptf's Ex 1 at 2);
- 5) Individuals with authorized access "shall not disclose the contents of the Confidential Documents * * *, or utilize the [documents] for any purpose, other than in connection with the resolution of the above entitled case[]" (Ptf's Ex 1 at 2);
- 6) Defendant's counsel shall retain all originally produced confidential documents at its office, and any copies Defendant deems necessary to make shall be marked in such a manner as to identify how many sets are made and to whom copies are given "so that at the end of the case, all copies of Confidential Documents produced by plaintiffs to defendant can be accounted for

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⁶ Plaintiff's Exhibit 1 is the Confidentiality Agreement and Protective Order it prepared in connection with its motion, and which Plaintiff proposes the court adopt as part of a favorable ruling on its request.

⁷ E.g., auditors, supervisors, support staff.

and returned[,] * * * [and] [e]xcept as otherwise provided by law * * *, [all documents produced by Plaintiff shall be returned to Plaintiff] within twenty (20) days after final disposition of the case[.]”⁸ (Ptf’s Ex 1 at 2-3); and

7) Defendant has the right to challenge the marking of any document as “confidential,” and if Defendant does so, “plaintiff’s recourse is to apply for a protective order under ORS 305.430(3) and TCR 36C, which plaintiffs shall do within 20 days of notification by the defendant or waive the confidentiality of the document(s).” (Ptf’s Ex 1 at 3.)

Plaintiff’s counsel stated during oral argument that item three above is “the crux of the matter.”

C. *Defendant’s Response to the Motion*

Defendant responds that there is no need for a protective order because any confidential information Plaintiff provides is protected from public disclosure by applicable law, and Defendant is willing to work cooperatively with Plaintiff “to address any valid concerns about trade secrets, employees’ personal information, or individual customer’s personal information without the need for a protective order.” (Def’s Resp⁹ at 14-15.) Defendant is concerned that limiting the use of discovery documents to the current case and requiring the return of all documents within 20 days after disposition of the current case “would effectively prevent [Defendant] from retaining or using the documents for this taxpayer in subsequent years[.]” (Def’s Resp at 5, n 2.) Defendant is also concerned that limiting access of the confidential information to Defendant, its staff and attorneys, “would prevent the department from disclosing information pursuant to its exchange agreements with other states, as authorized by ORS 314.840(2)(c).” (*Id.*)

⁸ Plaintiff’s counsel stated during oral argument that it did not object to the department’s policy of retaining for 10 years any documents filed with it in connection with litigation, as long as they are contained in secure archives, as Defendant has represented to Plaintiff is the department’s policy.

⁹ Response to Plaintiff’s Motion for a Protective Order (Def’s Resp).

II. ANALYSIS

A. *The Motion for Protective Order*

Discovery is not available in the Magistrate Division of the Oregon Tax Court without a court order. TCR-MD 11.¹⁰ The court issued such an order, enabling Defendant to have access to a great deal of Plaintiff's information. The documents produced will include confidential information, including trade secrets. *See Lamb-Weston, Inc. v. Dept. Of Rev.*, 11 OTR 448, 450 (1990) (*Lamb II*) (noting that the court in *United States v. Lever Brothers Co.*, 193 FSupp 254 (1961) declared "customer lists" to be traditionally recognized as trade secrets); *see also* ORS 646.461(4) (defining "trade secret" to include "cost data, customer list, formula, pattern, compilation, program, device, method, technique or process that: (a) [d]erives independent economic value, actual or potential, from not being generally known to the public * * *").¹¹

Plaintiff contends that the court has authority to issue the protective order under TCR 36 C and ORS 305.430(3) and that the three-part test a set forth in *Lamb II*, 11 OTR at 450, should guide the court's decision. (Ptf's Memo at 3-4; Ptf's Reply at 8, n 9.) Defendant responds that the statute is inapplicable to the discovery phase of litigation, and that *Lamb II* is inapposite. (Def's Resp at 6-7.)

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¹⁰ The abbreviated citation for the Tax Court rules applicable in the Magistrate Division is TCR-MD.

TCR-MD 11 provides:

"Discovery is allowed in the Magistrate Division only when a party requests it and a magistrate orders it. When discovery has been ordered, TCR 36 through TCR 46 shall apply."

