COMMON DISCOVERY ISSUES IN FRANCHISING – FROM THE PERSPECTIVES OF THE ADVOCATES AND A DECISION-MAKER

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COMMON DISCOVERY ISSUES IN FRANCHISING –
FROM THE PERSPECTIVES OF THE ADVOCATES AND A DECISION-MAKER

I. INTRODUCTION

Given the increase in pre-trial disclosures required under Federal Rule of Civil Procedure 26, the broad scope of what constitutes discoverable evidence, and the massive amount of electronically stored information (“ESI”), it is no wonder that discovery has become such an expensive and cumbersome process. Electronic discovery, also known as “e-discovery,” is now the predominant source of evidence in civil litigation, which has resulted in the introduction of a new concept into the IT vocabulary – namely, the “litigation hold.” In light of the recent amendments to the Federal Rules of Civil Procedure, almost every civil case in federal court must now incorporate planning about e-discovery at the earliest stages of litigation. For example, Rule 26(f) of the Federal Rules of Civil Procedure mandates parties to engage in a “meet and confer” conference, at which time litigants are required to discuss all issues related to electronic discovery and develop a discovery plan. No longer a perfunctory five minute procedural meeting, a successful Rule 26(f) conference requires that attorneys be prepared to discuss in-depth e-discovery issues. The Rule 26(f) conference typically occurs sometime after the parties exchange initial disclosures as required under Rule 26(a), and before the court issues the Rule 16(b)(1) Scheduling Order.

Because discovery has become such a burdensome and costly process, the Federal Rules of Civil Procedure place limitations on what types of information may be discovered, as well as the timing and sequence of discovery. In order to control the abuse and misuse of the discovery process, and in an effort to avoid the court becoming “subsumed within a secondary role . . . of refereeing the bitter in-fighting resulting from the uncooperative exchange of discovery,” In re Arthur Treacher’s Franchisee Litig., 92 F.R.D. 429, 431 (E.D. Pa. 1981), courts frequently impose varying degrees of sanctions upon parties that fail to cooperate during the discovery process, whether such lack of cooperation is in the form of failure to respond to discovery requests, asserting unnecessary objections, or even spoliation of evidence. Courts also have placed limitations on what type of discovery franchisees may conduct as it pertains to a franchisor’s dealings with other franchisees in the system. In order to deter parties from engaging in unnecessary and irrelevant discovery, or attempting to discover privileged matter, courts frequently use protective orders to curtail or quash such discovery. When third-party discovery is encompassed, courts frequently quash subpoenas in order to prevent unnecessary expenses on third-parties.

This paper will explore the common discovery issues litigated in franchising,¹ the meet and confer process, the purpose and timing of initial disclosures and pre-trial disclosures, the scope and purpose of the initial pre-trial conference, the different forms of discovery typically used in franchise cases and the sanctions that courts impose for an abuse and misuse of the discovery process, the use of protective orders, the standards for quashing a subpoena and the role of a special master in complicated or document-intensive cases. Workshop attendees will also learn strategic tips from franchise counsel for navigating the discovery process, as well as the view of a Federal Magistrate Judge on how to approach these issues.

¹ This paper primarily examines the discovery rules under the Federal Rules of Civil Procedure. Each state, of course, has its own rules of civil procedure which may or may not mirror the federal rules. Parties to franchise agreements with arbitration clauses may agree that the federal procedural rules will apply to the arbitration.
II. DUTY TO DISCLOSE UNDER FEDERAL RULE OF CIVIL PROCEDURE 26

A. Litigation Hold Notice

The advent of electronic discovery has introduced new terms into the IT vocabulary. One term, which now strikes fear into the hearts of IT managers, is the "litigation hold." Failure to implement a litigation hold can result in sanctions for "spoliation," or destruction of evidence.2 N.Y. Ass’n of Cnty. Org. for Reform Now v. County of Nassau, No. CV 05-2301(JFB)(WDW), 2009 WL 605859 (E.D.N.Y. Mar. 9, 2009); But see, e.g., ED Schmidt Pontiac-GMC Truck, Inc. v. Chrysler Motors Co., LLC, 575 F. Supp. 2d. 837, 840 (N.D. Ohio 2008) (holding that "no liability results simply from either failure to implement a litigation hold or defects in its scope and substance"). Thus, courts have held that when a party reasonably anticipates litigation, "it must suspend its routine document retention/destruction policy and put in place a litigation hold to ensure the preservation of regular documents." Zubulake v. UBS Warburg, LLC, 229 F.R.D. 422, 439 (S.D.N.Y. 2004) ("Zubulake IV"); Zubulake v. UBS Warburg, LLC, 220 F.R.D. 212, 218 (S.D.N.Y. 2003) ("Zubulake III"); Fujitsu Ltd. v. Fed. Express Corp., 247 F.3d 423, 436 (2d Cir. 2001) ("[t]he obligation to preserve evidence arises when the party has notice that the evidence is relevant to litigation or when a party should have known that the evidence may be relevant to future litigation"); Silvestri v. Gen. Motors Corp., 271 F.3d 583, 591 (4th Cir. 2001) ([t]he duty to preserve material evidence arises not only during litigation but also extends to that period before the litigation when a party reasonably should know that the evidence may be relevant to anticipated litigation"). Although the process of instituting a litigation hold is often viewed as the first step when responding to any anticipated litigation or investigation, there are a few other steps that organizations can take to help control the costs and minimize the risks associated with document preservation.

In order to implement an adequate and defensible litigation hold, an organization should understand the types of ESI that exist, where the ESI is located, and who has control over the ESI.3 See Wachtel v. Health Net, Inc., 239 F.R.D. 81 (D.N.J. Dec. 6, 2006); see also J. Michael Rediker, Email & Document Production in Native Format, PLI Order No. 12949 at 195, November 6, 2007. Unlike traditional paper-based discovery, a failure to immediately preserve ESI can result in its loss. ESI can easily be inadvertently or intentionally deleted or altered. Loss of ESI can occur during operation of a computer, rotating backup tapes, editing database records and deleting user files. Data on computer systems can be overwritten in seconds or may remain for months or years. For this reason, it is important that if the relevant information is stored electronically, one must act quickly to preserve the data. See Fed. R. Civ. P. 34(a) (the Federal Rules of Civil Procedure require prompt intervention in routine operations in order to establish the good faith that can protect against sanctions).

Attorneys on both sides have a responsibility to inform their clients of the duty to preserve and disclose relevant hard copy documents and ESI. Zubulake IV, 229 F.R.D. at 439; Mosel Vitelic Corp. v. Micron Tech., Inc., 162 F. Supp. 2d 307, 311 (D. Del. 2000) ("the obligation to preserve evidence runs first to counsel, who then has a duty to advise and explain to the client its obligations to retain pertinent documents that may be relevant to the litigation")

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2 See discussion of spoliation of evidence infra Part IV.A.

3 ESI is defined as any information stored electronically, including writings, drawings, graphs, charts, photographs, sound recordings, images, and other data or data compilations that is stored in any medium from which information can be obtained either directly or, if necessary, after translation by the responding party into a reasonably usable form.
(quoting Telecom Int'l Am., Ltd. v. AT & T Corp., 189 F.R.D. 76, 81 (S.D.N.Y. 1999)). Generally speaking, the preservation obligation is triggered by "reasonable anticipation" of litigation. Zubulake IV, 220 F.R.D. at 217 (a client's duty to preserve evidence in the pre-litigation context arises "when a party should have known that the evidence may be relevant to future litigation"); Forest Labs., Inc. v. Caraco Pharm. Labs., Ltd., No. 06-13143, 2009 WL 998402, at *2 (E.D. Mich. April 14, 2009) ("[t]he obligation to preserve evidence arises when the party has notice that the evidence is relevant to litigation or when a party should have known that the evidence may be relevant to future litigation") (citing Fujitsu Ltd., 247 F.3d at 436; Silvestri, 271 F.3d at 591. No bright line rule governs when litigation should be reasonably anticipated. Indeed, it is often times difficult to determine the precise point in a developing dispute in which litigation becomes reasonably foreseeable. Offentimes, attorneys are under the impression that the duty to preserve arises when they receive a preservation letter from the opposing party, a preservation order from the court or a discovery request from the opposing party. This is simply not the case. As noted by Federal Rule of Civil Procedure 37 advisory committee note of 2006, "[a] preservation obligation may arise from many sources, including common law, statutes, regulations, or a court order in the case." Id. Depending on the common law in your jurisdiction, the obligation to preserve evidence arises when litigation is "reasonably anticipated" or "pending, imminent or reasonably foreseeable." Housing Rights Ctr. v. Sterling, No. CV 03-859 DSF, 2005 WL 3320739 (C.D. Cal. 2005).

To minimize the risks of the destruction of evidence and avoid sanctions, electronic evidence should be preserved as soon as a party is put on "notice" that potential litigation may arise. See Kronisch v. United States, 150 F.3d 112 (2d Cir. 1998); Turner v. Hudson Transit Lines, 142 F.R.D. 68 (S.D.N.Y. 1991). This "triggering event" can arise from many different sources including the threat of a lawsuit, administrative proceedings such as a demand letter, prior lawsuits, the filing of a complaint, discovery requests or orders, and common law to name a few. Id.; Kronisch, 150 F.3d. at 112; Housing Rights Ctr., 2005 WL 3320739 at *1; Consolidated Aluminum Corp. v. Alcoa, Inc., 244 F.R.D. 335, 340 (M.D. La. 2006). Unless there is a statutory, regulatory duty to preserve, or a court order, the determination of when the obligation to preserve arises involves a specific factual inquiry into the "triggering event" which requires an understanding of the potential cause of action, legal elements and factual propositions in the case. Id.

Once the duty to preserve arises and before a litigation hold can be issued, counsel must determine what ESI must be preserved and which custodians must be notified. A litigant is under no duty to keep or retain every document in its possession; rather, the litigant is under a duty to preserve what it knows, or it reasonably should know, is relevant in the action. See Fed. R. Civ. P. 26(b)(1); Fed. R. Civ. P. 34(a) (a party may have an obligation to preserve ESI in the possession of outside parties). Courts have accepted an approach to evidence preservation based on a focus on "key players," i.e., those who are expected to have relevant evidence based on the allegations in the case and their roles in the company. The preservation steps to be taken in each case are highly fact-specific, and there is no single blueprint. What is critical, however, is that there is a good faith effort and that the decisions made can be defended if challenged. See The Sedona Principles, 2d ed. Best Practices Recommendations & Principles for Addressing Electronic Document Production (June 2007). This will include giving consideration to potential sources of electronic information. Id. This process may involve interviews with key players, discussions with IT personnel, follow-up investigation, audits and documentation of the steps taken. The N.Y. Ass'n of Cnty. Org. For Reform Now v. City of Nassau, No. CV 05-2301(JFB)(WDW), 2009 WL 605859, at *3 (E.D.N.Y. Mar. 9, 2009); Consolidated Aluminum Corp. v. Alcoa, Inc., 244 F.R.D. 335 (M.D. La. 2006).
In the case of *Zubulake v. UBS Warburg, LLC*, No. 02 Civ. 1243(SAS), 2004 WL 1620866 (S.D.N.Y. July 20, 2004) ("Zubulake V"), the Court recognized that perfection is not the standard. Instead, there is a recognition that the law requires good faith and reasonable steps to preserve evidence, and organizations should examine their litigation response procedures to see if they would withstand scrutiny as being reasonable if challenged in litigation. See *Treppel v. Biovail Corp.*, 233 F.R.D.363 (S.D.N.Y. Feb. 6, 2006). Additionally, in order to establish reasonableness later, if a challenge arises, it is important to document the steps taken to identify the custodians and relevant repositories of ESI. See The Sedona Principles, 2d ed. *Best Practices Recommendations & Principles for Addressing Electronic Document Production* at 21 (June 2007). The process is imperative and the scope of the hold should be expanded, or narrowed, as the case evolves and more information becomes available. Diligently working to narrow the scope of the hold and the ESI collection and production is one of a party’s best tools for reducing the burden and cost of litigation. *Id.* at 27.

Third, once the scope of the litigation hold is determined, counsel should send a litigation hold notice (i.e., a directive to your client and others to preserve electronic data or other information pertaining to the litigation) to affected employees and other pertinent information custodians and advising information technology staff to suspend “auto-delete” functions. See *Zubulake V*, 2004 WL 1620866 at *7. The duty to preserve ESI does “not end with the implementation of a litigation hold notice; rather, it is only the beginning of a process.” *Zubulake IV*, 229 F.R.D. at 432. Counsel must then “oversee compliance with the litigation hold, monitoring the party’s efforts to retain and produce relevant documents.” *Zubulake V*, 2004 WL 1620866 at *7. The *Zubulake V* Court commended counsel for instructing employees orally as well as in writing to preserve relevant documents and information. *Id.* at 10-11. The lessons: the legal hold process should be discussed internally and with outside counsel, including the need for oversight; use employee interviews as an opportunity to confirm preservation of evidence in accord with legal holds; and consider repeating and updating notices when litigation is continuing or the document collection is delayed. See Maje Rajul, “*I Didn’t Know My Client Wasn’t Complying!*” *The Heightened Obligation Lawyers Have to Ensure Clients Follow Court Orders In Litigation Matters*, Shilder J.L., Com. & Tech. 9 at 3 (2005). The respective roles of in-house counsel and outside counsel regarding litigation hold compliance should be well-defined. Communication and coordination between outside and in-house lawyer (and client) will be primarily responsible for document preservation and recommendation, although it may be beneficial to explicitly confirm that arrangement. All involved in-house counsel and staff as well as discovery vendors should be made aware of the preservation considerations. *Id.* at 3. Steps that will be taken to oversee compliance with the litigation hold should be discussed, with due regard to the organization’s document retention policies and data retention architecture. *Zubulake V*, 2004 WL 1620866 at *7.

The litigation hold notice should include information regarding the summary and basic nature of the case, the relevant parties and the claims. The notice should include instructions to halt any paper or electronic information destruction policies. Also, retention schedules should be reviewed and revised to ensure preservation of both electronic and hardcopy information. The notice should advise parties as to privilege protection that is given to ESI involving the attorney-client relationship as well as work product. *Kings Way Fin. Servs., Inc. v. Price Waterhouse-Coopers, LLP*, No. 03 Civ. 5560 RMB HBP, 2006 WL 1520227 (S.D.N.Y. June 1, 2006) (although courts are undecided whether litigation hold notices are subject to the attorney-client privilege, such notices are likely to be relevant to various discovery issues, including whether a party properly preserved or produced all evidence; therefore, it is wise for lawyers to assume that the litigation hold notice will be disclosed and to not include any analysis or commentary regarding the litigation in the notice). This information should be labeled
"protected" and sent to a specific storage area — either physical or electronic storage. The first litigation hold notice need only be reasonable given what is known at the very outset of the matters, and it can be expanded as more information becomes available. If a "litigation hold" notice is not appropriate, or its dissemination needs to be limited, the organization should: (a) take such other steps as may be reasonable to preserve relevant evidence, and (b) be prepared to explain why no litigation hold notice was distributed. See Zubulake V, 2004 WL 1620866 at *7.

Organizations should consider having a litigation hold template readily available. Such a template would include standard instructions about how to override any automatic deletion functions pending the legal department’s consideration of implementing more robust precautions. The template could have a space to insert basic, readily available information about the nature of the case so the recipients can know what information might be relevant. A more detailed litigation hold notice may follow that identifies more precisely and completely the relevant topics and information sources. In addition to issuing a litigation hold notice, many courts require the legal department and outside counsel to take other affirmative steps to ensure that the relevant information is not being lost as a result of routine operations.

The final step in the process is for counsel to reassess periodically the preservation obligations and reissue the litigation hold notice. It is common that the type of issues and number of key players in a case expand. Preservation measures must expand accordingly. A litigant's preservation obligations also may change dramatically when suit is actually filed or discovery requests are served. And, if for no other reason, counsel should reissue the litigation hold notice because doing so will reinforce the important message of preservation and create helpful evidence in the event that any data is destroyed intentionally or accidentally. In most cases, a hold should only be lifted when it is determined that the matter has been ultimately concluded and counsel does not anticipate further litigation involving the same ESI.

In sum, it is important to note that the identification and preservation of electronic data and documents present substantial challenges and risks for organizations of all sizes. The key to preserving successfully information for litigation is reasonableness and good faith. Analyzing the unique issues that arise with electronic data is a difficult task. Organizations need to create and implement "litigation hold" processes for electronic documents that are reasonable and defensible under the circumstances. Of course, the nature and scope of these processes will vary widely between and even among organizations of different sizes and types. This conclusion is dictated not only by cases such as Zubulake V, but also by good business judgment that recognizes that the preservation, retrieval, and use of electronic information may well be key to success on the merits of disputes. Having and following retention and preservation rules permits the business to be more efficient in normal business times and helps ensure that an organization will be legally compliant when litigation arises.

B. Conference Of Counsel Before Disclosures/Importance Of Agreement On Form Of Discovery To Be Exchanged

Rule 26(f) of the Federal Rules of Civil Procedure requires the parties to confer as soon as practically possible or at least 21 days before the scheduling conference or a Rule 16(b) scheduling order is otherwise due. See Fed. R. Civ. P. 26(f). Rule 26(f) also lays out the issues that should be addressed at the meeting. The parties are required to discuss "the nature and basis of their claims . . . defenses and possibilities for promptly settling or resolving the case . . . arrangements for the disclosures required by Rule 26(a)(1); . . . issues about preserving discoverable information; . . . a proposed discovery plan." Id. The parties are responsible for
attempting to agree in good faith on the proposed discovery plan. After the parties’ pre-disclosure meeting, they are required to submit to the Court their proposal for a discovery plan. A joint discovery plan assists the Court to intervene more effectively in the event of discovery disputes and to make sure that the timing, scope, and limitations on the extent of discovery is aptly suited to the particular circumstances of each case. The parties’ disclosure plan is also helpful to the Court in determining a scheduling order and ensuring that the commencement of discovery is not unnecessarily delayed. Thus, counsel should use this meeting to discuss a game plan for the flow of discovery and head off any discovery disputes where they can be anticipated. See Fed. R. Civ. P. 26, advisory committee notes.

