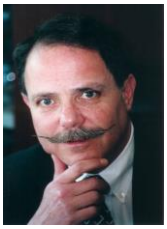
**Volume 6 - Issue 8** **August 2014**

# The Franchise Valuations Reporter

## Our Expertise



Within the franchise, distribution and dealership context, we are experts in:

- Damages, Valuations & Expert Testimony
- Finance, Accounting and Tax
- Cyber Security and E-discovery of Electronically Stored Information

We offer a free initial consultation. If any readers have questions, you are welcome to email or phone us and we will provide our best answer as quickly as possible.

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## Franchise Technology Risk Management

Our franchise law and computer forensics experts provide consulting and implementation of all aspects of cyber security, ESI management and e-discovery for franchise systems - from preparation of cyber security and ESI-related policies and procedures manuals through collection, preservation, processing, production and presentation.

To inquire about our services, please e-mail Henry@FTRM.biz or call (212) 689-0400

## Trade Dress: Protection of Food Design

**Suppose your franchise system serves appetizers in the shape of Berdan's Sharpshooters (a Civil War unit) made of molded wild rice with uniforms of avocado, rifles of beef jerky, and eyes and buttons made of mozzarella cheese. Can it protect the design?**

The pre-eminent authority in the area is the US Supreme Court's decision about "trade dress" in *Two Pesos v. Taco Cabana*[1] although aspects of copyright and trademark law come into play along with the law of trade secrets.

The trade dress issue has recently come to public notice: Judge Shira A. Scheindlin of Federal District Court in Manhattan issued a ruling in *Kati Roll v. Kati Junction*[2] permitting one suit over "trade dress" to proceed. Then the Hershey Company won an injunction against the political campaign of Steve Hershey - also on a claim based on trade dress[3].

And the *Kati Roll* case was highlighted in an article in the New York Times which contains this closing quote from the losing party in the case:

> "Kati rolls (the food, over which there were 'trade dress' issues) are like hamburgers," he said because they are so common in India. "Do they really have the legal right to stop someone from making a burger?"

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[1]505 U.S. 763, 764(1992).
[2]14-cv-1750 (SAS) July 16, 2014
[3]*Hershey Company v. Friends of Steve Hershey*, (DC MD 7/17/14) WDQ-14-1825

## Expert's Draft Opinions: Beware Canadian Ruling

***A Decision on the Draft Report of an Expert Has Created an Uproar***

A Canadian trial judge has ruled that an expert's draft reports are discoverable and even though the opinion is clearly not precedent in U.S. courts, nonetheless practitioners should take note. In the case at issue[1], the plaintiff found notes indicating a 90-minute telephone call between defense counsel and his medical expert. At trial, the expert admitted that, during the call, the attorney made "suggestions ... of what to put in" the report. As a result the testimony was discredited.

The Canadian Bar Association has criticized the opinion, noting it fails to recognize the legitimate reasons for an attorney's reviewing and addressing concerns in expert reports and the case is currently on appeal. Also, The Advocates' Society of Ontario and The Canadian Institute of Chartered Business Valuators have filed notices to intervene with the Court of Appeal. The valuators' interventions show that, even though the case involved a medical report, the ruling is seen to affect all experts.

## We Write the Book

**Franchise Regulation and Damages**, the only treatise that covers valuations of franchises, is updated 3 times a year.

For more details, to see a Table of Contents or to place an order, go to the Wolters Kluwer Law & Business web page here.

## DISCLAIMER

The information provided in this newsletter is for informational purposes only and should not be construed as legal or expert advice which can only be obtained from appropriate professionals. Franchise Valuations, Ltd. and Franchise Technology Risk Management provide such expert advice on the topics addressed herein.

Please visit our websites at www.FranchiseValuations.com and www.ftrm.biz

[1]*Moore v. Getahun*, 2014 ONSC 237 (Jan. 14, 2014)

## Expert Testimony: Once Re-Designated As "Non-Testifying," Expert's Deposition Not Allowed

***Precedent-Setting Ruling Holds That Exceptional Circumstances Are Required***

The question before the Trademark Trial and Appeal Board was "whether a witness, who was identified as a testifying expert and who produced an expert report, can be re-designated as a non-testifying or consulting expert and thereby be shielded from discovery." And the answer was that once a party had re-designated its expert witness as "non-testifying," the other side was not entitled to depose that expert, even though she had submitted an expert report on the record.[1]

The decision noted that courts have taken two different approaches: One line of decisions holds that a testifying expert can be wholly converted to a consulting expert, and discovery from the expert can be prohibited by simply withdrawing the expert's designation which results in access to the expert then being governed by the "exceptional circumstances" test under Fed. R. Civ. P. Rule 26(b)(4)(D)(ii), even where an expert's reports and/or opinions, or portions thereof, were disclosed prior to his/her re-designation as a non-testifying expert.