¹¹ Oregon's public records law defines a trade secret as "any * * * plan, * * * process, * * * procedure, production data, or compilation of information which is not patented, which is known only to certain individuals within an organization and which is used in a business it conducts, having actual or potential commercial value, and which gives its user an opportunity to obtain a business advantage over competitors who do not know or use it[.]" ORS 192.501(2).

1. *ORS 305.430*

The court agrees that ORS 305.430(3)¹² is inapplicable to a request for a protective order at this stage of the litigation because the statute is limited to “proceedings” where confidential information is “to be introduced into evidence[.]” The relevant portion of the statute reads:

“In any proceeding before a magistrate or before the tax court judge in which confidential business records, tax returns or documents containing trade secrets are to be introduced into evidence, upon motion of a party to the proceeding, the magistrate or judge may make such protective orders as may be necessary to protect the confidentiality of such records or the information contained therein.”

ORS 305.430(3) (emphasis added).

This case is still at the discovery stage (as opposed to a “proceeding”) and Defendant is not at this time seeking to introduce Plaintiff’s documents into evidence. *See State ex rel. Anderson v. Miller*, 320 Or 316, 321-22, 882 P2d 1109 (1994) (*Anderson*) (noting the distinction between discovery and trial in the application of ORCP 36 C).¹³ Defendant is merely seeking information from Plaintiff to support its claim that Plaintiff is not exempt from taxation under Public Law 86-272.

Plaintiff contends that under the court’s holding in *Lamb II*, the “ ‘standards of confidentiality’ are [to be] reviewed by this court under ORS 305.430.” (Ptf’s Reply ¹⁴ at 8, n 9.) In support of that assertion, Plaintiff notes that *Lamb II* involved a pre-trial subpoena issued by the department, which means the court invoked the statute prior to trial. (*Id.*) Plaintiff is correct. However, the language of ORS 305.430(3) at the time of the court’s Order in *Lamb II* was much

¹² Unless noted otherwise, all of the court’s references to the Oregon Revised Statutes (ORS) are to 2005.

¹³ TCR 36 C is modeled after ORCP 36 C, and thus judicial opinions interpreting the latter are relevant to the former.

¹⁴ Plaintiff’s Reply to Defendant’s Opposition to Entry of a Protective Order (Ptf’s Reply).

broader than the present version of that statute. The current version of the statute, set forth above, speaks to a “proceeding before a magistrate” in which confidential information including trade secrets “are to be introduced into evidence[.]” whereas the then-existing language of the statute authorized the court to issue a protective order “[i]n any *case* regarding confidential information involving trade secrets or other confidential business records, upon motion of a party to the *suit* * * *.” See *Lamb II*, 11 OTR at 449; see also ORS 305.430(3) (1989) (emphasis added).¹⁵

2. *The Three-Part Test in Lamb II*

The three-part test in *Lamb II* is inapplicable to the court’s decision of whether to grant Plaintiff’s motion for protective order because the court in *Lamb II* derived its test from ORS 305.430, and this court has concluded that, under the current language of the statute, ORS 305.430 does not apply at this stage of litigation.

3. *TCR 36 C*

Discovery in this case is governed by TCR 36 to 46. TCR 36 C authorizes the court to limit discovery “to protect a party or person from annoyance, embarrassment, oppression, or undue burden or expense[.]”¹⁶ Plaintiff has not argued undue burden or expense

¹⁵ Additionally, *Lamb II* involved a motion to quash a subpoena, which is ordinarily governed by TCR 55 B.

¹⁶ TCR 36 C provides in relevant part:

“Upon motion by a party or by the person from whom discovery is sought, and for *good cause shown*, the court in which the action is pending may make any order which justice requires *to protect a party or person from annoyance, embarrassment, oppression, or undue burden or expense*, including one or more of the following: (1) that discovery not be had; (2) that the discovery be had only on specified terms and conditions, including a designation of the time or place; (3) that the discovery may be had only by a method of discovery other than that selected by the party seeking discovery; (4) that certain matters not be inquired into, or that the scope of the discovery be limited to certain matters; (5) that discovery be conducted with no one present except persons designated by the court; (6) that a deposition, after being sealed, be opened only by order of the court; (7) that a trade secret or other confidential research, development, or commercial information not be disclosed or be disclosed only in a designated way[.]” (Emphasis added.)

and, in fact, is willing to provide the information. The court must, therefore, determine whether Plaintiff has demonstrated that it faces annoyance, embarrassment, or oppression if the court refuses to limit discovery.