Because franchisor-franchisee litigation can often involve a litigation process fraught with antagonism, see generally, David Hess, *The Iowa Franchise Act: Towards Protecting Reasonable Expectations of Franchisees and Franchisors*, 80 Iowa L. Rev. 333, 353 (January 1995), the initial pre-disclosure conference is the first opportunity for counsel to set the tone for discovery and neutralize hostility ensuring an efficient discovery process. See generally *Dunkin Donuts Franchised Rest., LLC v. Grand Central Donuts, Inc.*, No. CV 2007-4027(ENV)(MDG), 2009 WL 1750348 (E.D.N.Y. 2009). An effective initial conference requires that the parties are candid, diligent and reasonable in their efforts to coordinate a discovery plan. See *The Sedona Principles, 2d ed. Best Practices Recommendations & Principles for Addressing Electronic Document Production* (June 2007). However, due to the adversarial tradition of the American Court system and the broad and permissive style of discovery rules, many opportunities if not incentives are available for counsel to delay and abuse the discovery process. See Fed. R. Civ. P. 26(f) advisory committee notes; see also *l'Imnaedait, Ltd v. The Intelligent Office Sys., LLC*, Civil Action No. 08-cv-01804-LTB-KLM, 2009 WL 1011200, at *1 (D. Colo. April 15, 2009). Unnecessary adversarialism and the rising costs associated with the discovery process has prompted bar associations and attorney groups to promote reform. One such example is The Sedona Conference which has been well received by the judiciary for promoting "cooperative, collaborative and transparent discovery." *William A. Gross Constr. Assocs., Inc. v. American Mfrs. Mut. Ins. Co.*, 256 F.R.D. 134, 136 (S.D.N.Y. 2009); see also *Sedona Conference Cooperation Proclamation*, July 2008 (www.TheSedonaConference.org). The theme of The Sedona Conference publications is to encourage counsel to avoid inhibitive adversarial conduct, embrace a more cooperative attitude during discovery while still being an aggressive advocate for clients. *Id.* This should be the standard and not just an idea especially in a franchisor-franchisee case where tensions between the parties easily become accelerated. Discovery disputes escalate costs for clients and law firms alike diverting valuable time away from the parties’ substantive issues; powerful incentives for parties’ cooperation to ensure the most efficient allocation of their resources. See *Grand Central Donuts*, 2009 WL 1750348 at *4.

To ensure an efficient and cost-effective discovery process, it is imperative that the parties discuss and determine at the initial conference the form of discovery that will be exchanged, the types of information systems involved, and the types and formats of ESI involved. See J. Michael Rediker, *Email And Document Production in Native Format*, PLI Order No. 12949, November 6, 2007. Rule 34(a) dictates that the forms of discoverable information include, “documents or electronically stored information, . . . data or data compilations.” See Fed. R. Civ. P. 34(a). However, the parties may stipulate and agree to the forms of discovery that will be utilized. It is particularly important to define what constitutes electronically stored information, data and data compilations for the purposes of the litigation at hand. Specifically, in responding to a request for production of ESI, a party may produce documents in traditional
paper form, PDF or TIFF form, or in “native format.” Rule 34(e) requires that unless the parties have agreed otherwise, documents are to be produced “as they are kept in the usual course of business.” *Id.*

ESI is created, maintained and stored using applications and computer systems in a form native to the application and system(s) used to create it. Thus, there is a strong argument that “native format” is the default form of production. See Kenneth J. Withers, Esq., *Considerations for Selecting a Form of Production for Electronic Discovery*, The E-Discovery Standard, Summer 2004. But the counter-argument is equally as compelling as electronic information may be used by a number of different applications in the normal course of business, adding or subtracting metadata and other characteristics of an electronic document. *See The Sedona Principles, Best Practices, Recommendations & Principles for Addressing Document Production*, June 2007. As a result, it is necessary that counsel take advantage of the pre-discovery initial conference to determine the form of discovery to be exchanged, including resolving what will be the default form of production.

If either party is expected to utilize computer generated evidence at trial, counsel should be prepared to consider production in “native format” because it allows counsel to probe evidence for weaknesses and discover embedded data or metadata that may be contained in documents, such as the date documents were created or modified. *See 71 Am. Jur. Trials 111, § 91 (April 2009); see also Martin v. Redline Recovery Serv., LLC, No. 08-CV-6153, 2009 WL 959635 (N.D. Ill. Apr. 1, 2009).* Production in native format, however, can be costly, time consuming and disruptive to a business if it is not discussed and agreed to before production begins. On the other hand, production of ESI in PDF or TIFF is a paper or electronic image derivative of the original document. See Kenneth J. Withers, Esq., *Considerations for Selecting a Form of Production for Electronic Discovery*, The E-Discovery Standard, Summer 2004. PDF and TIFF productions can be considered “hard copies” as they retain many of the characteristics that traditional paper hard copies do, such as: (i) ability to remove or redact privileged information; (ii) authenticity, security and integrity of documents; and (iii) ability to easily Bates number documents. *Id.; see also Michael Rediker, Email And Document Production in Native Format, PLI Order No. 12949, November 6, 2007.* However, the major disadvantage of PDF and TIFF is that one cannot view or extract metadata such as the origination of the document, author, dates of creation and modification and other kinds of information that can give context and relevance to the information produced. *See Michael Rediker, Email And Document Production in Native Format, PLI Order No. 12949, November 6, 2007.*

The most important issue to analyze in determining the form of discovery to utilize is relevance. The form of production that is appropriate to a case depends on what kind of information is being sought, i.e. how that information can lead to the discovery of admissible evidence. The different forms of discovery show us different aspects of a document. For example, a paper document shows us what is apparent from the four corners of that document, while a Word document in its native format can reveal embedded edits and metadata. In most

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4 Native format in terms of ESI usually refers to “the original format of a type of electronically stored information in which such information was embodied at the time it was created by the software application used to create it.” See Michael Rediker, *Email And Document Production in Native Format, PLI Order No. 12949, November 6, 2007.*

5 The Sedona Conference defines metadata as, “information about a particular data set which describes how, when and by whom it was collected, created, accessed, or modified and how it is formatted (including data demographics such as size, location, storage requirements and media information).” *Sedona Guidelines: Best Practice Guidelines & Commentary for Managing Information & Records in the Electronic Age, Appendix F.*
cases, what is relevant will be what was communicated by the document in question and only very rarely will embedded edits be relevant since embedded edits were probably never communicated to anyone else. See Kenneth J. Withers, Esq., Considerations for Selecting a Form of Production for Electronic Discovery, The E-Discovery Standard, Summer 2004. While metadata and native format production can be valuable in prosecuting or defending a case, it could inflate the cost of discovery considerably and involve lengthy delays and quarrels over cost-shifting. See, J. Michael Rediker, Email And Document Production in Native Format, PLI Order No. 12949, November 6, 2007. However, during the initial conference, parties can avoid such hazards by collaborating at the outset to tailor a narrow search process, and stratify discovery into phases, so as to target the information that is truly needed and maximize cost-effectiveness. Id; 71 Am. Jur. Trials 111, § 91 (April 2009); see also Grand Central Donuts, 2009 WL 1750354 at *4.

Another critical item to reconcile with opposing counsel and with the client is the allocation of costs associated with electronic discovery. See Rediker PLI, supra, at 209. Generally, each party carries its own costs in responding to discovery requests. Oppenheimer Fund, Inc. v. Sanders, 437 U.S. 340, 358 (1978). When faced with hardship in responding to discovery requests, a party can seek the court’s protection from unduly burdensome or expensive discovery requests. Id. However, such a protective order is not automatic, is determined on a case-by-case basis and may be subject to certain considerations and tests. In 2003, the Southern District of New York, in the Zubulake case, came up with a 7-factor guideline to determine issues of cost-shifting in electronic “native format” discovery. See Rediker PLI, supra, at 210 (citing to Zubulake, 217 F.R.D. 309, 316-17 (S.D.N.Y. 2003). Although the Zubulake test was widely accepted and followed, in the 2006 revisions to the Federal Rules of Civil Procedure, the advisory committee laid out a 7-factor test of its own similar to the Zubulake factors. Yet, even with the advisory committee’s 7-factor test, the court’s consideration of cost-shifting issues is fact specific and on a case-by-case basis, and therefore far from predictable. See Rediker PLI, supra, at 212. In order to avoid being surprised and burdened by significant costs associated with the discovery of ESI and native format discovery in particular, the parties are better off reconciling such issues by agreement and stipulation at the earliest opportunity. Id.

A comprehensive and thoughtful discovery plan for handling the discovery of ESI is necessary at the parties’ initial conference in order to avoid the pitfalls of ESI mismanagement. See Victor Stanley, Inc. v. Creative Pipe, Inc., 250 F.R.D. 251 (D. Md. 2008). A critical pitfall in ESI discovery is the inadvertent waiver of privilege and work-product protection. It is thus important to head off any potential privilege waiver dilemmas by discussing “clawback”, “quick-peek” and other non-waiver agreements at the inception of discovery. See Victor Stanley, Inc., 250 F.R.D. at 255; Hopson v. Mayor and City Council of Baltimore, 232 F.R.D 228 (D. Md. 2005). Clawback and quick peek agreements allow responding parties to “take back” privileged information that is inadvertently produced if the responding party discovers and alerts the requesting party within a reasonable period such as thirty days from production. See Hopson, 232 F.R.D at 228. It is not uncommon for judges to encourage the stipulation and agreement of counsel on non-waiver agreements which can be adopted in a discovery plan. See Manual for Complex Litigation, §11.446, (Stanley Marcus, et al. eds., Federal Judicial Center 4th ed. 2004).

Nevertheless, it is important to note that ESI does present the litigant with serious hazards in protecting privileged information, and even with non-waiver agreements such as “clawbacks” and “quick-peeks”, a court could still find that a party waived any applicable privilege protection. Hopson, 232 F.R.D. at 228. In Hopson, the Court discussed at length the inherent risks associated with relying on “clawbacks” and “quick-peek” non-waiver agreements.
Hopson, 232 F.R.D. at 236-28. However, the Hopson Court identifying an approach essential to avoiding inadvertent waiver, recommended that the parties agree to procedures that demonstrate that reasonable measures were designed to protect against waiver of privilege and work product protection. id. at 240.

Counsel should have sufficient technical knowledge in order to make educated and reasonable requests. In preparing for the initial conference, counsel should meet with their respective clients to discuss ESI production and preservation, and if applicable, the client's information technology department and vendors regarding the practical and technical logistics involved in data production and preservation. See The Sedona Principles, 2d ed. Best Practices Recommendations & Principles for Addressing Electronic Document Production (June 2007); D.N.J.L.R. 26.1(d). As noted above, Rule 26(f) imposes upon counsel an affirmative duty to discuss the preservation of evidence so even where the client does not have a formal IT department, counsel should meet with the client and all key employees to gain a working knowledge of the client's ability to respond to ESI production and preservation orders. Failure to do so, and a resulting inability to comply with preservation orders and discovery obligations, could expose counsel and the client to severe sanctions.

C. Purpose, Timing And Basis Of Initial Disclosures

The primary objective of Rule 26(a)(1)'s initial disclosure obligation is "to accelerate the exchange of basic information about the case and to eliminate the paper work involved in requesting such information." See Fed. R. Civ. P. 26 advisory committee's note, subdivision (a) (1993). This objective is consistent with the stated scope and purpose of Fed. R. Civ. P. 1, requiring that the Federal Rules of Civil Procedure be "construed and administered to secure the just, speedy, and inexpensive determination of every action." See Fed. R. Civ. P. 1.

Under Rule 26, and except in categories that are exempt from the requirements of Rule 26, a party must provide the following information to opposing parties without awaiting a formal discovery request: (i) the name, address and telephone number of each individual likely to have discoverable information that the disclosing party may use to support its claims or defenses; (ii) a copy of, or a description by category and location of, all documents and/or data compilations that the disclosing party may use to support its claims or defenses; (iii) a computation of damages being sought by the disclosing party, as well as making available for the other party a copy of the underlying data upon which such computation is based; and (iv) a copy of any insurance agreement under which any person carrying on an insurance business may be liable to satisfy part or all of an adverse judgment. See Fed. R. Civ. P. 26(a)(1)(A)-(E).

Unless otherwise ordered by the Court, these disclosures must be made at or within 14 days after the initial meeting between the parties' respective counsel as provided for in the Federal Rules of Civil Procedure. See Fed. R. Civ. P. 26(a)(1); see also Fed. R. Civ. P. 26(f). A party must make the initial disclosures based on the information then reasonably available to it and is not excused from making its disclosures because it has not fully completed its investigation of the case or because it challenges the sufficiency of another party's disclosures. See Fed. R. Civ. P. 26(a)(1).

Under Fed. R. Civ. P. 26(e), a party also has a duty to supplement or correct the initial disclosures under Rule 26(a) or response to include information thereafter acquired if: (i) the party learns that the information that was initially disclosed was incomplete or incorrect in some material respect; and (ii) the additional or corrective information has not otherwise been made known to the other party during discovery or in writing. See Fed. R. Civ. P. 26(e)(1)(A); Solis-

D. **Pre-Trial Disclosures**

In addition to the initial disclosures under Rule 26, a party must make pretrial disclosures to other parties of, and promptly file with the court, the following information regarding evidence that the disclosing party may present at trial: (i) the name, and if not previously provided, the address and telephone number of each witness, separately identifying those whom the party expects to call at trial and those whom the party may call if necessary; (ii) designation of those witnesses that the party expects to presents by deposition, as well as a transcript of the pertinent portions of the testimony; and (iii) an identification of each document that the party expects to introduce at trial and those which the party may offer, if necessary. See Fed. R. Civ. P. 26(a)(3)(A)-(C).

Unless otherwise directed by the court, the pretrial disclosures must be made at least 30 days before trial. See Fed. R. Civ. P. 26(a)(3)(B). A party that fails to disclose the information required hereunder, without substantial justification, will not be permitted to use as evidence at trial, a hearing or on a motion any documents and/or witnesses not disclosed, unless such failure to disclose is harmless. See Fed. R. Civ. P. 37(c)(1); see also Hoffman v. Construction Protective Servs., Inc., 541 F.3d 1175 (9th Cir. 2008) (affirming that the opt-in plaintiffs' nondisclosure of damages evidence was not substantially justified and that exclusion of damages evidence was warranted); Luke v. Family Care & Urgent Med. Clinics, No. 08-35192, 2009 WL 886350, at *1 (9th Cir. Jan. 22, 2009) (holding that untimely expert declarations submitted by the plaintiffs were properly excluded; the plaintiffs provided no substantial justification); Alvarado v. Farah Mfg. Co., Inc., 830 S.W.2d 911 (Tex. 1992), reh’g of cause overruled, (Mar. 11, 1992); Patel v. Gayes, 984 F.2d 214 (7th Cir. 1993) (medical malpractice plaintiff required to identify the physicians that he expected to call at trial where one of the documents on which the treating physicians were expected to comment was not used by them to treat the plaintiff).

Under Rule 37(c)(1), a court, after affording the non-disclosing party with an opportunity to be heard, may impose the appropriate sanctions. See Fed. R. Civ. P. 37(c)(1); Stookey v. Teller Training Distrib., Inc., 9 F.3d 631 (7th Cir. 1993) (district court’s decision to dismiss a distributor's counterclaim where the distributor had withheld documents for three years and lied about their existence was not an abuse of discretion); Anheuser-Busch, Inc. v. National Beverage Distrib., 151 F.R.D. 346 (N.D. Cal. 1993), aff'd, 89 F.3d 337 (9th Cir. 1995); Leathers v. Pfizer, Inc., 233 F.R.D. 687, 697 (N.D. Ga. 2006) ("[t]he burden of establishing that a failure to
disclose was substantially justified or harmless rests on the non-disclosing party"); *Luke*, 2009 WL 886350 at *1 (reviewing imposition of discovery sanctions "giv[ing] particularly wide latitude to the district court's discretion to issue sanctions under Rule 37(c)(1)") (citing *Yeti* by Molly Ltd. v. *Deckers Outdoor Corp.*, 259 F.3d 1101, 1105-06 (9th Cir. 2001)); *GNC Franchising, LLC* v. *Farid*, No. 2:05-cv-1741, 2006 WL 3064105 (W.D. Pa. 2006) (where franchisee failed to file its initial Rule 26 disclosures and, despite repeated requests, did not respond to them until motion to compel was filed, court granted motion and awarded attorneys' fees in favor of franchisor); *ABB Air Preheater, Inc. v. Regenerative Envtl. Equip. Co., Inc.*, 167 F.R.D. 665 (D.N.J. 1996) (Rule 37 vests the court with discretion in its provision that no sanctions should be imposed if there is substantial justification for non-disclosure and/or if the non-disclosure was harmless); *Ramada Franchise Sys., Inc. v. Patel*, Case No. 03-3494, 2004 WL 1246566 (3d Cir. June 8, 2004) (where a party had repeatedly failed to make its Rule 26 disclosures, the sanction of a default was warranted).

**E. Initial Pre-Trial Conference**

A pretrial conference is a meeting of the parties to a case conducted shortly before trial. *See generally* Fed. R. Civ. P. 16. A qualified judge and competent attorneys can make excellent use of the pretrial conference in resolving many issues that may be disposed of by agreement and so defining others that the trial of the case is facilitated. While pretrial rules are generally uniform, their application varies considerably from court to court and even from judge to judge. It is, therefore, essential that attorneys familiarize themselves with the pretrial practices that prevail in their particular court and with the particular judge before whom the proceedings are to take place. *See Pretrial Practices, generally, see Am. Jur., Trial §11; Pullum v. Robinette*, 174 S.W.3d 124 (Tenn. Ct. App. 2004).

Many attorneys have viewed pretrial with distrust, feeling that it does away with adversary tactics that might catch opposing counsel unaware at the trial. Increasingly, however, the courts are looking with disfavor on the type of litigation that is more a contest of wits between opposing counsel than an attempt to settle a matter on its merits. In fact, pretrial is being used more and more to eliminate surprise at the trial, to save time as to admitted collateral matters that otherwise might require proof, to simplify issues, to agree on exhibits, and to have the trial itself be concerned solely with the issues of fact. In spite of the criticism of the theory of pretrial conference, the experience of the courts regarding it is favorable and would indicate that it is here to stay, that its influence will continue to grow, and that attorneys will have to learn to practice it properly. There is evidence that pretrial conferences improve the quality of justice rendered in the federal courts by sharpening the preparation and presentation of cases, tending to eliminate trial surprise and improving, as well as facilitating, the settlement process. *See* 6 Wright & Miller, Federal Practice and Procedure: Civil §1522 (1971).

