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**WFJ Collects for Toys for Tots**

Wagner, Falconer & Judd, Ltd. and its employees spent the holiday season collecting toys and donations for Toys For Tots this year. The five week long toy drive concluded on December 14th. On December 16th, many of our employees traveled to the KARE11 Studios to drop off over 400 toys and a check for over one thousand dollars. We are very proud of all of those who participated and who gave so generously this holiday season!

**Selecting and Developing Trademarks**

Imagine opening your mail one morning to find a “cease and desist” letter asserting that you do not have the right to use the name of your own company. Or, perhaps your work week starts with a letter from a competitor asserting that the name of your company’s flagship product infringes on their rights. In either case, a likely resolution is to take two aspirin and start re-branding.

Forced re-branding (i.e., as a response to someone else having a superior claim to a name used to identify your company or one of its products) is an expensive and potentially crushing blow for any business. The good news is that the likelihood of a re-branding nightmare can be largely avoided by using appropriate care in the selection and development of your company’s trademarks.

Trademarks are source identifiers. A trademark helps a consumer pick your company’s product off of the shelf instead of the competitor’s. For a successful business, the trademark represents the goodwill that attaches itself to the product in the mind of the consumers. When your company

offers a service rather than a product, a service mark serves the same role as a trademark. For the remainder of this article, we will use the informality of grouping our comments regarding service marks and trademarks together.

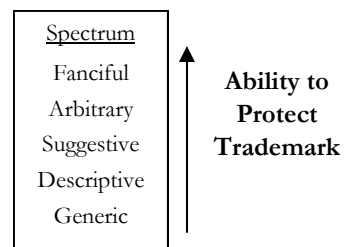
Trademarks can be words, names, or symbols that are used to identify a product. Think Coke, Coke Zero, or Cherry Coke. All three examples are separate trademarks filed by The Coca-Cola Company to identify a particular product. An example of a symbol as a trademark is the “the golden arches.” This symbol is used worldwide by McDonalds to identify its food offerings and distinguishes its food from that offered by its competitors. Symbols can also be combinations of letters or numbers used to identify a specific product, for example, V-8.

Trademarks can also be slogans. Who do you think of when you hear “Fly the Friendly Skies” or “You’re in good hands with....” or perhaps “Like a good neighbor,.... is there”? The success of the marketing cam-

paigns that brought us these slogans can be measured by how quickly the names of these companies pop into your head.

In selecting a trademark, there is a spectrum of distinctiveness that is used to classify trademarks. The more unique a source identifier is, the stronger and more protectable the mark will be. However, the more distinctive a mark is, the less apparent the connection between the mark and the product. What does Altria sell? Not too many hands went up. However, by inventing the word “Altria” to re-name their company, R.J. Reynolds chose to go to market with a trademark that has a low risk of infringing on anyone else’s (since they invented it).

The least unique classification of mark is the generic mark. A



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generic mark cannot be protected because the mark does not serve as a source identifier. For example, a common name of an agent to kill weeds is called an “herbicide” and as such the word “herbicide” cannot stand alone as a trademark. Kimberly-Clark goes to amazing lengths to make you reach for a Kleenex® brand facial tissue rather than just reaching for a kleenex. For well-established companies, the risk of having a valuable trademark be genericized by improper use and public acceptance is huge.

Selecting a trademark is an art, not a science. The process should be an attempt to find common ground between opposing inputs from business and legal perspectives. The business perspective (i.e., the advertising/marketing/sales executive) typically wants to select a mark that is easy for a consumer to understand. Often such individuals may suggest a mark that describes the product or service that their company is marketing. While such marks may be easier for a consumer to relate to, the legal perspective (i.e.,

in-house or outside IP counsel) say that the proposed mark is not unique enough to be protectable. How does a company resolve this loggerhead and select an appropriate mark?

The answer is to have a well-planned idea of the nature of and length of use of the proposed mark and to use this planning as a guide for selecting an appropriate mark. If the proposed use of the mark is only for the short term and the nature of the use is flexible, then a company may want to select a mark that is less distinctive. For example, if your company is working with a print advertisement and has the flexibility to make on-going changes, then perhaps a more descriptive mark is appropriate and fewer resources can be devoted to making sure the mark does not infringe anyone else’s mark.

On the other hand, let’s say your company is developing a long term television campaign and you know that the costs of a re-shoot

are high. In that situation, your company may want to pick a mark on the other side of the distinctiveness spectrum for a number of reasons. Due to the long term nature of the campaign, the goal of protecting the mark may outweigh competing concerns. Additionally, the nature of the campaign – i.e., a television advertisement, gives you a greater opportunity to explain what your product does. Therefore, as in the real estate or restaurant business where the key to success is “location, location, location”, the answer to selecting a successful trademark is “situation, situation, situation.”