The word “annoyance” is defined as “the act of annoying or of being annoyed,” and connotes irritation or nuisance. *Webster’s Third New Int’l Dictionary* 87-88 (unabridged ed 2002). Synonyms for “annoy” include “bother” and “worry.” *Id.* at 87. “Embarrassment” is defined as “confusion or discomposure of mind,” and the root word “embarrass” means “to cause to experience a state of self-conscious distress.” *Id.* at 739. Finally, *Webster’s* defines “oppression” as an “unjust or cruel exercise of authority or power esp. by the imposition of burdens.” *Id.* at 1584.

Plaintiff fears that, without the court order it seeks, its confidential and trade secret information will enter the public domain. Plaintiff contends that “defendant’s sole purpose in opposing entry of a protective order * * * is to oppress, embarrass and punish plaintiff for bringing this appeal by threatening to make plaintiff’s confidential documents public in this litigation.” (Ptf’s Memo at 2.) Plaintiff notes that Defendant has entered into such agreements in the past. Defendant responds that Plaintiff’s information is protected under ORS 314.835 and that it does not, and will not in this case, publicly disclose that information. (Def’s Resp at 5, 11.) Defendant states that disclosure of Plaintiff’s information is unlawful under ORS 314.835, except as provided in ORS 314.840, and that, under ORS 314.991(2), it is a felony to make an unauthorized disclosure of confidential taxpayer information. (*Id.* at 11-12.) Defendant further asserts that the information related to tax years 1995 through 2001 is stale and therefore poses no risk to Plaintiff’s business, based on this court’s decision in *Lamb-Weston, Inc. v. Department of Revenue (Lamb III)*, 12 OTR 253, 258 (1992). (*Id.* at 12.) Additionally,

Defendant asserts that ORS 314.380 requires taxpayers to provide copies of state and federal reports and returns and that there is no good cause for limiting disclosure of that information.

(Id.)

ORS 314.835(1) provides generally that “it shall be unlawful for the Department of Revenue or any officer or employee of the department to divulge or make known in any manner the amount of income, expense, deduction, exclusion or credit or any particulars set forth or disclosed in any report or return * * * required under a law imposing a tax upon or measured by net income.” The term “particulars” in the statute is defined to include, but not be limited to, “a taxpayer’s name, address, telephone number, Social Security number, employer identification number or other taxpayer identification number and the amount of refund claimed by or granted to a taxpayer.” ORS 314.835(2)(b).

Plaintiff contends that ORS 314.835 only protects returns and reports that taxpayers are statutorily required to file because the statute only prohibits an employee from divulging certain information “disclosed in any report or return[.]” ORS 314.835(1). Under that narrow interpretation, the information Plaintiff is being asked to produce is unprotected and may be disclosed. Defendant responded during oral argument that it takes a broader view of the statute, treating as confidential all documents containing information used to prepare reports or returns, and that it does not divulge to anyone beyond the authority granted by ORS 314.840. Defendant insists that Plaintiff’s narrower interpretation of the statute is illogical because it would protect the final report or return, but not all of the private information used to create the report or return.

The court accepts Defendant’s interpretation and concludes that the information is protected under the statute. Moreover, during oral argument, Defendant offered to stipulate that it would treat all the information provided as if it were protected by ORS 314.835. While that

concession (or the court's determination that the information is protected) would seem to resolve the problem, it does not, because ORS 314.840 authorizes limited disclosure of information protected under ORS 314.835, including the sharing of such information with other states and the MTC. *See* ORS 314.840(2)(c) and (d). It is the exception to nondisclosure provided under ORS 314.840 that troubles Plaintiff.