**1. Purpose Of Pre-Trial Conference**

The purpose of a pretrial conference is to narrow and simplify the factual and legal issues to be tried, thus, expediting the trial, and to assist the parties in exploring settlement possibilities in an attempt to obviate avoidable expense and delay. *See* Fed. R. Civ. P. 16(a). *see also* Ha-Lo *Indus.* v. Your Favorite Producers, 184 F.R.D. 233 (N.D. Ill. 1995) (purpose of Rule 16 conference is to discuss issues, discourage wasteful pretrial activities, facilitate settlement and expedite disposition of the action); *SNA Nut Co. v. Haagen-Dasz Co., Inc.*, 302 F.3d 725, 732 (7th Cir. 2002); *Wilson v. Kelkhoff*, 86 F.3d 1438, 1442 n.6 (7th Cir. 1996); *Fashauer v. New Jersey Transit Rail Operations, Inc.* 57 F.3d 1289, 1287 (3d Cir. 1995). To be effective, a pretrial conference requires the full cooperation of counsel and the court. A pretrial
conference may be conducted for several reasons. The court may order the attorneys and any unrepresented parties to appear for one or more pretrial conferences for such purposes as to: (1) expedite disposition of the case; (2) establish early and continuing control so that the case will not be protracted because of lack of management; (3) discourage wasteful pretrial activities; (4) improve the quality of the trial with thorough preparation; and (5) facilitate a settlement of the case. See Fed. R. Civ. P. 16(a).

While Rule 16 pretrial conferences may serve several of the listed functions, its most important goal is to limit and simplify the issues of the case in order to avoid unfair surprises to litigants as well as to promote judicial efficiency. See Ohio-Sealy Mattress Mfg. Co. v. Kaplan, 90 F.R.D. 35, 36 (N.D. Ill. 1981); Eff v. MarkHon Indus., Inc., 781 F.2d 613, 617 (7th Cir. 1986) ("[a]ttorneys at a pre-trial conference must make a full and fair disclosure of their views as to what the real issues of the trial will be"); McCargo v. Hedrick, 545 F.2d 393 (4th Cir. 1976) (noting that Fed. R. Civ. P. 16 purpose is to aid in the disposition of the case. "i.e., to make the trial easier"). During this conference, the court may: (1) formulate and simplify the issues in the case, Attna Cas. and Sur. Co. v. P & B Autobody, 43 F.3d 1456 (1st Cir. 1994); Manbeck v. Ostrowski, 384 F.2d 970 (D.C. Cir. 1967); Mull v. Ford Motor Co., 368 F.2d 713 (2d Cir. 1966); (2) eliminate frivolous claims or defenses; (3) obtain admissions of fact and documents to avoid unnecessary proof; (4) identify witnesses and documents; (5) make schedules for the submission of pretrial briefs and motions; (6) make rulings on motions submitted before the conference; (7) set dates for further conferences; (8) discuss the possibility of a settlement; and (9) discuss the consolidation or management of large, complex cases. The pretrial conference, however, is not to be used as a substitute for trial. MacArthur v. San Juan County, 416 F. Supp. 2d 1098, 1169 (D. Utah 2005) (citing Pitcho v. Brewer, 77 F.R.D. 356 (M.D. Pa. 1977)).

More importantly, courts have held that failure to identify a legal issue for trial during the pretrial conference or in the pretrial order waives the party's right to have that issue tried. See McLean Contracting Co. v. Waterman Steamship Corp., 277 F.3d 477, 480 (4th Cir. 2002) (finding that the party's failure to identify a disputed issue for trial in the pretrial order waived its right to have the issue tried and lower court properly excluded evidence relating to such issue); see also Fed. R. Civ. P. 16 a committee notes (1983 amendment) ("[c]ounsel bear a substantial responsibility for assisting the court in identifying the factual issues worthy of trial. If counsel fails to identify an issue to the court, the right to have the issue tried is waived"); Gregory v. Shelby County, Tenn. 220 F.3d 433, 442-43 (6th Cir. 2000) (same).

Following the initial pretrial conference and because the purpose of the initial pretrial conference is to promote the ability of the court to manage the case through the development of sound plan setting forth pretrial and trial dates, the judge or magistrate issues an order reflecting the results of the conference, and the order controls the future course of the case. Olgay v. Society for Envtl. Graphic Design, Inc., 169 F.R.D. 219 (D.D.C. 1996). Generally, this has a salutary effect on the conduct and progress of the litigation that is of benefit to all concerned. Tcherepnin v. Knight, 389 U.S. 332, 19 L.Ed.2d 564, 88 S.Ct. 548 (1967).

2. **Opportunity To Narrow Disputed Issues**

A proper pretrial preparation and conference will crystallize and refine the issues framed by the pleadings. If the claim and defense are in good faith, both attorneys should be interested in limiting the issues and in saving the time and expense of making proof of facts not actually in dispute. Ministrelli Const. Co. v. Monroe County Road Comm'n, 395 N.W.2d 38 (Mich. App. Ct. 1986). The court can lend invaluable assistance by giving direction concerning the adequacy of proof it believes will be necessary. This is particularly important in franchise litigation where so
many principles are still in the process of definition through development of case law. See 69 Am. Jur. 2d, Securities Regulation – State §27.

Clarification of the issues is of particular importance to plaintiff’s counsel. All too frequently, defense counsel in drawing his answer admits no more than the complaint compels and over-pleads affirmative defenses, forcing the attorney for plaintiff to expend much effort and expense in taking depositions and undertaking other discovery procedures. At pretrial, plaintiff's counsel is in a position, through the intervention of the judge, to compel abandonment of unprovable defenses and to obtain stipulations as to facts not really in dispute. Defense counsel will also frequently find it advantageous to compel a precise statement of the issues and damages. Yet, counsel should avoid being forced to accept an oversimplification of the issues. Because of the binding effect of the pretrial order, counsel may be otherwise prevented from offering evidence in support of a substantial claim or defense. To aid in limiting the issues and simplifying proof, court procedures frequently call for a statement, or statements, of the issues by counsel at the outset of the hearing.

3. Opportunity To Facilitate Settlement

Rule 16 explicitly recognizes that it has become commonplace to discuss settlement at pretrial conferences. Since it obviously eases crowded court dockets and results in savings to the litigants and the judicial system, settlement should be facilitated at as early a stage of the litigation as possible. Although it is not the purpose of Rule 16(b)(7) to impose settlement negotiations on unwilling litigants, it is believed that providing a neutral forum for discussing the subject might foster it. See Moore's Federal Practice ¶16.17; 6 Wright & Miller, Federal Practice and Procedure: Civil §1522 (1971).

To aid pretrial settlement, some jurisdictions provide separate hearings called settlement conferences. It may be held in conjunction with a pretrial or discovery conference, although various objectives of pretrial management, such as moving the case toward trial, may not always be compatible with settlement negotiations and, thus, a separate settlement conference may be desirable. See 6 Wright & Miller, Federal Practice and Procedure: Civil §1522 at p. 571 (1971). A judge to whom a case has been assigned may arrange, on his own motion or at a party's request, to have settlement conferences handled by another member of the court or by a magistrate judge. The rule does not make settlement conferences mandatory because they would be a waste of time in many cases. See Flanders, Case Management and Court Management in the United States District Courts, 39 Federal Judicial Center (1977).

Settlement is facilitated by the procedure described herein for at least two reasons. First, the settlement conference judge is not ordinarily the trial judge and will feel more free to take an active part in negotiations. Second, the sole and express function of the hearing is to reach an agreement before trial. Accordingly, counsel desirous of settling the controversy and avoiding the effort and expense of trial should take advantage of this procedure where available.

III. Scope of Discovery

Discovery is the pre-trial phase in a court case during which each party can use certain methods to obtain information and facts and gather evidence about the case in preparation for trial. It is the principal fact-finding method in the litigation process. Almost all trial courts allow a wide scope for discovery, the theory being that all parties should go to trial with as much knowledge as possible, and that the parties should not be able to keep secrets from each other. This broad right can involve the discovery of any material relevant to the case excepting

The goal of discovery is to avoid surprises and for all parties to go to trial with as much information as possible. Success in many franchise cases will depend on extensive and vigorous use of discovery procedures. Staff Builders of Philadelphia, Inc. v. Koschitzki, CIV. A. No. 88-6103, 1989 WL 46284 (E.D. Pa. 1989); I'mnaedalt, Ltd. v. The Intelligent Office Sys., 2009 WL 1011200 (D. Colo. April 15, 2009) (litigation involving a dispute over a franchise was "before the court on several discovery motions"); Darrah v. Crown Cent. Petroleum, 738 F. Supp. 1439 (M.D. Ga. 1990); In re Coordinated Pretrial Proceedings in Petroleum Products Antitrust Litigation, 906 F.2d 432 (9th Cir. 1990); Murphy v. White Hen Pantry Co., 691 F.2d 350 (7th Cir. 1982) (grantor franchisor's motion for summary judgment after 2 years of extensive discovery). Not surprisingly, many cases will settle during the discovery phase as a result of what is discovered and what would be unwise to disclose in discovery. In practice, the majority of civil cases settle after or during discovery. After discovery, both sides usually are in agreement about the strength and weaknesses of their cases, which may lead to a settlement that eliminates the expense and risks of a trial. In re Int'l House of Pancakes Franchise Litig., 78 F.R.D. 379 (W.D. Mo. 1978) (anti-trust litigation based on alleged illegal tying arrangement with settlement fund established in amount of $500,000 for class of former franchisees, including shareholders of former corporate franchisees); Clarke v. Amerada Hess Corp., 500 F. Supp. 1067 (S.D.N.Y. 1980); Desantis v. Snap-On Tools Co., LLC, Civil Action No. 06-cv-2231 (DMC), 2006 WL 3068584 (D.N.J 2006) (discovery resulted in settlement that provided monetary and non-monetary benefits to franchisees). However, in the context of class action settlements between franchisees and franchisors, formal discovery is not a necessary ticket to the bargaining table, where the parties have sufficient information to make an informed decision about settlement. 7-Eleven Owners for Fair Franchising v. Southland Corp., 85 Cal. App. 4th, 1135, 102 Cal. Rptr. 2d 777 (1st Cir. 2000).

A. Discovery Limitations

Under the Federal Rules of Civil Procedure, unless the scope of discovery is otherwise limited by order of the court, parties may obtain discovery regarding any matter not privileged, which is relevant to the subject matter involved in the pending action, whether it relates to the claim or defense of the party seeking discovery or to the claim or defense of any other party, including the existence, description, nature, custody, condition and location of any books, documents, or other tangible things and the identity and location of persons having knowledge of any discoverable matter. See Fed. R. Civ. P. 26(b)(1); Bonanno v. The Quizno's Franchise Company, LLC, 255 F.R.D. 550, 552 (D. Colo. 2009); Williams v. Board of County Comm'r's, 192 F.R.D. 698, 702 (D. Kan. 2000); Sheldon v. Vermont, 204 F.R.D. 679, 689-90 (D. Kan. 2001); Brunet v. Quizno's Franchise Co. LLC, Civil Action No. 07-cv-01717-PAB-KMT, 2009 WL 902434 (D. Colo. Apr. 1, 2009). Relevant information need not be admissible at the trial if the discovery appears reasonably calculated to lead to the discovery of admissible evidence. See Fed. R. Civ. P. 26(a)(1); Staff Builders of Philadelphia Inc. v. Koschitzki, CIV. A. No. 88-
6103, 1989 WL 71294, at * 1 (E.D. Pa. June 26, 1989); Luther v. Kia Motors America, Inc., Civil Action No. 08-386, 2008 WL 5335024, at * 1 (W.D. Pa. Dec. 18, 2008). An exception to this broad rule is made with respect to documents and tangible things prepared in anticipation of litigation or for trial by or for another party or by or for that party's representative (including his attorney, consultant, surety, indemnitor, insurer, or agent), which need be disclosed only upon a showing that the party seeking discovery has substantial need of the materials in preparation of his case and is unable without undue hardship to obtain the substantial equivalent of the materials by other means. See Fed. R. Civ. P. 26(b)(3); Central Sports, Inc. v. Yamaha Motor Corp., U.S.A., 477 F. Supp. 2d 503 (D. Conn. 2007); Pyramid Controls, Inc. v. Siemens Indus. Automations, Inc., 176 F.R.D. 269 (N.D. Ill. 1997); Dunkin' Donuts Inc. v. Mary's Donuts, Inc., 206 F.R.D. 518 (S.D. Fla. 2002). Limitations are also placed upon the discovery of facts and opinions held by experts acquired or developed in anticipation of litigation or for trial. See Fed. R. Civ. P. 26(b)(4). Courts are further empowered, upon motion by a party or by the person from whom discovery is sought, to make any order which justice so requires to protect a party or person from annoyance, embarrassment, oppression, or undue burden or expense. See Fed. R. Civ. P. 26(c).

B. Timing And Sequence Of Discovery

Once an answer to a lawsuit is filed, the time for conducting discovery begins. The timing and methods for conducting discovery will vary from state to state and from court to court. There are substantial and numerous rules governing discovery in each case. You should check your state rules and court rules for guidance when conducting discovery. Although the scope of what may be requested in discovery is broad, strict deadlines apply for requesting discovery and responding to discovery requests. It is very important to be aware of and follow the deadlines because of the potentially serious consequences for non-compliance.

Unless otherwise ordered by the court, there is no limitation on the frequency with which these methods of discovery may be used, see Fed. R. Civ. P. 26(a), or upon the timing or sequence of their use. See Fed. R. Civ. P. 26(d). Although the rules place no specific limitation on the timing or sequence of discovery procedures other than that relating to the service of the summons and complaint, the timing must be reasonable and, if it is not, courts have power under Rule 26(c) to issue such protective orders as may be necessary. A court may exercise its power in this respect by refusing to allow discovery if there is undue delay and service of a request on the eve of trial, or, in cases requiring lengthy and complicated discovery, as in many antitrust treble damages actions, by calling an early pretrial conference at which a schedule of discovery procedures will be set up. Sea Tow Int'l., Inc. v. Pontin, 246 F.R.D. 421 (E.D.N.Y. 2007); Capital Equip., Inc. v. CNH America, LLC, No. 4:04-CV-00381 GTE, 2006 WL 2786966 (E.D. Ark. Sept. 27, 2006).

C. Use Of Interrogatories, Requests For Production And Requests For Admissions

Three forms of written discovery that are permitted under the federal rules of civil procedure and which are of significant use in franchise cases include written interrogatories to parties, requests for production of documents or things for inspection and other purposes, and

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6 See discussion infra Part IV.F.

7 Defendants were represented by Zarco Einhorn Salkowski & Brito, P.A.
requests for admissions of facts or of genuineness of documents. See Fed. R. Civ. P. 26(a); see Fed. R. Civ. P. 33, 34 and 36.

A plaintiff may serve written interrogatories, without leave of court, upon any party with or after the service of the summons and complaint upon that party, and interrogatories may be served on the plaintiff at any time after commencement of the action. See Fed. R. Civ. P. 33. The party so served must give written answers, under oath, and signed by him, to each interrogatory, unless objected to, and in the latter case the objection, with the reasons therefore, signed by the attorney making it, is to be submitted in lieu of the answer. If the interrogatories are served with or shortly after service of the summons and complaint, the defendant is allowed 45 days after such service within which to answer them; otherwise they are to be answered within 30 days. The court may allow a shorter or longer time. See Fed. R. Civ. P. 33.

Interrogatories served with the complaint can serve a very effective purpose if limited to matters requiring immediate answers. There is some difference of opinion among trial attorneys as to the efficacy of serving interrogatories together with the summons and complaint. Some feel that well drawn interrogatories will serve to create a good first impression, indicating that the complaint does not represent a superficial effort by an inexperienced attorney. Others doubt that very much can be accomplished in this way. If the case is sound, the complaint and accompanying documents well drafted, and the interrogatories well thought out and carefully worded, they will accomplish their purpose no matter when they are served. On the other hand, the snowballing tactic of numerous, lengthy interrogatories served with the complaint is not likely to overwhelm an experienced attorney and stampede him into a hurried evaluation of the case and a poorly prepared defense.

Under the liberal procedure set forth in Rule 33, successive sets of interrogatories may be directed to the same party, and interrogatories may be used in addition to taking a deposition. See Fed. R. Civ. P. 33(c). The information derived by these procedures will indicate the existence, location, and custody of documents and other physical evidence, and counsel may issue requests to produce these items as the case unfolds and, as appropriate, may serve further interrogatories, or make requests for admissions of fact or of the genuineness of documents. The content of interrogatories will, of course, vary from case to case, depending on the nature of the action, the stage of the proceedings, and the specific information sought. Most important is that they be carefully drawn to avoid misunderstanding and to pinpoint exactly the matter on which answers are sought. To do so, counsel must place himself in the position of his adversary, considering what meaning and significance the adversary is likely to derive from the language used, and its likely effect on him.

If an answer to an interrogatory may be derived from business records of the responding party, and the burden on the answering party is substantially the same as it would be for the party propounding the interrogatory, the answering party may state that the answers may be derived or ascertained from such records. See Fed. R. Civ. P. 33(d). Thus, the answering party may avoid the burden of reviewing documents and compiling information from them. However, when answering an interrogatory through a reference to documents, Rule 33(d) requires the party to specify by category and location the records from which the answers can be derived. See Dunkin’ Donuts, Inc. v. N.A.S.T., Inc., 428 F. Supp. 2d 761 (N.D. Ill. 2005); Avramidis v. Atlantic Richfield Co., 120 F.R.D. 450, 452 (D. Mass. 1988). This procedure is very useful in
franchise cases, where much of the evidence is in the form of documents. 8

A second form of written discovery that is used by franchisors and franchisees is requests for production of documents and tangible things. Any party may serve on any other party a request to produce and permit the requesting party, or someone acting on his behalf, to inspect and copy any designated documents, or to inspect and copy, test, or sample any tangible things which constitute or contain matters within the scope of Rule 26(b) and which are in the possession, custody, or control of the party upon whom the request is served. See Fed. R. Civ. P. 34(a); Manufacturer Direct, LLC v. Directbuy, Inc., No. 2:05 CV 451, 2007 WL 2114285 (N.D. Ind. July 19, 2007). 9 The request must identify and describe the items sought with reasonable particularity, either by individual item or by category, and must specify a reasonable time, place, and manner of making the inspection and performing the related acts. It may be served, without leave of court, upon the plaintiff after commencement of the action, or upon any other party with or after service of the summons and complaint on that party. See Fed. R. Civ. P. 34(b). An early request to view documents and other evidence enables a party to view evidence that might deteriorate over time, and it also prevents a party from disposing of such evidence. If an objection to production of an item is made, the requesting party may move under Rule 37 for an order compelling production, but he has the burden of showing that the party from whom production is requested has possession, custody, or control, Fowler v. State Farm Mutual Automobile Ins. Co., No. 07-00071, 2008 WL 4907865, at *3 (D. Haw. Nov. 14, 2008), and the relevancy of the items he seeks to have produced. Knauss v. Shannon, Civil No. 1:CV-08-1698, 2009 WL 975251, at *2 (M.D. Pa. Apr. 9, 2009); Marquis v. Chrysler Corp., 577 F.2d 624 (9th Cir. 1978); Kashlan v. TCBY Systems, LLC, No. 4:06-CV-000497 GTE, 2007 WL 3309123, at *4 (E.D. Ark. Nov. 6, 2007). 10

As with written interrogatories, the nature of the action will determine what documents or things are material and relevant and, hence, subject to discovery. Because of the broad scope of discovery under the Federal Rules of Civil Procedure and the fact that franchising is a business process in which documents play an extremely important role, the discovery of documents in franchise cases is far-reaching. Sherman Street Assocs. LLC v. JTH Tax, Inc., No. 3:03-CV-01875 (CFD)(TPS), 2006 WL 3422576 (D. Conn. Nov. 28, 2006) (franchisor’s motion to compel production of franchisee’s tax returns and documentation of the franchisee’s assets and liabilities as they existed before the parties had entered into the franchise agreements granted because the court found “that information regarding [plaintiff’s] financial situation prior to entering the franchise agreement is clearly relevant to the claim of compensatory damages and is therefore discoverable”); Poulos v. NAAS Foods, Inc., 132 F.R.D. 513 (E.D. Wis. 1990), aff’d, 959 F.2d 69, 22 Fed. R. Serv. 3d 499 (7th Cir. 1992) (plaintiff’s tax returns and other financial documents were found to be relevant to the economic interdependence between the corporate dealer and the individual who owned it in order to determine which one was, in fact, the dealer); Glacier Optical, Inc. v. Optique Du Monde, Ltd., CIV. No. 91-985-FR, 1992 WL 97820 (D. Or. 1992) (court ordered production of documents concerning growth projections for the supplier in certain markets upon the grounds that they were relevant to prove damages); B-S Steel of Kansas, Inc. v. Texas Indus., Inc., No. 01-2410-

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8 Practically speaking, many trial attorneys believe that interrogatories are not that useful because the answers, although signed by the witness, are often well-crafted by attorneys and do not provide the depth that documents and depositions provide. See Fed. R. Civ. P. 33(a).