The other line of cases holds that, even if the expert designation is subsequently withdrawn, the submission of an expert report takes the expert out of the "exceptional circumstances" category. These courts apply a balancing test (that mirrors Fed. R. Evid. 403) in deciding whether to allow a re-designated expert to be deposed.

The Board decided that the first approach -- permitting the deposition of a re-designated non-testifying expert only under exceptional circumstances -- was preferable and since the party moving for the deposition did not establish exceptional circumstances, the motion for a protective order was granted.

[1] *Ate My Heart Inc. v. GA GA Jeans, Ltd.*, July 22, 2014, Goodman, C.

## Valuations: Delaware Chancery Court

***The Foremost Panel Issues Another Holding on Fair Value***

In the recent case of *Laidler v. Hesco Boston Environmental*[1] involving the buyout of a 10% shareholder by the 90% shareholder, each party retained an appraisal expert to opine on value. As a first argument, the Respondent suggested that the Court simply accept the merger price as persuasive evidence of the company's fair value because the same judge, Vice Chancellor Glasscock, had recently decided that was appropriate in *Huff Fund Investment Partnership v. CKx*.[2] [See The Franchise Valuation Reporter January 2014].

But in that case, the merger price had been determined by an arms-length transaction with a full price review of the market, leading the Court to accept that the merger price was the best available evidence. The 90% shareholder in *Hesco* did no such market review and thus the Court said, "Under our case law, a statutory appraisal is the sole remedy to which the Petitioner is entitled, and to defer to an interested controlling stockholder's determination of fair value in a transaction such as this would render that remedy illusory. I therefore decline to consider the merger price in determining the fair value of Hesco."

In determining the fair value the Court had to consider the fact that the business consisted of non-recurring cash flows because the company depended on natural disasters for its income - they built flood barriers. After discussion the Court determined the Income method (primarily the Discounted Cash Flow method) was the best available methodology and that the fair value of Petitioner's 10% interest in Hesco was $3,642,400, or $364.24 per share (versus the offered merger price of $207.50). It found that the company's weighted average cost of capital (WAAC) was 21.83%, its long-term growth rate was 4%, and that an appropriate capitalization multiple was 5.6x.

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[1] 2014 Del. Ch. LEXIS 75 (May 12, 2014)
[2] 2013 Del. Ch. LEXIS 262 (Oct. 31, 2013)

## Cyber Crime: Data Breaches

***First Rule Is Hire a Lawyer***

A recent article on cyber security suggests hiring lawyers as first responders. In "Data Breach? The Best First Responder Is a Law Firm," [1] the author strongly advises that companies conduct their cyber security activities through a law firm to provide attorney-client and attorney work product privilege to the results.

We agree. But more importantly, we recommend doing **all** prophylactic cyber security and pen testing through a lawyer with cyber security knowledge who employs really good "hacker knowledge" guys **before** there is a problem. Call us and we'll set up a penetration test with the Chan Brothers under legal protection.

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[1]Scott Aurnou, NYSBA NY Business Law Journal, Summer 2014 (Vol. 18 No.1)

## Cyber Crime: Attacks Keep Coming

***Mega-Breaches Becoming More Common, More Costly***

The New York Attorney General's Office released a report in July stating that reported data breaches more than tripled between 2006 and 2013, exposing 22.8 million personal records of New Yorkers.[1]
Last year's record-breaking exposure of 7.3 million New Yorkers' personal information - with an estimated cost to business of $1.37 billion - was largely due to the hack attacks at Target and Living Social but such "mega-breaches" are becoming more and more frequent, with five of the ten largest breaches reported to the New York AG occurring in the past three years. And hackers accounted for over 40% of New York's 4,926 breaches and over 63% of total records exposed. The Report also makes clear that breaches afflict not only retailers but also companies in financial services, health care, banking and insurance.

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[1]New York State Attorney General Eric T. Schneiderman, "Information Exposed: Historical Examination of Data Breaches in New York State."