While Defendant will not *publicly* disclose Plaintiff's information, Defendant implies that it will release the information pursuant to its reciprocal exchange agreements with other states and the MTC, as authorized under ORS 314.840. The department would also like to keep that information to review and use in determining Plaintiff's potential liability for other tax years. The question becomes whether and how such actions will annoy, embarrass, or oppress Plaintiff, as provided in TCR 36 C. *See Anderson*, 320 Or at 321 (criticizing trial court for failing to demonstrate in its ruling that a protective order "was issued [under ORCP 36 C] to protect [a party] from 'annoyance, embarrassment, oppression, or undue burden or expense' "). The court concludes that the rule requires more than the typical, garden-variety annoyance, embarrassment, or oppression experienced in any case where extensive discovery is sought. Moreover, the court's authority under the rule is discretionary. *See Premier Technology v. Oregon State Lottery*, 136 Or App 124, 134, 901 P2d 883 (1995).

Plaintiff argues that, once the information is shared, the court, the department, and Plaintiff all lose control of how the information is used. Plaintiff asserts that the information could enter the public domain through litigation or an audit, if Defendant shares the documents with other states. Plaintiff fears that public disclosure "would provide a competitor with a road map for how most effectively to compete with plaintiff or, at the least, adopt similar procedures and materials that may have taken plaintiff years to plan, revise and implement – thereby giving

a new competitor a substantial head start in competing with plaintiff in the market place.”

(Ptf’s Memo at 4-5.) Plaintiff did not provide any examples where the retention or sharing of information by the department resulted in confidential information entering the public domain.

Defendant seeks a great deal of information, and rightly so, because the issue is whether Plaintiff, a non-filer, had sufficient activities in Oregon to support the imposition of the tax Defendant unilaterally imposed, or whether Plaintiff’s activities were limited to “solicitation of orders” within the meaning of Public Law 86-272, thereby exempting Plaintiff from Oregon’s tax. Defendant, therefore, needs a comprehensive understanding of Plaintiff’s business operations in Oregon. The department has the statutory authority to obtain information from an individual or organization under ORS 314.370, 314.380, and 314.075, among others, and can even subpoena witnesses, books and papers under ORS 305.190. It can, through those avenues, obtain a great deal of information about a taxpayer. Plaintiff acknowledges that fact. However, Plaintiff notes that Defendant did not obtain the information pursuant to its statutory authority as set forth above, but rather seeks to obtain it by court order. Plaintiff finds that distinction significant, and notes that, under the terms of its proposed order, “defendant, its attorneys, its staff and its experts would have complete, unrestricted access to plaintiff’s confidential documents.” (Ptf’s Reply at 7.)

The court rejects Plaintiff’s asserted distinction. It is true that discovery is generally litigation oriented. However, the Legislature has conferred upon the department the authority to obtain and share confidential information within the parameters of ORS 314.840, and the court sees no reason to limit that authority simply because Defendant will obtain the information during the discovery phase of litigation. The statute provides adequate protections. In the end, Plaintiff’s dispute is with the Legislature and not the department. Moreover, given that the

department has the right to retain and share the information, it is difficult to see how Plaintiff can experience annoyance, embarrassment, or oppression through Defendant's lawful act of sharing information with another state or the MTC. Plaintiff certainly has not shown that to be the case. Under the statute, the information can only be shared with another state "for tax purposes," and only if the state "has a provision of law which meets the requirements of any applicable provision of the Internal Revenue Code as to confidentiality." ORS 314.840(2)(c). The MTC is a quasi-governmental agency with the power to audit, and the department may only share information with the MTC for tax purposes. *See* ORS 314.840(2)(d).

The court finds that there has not been a demonstration of real or potential annoyance, embarrassment, or oppression sufficient to entitle Plaintiff to the requested protective order.

B. *Costs and Attorney Fees*

Plaintiff seeks an award of costs and attorney fees for the time and expense involved in seeking the protective order from the court, pursuant to TCR 36 C and ORS 20.075. While there is authority in the rules for the court to award costs, including attorney fees, under TCR 46 A(4), made applicable to discovery under TCR 36 C, the court in this instance declines to do so because Plaintiff has not prevailed.

IT IS ORDERED that Plaintiff's Motion for a Protective Order is denied; and

IT IS FURTHER ORDERED that Plaintiff's request for costs and attorney fees is denied.

Dated this _____ day of December 2006.

DAN ROBINSON
MAGISTRATE

This interim order may not be appealed. Any claim of error in regard to this order should be raised in an appeal of the Magistrate's final written decision when all issues have been resolved. ORS 305.501.

This document was signed by Magistrate Dan Robinson on December 21, 2006. The Court filed and entered this document on December 21, 2006.