9 Plaintiff was represented by Zarco Einhorn Salkowski & Brito, P.A.

10 Plaintiff was represented by Zarco Einhorn Salkowski & Brito, P.A.
JAR, 2003 WL 21939019 (D. Kan. 2003) (information about defendant’s sales to other purchaser’s after May 2001 was relevant to determine whether the effect of such sales was to lessen competition or create a monopoly; it was also relevant to characterize the competitive conditions in the market and to make inferences how the product market changed); Dunkin’ Donuts, Inc. v. Mary’s Donuts, Inc., No. 01-0392-CIV-GOLD, 2001 WL 34079319 (S.D. Fla. Nov. 1, 2001)\(^{11}\) (franchisee required to produce financial documents and information where franchisor brought suit alleging that the franchisee was defrauding it by not paying full franchise fees, under-reporting income and operating an unlicensed business). However, while Rule 34 gives great leeway for seeking relevant documentary and physical evidence, it does not permit a “fishing expedition.” Cohn v. Taco Bell Corp., No. 92 C 5852, 1994 WL 30546 (N.D. Ill. Feb. 3, 1994) (in a case where the franchisee’s operational standards were at issue, court held that franchisee was not entitled to discovery of documents concerning the operational aspects of the franchisor’s company owned restaurants; however, court stated that if the franchisor had treated one franchisee differently from the way it treated others, evidence concerning the franchisor’s treatment of other franchisees would be relevant); Emerging Vision, Inc. v. Main Place Optical, Inc., No. 16088-05, 2006 WL 118364 (N.Y.Sup. Jan. 11, 2006) (franchisor not entitled to medical records of patients of an optometry shop).

The final form of written discovery that both franchisors and franchisees utilize under the federal rules of civil procedure is requests for admission, for purposes of the pending action only, of the truth of any matters within the scope of Rule 26(b) set forth in the request that relate to statements or opinions of fact or of the application of law to fact, including the genuineness of any documents described in the request. See Fed. R. Civ. P. 36. Such matters will be deemed admitted unless, within 30 days after service of the request, the party to whom the request is directed serves for the requesting party a written objection addressed to the matter, signed by the party or his attorney, and stating the reasons for any objection. See Fed. R. Civ. P. 36(a); McDonald’s Corp. v. Dat Do, No. Civ.A. 00-1592-A, 2001 WL 34042640 (E.D. Va. April 30, 2001); Villager Franchise Systems, Inc. v. Dhami, Dhami & Virk, No. CVF046393RECSMS, 2006 WL 224425, at * 3 (E.D. Cal. Jan. 26, 2006). The response should specifically deny a matter or set forth in detail the reasons why the answering party cannot admit or deny it. If the responding party does not have information or knowledge to permit it to admit or deny, it must state in the response that it has made reasonable inquiry and that the information known or obtainable by it is insufficient to permit it to admit or deny. See Fed. R. Civ. P. 36(a).

A request for admission is a very useful tool because, at the very least, it can do away with the necessity for authentication of each document to be offered in evidence, and eliminate the need for proof of many issues as to which there is no real dispute. Matters established through a request for admissions constitute the law of the case for all legal purposes. An-Port, Inc. v. MBR Indus., Inc., 772 F. Supp. 1301 (D.P.R. 1991). For example, an admission made in a request for admissions that a franchisor had agreed to accept $30,000 from a franchisee in satisfaction for its claims could be used in court to prove that the franchisor had agreed to settle the suit for no more than that amount. Bartosz v. Chapparal Enterprises, Inc., 271 Ga. App. 246, 609 S.E.2d 185 (Ga. Ct. App. 2005). However, the conclusive effect of admissions may not be appropriate where the request or responses are subject to more than one interpretation. See Roloscreen Co. v. Pella Products of St. Louis, Inc., 64 F.3d 1202 (8th Cir. 1995) (where distributor had requested a supplier to admit that it had terminated the distributor relationship as of a date certain, and the supplier responded that it had not, but had set a termination date that was extended, trial court submitted admissions to jury as some evidence of the termination). In

\(^{11}\) Defendants were represented by Zarco Einhorn Salkowski & Brito, P.A.
some cases, it may provide the means for disposing of all issues other than the amount of damages, thus making a motion for summary judgment appropriate.

D. Disclosure Of Expert Testimony

Before expert testimony is evaluated under the Daubert standards as set forth in the Daubert v. Merrell Dow Pharm., Inc., 509 U.S. 579, 113 S.Ct. 2786, 125 L.Ed.2d 469 (1993) decision or heard by a jury, the party offering the expert must first comply with specific disclosure requirements during discovery. Failure to comply sufficiently with expert disclosure requirements under the Federal Rules of Civil Procedure can result in exclusion of the expert’s opinions, and even dismissal when expert testimony is necessary to support a claim. White v. Howmedica, Inc., 490 F.3d 1014, 1016 (8th Cir. 2007); Harville v. Vanderbilt University, Inc., 95 Fed.Appx. 719, 725 (6th Cir. 2003) (expert testimony properly excluded because of party’s failure to disclose information for expert witnesses as required by Fed. R. Civ. P. 26). While expert disclosures have been a part of civil litigation for years, issues concerning who must be identified as an expert, which experts must submit reports, and what information is discoverable from experts, continue to arise over the course of litigation and create confusion.

1. Who Is An Expert?

A party must disclose, without awaiting a formal discovery request, “the identity of any witness it may use at trial to present evidence under Federal Rule of Evidence 702, 703, or 705.” See Fed. R. Civ. P. 26(a)(2)(A). The line between expert testimony and lay opinion testimony is not easy to draw. Pre-trial scheduling orders typically require identification of testifying experts months in advance of trial. Therefore, careful practitioners should consider - before the required date to identify experts in the pre-trial order - whether the opinions of any fact witnesses constitute expert testimony.

To determine whether proposed testimony is expert testimony, Rule 702 of the Federal Rules of Evidence states that a witness who is “qualified as an expert by knowledge, skill, experience, training, or education” may testify to “scientific, technical or other specialized knowledge” in the form of opinion or otherwise where such knowledge “will assist the trier of fact to understand the evidence or to determine a fact in issue.” See Fed. R. Evid. 702. The essence of this rule is that expert testimony must “rest on a reliable foundation” and be “relevant to the task at hand.” Amorgianos v. National R.R. Passenger Corp., 303 F.3d 256, 265 (2d Cir. 2002) (quoting Daubert v. Merrell Dow Pharm., Inc., 509 U.S. 579, 113 S.Ct. 2786, 125 L.Ed.2d 469 (1993)). This rule applies equally to non-scientific, technical or specialized knowledge. Kumho Tire Co. v. Carmichael, 526 U.S. 137, 141, 119 S.Ct. 1167, 143 L.Ed.2d 238 (1999). It is well settled that the Rule 702 inquiry is flexible and “depends upon the particular circumstances of the particular case at issue.” Kumho, 526 U.S. at 150, 119 S.Ct. 1167; Amorgianos, 303 F.3d at 266. The court has wide latitude in fulfilling its gatekeeping function under Rule 702. Pineda v. Ford Motor Co., 520 F.3d 237, 243 (3d Cir. 2008) (Rule 702 has “a liberal policy of admissibility”); Kumho, 525 U.S. at 142, 119 S.Ct. 1167.

In conjunction with Rule 702, Rule 701 must be taken into account because it limits the opinion of lay witnesses. Rule 701 states: “If a witness is not testifying as an expert, the witness’ testimony in the form of opinions or inferences is limited to those opinions . . . based on the perception of the witness . . . [and] . . . not based on scientific, technical, or other specialized knowledge within the scope of Rule 702.” See Fed. R. Evid. 701. This rule is intended to prohibit parties from evading the expert disclosure requirements by offering what amounts to expert testimony from lay witnesses, such as the parties or their employees. See Fed. R. Evid.
701 advisory committee notes (2000 amendment). Under Rule 701, lay testimony may not "provide specialized explanations or interpretations that an untrained lay person could not make if perceiving the same acts or events." United States v. Peoples, 250 F.3d 630, 641 (8th Cir. 2001); United States v. Shedlock, 62 F.3d 214, 219 (8th Cir. 1995). Rule 701 does not distinguish between expert and lay witnesses, but rather between expert and lay testimony." See Fed. R. Evid. 701 advisory committee notes (2000 amendment). Thus, "any part of a witness' testimony that is based upon scientific, technical or other specialized knowledge within the scope of Rule 702 is governed by the standards of Rule 702 and the corresponding disclosure requirements under the federal rules of civil procedure." Id.

Courts can and will exclude lay opinions that fail to comply with Rule 701, as well as expert opinions that are not based upon fact. Brennan v. Wisconsin Cent. Ltd., 227 Ill. App. 3d 1070, 591 N.E. 2d 494 (Ill. App. Ct. 1992) (evidence of an organization's routine practice may be established by the opinion testimony of a person with personal knowledge or by the introduction of specific instances of conduct sufficient in number to support a finding of routine practice; however, the evidence must be sufficiently detailed and specific, and the situations involved must be similar enough to give rise to a reliable inference); JGR, Inc. v. Thomasville Furniture Industries, Inc., 370 F.3d 519 (6th Cir. 2004) (accountant who prepared books for a company but did not have first hand knowledge of the business was not qualified to testify as a lay witness under Rule 701); Tunis Bros. Co., Inc. v. Ford Motor Co., 952 F.2d 715 (3d Cir. 1991) (expert's predictions of lost profits which were based upon franchisee's estimates of future sales were rejected by appellate court where projections were not based upon objective data or correlated with any actual data).

On the other hand, courts will permit expert testimony that is relevant and reliable based on scientific, technical or other specialized knowledge. AAMCO Transmissions, Inc. v. Baker, Civil Action No. 06-CV-05252, 2008 WL 5245768 (E.D. Pa. 2008) (court permitted opinion by an automobile repair franchisee's liability expert where it was based on automotive industry standards and included records from the franchisee's store, recommendations by the store's technician, industry charts and diagrams and the expert's extensive experience in the automobile repair industry); Keller v. Feasterville Family Health Care Ctr., 557 F. Supp. 2d 671, 677 (E.D. Pa. 2008) (doctor's extensive professional experience justified reliability of his methodology); Trustees of Chicago Painters and Decorators Pension v. Royal Int'l Drywall and Decorating, 483 F.3d 782, 787-88 (7th Cir. 2007) (experts were qualified to offer opinions on rate of drywall taping, given their specialized knowledge of drywall installation based on extensive practical experience); Allapattah Services, Inc. v. Exxon Corp., 61 F. Supp. 2d 1335 (S.D. Fla. 1999) (dealer's expert's methodology for inquiry whether oil refiner had reduced wholesale prices charged to dealers in order to offset credit-card fees imposed on dealers, as promised, in dealers' class action alleging breach of contract, was sufficiently reliable under Daubert where based on analysis of dealers' profit margins, refiner's internal business records, and surrounding economic circumstances, even though factor of acceptance by scientific community was not readily applicable to margin analysis and Daubert factors were generally inapplicable to expert's opinion concerning refiner's business plan); Drews Distributing, Inc. v. Leisure Time Technology, Inc., 1999 U.S. App. LEXIS 6121, at *26 (4th Cir. 1999) (court affirmed judgment for more than $3 million, finding that the damages expert had a reasonable basis upon which to calculate damages in light of the fact that expert reviewed the actual sales data of the product in the area where the distributor was to have exclusive rights as well as a "careful study of government revenue reports" supporting the sales data); In re Elder-Beerman Stores Corp., 206 B.R. 143, 161 (S.D. Ohio 1997) (court denied Daubert challenge where expert's damages analysis was predicated on generally accepted statistical methods that the court itself employed in awarding damages); But see Mercedes-Benz, U.S.A., LLC v. Coast...
Automotive Group, Ltd., Civil Action No. 99-3121 (WHW), 2006 WL 2830962 (D.N.J. 2006) (expert testimony stricken as being unreliable where expert admitted that he relied on assumptions provided by dealer).

The types of matters on which experts may testify in franchise cases includes not only damages but also issues going to liability, as well as technical issues with regard to products or services, the nature of franchising or the franchise industry and laws regarding franchising. TCBY Sys. v. RSP Co., 33 F.3d 925 (8th Cir. 1994) (franchise expert's testimony about the adequacy of franchisee's site review and evaluation process was properly admitted since it helped jury understand what is reasonable in franchise industry); Hernandez v. Home Depot U.S.A., Inc., 695 So.2d 484 (Fla. 3d DCA 1997) (generally speaking, expert testimony as to the practices of an industry is admissible); Dayoub v. Yates-Astro Termite Pest Control Co., 239 Ga. App. 578, 521 S.E.2d 600 (1999), cert. denied, (Jan. 14, 2000); Moffitt v. Icynene, Inc., 407 F. Supp. 2d 591 (D. Vt. 2005) (testimony regarding the ordinary practices of those engaged in a particular business or concerning other trade customs is admissible to enable the jury to evaluate the conduct of the parties against the standards of ordinary practice in the industry); West Coast Video Enterprises, Inc. v. Ponce de Leon, No. 90 C 236, 1991 WL 49566 (N.D. Ill. Apr. 4, 1991) (franchisee offered expert testimony as to how the franchisor's sales quota was unreasonable and could never have been achieved); W & D Imports, Inc. v. American Honda Motor Co., Inc., No. A-0403-06T5, 2008 WL 281576 (N.J. Super. Ct. App. Div. Feb. 4, 2008), cert. denied, 949 A.2d 849 (N.J. 2008) (expert permitted to testify about the impact on an existing dealer of a proposed new dealer based on a methodology that was not designed for litigation but for day-to-day use in managing the affairs of dealer network); Beillowitz v. General Motors Corp., 233 F. Supp. 2d 631 (D.N.J. 2002) (expert's estimate that dealer would lose $11 million as a result of restriction on sales in franchisee's territory was admissible); U.S. v. Parker, 364 F.3d 934, 940-42 (8th Cir. 2004) (attorney for FTC permitted to testify about scope and obligations of the franchise rule).

2. Contents Of Expert Report

Federal Rule of Civil Procedure 26(a)(2)(B) requires an expert “retained or specially employed to provide expert testimony . . . or one whose duties as the party’s employee regularly involve giving expert testimony” to submit a written report which “must contain . . . a complete statement of all opinions the witness will express and the basis and reasons for them.” See Fed. R. Civ. P. 26(a)(2)(B). Rule 26(a)(2)(B) contemplates two types of experts: (i) the first type includes experts whose opinions are based on firsthand knowledge and who do not regularly provide testimony; and (ii) the second type is one whose opinions may be presented at trial, and who is required to submit a report because he/she is retained or specially employed for the purpose of providing expert testimony, which can be based on secondhand information to which he or she has no knowledge. See Fed. R. Civ. P. 26(a)(2)(B) advisory committee notes (1993 amendment).

There is a split in authorities concerning whether employee experts must submit written reports. Some courts have found that employee experts are exempt from the written report requirement when they are not specially employed to provide expert testimony and do not regularly testify as experts. Navajo Nation v. Norris, 189 F.R.D. 610, 613 (E.D. Wash. 1999); Bank of China v. NBM, LLC, 359 F.3d 171, 182 n. 13 (2d Cir. 2004); Bowling v. Hasbro, Inc., No. C.A. 05-229S, 2006 WL 2345941, at *2 (D.R.I. Aug. 10, 2006). These courts rely on the logic that if the drafters of Rule 26(a)(2)(B) had intended to impose an obligation on all employee experts, they could have and would have done so. Other courts have declined to recognize an exemption to the report requirement for employee experts. Dyson Tech Ltd. v.

Moreover, an expert report must contain the expert’s qualifications, all of the data or other information considered in forming the opinions, all summary or supporting exhibits, all publications authored in the preceding ten years, compensation the expert was paid, and a listing of all cases in which the expert gave prior deposition or trial testimony within the preceding four years. See Fed. R. Civ. P. 26(a)(2)(B). The advisory committee notes state that the report must be “detailed and complete.” See Fed. R. Civ. P. 26(a)(2)(B) advisory committee notes (1993). The purpose of the report is to avoid the disclosure of sketchy, vague expert information and the test of a report is whether it is sufficiently complete, detailed and in compliance with the rules so that surprise is eliminated, unnecessary depositions are avoided and costs are reduced. Dunkin’ Donuts, Inc. v. Patel, 174 F. Supp. 2d 202 (D.N.J. 2001).