For assistance with trademarks please contact John Schragger of Wagner, Falconer & Judd, Ltd. He can be reached at 612-339-1421 or via email at [jschragger@wfljtd.com](mailto:jschragger@wfljtd.com).

## What do you mean we are a franchise? Unsuspecting Franchisors in the Twenty First Century

Most people are familiar with franchises from seeing them in their daily lives or business ventures. However, many businesses that bring their products and services to market by means of sales representative, dealers, or distributions may also be considered to be franchisors, whether they call themselves a franchisor or not. Being considered a de facto franchisor can be costly surprise and may lead to actions with significant financial consequences. This article is specifically directed to those businesses that have established or intend to establish distribution networks using sale representatives, dealers, or distributions – a little upfront caution can pay big dividends in terms of avoiding exposure for large damage awards. (See Sidebar).

Let’s start with a quick overview of franchising law. Franchising began in its current form in the United States shortly after World War II. In the 1960’s and 1970’s both federal and state governments became concerned that small mom and pop businesses were being taken advantage of by franchising schemes. They addressed these concerns through legislation. Congress passed a federal law that required certain disclosures and information prior to entering into a franchise relationship.

### A Cautionary Tale

An award of \$1.525 million was the price Mitsubishi Caterpillar Forklift America had to pay for violating Illinois franchise laws in an action brought against it by a former distributor. At the start of the relationship, neither party considered the relationship as that of franchisor-franchisee. However, when a dispute erupted eight years later, the distributor successfully argued that the relationship between the parties was a de facto franchise because the manufacturer had charged the distributor for manuals worth \$1,600. (See: *To-Am Equipment v. Mitsubishi Caterpillar Forklift America*, 152 F. 3d 658 (7th Cir. 1998).

Many states also adopted their own version of the federal legislation and some went even farther by dictating how parties are to act once involved in the franchising relationship.

The confusion about determining relationships are affected by these laws rests, in large part, upon the fact that the federal and state laws define “franchise” differently. This results in a relationship being classified as a franchise in some places and not in others. Although the relationships affected will vary depending upon which laws apply, there are

three general requirements necessary to be a franchise: a grant of a right to another party; a measure of control over the other party’s business; and a franchise fee.

### Grant of Right

In general, before a franchise relationship will be deemed to exist, there must be a grant of rights to another party. In other words, the franchisor must grant rights to a franchisee. These rights include allowing a franchisee to use a franchisor’s trademark for the purpose of selling or distributing goods and services.

### Measure of Control

What encompasses a measure of control can vary greatly depending upon the business relationship and the law at hand. In large part, the courts will examine this factor to determine the amount of control or assistance provided by the franchisor to the franchisee. In general, the more control the franchisor exerts over the franchisee’s business, the more likely a court will be to make the determination that they are in a franchise relationship.

### Franchise Fee

A franchisee must pay a franchisor a fee be-

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fore the relationship can be formed. Although this may seem like the most straightforward of the three requirements, it often poses the largest problems. Many relationships are formed that are later determined to be a franchise without a franchisor ever knowingly accepting a fee from the franchisee. This is due to the fact that the courts have been eager to find a franchise fee in any number of costs paid by the franchisee. There are many examples of indirect franchising fees – i.e., fees charged between a manufacturer and a distributor that have been considered to be indirect franchise fees. In these cases, the manufacturer is often caught off guard. For example, courts have considered training charges required of a distributor to be a franchising fee.

Unsuspecting franchisors are often dismayed to learn that the labels they have given them-

selves, the other parties, and their contracts play very little role, if any, on how the courts view the relationship at hand. Courts will quickly look past what the parties are calling each other and see if the definitional requirements are met to be considered a franchise. If the requirements are present, a franchisee will often be entitled to more protections under the law than are set out in the contract.

The protections offered to a franchisee in some states can be significant. For example, in states that legislate how the relationship is to be run, such as Wisconsin and Minnesota, there are extreme financial consequences for terminating or failing to renew a relationship without good cause. This has resulted in many unsuspecting franchisors being responsible for extensive damages to franchisees for violating a law they did not know

they had to follow.

Although the scope of these laws can be extensive, with the proper knowledge and understanding on how these laws affect your business, you can avoid unnecessary expenses and costly damages. We have developed a 50 state database on franchise laws that we can use to answer your questions quickly and effectively.

For assistance with any distribution counseling and franchise issues, please contact Ann Wilichowski of Wagner, Falconer & Judd, Ltd. She can be reached at 612 339-1421 or via email to [awilichowski@wfljtd.com](mailto:awilichowski@wfljtd.com).

## The Fundamentals of Project Risk Management in the Construction Industry

As the credit manager of a firm supplying equipment or services for a commercial construction project, you face numerous challenges each day to support both the sale as well as manage the quality of the accounts receivable that it generates.