A “complete and detailed” report contains the substance of the direct examination sufficiently to qualify the witness as an expert and establish the admissibility of the expert’s opinion without the need for additional testimony or information. Sylla-Sawdon v. Uniroyal Goodrich Tire Co., 47 F.3d 277, 283-84 (8th Cir. 1995). Reports have been excluded where the opinions were unsupported except by general reference to records or omitted qualifications, compensation, and previous testimony. Campbell v. McMillin, 83 F. Supp. 2d 761, 764-65 (S.D. Miss. 2000). Compiling an expert’s qualifications, publications and prior testimony are things that should be done when the expert is engaged. If a potential expert has difficulty providing this information, alarm bells should sound as to whether the expert is someone upon whom you want to rely at trial.

3. Expert Discovery

Rule 26(b)(4) of the Federal Rules of Civil Procedure governs expert discovery. The scope of discovery depends on whether the expert will testify at trial. Specifically, discovery of facts known and opinions held by experts employed by another party in anticipation of litigation or preparation for trial, but who are not expected to be called as witnesses at the trial, is permitted only upon a showing of exceptional circumstances under which it is impracticable for the party seeking discovery to obtain facts or opinions on the same subject by other means. See Fed. R. Civ. P. 26(b)(4)(B).

The work product of consulting experts is generally undiscoverable except upon showing of exceptional circumstances. See Fed. R. Civ. P. 26(b)(4)(B)(ii). Consequently, all experts should be retained, at the outset of the engagement, as consulting experts. Unless and until you are required to designate testifying experts pursuant to Rule 26(a)(2)(A), or (B) (or the pre-trial order), you don’t know with certainty whether you will need a testifying expert or, if you do, whether the experts initially retained will ultimately be the right ones for trial, in light of the evolution of the case through discovery and motion practice. See Joseph, Gregory P., “Engaging Experts,” National Law Journal, 04/18/05 at 12.

Communications with testifying experts are generally not privileged. Release of materials to a testifying expert waives a work product claim. Specifically, in In re Pioneer Hi-
Bred Intern., Inc., the Court concluded that documents and information disclosed to a testifying expert in connection with the expert’s testimony are discoverable by the opposing party, whether or not the expert relies on the documents and information in preparing her report. In re Pioneer Hi-Bred Intern., Inc., 238 F.3d 1370, 1375 (Fed. Cir. 2001). In the advisory committee notes, the drafters observe: "litigants should no longer be able to argue that materials furnished to their experts to be used in forming their opinions -whether or not ultimately relied upon by the expert - are privileged or otherwise protected from disclosure when such persons are testifying or being deposed."

While Rule 26(a)(2)(B) requires the disclosure of all materials considered by a party’s employee designated as a testifying expert regardless of attorney-client or work-product privilege, the scope of such waiver does not extend to information and/or documents that an employee-expert may have considered in performing his general job duties but did not consider in connection with formulating the opinions expressed within the report. Dyson Tech. Ltd. v. Maytag Corp., 241 F.R.D. 247, 251 (D. Del. 2007). Therefore, employees may serve as experts without waiving privilege concerning information unrelated to the opinions they intend to offer at trial.

4. **Timing Of Expert Deposition**

Testifying experts may be deposed regardless of whether or not they submit a report. See Fed. R. Civ. P. 26(b)(4)(B). If an expert must submit a report, the deposition shall not be conducted until after the report is submitted. Id.

5. **Timing And Importance Of Daubert Motions**

A Daubert motion is a motion, raised before or during trial, to exclude the presentation of unqualified evidence to the jury. Because a Daubert motion is a special type of a motion in limine that is used to exclude the testimony of an expert witness who has no such expertise or used questionable methods to obtain the information, a party’s failure to make a timely, well-supported Daubert challenge can have devastating consequences because it can result in not being able to contest a potential jury verdict on appeal. To-Am Equipment Co., Inc. v. Mitsubishi Caterpillar, 152 F.3d 658 (7th Cir. 1998) (court affirmed a jury award of $1,525,000 for wrongful termination of a dealership even though many of the opinions of plaintiff’s expert were unsustainable, because defendant failed to make a Daubert challenge).

In determining whether expert testimony is sufficiently reliable to be admissible, the burden on a judge as a gatekeeper is considerable in determining whether to permit expert evidence to be presented to a jury because failure to understand fully the scientific issues or to distinguish reliable from unreliable testimony could prevent juries from hearing expert witnesses present relevant, reliable and legitimate evidence. Bruno v. Merv Griffin’s Resorts Int’l Casino Hotel, 37 F. Supp. 2d 395, 398 (E.D. Pa. 1999); Wash Solutions, Inc. v. PDQ Mfg., Inc., 395 F.3d 888 (8th Cir. 2005) (expert testimony must be excluded if it is so fundamentally unsupported by the facts that it can offer no assistance to the jury). The decision by judges not to admit expert testimony can lead to the exclusion of scientific evidence essential to a plaintiff’s claims in franchise litigation. David Otis v. Doctor’s Associates, 1998 U.S. Dist. LEXIS 15414, at *3 (N.D. Ill. 1998) (judge granted motion in limine on the eve of trial precluding a damage expert from testifying in support of a multi-million dollar lost future profit claim in light of expert’s failure to “perform any independent market analysis” to verify the reasonableness of the contract quotas against the actual number of units and average unit sales for other fast-food chicken chains); Champagne Metals v. Ken-Mac Metals, Inc., 458 F.3d 1073 (10th Cir. 2006) (expert
testimony excluded under Daubert where expert offered no explanation to support the substitution of the customer market for the supplier market; Lithuanian Commerce Corp. v. Sara Lee Hosiery, 179 F.R.D. 450 (D.N.J. 1998) (court excluded expert’s testimony regarding lost future profits on the eve of trial concluding that the expert’s assumptions about the future duration of the distributorship, market share, and consumption patterns were too unreliable to be credited); JMJ Enterprises v. VIA Veneto Italian Ice, Inc., 1998 U.S. Dist. LEXIS 5098 (E.D. La. 1998) (court did not permit accountant to testify as an expert concluding that the plaintiff was simply presenting its "unrealistic hopes through the mouth of an expert"); Beverly Hills Concepts, Inc. v. Schatz and Schatz, Ribicoff & Kotkin, 717 A.2d 724 (Conn. 1998) (court reversed on damages finding that expert witness damages' calculation was based on assumptions and, thus, was unreasonable); Irvine v. Murad Skin Research Labs., Inc., 194 F.3d 313 (1st Cir. 1999), cert. dismissed, 528 U.S. 1041, 120 S.Ct. 577, 145 L.Ed.2d 449 (1999) (testimony regarding lost profits that was not based on adequate factual data to support expert’s conclusion was excluded as being unreliable under the Daubert standard). Thus, a Daubert motion provides a special opportunity for defendants to exclude incriminating evidence from a court proceeding. Although trial judges have always had the authority to exclude inappropriate testimony, before Daubert, trial courts often preferred to let juries hear evidence preferred by both sides. Once certain evidence has been excluded by a Daubert motion because it fails to meet the relevancy and reliability standard, it will likely be challenged when introduced again in another trial. Even though a Daubert motion is not binding on other courts of law, if something was found not trustworthy, other judges may choose to follow that precedent. Of course, a decision by the Court of Appeals that a piece of evidence is inadmissible under Daubert would be binding on district courts within that court’s geographic jurisdiction.

IV. DISCOVERY DISPUTES

As one court artfully put it, "[t]he primary role of a judge is to be an arbiter. This Court will make every effort to prevent that role from becoming subsumed within a secondary role which courts at times must assume during lengthy and complex litigations—that of refereeing the bitter in-fighting resulting from the uncooperative exchange of discovery." In re Arthur Treacher’s Franchisee Litig., 92 F.R.D. 429, 431 (E.D. Pa. 1981). The Federal Rules of Civil Procedure impose certain discovery obligations on parties, and empower courts to impose certain sanctions for failure to comply with those obligations or with discovery orders issued by the courts. Because failure to comply with the Federal Rules, as well as the applicable local rules, will not be condoned by most courts, and the potential exists for severe sanctions including fines, or even outright dismissal of claims, counsel who are engaged in discovery should pay careful attention to the discovery rules.

A. Spoliation Of Evidence

Spoliation is the act of destroying, altering, or otherwise suppressing evidence. Generally, spoliation is "the destruction or significant alteration of evidence, or the failure to preserve property for another's use as evidence in pending or reasonably foreseeable litigation." West v. Goodyear Tire & Rubber Co., 167 F.3d 776, 779 (2d Cir. 1999). If the evidence is relevant to a party's claim, its spoliation "can support an inference that the evidence would have been unfavorable to the party responsible for its destruction." Zubulake V, 229 F.R.D. at 430, quoting Kronisch v. United States, 150 F.3d 112, 126 (2d Cir. 1998). "A party seeking an adverse inference instruction or other sanctions based on the spoliation of evidence must establish the following three elements: (1) that the party having control over the evidence had an obligation to preserve it at the time it was destroyed; (2) that the records were destroyed with a 'culpable state of mind' and (3) that the destroyed evidence was 'relevant' to the party's claim.
or defense such that a reasonable trier of fact could find that it would support that claim or defense.” *Zubulake* V, 229 F.R.D. at 430. Courts have the authority to impose sanctions for spoliation pursuant to Rule 37(b) of the Federal Rules of Civil Procedure as well as pursuant to their own inherent power. *See generally* Fed. R. Civ. P. 37(b); *Tri-County Motors, Inc. v. American Suzuki Motor Corp.*, 494 F. Supp. 2d 181, 176 (E.D.N.Y. 2007). The party moving for sanctions bears the burden of establishing all of the elements of the spoliation claim. *Tri-County Motors*, 494 F. Supp. 2d at 177.

As discussed *supra* in Part II.A in the context of the litigation hold notice for ESI, the obligation to preserve evidence arises when the party has notice that the evidence is relevant to litigation or when a party should have known that the evidence may be relevant to future litigation. *Medicine Shoppe Int’l, Inc. v. Mitsopoulos*, No. CV 2004-5207, Bus. Franchise Guide (CCH) ¶ 13,233 (E.D.N.Y. Dec. 28, 2005). A drugstore franchisor was vindicated after allegations of spoliation were made when it failed to produce a Uniform Franchise Offering Circular (“UFOC”) dated April 15, 1996 in its dispute with two guarantors of a franchise agreement. *Id.* The guarantors claimed they relied on earnings claims contained within the UFOC. *Id.* They asserted that the franchisor must have intentionally destroyed or concealed the UFOC between the time of the franchisor’s initial response to a request for production, at which time the franchisor contended the request was premature, and the franchisor’s formal response that it was not in possession of the document. *Id.* The court held that there was no evidence that the plaintiff had an obligation to preserve the UFOC at the time it was lost, and, more critically, there was no evidence that the plaintiff was in possession of the UFOC when an obligation to preserve it arose. *Id.* Based on the record presented, the court could not find that the plaintiff acted in bad faith or intentionally breached a duty to preserve evidence. *Id.*

Spoliation of evidence may also occur in the context of ESI— for example, through routine recycling of backup tapes, deletion of emails, or changes in documents caused by automatic computer operations — all of which can give rise to requests for the imposition of sanctions. In *Thompson v. Jiffy Lube Int’l, Inc.*, No. 05-1203-WEB, 2007 WL 608343 (D. Kan. Feb. 27 2007), the defendant accused plaintiffs’ counsel of spoliation of evidence in circumstances where plaintiffs’ counsel had refused to provide the defendant with contact information for witnesses, current and former Jiffy Lube and franchisee store employees, who had provided factual support for the allegations in the class action complaint. *Id.* at *2-3.* After a successful motion to compel by the defendant, followed by disclosure of the names of four individuals and four email addresses, the defendant asked plaintiffs to confirm that communications with the individuals occurred solely by email and not in person or by phone. *Id.* at 3. At that point, plaintiffs’ counsel disclosed that the contact information for the witnesses had been lost when plaintiffs’ counsel’s computer had crashed. *Id.* The court noted that the “failure to utilize a backup system for counsel’s computer is troubling,” but went on to say that “[o]utright dismissal as a sanction is too severe for the apparent loss of four witnesses addresses and phone numbers.” *Id.* at *4.* Although the court refused to rule on whether spoliation had occurred because discovery was limited at that time to class certification issues, it stated that “[t]he issue of spoliation may be revisited by motion after the issues in the case are better defined.” *Id.* at *4.*

*Tri-County* involved an action by an automobile dealership franchise applicant against an automobile manufacturer alleging breach of contract, promissory estoppel, tortious interference with contractual relations, and violation of the New York State Franchised Motor Vehicle Dealer

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12 *See discussion supra* Part II.A.
Act in connection with the plaintiff’s failed attempt to obtain a franchise from the defendant. *Tri-County*, 494 F. Supp. 2d 161. The plaintiff brought a motion for sanctions against the defendant on the grounds that the defendant spoliated evidence and committed other discovery abuses. *Id.* at 176. Specifically, plaintiff alleged that defendant deleted emails concerning plaintiff’s dealership application that “likely reveal that [defendant] had no meritorious reason for reneging on [plaintiff’s] application.” *Id.* However, the United States District Court for the Eastern District of New York noted that the plaintiff had “not proffered a scintilla of evidence that the alleged missing emails ever existed in the first place,” but simply speculated that they may have existed. *Id.* “Such speculative assertions as to the existence of documents do not suffice to sustain a motion for spoliation of evidence.” *Id.* The court went on to find that even assuming *arguendo* that such emails at one time existed, the plaintiff could not establish any of the three required elements for a spoliation claim and would be unable to support a spoliation claim. *Id.* The Second Circuit affirmed this ruling. *Tri-County Motors*, 494 F. Supp. 2d at 176-77, citing *Smith v. City of New York*, 301 Fed.Appx. 11 (2d Cir. 2008).

In addition to seeking sanctions for spoliation of evidence, parties may seek to bring separate causes of action for claims of spoliation depending on whether or not the applicable jurisdiction recognizes a separate spoliation tort action. For example, in a breach of contract action brought by a motor vehicle dealer against a motor dealer manufacturer, the United States District Court for the Northern District of Ohio court granted the plaintiff leave to amend its complaint to state a cause of action for spoliation of evidence under Ohio law based on the defendant’s alleged failure to institute a litigation hold, to keep and retain evidence, and to preserve hard drive data. *Ed Schmidt Pontiac-GMC Truck, Inc. v. Chrysler Motors Co., LLC*, 575 F. Supp. 2d 837, 838 (N.D. Ohio 2008). However, the court denied the plaintiff’s motion for summary judgment and held that fact issues precluded summary judgment on the spoliation claims. *Id.* at 840-41; see also *All EMS Inc. v. 7-Eleven, Inc.* , 181 Fed.Appx. 551 (7th Cir. 2006) (upholding denial of relief requested in two counts alleging negligent and intentional spoliation of evidence, namely that 7-Eleven destroyed records that allegedly were doctored to give the impression that the franchisees were underreporting retail prices, stating that the franchisees “would have been in material breach with or without the information contained in the allegedly spoliated evidence”).

**B. Boilerplate Objections**

The timing for serving and responding to written discovery is discussed *supra* at Part III.C. A party may seek an order to compel discovery when an opposing party fails to respond to discovery requests or has provided evasive or incomplete responses. *Fed. R. Civ. P. 37(a)(2)-(3).* The burden “rests upon the objecting party to show why a particular discovery request is improper.” *Manufacturer Direct, LLC v. DirectBuy, Inc.*, No. 2:05 cv 451, 2007 WL 4224072, at *2 (N.D. Ind. Nov. 27, 2007),13 citing *Kodish v. Oakbrook Terrace Fire Protection Dist.*, 235 F.R.D. 447, 449-50 (N.D. Ill. 2006). The objecting party must show with specificity that the request is improper. *Manufacturer Direct*, 2007 WL 4224072 at *2, citing *Graham v. Casey's General Stores*, 206 F.R.D. 253, 254 (S.D. Ind. 2002). That burden cannot be met by “a reflexive invocation of the same baseless, often abused litany that the requested discovery is vague, ambiguous, overly broad, unduly burdensome or that it is neither relevant nor reasonably calculated to lead to the discovery of admissible evidence.” *Manufacturer Direct*, 2007 WL 4224072 at *2, quoting *Burkybile v. Mitsubishi Motors Corp.*, No. 04 C 4932, 2006 WL 2325506, at *6 (N.D. Ill. Aug. 2, 2006) (internal quotations and citations omitted). Rather, the court’s

13 Plaintiff was represented by Zarco Einhorn Salkowski & Brito, P.A.
broad discretion in deciding discovery matters should consider "the totality of the circumstances, weighing the value of material sought against the burden of providing it, and taking into account society's interest in furthering the truth-seeking function in the particular case before the court." Manufacturer Direct, 2007 WL 4224072 at *2, citing Patterson v. Avery Dennison Corp., 281 F.3d 676, 681 (7th Cir. 2002) (quoting Rowlin v. Alabama, 200 F.R.D. 459, 461 (M.D. Ala. 2001)).

Courts have discretion under Rule 37(b)(2) to impose sanctions for discovery abuses, such as assertion of boilerplate objections, and if the discovery violations are egregious enough dismissal of the action or default judgment may be warranted. In a case involving a claim for breach of an alleged oral contract of employment brought by a manager against the defendant owner/operator of two franchised hotels, the court held that default judgment was an appropriate sanction (under Rule 37 of the Tennessee Rules of Civil Procedure) for the defendants' failure to comply with discovery orders, where for 17 months, defendants ignored interrogatories and requests for production of documents or responded with boilerplate objections, despite court orders to comply, and the president of the corporate defendant claimed at out-of-state deposition to know nothing about corporate structure, bank accounts, franchise relations, hiring and firing practices. Shahrdar v. Global Housing, Inc., 983 S.W.2d 230, 236 (Tenn. Ct. App. 1998).

C. Sanctions For Abuse Of The Discovery Process

A party may move for an order compelling disclosure or discovery. Fed. R. Civ. P. 37(a)(1); see, e.g., Sherman Street Assocs. LLC v. JTH Tax, Inc., No. 3:03-CV-01875 (CFD)(TPS), 2006 WL 3422576 (D. Conn. Nov. 28, 2006) (franchisor's motion to compel production of franchisee's tax returns and documentation of the franchisee's assets and liabilities as they existed before the parties had entered into the franchise agreements granted because the court found "that information regarding [plaintiff's] financial situation prior to entering the franchise agreement is clearly relevant to the claim of compensatory damages and is therefore discoverable"). The specific motions contemplated by Rule 37 are motions to compel Rule 26(a) disclosures (Fed. R. Civ. P. 37(a)(3)(A)); motions to compel discovery responses (Fed. R. Civ. P. 37(a)(3)(B)); or motions related to depositions (Fed. R. Civ. P. 37(a)(3)(C)). Further, an evasive or incomplete disclosure, answer, or response must be treated as a failure to disclose, answer, or respond. Fed. R. Civ. P. 37(a)(4). If the motion is granted — or if the disclosure or requested discovery is provided after the motion was filed — the court must, after giving an opportunity to be heard, require the party or deponent whose conduct necessitated the motion, the party or attorney advising that conduct, or both to pay the movant's reasonable expenses incurred in making the motion, including attorney's fees. Fed. R. Civ. P. 37(a)(5)(A). But the court must not order this payment if:

(i) the movant filed the motion before attempting in good faith to obtain the disclosure or discovery without court action;

(ii) the opposing party's nondisclosure, response, or objection was substantially justified; or

(iii) other circumstances make an award of expenses unjust.

Id. However, if the motion is denied, the court may issue any protective order authorized under Rule 26(c) and must, after giving an opportunity to be heard, require the movant, the attorney filing the motion, or both to pay the party or deponent who opposed the motion its reasonable
expenses incurred in opposing the motion, including attorney's fees, unless the motion was substantially justified or other circumstances make an award of expenses unjust. Fed. R. Civ. P. 37(a)(5)(B).

Courts routinely award attorneys' fees and costs incurred in connection with bringing discovery motions, and the award may be made against either a party or the party's attorney, depending on the circumstances. See, e.g., GNC Franchising LLC v. Farid, No. 2:05-cv-1741, 2006 WL 3064105 (W.D. Pa. Oct. 26, 2006) (motion to compel Rule 26(a)(1) disclosures granted and court directed motion to file affidavit setting forth its fees and expenses associated with the motion to compel); McCoo v. Denny's Inc., 192 F.R.D. 675, 697 (D. Kan. 2000) (finding franchisor's counsel "solely responsible for paying the monetary sanctions" in connection with plaintiffs' successful motion to compel discovery based on unsupported objections to discovery requests); Bartles v. Hinkle, 196 W.Va. 381, 472 S.E.2d 827 (W. Va. 1996) (upholding award of $10,000 in attorney's fees against the franchisor directly as a sanction for it's discovery abuses under state law equivalent of Rule 37(b)). But if a party calls upon the court to make such an award, then they should be very careful not to disregard any of the court's rulings or to engage in similar delays themselves. In Kashlan v. TCBY Systems, LLC, No. 4:06-CV-00497 GTE, 2007 WL 3309123 (E.D. Ark. Nov. 6, 2007)14, the defendant-franchisor filed a motion to compel the plaintiff to supplement deficient interrogatory responses and to produce documents, and requested sanctions against the plaintiff in circumstances where the plaintiff did not respond to correspondence requesting the responses for over two months, and not until after the motion to compel was filed. Id. at *1. The court granted the motion to compel and awarded sanctions under Federal Rule of Civil Procedure 37 and Rules 1.3 and 3.2 of the Model Rules of Professional Responsibility, ordering plaintiff's counsel to pay the defendant its reasonable expenses incurred in filing its successful motion because of plaintiff's counsel's refusal to engage in any discussions regarding discovery. Id. at *5-6. The court directed the defendant to submit an itemization of its requested expenses and fees for consideration. Id. However, the court subsequently retracted its earlier award of costs and expenses because of TCBY's counsel's unjustified 2 month and 25 day delay in following up on the court's direction to file "an itemization of requested expenses and fees incurred in connection" with its motion to compel. Kashlan v. TCBY Systems, LLC, No. 4:06-CV-00497 GTE, 2008 WL 413353, at *1 (E.D. Ark. Feb. 12, 2008); Kashlan v. TCBY Systems, LLC, No. 4:06-CV-00497 GTE, 2008 WL 749835, at *1 (E.D. Ark. Mar. 17, 2008).

If a party "fails to obey an order to provide or permit discovery," the court "may issue further just orders," which may include the following:

(i) directing that the matters embraced in the order or other designated facts be taken as established for purposes of the action, as the prevailing party claims;

(ii) prohibiting the disobedient party from supporting or opposing designated claims or defenses, or from introducing designated matters in evidence;

(iii) striking pleadings in whole or in part;

(iv) staying further proceedings until the order is obeyed;

(v) dismissing the action or proceeding in whole or in part;

14 Plaintiff was represented by Zarco Einhorn Salkowski & Brito, P.A.
(vi) rendering a default judgment against the disobedient party; or

(vii) treating as contempt of court the failure to obey any order except an order to submit to a physical or mental examination.

Fed. R. Civ. P. 37(b)(2)(A). Instead of or in addition to the orders above, the court must order the disobedient party, the attorney advising that party, or both to pay the reasonable expenses, including attorney's fees, caused by the failure, unless the failure was substantially justified or other circumstances make an award of expenses unjust. Fed. R. Civ. P. 37(b)(2)(C). Similar sanctions are authorized by Rule 37 for failure to disclose or supplement (Fed. R. Civ. P. 37(c)(1)), failure to admit (Fed. R. Civ. P. 37(c)(2)), and for failure to attend a deposition, serve answers to interrogatories, or to respond to a request for inspection (Fed. R. Civ. P. 37(d)). Courts frequently award sanctions in the form of awarding the movant attorneys' fees and costs for preparing discovery motions, even where the court does not award all of the relief sought by the movant in such motions. See, e.g., Shell Oil Prods. Co., Inc., No. Civ. A. 01-11300-RWZ, 2003 WL 22402228, at *2 (D. Mass. Oct. 22, 2003) (court awarded plaintiffs-franchisees their attorneys' fees and costs in connection with preparing two discovery motions, granted their motion to compel answers to interrogatories but denied motion for entry of default judgment).

A party's failure to obey a court's unambiguous discovery order instructing the party to answer interrogatories, requests for admission, or production of documents will result in that party exposing itself to Rule 37(b) sanctions for failure to cooperate in discovery. See, e.g., An-Port, Inc. v. MBR Indus., Inc., 772 F. Supp. 1301, 1306 (D.P.R. 1991) (court deemed as established facts the requests for admissions and precluded the plaintiff from opposing them on distributor's summary judgment). Depending on the seriousness and extent of discovery abuses, a court may be willing to dismiss a party's claims entirely for discovery abuses. For example, in An-Port, although the court found that "dismissal as a sanction [was] appropriate by virtue of [plaintiff's] disregard of" the court's orders, the court dismissed the case on the merits. Id.; see also, In re Arthur Treacher's Franchisee Litig., 92 F.R.D. at 436 (court entered default judgment against certain defendants finding that their "flagrant ignorance" and "total non-compliance with" the discovery rules and the local rules of the court governing motion practice was "either willful or the result of gross negligence" and warranted the severe sanction of default judgment against them); Denton v. Mr. Swiss of Mo., Inc., 564 F.2d 236, 239 (8th Cir. 1977) (court affirmed special master's dismissal of franchisees' antitrust claims "for failure to make discovery"). Any sanctions awarded must, however, satisfy due process requirements. See, e.g., Serra Chevrolet, Inc. v. General Motors Corp., 446 F.3d 1137 (11th Cir. 2008) (upholding district court's imposition of sanctions against car manufacturer in action brought by terminated car dealership for defendant's failure to comply with discovery orders, but finding that the $700,000 fine and decision to strike the manufacturer's affirmative defenses violated due process).

However, the potential for even more serious sanctions against the lawyers engaged in discovery abuses also exists: attorneys risk the loss of their license to practice law when they violate the rules and engage in discovery abuses. For example, an attorney who represented the plaintiffs in franchise litigation involving the question of who retained control over certain Dunkin' Donut franchises owned by the defendant ended up facing just such a sanction for serious misconduct by him that included the making of false statements, violating court orders and engaging in discovery abuses in order to avoid the disclosure of the identities of the holders of the Dunkin' Donuts franchises. In the Matter of Pu, 37 A.D.3d 56, 57 (N.Y. App. Div. 2006). For his role in failing to produce requested franchise agreements and concealing "that [the plaintiffs'] theory of the case had no basis in law or in fact," the attorney was sanctioned not only
in the underlying franchise litigation, but ended up being suspended from the practice of law in New York for one year. *Id.* at 58-63.

A party may also move for sanctions in connection with a claim of spoliation of evidence. One such case is *Thompson v. Jiffy Lube Int’l, Inc.*, No. 05-1203-WEB, 2007 WL 608343 (D. Kan. Feb. 27 2007), where Jiffy Lube brought a motion for sanctions against counsel for plaintiffs alleging spoliation of evidence. Although the court declined to rule on the issue of spoliation at that point in the case, the court expressed disturbance by the “inconsistency in plaintiffs’ discovery responses and representations” regarding the inconsistent statements concerning the identity and contact information for the four witnesses at issue. *Id.* at *4-5.* Because of “these highly unusual discovery inconsistencies” the court permitted Jiffy Lube to submit written deposition questions to plaintiffs’ counsel on limited issues set forth by the court concerning the communications with the four witnesses and the lost information. *Id.* at *5* (emphasis in original). Even when a court denies a motion for sanctions, it may nonetheless order reimbursement of the movant’s reasonable fees and costs where the movant was “seeking to vindicate . . . legitimate discovery rights through litigation made necessary by the [non-movant’s] unjustifiably incorrect discovery responses.” See, e.g., *Joza v. WW JFK LLC*, No. 07-CV-4153 (ENV)(JO), 2009 WL 454452, at *4 (E.D.N.Y. Feb. 24, 2009) (in action asserting claims under federal state and wage laws by employee against employer-franchisee, court denied plaintiff’s request for imposition of sanctions based on alleged spoliation of evidence based on evidence that the requested documents were destroyed in the ordinary course of business before the duty to preserve them arose; court however awarded plaintiff her reasonable costs and attorneys’ fees in “ferreting out the truth of the matter” noting that “[i]f the defendants and their counsel had taken appropriate care in formulating their response to that request, they would have promptly informed [plaintiff] that the faxes were no longer in existence”).

Any perceived discovery abuses should be brought to the court’s attention in a timely manner, certainly before discovery closes. The court in *Tri-County Motors, Inc. v. American Suzuki Motor Corp.*, 494 F. Supp. 2d 161 (E.D.N.Y. 2007) made short shrift of the plaintiff’s motion for sanctions against the defendant for alleged delayed production of relevant documents and incomplete answers to interrogatories, noting first, that the plaintiff presented no evidence that the alleged abuses, even if they did occur, were the result of bad faith, willful misconduct or even gross negligence on the part of the defendant, or that they in any way prejudiced the plaintiff. *Id.* at 177. “More dispositably, the record reveal[ed] that the issues now raised by Tri-County were neither brought to the attention of [the] Magistrate Judge . . . nor were they the subject of an appeal during discovery” and “[i]t [was], quite simply, too late to raise them now.” *Id.*

**D. Discovery Into Franchisor’s Dealings With Other Franchisees**

As the Seventh Circuit has pointed out, “[t]he fact that the [franchisor] may, as the [franchisee] argue[s], have treated other franchisees more leniently is no more a defense to a breach of contract than laxity in enforcing the speed limit is a defense to a speeding ticket.” *Original Great American Chocolate Chip Cookie Co. v. River Valley Cookies Ltd.*, 970 F.2d 273, 279 (7th Cir. 1992). See also *McDonald’s Corp. v. C.B. Mgmt. Co., Inc.*, 13 F. Supp. 2d 705 (N.D. Ill. 1998) (“the fact that McDonald’s may have declined to exercise its contractual right to termination in the past does not somehow transform that right into a discretionary decision governed by the standard of good faith and fair dealing. McDonald’s right to termination was not modified by its past leniency”). Thus, franchisors may be able to resist efforts by franchisees to discover such evidence on the grounds of relevance. For example, in *Dayan v.*
McDonald's Corp., 125 Ill. App. 3d 972, 81 Ill. Dec. 156, 466 N.E.2d 958 (Ill. App. Ct. 1984), the franchisee brought suit to enjoin McDonald's from terminating his franchise in Paris, in circumstances where he had been repeatedly advised of substandard conditions at his restaurant. The franchisee attempted to prove that McDonald's engaged in a custom and practice of accepting substandard operators by offering into evidence documents regarding the condition of other McDonald's restaurants. Id. at 981-82, 81 Ill. Dec. at 164, 466 N.E.2d at 966. However the Illinois Appellate Court upheld the trial court's rejection of plaintiff's offer of proof, finding that such evidence was not relevant because of the materially different provisions of the standard license agreement and Dayan's master license agreement. Id. at 982-85, 81 Ill. Dec. at 165-66, 466 N.E.2d at 966-68.

A franchisee may also seek to conduct discovery into the franchisor's dealings with other franchisees to support an encroachment claim. See, e.g., 22 Causes of Action 2d 91, Cause of Action for Franchisor Encroachment on Territory of Franchisee ("[w]here there are claims that the franchisor engages in a pattern and practice of encroachment throughout its network of franchisee outlets, testimony of other similarly affected franchisees may be of significance to the franchisee's claim"). In Burger King Corp. v. Weaver, 169 F.3d 1310 (11th Cir. 1999), the defendant franchisee sought to conduct discovery regarding Burger King's policies pertaining to encroachment of Burger King restaurants on each other. Id. at 1320. The franchisee argued that the information sought "may show that Weaver was singled out for treatment at odds with BKC's uniform policy regarding encroachment" and that the district court erred in denying discovery. Id. The Eleventh Circuit upheld the district court's decision denying the defendant's motion to compel such discovery because it was irrelevant to any of his causes of action. Id.

Similarly, a franchisee may seek to pursue discovery regarding a franchisor's treatment of other franchisees in support of a claim of bad faith or breach of the implied covenant of good faith and fair dealing, or to support a defense that the franchise agreement was not properly terminated. See, e.g., H & R Block Services, Inc. v. Miller, No. Civ.-01-633, Bus. Franchise Guide (CCH) ¶ 12,574 (D. Az. Aug. 27, 2002) ("Miller is entitled to pursue discovery that would address her defense that the franchise agreement was not properly terminated . . . . Miller would not know of Block's prior treatment of similarly situated franchisees . . . . Yet this information would be relevant to her position that any breach was not material and so would not have justified termination of her franchise agreement"); Camp Creek Hospitality Inns, Inc. v. Sheraton Franchise Corp., 139 F.3d 1396, 1406 (11th Cir. 1998) (upholding summary judgment on plaintiff's claim for breach of the implied covenant of good faith because franchisee "failed to provide any evidence or theory to connect any damages to this particular claim"; noting that "evidence to show that Sheraton Reservations agents systematically favored the Gateway Hotel over the Inn when fielding customer calls . . . . would deprive the Inn of the benefits of the contract (i.e. reservations) and therefore breach the covenant of good faith inherent in that agreement").

Another area where a franchisors' treatment of other franchisees may be relevant and discoverable is in the context of allegations of discrimination against a franchisee. For example, in a Section 1983 suit brought by an Arab franchisee against a franchisor alleging racial discrimination, the court held that the franchisee established a prima facie case that the franchisor applied a franchise provision which required franchisees to carry a full line of breakfast products in a racially discriminatory manner, and therefore reversed the district court's decision to grant summary judgment in favor of the franchisor. Elkhatib v. Dunkin Donuts, Inc., 493 F.3d 827 (7th Cir. 2007). In Kinnard v. Shoney's, Inc., 100 F. Supp. 2d 781, 795 (M.D. Tenn. 2000), the court rejected the plaintiffs' argument that the defendant-franchisor discriminated against them under the Indiana Deceptive Franchise Practices Act finding that
they were not similarly situated to the other franchisee.

E. Discovery Into Motive For Termination

As discussed *infra* in Part III.A., Rule 26(b)(1) of the Federal Rules of Civil Procedure permits parties to "obtain discovery regarding any matter, not privileged, that is relevant to the claim or defense of any party" and information is relevant and discoverable as long as the discovery "appears reasonably calculated to lead to the discovery of admissible evidence." *Fed. R. Civ. P. 26(b)(1).* In discussing the 2000 amendment to Rule 26(b)(1), which narrowed the scope of discovery, the advisory committee noted that "[t]he rule change signals to the court that it has authority to confine discovery to the claims and defenses asserted in the pleadings, and signals to the parties that they have no entitlement to discovery to develop new claims or defenses that are not already identified in the pleadings." *Fed. R. Civ. P. 26(b)(1)* advisory committee notes to 2000 Amendments. When broader discovery is sought, the court should determine the scope "according to the reasonable needs of the action . . . depending on the circumstances of the case, the nature of the claims and defenses, and the scope of the discovery requested." *Id.*

In the context of termination of a franchise agreement by a franchisor for alleged breach(es) of the agreement, a franchisee may seek to discover evidence regarding other motives for termination, for example in support of a claim against the franchisor alleging breach of the covenant of good faith and fair dealing. However, courts have repeatedly found that a franchisor's ulterior motive for termination is not relevant to the determination whether termination of a license was proper when the franchisor had a valid reason for termination. See, e.g., *Dunkin' Donuts Inc. v. Liu*, 79 Fed.Appx. 543, 547 (3d Cir. 2003) (franchisee's material breach of the franchise agreement triggered Dunkin's right to terminate the agreement, rendering any ulterior financial motive irrelevant); *McDonald's Corp. v. C.B. Mgmt. Co., Inc.*, 13 F. Supp. 2d at 712 ("it is well established that where there is good cause for a franchise termination, there can be no bad faith"); *Major Oldsmobile, Inc. v. General Motors Corp.*, No. 93 Civ. 2189, 1995 WL 326475, at *8 (S.D.N.Y. May 31, 1995) (according to plaintiff, defendant's ulterior motive in terminating the franchise was to further its corporate agenda of moving all area dealerships affiliated with General Motors' six divisions onto the same plot of land in Long Island City and then appointing itself as the single operator-owner of the facilities; however, the court held that "since defendant had the right to terminate the Agreement upon plaintiff's breach, it [was] legally irrelevant whether defendant was also motivated by reasons which would not themselves constitute valid grounds for termination of the contract"), *aff'd*, 101 F.3d 684 (2d Cir. 1996); *Original Great American Chocolate Chip Cookie Co. v. River Valley Cookies Ltd.* 970 F.2d 273, 280-81 (7th Cir. 1992) ("[t]he law generally and in this instance does not provide remedies for spiteful conduct or refuse enforcement of contractual provisions invoked out of personal nastiness"); holding that franchisee repeatedly violated franchise agreement and failed to present evidence that franchisor engaged in opportunistic behavior in terminating the franchise; *Russo v. Texaco*, 808 F.2d 221, 225 (2d Cir. 1988) (termination of franchise fell within enumerated list of 12 specific events in Petroleum Marketing Practices Act, which are deemed relevant to franchise relationship, and termination was therefore lawful and no further inquiry as to reasonableness of termination was necessary); *Dayan v. McDonald's Corp.*, 125 Ill. App. 3d 972, 993, 81 Ill. Dec. 156, 171-72, 466 N.E.2d 958, 973-74 (Ill. App. Ct. 1984) (court held that where McDonald's had good cause for the termination because of the plaintiff's failure to maintain quality control standards, that was sufficient to satisfy the covenant of good faith; court rejected franchisee's argument that McDonald's alleged improper motive to recapture the lucrative market where the franchisee was located constituted a breach of the implied covenant of good faith); *Two Wheel Corp. v. American Honda Corp.*, 506 F. Supp. 806 (E.D.N.Y. 1980)
(on motion for preliminary injunction, court stated that motive behind distributor’s termination of motorcycle dealership becomes irrelevant if court finds that termination was properly based on contract breach).