Construction credit management is a specialized area requiring a broad knowledge of how a building is built with a combination of players: the private or public owner, general contractors, mechanical contractors, sub-contractors, suppliers, lenders and perhaps a surety.

The laws provide those who furnish goods, services, and labor with various methods of recourse that vary by state. The rules further depend on whether the owner is a private or public entity. To protect your rights fully, you need to understand mechanic's lien laws and surety bond laws. Federal government projects fall under a different law called the "Miller Act" An in-depth knowledge and understanding of these laws and their requirements is critical to knowing and managing the risk involved in any credit extension.

There is a standard business model though that is an effective front end road map to follow:

### 1) Obtain the purchase order or contract and review the terms and condi-

**tions of payment to determine if they are acceptable to your firm.**

**2) Determine your place in the contract chain within the project from the owner to your company.**

**3) Determine the financial strength of the parties in that contract chain.**

**4) Predetermine your firm's legal recourse in the event of default of any of those parties and provide any required lien or bond legal notices to the right parties in a timely manner.**

**5) Always maintain your legal rights (bond, lien and contract) until paid.**

Determining the degree of risk may extend beyond your direct customer, as payment to you is heavily dependent on your customer's receipt of payment, as funds flow down the contract chain following their periodic requisition cycle.

Your firm's recourse under the bond and lien laws may vary from zero to 100%. Being too far down the contract chain from the owner or failure to file and serve the required notices may preclude you from any claim to recovery. If you are relying on a payment bond for recourse, a copy of it should be obtained and reviewed prior to approving credit.

Effective project risk management is a

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combination of an overall process that includes many critical areas: credit and collection policy, terms and conditions of payment policy, front end job information, access to accurate and current bond and lien notice formats and timing requirements as well as computer system support for speed, consistency and productivity.

This article includes only a small sample of the scope and complexities facing a supplier or subcontractor managing accounts receivable risk in the construction industry environment.

Wagner, Falconer & Judd, Ltd has an extensive legal background and expertise in construction law and working with distressed projects and contractors to help clients recover their money. The firm maintains an ongoing database of both mechanics lien and surety bond laws and the notice and filing requirements for all 50 states.

For assistance please contact Mike Dupont of Wagner, Falconer & Judd, Ltd. He can be reached 612-339-1421 or via email to [mdupont@wfljtd.com](mailto:mdupont@wfljtd.com).

## Creditor's Acceptance of a Partial Payment Could Prevent Future Collection of the Remaining Balance

It is very common for disputes to arise between debtors and creditors during the collection process. It can be very difficult for creditors to collect the money they are owed when such disputes arise. Often, a creditor may be inclined to accept any money provided by the debtor. However, when there is a bona fide dispute over a debt, creditors must use caution before accepting any partial payments from debtors. Under certain circumstances, accepting partial payment of a debt may cause a discharge of the remaining balance, under the legal term of "accord and satisfaction".

Under Wisconsin law, partial payment of a disputed debt, when offered as "payment in full," operates as an accord and satisfaction of the entire claim. For example, if a creditor receives from the debtor a partial payment check marked "payment in full," and the creditor cashes the check and retains the proceeds, such action could operate to extinguish the remainder of the debt. For this rule to apply, however, there must be a *bona fide* dispute over the amount of the debt owed. Some examples of a bona fide dispute include: (1) where a final

bill exceeds any authorized estimate; (2) where the debtor and creditor have exchanged letters or had conversations disputing the amount owed; or (3) where a debtor is charged for services or goods they did not receive or that were returned. A debtor's mere refusal to pay a debt does not typically escalate a dispute into a *bona fide* dispute. If the refusal to pay is arbitrary, and the debtor knows he/she has no just basis to refuse to pay, the tendering of a check marked payment in full would not operate as an accord and satisfaction when cashed by the creditor.

Minnesota law is very similar to that in Wisconsin. Under Minnesota law, when a check is submitted to a creditor with an explanation that it is intended as a settlement of the whole account, and the creditor accepts the check, it is considered an accord and satisfaction of the entire debt. Therefore, the creditor would be precluded from seeking recovery of the remainder of the debt. This is the rule in Minnesota regardless of whether the debt owed is liquidated or unliquidated.

What should a creditor do if it receives a check from a debtor and it is marked "payment in full?" If there is a bona fide dispute as to an amount owed, a creditor should never cash a partial payment check marked "payment in full" unless the creditor wants to settle the entire debt for the partial amount provided. If a creditor is not willing to accept a partial payment as payment in full, the creditor should *immediately* return the check to the debtor along with a statement of what is owed. Retention of the check for an unreasonable period, or depositing the check, may prevent the creditor from collecting any further amount.

For assistance, please contact Dan Reich of Wagner, Falconer & Judd, Ltd. He can be reached 262-792-1818 or via email to [dreich@wfltd.com](mailto:dreich@wfltd.com).

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