Thus, a franchisor may be able to prevent or limit discovery into any other alleged motives for termination as long as there was a valid reason for the termination. However, a franchisee may be entitled to conduct discovery on the franchisor’s motive for termination for other reasons, for example to support a defense of bad faith or breach of the duty of good faith and fair dealing. See, e.g., Dunkin’ Donuts Franchised Restaurants, LLC v. 1700 Church Ave. Corp., No. 07-CV-2446 (CBA)(MDG), 2008 WL 1840760, at *2 (E.D.N.Y. Apr. 23, 2008) (held that late discovery requests seeking production of the franchisor’s plans to maximize profits were unrelated to the terminated franchisee’s claim that Dunkin’s action was in bad faith; however court found that defendants had not articulated any basis for their defense of bad faith, and noted that “[n]o party has an automatic right to seek discovery of the financial plans and documents of an adversary, simply because they are engaged in a commercial dispute”); Laethem Equip. Co. v. Deere & Co., No. 05-CV-10113-BC, 2007 WL 2873981, at *1 (E.D. Mich. Sept. 24, 2007) (court denied defendant’s motion for summary judgment and stated with respect to tortious interference claims that certain evidence “permits an inference that Deere improperly sought to terminate the franchise with LEC and LFSC and move those companies’ customers to a competitor and consolidate its own dealership network” and that a factual dispute existed on the question of whether the defendant improperly interfered with the relationship of the franchisees so that Deere could pursue its own interests); Dunkin’ Donuts, Inc. v. Mary’s Donuts, Inc., 206 F.R.D. 518, 521 (S.D. Fla. 2002) (franchisor’s corporate representative compelled to state why employee in franchisor’s loss prevention department left his employment because this was relevant to franchisee’s counterclaim that franchisor acted in bad faith in terminating franchise agreements); Interim Health Care of Northern Illinois Inc. v. Interim Health Care, Inc., 225 F.3d 876 (7th Cir. 2000) (reversing district court’s “reason[ing] that so long as the franchisee violated a term of the franchise agreement, the franchisor had good cause to terminate” and held instead that evidence that franchisor lured away at least two of franchisee’s major clients by withholding account information from her raised genuine issue of material fact as to whether franchisor violated duty of good faith under Illinois law when it terminated franchise because franchisee defaulted in her duty to make royalty payments, precluding summary judgment on franchisee’s claim for breach of implied covenant of good faith and fair dealing); Shell Oil Co. v. K.E.M. Service, Inc., 69 F.3d 531 (1st Cir. 1995) (affirming preliminary injunction against termination of franchise agreement for willful misbranding of gasoline sold by franchisee based on franchisee’s proposed defenses that would excuse noncompliance).

F. Trial Preparation – Materials Prepared in Anticipation of Litigation

Rule 26(b)(3) governs the scope and limits of discovery as it relates to trial preparation materials:

(A) Documents and Tangible Things. Ordinarily, a party may not discover documents and tangible things that are prepared in anticipation of litigation or for trial by or for another party or its representative (including the other party’s attorney, consultant, surety, indemnitor, insurer, or agent). But, subject to Rule 26(b)(4), those materials may be discovered if:

15 Defendants were represented by Zarco Einhorn Salkowski & Brito, P.A.
(i) they are otherwise discoverable under Rule 26(b)(1); and

(ii) the party shows that it has substantial need for the materials to prepare its case and cannot, without undue hardship, obtain their substantial equivalent by other means.


When a party withholds information otherwise discoverable by claiming that the information is subject to protection as trial-preparation material, "the party must: (i) expressly make the claim; and (ii) describe the nature of the documents, communications, or tangible things not produced or disclosed — and do so in a manner that, without revealing information itself privileged or protected, will enable other parties to assess the claim." Fed. R. Civ. P. 26(b)(5)(A). If information produced in discovery is subject to a claim of protection as trial preparation material the party making the claim may notify any party that received the information of the claim and the basis for it. Fed. R. Civ. P. 26(b)(5)(B). After being notified, a party must promptly return, sequester, or destroy the specified information and any copies it has; must not use or disclose the information until the claim is resolved; must take reasonable steps to retrieve the information if the party disclosed it before being notified; and may promptly present the information to the court under seal for a determination of the claim. Id. The producing party must preserve the information until the claim is resolved. Id.

Pursuant to Rule 26(b)(4), which deals with trial preparation and experts, a "party may depose any person who has been identified as an expert whose opinions may be presented at trial. If Rule 26(a)(2)(B) requires a report from the expert, the deposition may be conducted only after the report is provided." Fed. R. Civ. P. 26(b)(4)(A). However, in the case of any expert employed only for trial preparation, "[o]rdinarily, a party may not, by interrogatories or deposition, discover facts known or opinions held by an expert who has been retained or specially employed by another party in anticipation of litigation or to prepare for trial and who is not expected to be called as a witness at trial." Fed. R. Civ. P. 26(b)(4)(B). But a party may do so only as provided in Rule 35(b), or "on showing exceptional circumstances under which it is impracticable for the party to obtain facts or opinions on the same subject by other means." Id. In a breach of contract dispute brought by a failed automobile dealership against an automobile credit corporation, the Supreme Judicial Court of Maine held that testimony concerning the proposed dealership's lost profits constituted "surprise expert testimony" that should not have been allowed by the trial court. Chrysler Credit Corp. v. Bert Cote's USA Auto Sales, Inc., 707 A.2d 1311, 1317-18 (Me. 1998). In the absence of a pre-trial expert designation and the state court equivalent of Rule 26(b)(4) discovery, the plaintiff had no reason to anticipate that the witness would "include precise profitability projections developed after the litigation had commenced." Id. at 1317. The trial court exceeded its discretion by failing to exclude that testimony. Id.

G. Privileged Materials

information is privileged must: (i) expressly make the claim; and (ii) describe the nature of the documents, communications, or tangible things not produced or disclosed — and do so in a manner that, without revealing information itself privileged or protected, will enable other parties to assess the claim. Fed. R. Civ. P. 26(b)(5)(A).

The attorney-client privilege attaches to direct communication between a client and his attorney as well as communications made through their respective agents. Laethem Equip. Co., 2007 WL 2873981 at *5. The scope of the attorney-client privilege is narrow, attaching only to confidential communications by the client to his advisor that are made for the purpose of obtaining legal advice. Id.; see also Hotwork-USA, LLC v. Excelsius Int'l, Ltd., No. 04-505-KSF, 2007 WL 689538, at *8 (E.D. Ky. Mar. 2, 2007) (no waiver of privilege because court found that the email at issue was not a communication protected by the attorney-client privilege in circumstances where the email simply "mention[ed] that Hotwork's counsel wanted a list of documents the client thought might be relevant to Hotwork's damages and requested the client to compile such a list of documents for purposes of requesting from the defendants during discovery"). Where an attorney's client is an organization, the privilege extends to those communications between attorneys and all agents or employees of the organization authorized to speak on its behalf in relation to the subject matter of the communication, or, depending on the jurisdiction, within the "control group." Laethem, 2007 WL 2873981 at *5 (citations omitted). The burden of establishing the existence of the attorney-client privilege rests with the person asserting it. Id. (citation omitted). Even the subject matter of confidential communications falls within the ambit of the attorney-client privilege, absent a waiver. In re Arthur Treacher's Franchisee Litig., 92 F.R.D. at 435.

"The attorney-client privilege is waived if the confidential communication has been disclosed to a third party, unless made to attorneys for co-parties in order to further a joint or common interest (known as the common interest rule or the joint defense privilege)[]." Laethem, 2007 WL 2873981 at *5 (citations omitted). The attorney-client privilege is personal to the client, and only the client can waive it. Id. (citation omitted). If the court does order discovery of trail preparation materials, it must protect against disclosure of the mental impressions, conclusions, opinions and legal theories of a party's attorney or other representative concerning the litigation. See Fed. R. Civ. P. 26(b)(3). Waiver of the attorney-client privilege can be either express or implied. Pyramid Controls, Inc. v. Siemens Indus. Automations, Inc., 176 F.R.D. 269, 272 (N.D. Ill. 1997). Implied or "at issue" waiver can occur where a party voluntarily injects either a factual or legal issue into the case, the truthful resolution of which requires an examination of the confidential communications. Id. In Pyramid Controls, the court found that the plaintiff-franchisee's confidential communications with its attorneys concerning the alleged termination from the time of the termination (June 14, 1995) until it filed the lawsuit (May 15, 1997) were directly at issue because of the one year statute of limitations argument raised based on its allegations that it did not learn that its distributor agreements constituted a franchise under the Illinois Franchise Act until January 17, 2007 during the course of conversations with its attorneys. Id. at 274-75. The court held that the plaintiff waived its attorney-client privilege as to those specific communications. Id. at 275.

If information produced in discovery is subject to a claim of privilege the party making the claim may notify any party that received the information of the claim and the basis for it. Fed. R. Civ. P. 26(b)(5)(B). After being notified, a party must promptly return, sequester, or destroy the specified information and any copies it has; must not use or disclose the information until the claim is resolved; must take reasonable steps to retrieve the information if the party disclosed it before being notified; and may promptly present the information to the court under seal for a determination of the claim, and the producing party must preserve the information until the claim
is resolved. *Id.*; see also *Bonanno v. Quizno’s Franchise Co., LLC*, No. 06-cv-02358-WYDKLM, 2008 WL 1801173 (D. Colo. Apr. 18, 2008) (court granted defendants’ motion for protective order and held that six inadvertently produced documents were protected, either in whole or in part, by the attorney-client privilege and attorney work product doctrine).

“[T]he work-product doctrine is distinct from and broader than the attorney-client privilege.” *Laethem*, 2007 WL 2873981 at *6 (citation omitted). It includes any document prepared in anticipation of litigation by or for the attorney. *Id.* (citation omitted). The doctrine is designed to allow an attorney to assemble information, sift what he considers to be the relevant from the irrelevant facts, prepare his legal theories and plan his strategy without undue and needless interference to promote justice and to protect his clients’ interests. *Id.* (citations omitted). The standard for waiving the work-product doctrine should be no more stringent than the standard for waiving the attorney-client privilege because once the privilege is waived, waiver is complete and final. *Id.* (citations omitted). At-issue waiver can also apply to the protection afforded under the work-product doctrine. *Pyramid Controls*, 176 F.R.D. at 276 (held that plaintiff waived protection under the work-product doctrine to the same extent that it waived its attorney-client privilege by putting at issue the discussions between itself and its attorney and the advice it received based on those discussions). However, an assertion of work product will not protect against a request for information supporting a party’s legal theory, which is not privileged from discovery. See, e.g., *Dunkin’ Donuts Inc. v. Mary’s Donuts, Inc.*, 206 F.R.D. 518, 520-21 (S.D. Fla. 2002) (in suit by franchisor against franchisee for underreporting gross sales, plaintiffs were ordered to provide defendants with the facts supporting their contention that the defendants underreported their sales).

Parties should also be wary of privacy concerns and check the local rules of the court where documents are being filed to determine requirements for excluding or redacting personal information before publicly filing documents. See, e.g., *Laethem Equip. Co. v. Deere and Co.*, No. 05-CV-10113-BC, 2008 WL 4427736, at *8 (E.D. Mich. Sept. 30, 2008) (court ordered parties to confer with respect to plaintiffs’ counter motion asking that documents filed by defendants quoting privileged documents be sealed, although the court declined to award sanctions “[a]t this time”); *AAMCO Transmissions, Inc. v. Baker*, No. 06-5252, 2008 WL 509220, at *7-8 (E.D. Pa. Feb. 28, 2008) (court ordered sanctions in the form of partial payment of attorneys’ fees for having the matter made right where franchisor’s attorney negligently, although not in bad faith, failed to remove personal identifying information before public filing, based on attorney’s “negligence” and “clear violation of [the local rules]”).

1. **Federal Rule of Evidence 502 – Non-Waiver For Inadvertent Disclosure**

Federal Rule of Evidence 502 was amended in 2007 to resolve some longstanding disputes in the courts about the effect of certain disclosures of communications or information protected by the attorney-client privilege or as work product — specifically those disputes involving inadvertent disclosure and subject matter waiver. The amended rule provides:

When made in a Federal proceeding or to a Federal office or agency, the disclosure does not operate as a waiver in a Federal or State proceeding if:

1. the disclosure is inadvertent;

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16 Defendants were represented by Zarco Einhorn Salkowski & Brito, P.A.
2. the holder of the privilege or protection took reasonable steps to prevent disclosure; and

3. the holder promptly took reasonable steps to rectify the error, including (if applicable) following Federal Rule of Civil Procedure 26(b)(5)(B).

Fed. R. Evid. 502(b). *Laethem Equip. Co. v. Deere & Co.*, No. 05-CV-10113-BC, 2008 WL 4997932 (E.D. Mich. Nov. 21, 2008) involved, among other causes of action, a claim for violation of Michigan’s Franchise Investment Law. During discovery, the defendants asked the court to rule that “plaintiffs ha[d] waived any attorney-client privilege with respect to any documents or information on the "M & M" disks based on plaintiffs' disclosure of those disks to defendant, and its subsequent delay in objecting to the disclosure.” *Id.* at *8. The court applied the new Rule of Evidence 502, and concluded that each element of the rule was satisfied. *Id.* at *9. First, there was no indication in the record, and defendants did not argue, that the disclosure was anything other than inadvertent. *Id.* Second, it appeared that plaintiffs’ took reasonable steps to prevent disclosure: the disks at issue were the only privileged matters that had been inadvertently disclosed, despite the voluminous discovery that had taken place in the case, and the plaintiffs took reasonable steps to protect the confidentiality of the information. *Id.* Finally, the plaintiffs took prompt action to secure return of the privileged matter as soon as they discovered the inadvertent disclosure. *Id.* “Accordingly, under Rule 502(b), the disclosure of the "M & M" disks did not result in a waiver of the attorney-client privilege with respect to any of the information on the disks.” *Id.*

H. **Protective Orders and Subpoenas**

1. **Protective Orders**

“A party or any person from whom discovery is sought may move for a protective order in the court where the action is pending—or as an alternative on matters relating to a deposition, in the court for the district where the deposition will be taken.” Fed. R. Civ. P. 26(c)(1). The court may, for good cause, issue an order to protect a party or person from annoyance, embarrassment, oppression, or undue burden or expense, including one or more of the following:

(A) forbidding the disclosure or discovery;

(B) specifying terms, including time and place, for the disclosure or discovery;

(C) prescribing a discovery method other than the one selected by the party seeking discovery;

(D) forbidding inquiry into certain matters, or limiting the scope of disclosure or discovery to certain matters;

(E) designating the persons who may be present while the discovery is conducted;

(F) requiring that a deposition be sealed and opened only on court order;

(G) requiring that a trade secret or other confidential research, development, or commercial information not be revealed or be revealed only in a specified way;
and

(H) requiring that the parties simultaneously file specified documents or information in sealed envelopes, to be opened as the court directs.

*Id.* The decisions to issue a protective order rests within the sound discretion of the trial court. See, e.g., *Brunet v. Quizno's Franchise Co. LLC*, No. 07-cv-01717-PAB-KMT, Bus. Franchise Guide (CCH) ¶ 14.043 (D. Colo. Dec. 23, 2008). The party seeking a protective order must show that the discovery request will result in a clearly defined and serious injury to that moving party. *Id.* Rule 26(b)(2)(C) provides that discovery shall be limited by the court if it determines that: “(i) the discovery sought is unreasonably cumulative or duplicative, or can be obtained from some other source that is more convenient, less burdensome, or less expensive; (ii) the party seeking discovery has had ample opportunity to obtain the information by discovery in the action; or (iii) the burden or expense of the proposed discovery outweighs its likely benefit, considering the needs of the case, the amount in controversy, the parties' resources, the importance of the issues at stake in the action, and the importance of the discovery in resolving the issues.” Fed. R. Civ. P. 26(b)(2)(C).

A party may seek a protective order seeking to limit or to prevent discovery from taking place. For example, in *In re Arthur Treacher's Franchisee Litig.*, 92 F.R.D. 429, 437 (E.D. Pa. 1981), one of the defendants filed a motion for a protective order directing that the deposition of its lawyer, which had been noticed up by the plaintiff, not be taken. The defendant argued that the deposition notice was (1) an attempt to invade upon the attorney-client and work-product privileges, and (2) harassment since the plaintiffs had already deposed and questioned the defendant at tremendous length. *Id.* While the court was not persuaded that either of those arguments entitled the defendant to the protective order as sought, the court “order[ed] a compromise solution which the parties were unable to effect amicably despite admonitions to attempt to do so. That compromise is that the deposition will go forward, but pursuant to Fed.R.Civ.P. 31 [by written questions] as opposed to Rule 30.” *Id.* at 437-39. See also *Dunkin' Donuts, Inc. v. Manderico, Inc.*, 181 F.R.D. 208 (D.P.R. 1998) (held that existence of other means to obtain requested information on why franchisor terminated franchise agreements and lack of showing that such information would not be protected by attorney-client privilege or work-product rule supported issuance of protective order precluding deposition of franchisor's counsel).

2. **Subpoenas**

Rule 45 governs subpoenas. Generally, a subpoena is an order to a person to appear as a witness in a case or to “produce designated documents, electronically stored information, or tangible things in that person's possession, custody, or control; or permit the inspection of premises.” Fed. R. Civ. P. 45(a)(1)(iii). For attendance at a hearing, trial, or deposition the subpoena must issue from the court for the district where the hearing or trial is to be held or deposition is to be taken. Fed. R. Civ. P. 45(a)(2)(A)-(B). Stand-alone production or inspection subpoenas must issue from the court for the district where the production or inspection is requested. Fed. R. Civ. P. 45(a)(2)(C).

A party or attorney responsible for issuing and serving a subpoena must take reasonable steps to avoid imposing undue burden or expense on a person subject to the subpoena. Fed. R. Civ. P. 45(c)(1).

A person commanded to produce documents or tangible things or to permit
inspection may serve on the party or attorney designated in the subpoena a written objection to inspecting, copying, testing or sampling any or all of the materials or to inspecting the premises — or to producing electronically stored information in the form or forms requested. The objection must be served before the earlier of the time specified for compliance or 14 days after the subpoena is served. If an objection is made, the following rules apply:

(i) At any time, on notice to the commanded person, the serving party may move the issuing court for an order compelling production or inspection.

(ii) These acts may be required only as directed in the order, and the order must protect a person who is neither a party nor a party's officer from significant expense resulting from compliance.


"As an initial matter, '[t]he reach of a subpoena issued pursuant to Fed. R. Civ. P. 45 is subject to the general relevancy standard applicable to discovery under Fed. R. Civ. P. 26(b)(1)."' *Laethem Equip. Co. v. Deere & Co.*, No. 05-CV-10113-BC, 2007 WL 2873981, at *4 (E.D. Mich. Sept. 24, 2007) (citations omitted). In addition, a subpoena may only command production of documents and other things that are not privileged. *Nocal, Inc. v. Sabercat Ventures, Inc.*, No. C 04-0240 PJH(JL), 2004 WL 3174427, at *3 (N.D. Cal. Nov. 15, 2004). See also *Sherman Street Assoc. LLC v. JTH Tax, Inc.*, No. 3:03-CV-01875 (CFT)(TPS), 2006 WL 3422576 (D. Conn. Nov. 28, 2006) (plaintiff brought motion to quash five subpoenas on various financial institutes and a protective order preventing similar discovery in the future; based on the broad language of Rule 26(b)(1) which states that "[p]arties may obtain discovery regarding any matter, not privileged, that is relevant to the claim or defense of any party," the court held that the financial information was relevant to demonstrating plaintiffs claim for compensatory damages for lost profits and was discoverable); *BP Products North America, Inc. v. Bulk Petroleum Corp.*, Nos. 07-C-1085, 07-C-1090, 2008 WL 4066106, at *1 (E.D. Wis. Aug. 27, 2008) (denying motions for protective orders to quash subpoenas for financial information from third parties finding that the financial records were "required to prove damages and willfulness, which are a part of BP's trademark claims").

Moreover, "[o]n timely motion, the issuing court must quash or modify a subpoena that:

(i) fails to allow a reasonable time to comply;

(ii) requires a person who is neither a party nor a party's officer to travel more than 100 miles from where that person resides, is employed, or regularly transacts business in person — except that, subject to Rule 45(c)(3)(B)(iii), the person may be commanded to attend a trial by traveling from any such place within the state where the trial is held;

(iii) requires disclosure of privileged or other protected matter, if no exception or waiver applies; or

(iv) subjects a person to undue burden.

Fed. R. Civ. P. 45(c)(3)(A) (emphasis added). Thus, a court must quash or modify subpoenas
in certain circumstances, including those that seek to invade the attorney-client privilege or work product doctrine, or that are unduly burdensome. See, e.g., Nocal, Inc. v. Sabercat Ventures, Inc., No. C 04-0240 PJH(JL), 2004 WL 3174427, at *3-4 (N.D. Cal. Nov. 15, 2004) (court quashed subpoena to compel the testimony of defendant's attorney finding that the subpoena "subject[ed] counsel to harassment, [was] unduly burdensome, and [sought] irrelevant and privileged information without showing the extraordinary circumstances required"). Furthermore, "[t]o protect a person subject to or affected by a subpoena, the issuing court may, on motion, quash or modify the subpoena if it requires:"

(i) disclosing a trade secret or other confidential research, development, or commercial information;

(ii) disclosing an unretained expert's opinion or information that does not describe specific occurrences in dispute and results from the expert's study that was not requested by a party; or

(iii) a person who is neither a party nor a party's officer to incur substantial expense to travel more than 100 miles to attend trial.

Fed. R. Civ. P. 45(c)(3)(B) (emphasis added). In the alternative to quashing or modifying a subpoena in the circumstances described in Rule 45(c)(3)(B), the court "may . . . order appearance or production under specified conditions if the serving party:"

(i) shows a substantial need for the testimony or material that cannot be otherwise met without undue hardship; and

(ii) ensures that the subpoenaed person will be reasonably compensated.


A party may not have standing to challenge a subpoena issued to a third party, for example a subpoena issued to a non-party bank seeking financial information. However, a party to a case gains standing when an assertion of "personal right or privilege" is made regarding the sought-after discovery. In Manufacturer Direct, LLC v. DirectBuy, Inc., No. 2:05 cv 451, 2007 WL 4224072, at *2 (N.D. Ind. Nov. 27, 2007), the plaintiff issued subpoenas to 17 of the franchisor's approved vendors requesting "all documents that reflect any agreement between the [supplier] and DirectBuy." The court held that the defendant did not have standing to challenge the third-party subpoenas, and failed to timely assert that a 'personal right or privilege' was implicated which would have given it such standing under Rule 45. Id. at *2. However, the court found that the franchisor was entitled to quash the third party subpoena by use of a protective order under Rule 26(c)(1) which allows the court to make any order which justice requires to protect a party or person from annoyance, embarrassment, oppression, or undue burden or expense. Id. The court found that "[t]he weight of authority in this circuit, and others, reads Rule 26's broad grant of authority over discovery matters and its protection of any 'party or person' to permit DirectBuy's motion." Id. at *3. The court granted the motion for protective order because the subpoenas had no bearing on the claims or defenses in the case. Id. at *3-4.

If a party has a right to move to quash a subpoena directed against a third party upon a showing of a privacy interest in the materials to be produced, the party should move to quash
the subpoena or otherwise object within the confines of Rule 45. A party may not intercept the documents “under false pretenses” and “interfere with discovery production outside the Federal Rules of Civil Procedure.” Brunet v. Quizno's Franchise Co. LLC, Civil Action No. 07-cv-01717-PAB-KMT, 2009 WL 902434, at *4 (D. Colo Apr. 1, 2009) (Harris Bank located documents responsive to a third party subpoena from the plaintiffs and notified both parties of its intention to produce the documents absent a court order to the contrary; defendant then intercepted the documents and redacted certain information; the court found that the defendant “acted in a high-handed, imperious manner in interference with the discovery process,” granted plaintiffs’ motion to compel and awarded plaintiffs their reasonable expenses and fees incurred in connection with the motion to compel).

A party responding to a subpoena by “withholding subpoenaed information under a claim that it is privileged or subject to protection as trial-preparation material must: (i) expressly make the claim; and (ii) describe the nature of the withheld documents, communications, or tangible things in a manner that, without revealing information itself privileged or protected, will enable the parties to assess the claim.” Fed. R. Civ. P. 45(d)(2)(A). Further, if information produced in response to a subpoena is subject to a claim of privilege or of protection as trial-preparation material, the person making the claim may notify any party that received the information of the claim and the basis for it. Fed. R. Civ. P. 45(d)(2)(B). After being notified, a party must promptly return, sequester, or destroy the specified information and any copies it has; must not use or disclose the information until the claim is resolved; must take reasonable steps to retrieve the information if the party disclosed it before being notified; and may promptly present the information to the court under seal for a determination of the claim. Id. The person who produced the information must preserve the information until the claim is resolved. Id.

I. Conference Of The Parties

A party who moves for an order compelling disclosure or discovery must include in its motion a certification that the movant has in good faith conferred or attempted to confer with the person or party failing to make disclosure or discovery in an effort to obtain it without court action. Fed. R. Civ. P. 37(a)(1). Accordingly, before filing a motion to compel discovery or disclosures, a party must make good faith efforts to confer with opposing counsel. If the other side fails or refuses to respond then the movant should detail those efforts (e.g., discussions during or after court appearances, phone calls, emails, letters) in its motion to compel. The moving party should also check the requirements of the applicable local rules, which may require specific steps be taken or language be included with a motion to compel. See, e.g., C.D. Cal. L.R. 37-2 (requiring joint stipulation as prescribed by the rule); E.D. Mo. L.R. 3.04(A) (requiring statement describing the conference including "the date, time and manner of such conference, and the names of the individuals participating therein, or shall state with specificity the efforts made to confer with opposing counsel").

J. Use Of A Special Master

Under Federal Rule of Civil Procedure 53, special masters can be appointed to oversee discovery in complex litigation matters, including franchise disputes. As the advisory committee noted in the 2003 amendments to the rule, appointment and use of masters is intended to be limited, as district judges have primary responsibility over matters in their courts. Nonetheless, the rule is designed to be flexible and gives district judges discretion to appoint masters, as well as broad discretion in determining which party or parties shall bear the costs of reference to a master, or whether the master should be compensated from a fund or subject matter of the action within the court’s control. Fed. R. Civ. P. 53(g)(2). "The court must allocate payment
among the parties after considering the nature and amount of the controversy, the parties' means, and the extent to which any party is more responsible than other parties for the reference to a master.” Fed. R. Civ. P. 53(g)(3). See, e.g., Brill v. Catfish Shaks of Am., Inc., 727 F. Supp. 1035, 1047 (E.D. La. 1989) (“[a]s Catfish Shaks’ lack of an audited financial statement after 1983 precipitated the necessity of appointing a Special Master, the Court finds, in its discretion, that the Special Master’s fee shall be paid by Catfish Shaks”).

Rule 53 lists three circumstances under which special masters may be appointed. First, Rule 53(a)(1)(A) allows a judge to appoint a master to “perform duties consented to by the parties.” Fed. R. Civ. P. 53(a)(1)(A). Thus, parties to a franchise dispute can ostensibly authorize a special master to adjudicate discovery matters by consent. Party consent, however, does not ensure appointment – the court has ultimate discretion to refuse appointment. Second, Rule 53(a)(1)(B) allows a trial master to be appointed to conduct trial proceedings and make or recommend findings of fact on issues to be decided by the court without a jury. Fed. R. Civ. P. 53(a)(1)(B). Third, Rule 53(a)(1)(C) provides for the appointment of pretrial and post-trial masters. Fed. R. Civ. P. 53(a)(1)(C). Pretrial masters can be appointed to address matters, such as discovery, that “cannot be effectively and timely addressed by an available district judge or magistrate judge.” Id. The advisory committee notes indicate, for instance, that pretrial masters might conduct evidentiary hearings on discovery disputes.


during discovery constituted an extraordinary drain on the court's time and resources). Special 
masters may also be appointed where their expertise in a field would add to the efficacy of 
discovery. See Chimer Sys., Inc. v. Powersdine, Ltd., No. 01-74081, 2007 WL 2668602 (E.D. 
Mich. Sept. 10, 2007) (special master had expert knowledge of patent field at issue). Special 
masters' decisions in discovery disputes are entitled to great deference. Katz v. AT&T Corp., 

Courts appoint special masters to supervise discovery in franchise disputes. See, e.g., 
appointed a special master to work with the parties on discovery matters, including depositions, 
in a case where the franchisor allegedly lured prospective franchisees with false information 
about the success of its stores and promises of providing support); Denton v. Mr. Swiss of Mo., 
Inc., 564 F.2d 236 (8th Cir. 1977) (consolidated cases referred to a special master for the 
supervision of discovery; court affirmed special master's dismissal of franchisees' antitrust 
claims for their repeated failures to comply with discovery requests and his discovery orders).

The order appointing the master sets forth, among other things, the master's duties the 
nature of the materials to be preserved and filed as the record of the master's activities; the time 
limits, method of filing the record, other procedures, and standards for reviewing the master's 
decisions, findings, and recommendations; and the basis, terms, and procedure for fixing the 
order must file it and promptly serve a copy on each party. The clerk must enter the order on the 
docket. Fed. R. Civ. P. 53(c)(2)(d). A master must report to the court as required by the 
serve a copy on each party, unless the court orders otherwise. Id. In acting on a master's 
order, report, or recommendations, the court must give the parties notice and an opportunity to 
be heard; may receive evidence; and may adopt or affirm, modify, wholly or partly reject or 
reverse, or resubmit to the master with instructions. Fed. R. Civ. P. 53(f)(1). A party may file 
options to — or a motion to adopt or modify — the master's order, report, or 
recommendations no later than 20 days after a copy is served, unless the court sets a different 
time. Fed. R. Civ. P. 53(f)(2). The court must decide de novo all objections to findings of fact 
made or recommended by a master, unless the parties, with the court's approval, stipulate that:

(A) the findings will be reviewed for clear error; or

(B) the findings of a master appointed under Rule 53(a)(1)(A) or (C) will be final.

Fed. R. Civ. P. 53(f)(3). Thus, in certain circumstances the special master may be vested with 
the power to make final decisions that will be deemed the decision of the court. See, e.g., 
AAMCO Transmissions, Inc. v. Baker, No. 06-5252, 2008 WL 509220, at *1 (E.D. Pa. Feb. 28, 
2008) (special master's decision with respect to discovery motions deemed final by court with 
agreement of both parties). The court must decide de novo all objections to conclusions of law 
made or recommended by a master. Fed. R. Civ. P. 53(f)(4). Unless the appointing order 
establishes a different standard of review, the court may set aside a master's ruling on a 

V. CONCLUSION

Litigation is an inevitable and costly fact of doing franchise business. And while the 
scope of discovery under Rule 26 is quite broad — a party may obtain discovery regarding any
matter, not privileged, that is relevant to the claim or defense of any party, and information is relevant and discoverable so long as the discovery appears reasonably calculated to lead to the discovery of admissible evidence – the discovery process itself is subject to fairly strict and detailed requirements regarding form and timing of discovery, as well as limitations on the types of information that may be discovered. Franchise counsel should be wary of the dangers of failure to comply with the discovery rules, including the dangers of incurring monetary or other sanctions for discovery abuses, thereby adding to the burden and cost of an-already burdensome and costly discovery process and increasing unnecessarily the cost of doing business as a franchisor or a franchisee.
Jeffrey J. Keyes was appointed U.S. Magistrate Judge for the District of Minnesota on May 1, 2008.

Before joining the Bench, Magistrate Judge Keyes was a shareholder in the law firm of Briggs and Morgan, P.A., for 22 years. He started his career in 1972, after graduating from the University of Michigan Law School, when he joined the Gray Plant Law Firm where he served as an associate, and then partner, until 1986. Throughout his 36 years in private practice, Judge Keyes was a trial lawyer. His practice focused on commercial litigation, and he handled a wide variety of commercial cases, including antitrust, securities, franchising, insurance, employment, product liability, and contract disputes.

From 2000 to 2008, Judge Keyes chaired the Federal Practice Committee of this Court. He served as Chair of the United States District Court Advisory Committee for this District in 1991-1993. In 1997 he co-chaired the Minnesota State Bar Association Task Force on Women in the Legal Profession. He served as Chair of the Civil Litigation Section of the Minnesota State Bar Association.

Judge Keyes is a Fellow of the American College of Trial Lawyers and, while he was in practice, he was listed in The Best Lawyers in America in the specialties of Bet-the-Company Litigation and Commercial Litigation and was designated as a Top 40 business litigation "Super Lawyer" by Minnesota Law & Politics. In 2005 he was named a Minnesota Attorney of the Year by Minnesota Lawyer.

Judge Keyes had an active pro bono practice on behalf of disadvantaged clients including the representation of death row inmates and numerous immigration asylum applicants.

Judge Keyes also served as an adjunct professor of law at the University of Minnesota Law School and William Mitchell College of Law. He taught Civil Procedure, a Death Penalty Seminar, and a course on the Law and Justice of War.
FIONA A. BURKE

Fiona A. Burke is an attorney with Schiff Hardin LLP in Chicago and concentrates her practice in commercial litigation and intellectual property law, with a primary focus on franchise disputes. Ms. Burke received her B.C.L. (Bachelor of Civil Law) from University College Cork in Cork, Ireland in 1993, her L.L.M. from University College Cork in Cork, Ireland in 1994, and her J.D. (magna cum laude) degree from Loyola University Chicago School of Law in 2001. She served as an Adjunct Professor of Legal Writing at Loyola University Chicago School of Law in 2004, is an active member of the ABA Forum on Franchising and its Women’s Caucus, and is a Steering Committee Member of its Litigation and Alternative Dispute Resolution Division.

Ms. Burke regularly contributes to publications on a variety of litigation and intellectual property topics, including "A Practical Guide To Franchise Audit And Compliance Investigation Programs" (Co-author/co-presenter) American Bar Association's 28th Annual Forum on Franchising (2005), "Franchise Transfer Litigation: Can a Franchisor Say No?" (Panelist) Teleconference and Live Audio Webcast, American Bar Association's Forum on Franchising, ABA Center for Continuing Legal Education (July 13, 2006), "Just How Wrong Does An Arbitrator Need To Be? (And Other Hot Topics In Arbitration)." (Moderator) Teleconference and Live Audio Webcast, American Bar Association's Forum on Franchising, ABA Center for Continuing Legal Education (December 2, 2008).

She is admitted to practice in Illinois and before the United States District Courts for the Northern, Central and Southern Districts of Illinois, the Eastern and Western Districts of Wisconsin, the Northern District of Indiana, and the Western District of Michigan. She was named an “Illinois Rising Star” by Illinois Super Lawyers in 2008 and 2009.

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HIMANSHU M. PATEL

Himanshu is a partner at the law firm of Zarco Einhorn Salkowski & Brito, P.A., where he concentrates his practice in the areas of complex commercial litigation, franchise arbitration, litigation and mediation, general business and corporate law and appellate practice. The firm represents dealers, distributors and franchisees in arbitration and litigation proceedings throughout the United States as well as internationally.

Himanshu graduated from Vanderbilt University in December 1994 with a B.A. degree in Economics. He then earned his J.D. in 1998 from the Brandeis School of Law at the University of Louisville. Himanshu currently represents franchisees in state and federal courts and arbitration proceedings throughout the United States. Himanshu is admitted to practice before all state courts in Florida, the United States District Courts for the Middle and Southern Districts of Florida. In addition, Himanshu is admitted to practice in the United States Court of Appeals for the First Circuit, Eight Circuit, Eleventh Circuit and Federal Circuit.

Since joining Zarco Einhorn Salkowski & Brito, P.A., Himanshu has authored several articles discussing various issues in the franchise industry, including "Is Your Franchise Agreement Complete: Be Aware of the Merger and Integration Clause,\" "A Comparison of Franchise Disclosure Requirements Under United States Law and International Law," and "Is the Franchisee Responsible When the Guest is Injured on Hotel Property?" Himanshu also co-authored the article titled "Common Issues in Hospitality Franchising," which was presented at the 2004 Hospitality Law Conference in Houston, Texas. Himanshu was also invited by the Asian American Hotel Owner's Association to be a guest speaker at its 2003 national convention in Long Beach, California during which time he gave a presentation on how to successfully negotiate a franchise agreement. Himanshu is currently a member of the Asian American Hotel Owner's Association and serves on its Industry Relations Committee.

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