

# **Intellectual Property Due Diligence for the Purchase of an Existing Winery**

## **What is IP Due Diligence in Connection with a Winery Purchase?**

A comprehensive audit, investigation, and analysis of the intellectual property of a target winery to ascertain the economic value of the IP and any business or legal risks that may be connected to the use of the IP.

## **Why Should Your Winery Purchasing Clients Conduct IP Due Diligence?**

- To identify and quantify financial costs and risks in the target winery's IP
  - costs in securing, perfecting, extending purported rights
  - costs to correct identifiable problems
  - costs for licensing rights from third parties
- To identify risk of potential liability for violating rights of third parties
  - Correlatively, ensuring suitable due care is taken to prevent such violations
  - Possible basis for affirmative defenses to third party claims
  - To obtain information useful for purchase/sale negotiations
  - To get an early start in planning steps for the use of IP in conducting and building the business

## **When Should IP Due Diligence Be Conducted?**

- As early as possible, with due consideration given to the probable IP portfolio; the more extensive and complex (generally not applicable to wineries), the earlier the audit, investigation, and analysis should begin
- Engage IP counsel

## **How to Conduct IP Due Diligence in Connection with a Winery Purchase**

- Tailor the scope of the IP investigation and analysis to the nature of the wine business – i.e., largely trademark (brand) and copyright rich, patent/tech/trade secret poor
- Generally, relatively modest and simple investigations, as wineries don't typically own any patents, let alone multiple patents, and they also rarely license rights to third parties, with brand elements (core IP) restricted to company use only
- In the unlikely event patents are involved, engage expert patent counsel to determine patent claim scope, validity, noninfringement, and patent ownership
- If the winery is marketing its business for sale, at the outset ask the winery or its broker for a schedule of its IP assets – treat it respectfully and skeptically (as very likely deficient in several ways), but consider it a good start
- Use a checklist!!!
- Sample checklist follows

## Sample Winery IP Due Diligence Checklist

### Structure and Focus Generally

- Identifying the IP
- Ascertaining the validity of the IP
- Determining whether it has been properly maintained
- Reviewing past and potential conflicts (litigation and USPTO / TTAB challenges)
- Verifying ownership / chain of title
- Identifying encumbrances

### **Trademarks** (the primary IP asset for most wineries, i.e., the core of their branding)

1. Identify all federal, state, and foreign trademark registrations and applications (both use and intent-to-use) for registration of trademarks used by the winery.
2. Obtain current prosecution histories for pending applications.
3. Obtain Section 8/15 filings (declarations of continued use and incontestability filed 5 - 6.5 years from registration); determine applicable deadlines.
4. Obtain records of trademark 10-year renewals; determine applicable deadlines and confirm all fees and filings in all jurisdictions are current.
5. Identify words, terms, designs, images, symbols, phrases, slogans, taglines, etc., used by the winery on its wine labels, advertising, website, etc., in connection with its products that may be candidates for state, federal, and/or foreign registrations.
6. Identify and list abandoned or unused trademarks; possible justifications for non-use.
7. Secure and review all trademark searches, registrability, freedom-to-use, validity, and likelihood of conflict reports and analyses.
8. Secure and review all documents relating to trademark disputes – inbound/outbound C&D letters, filings with TTAB (oppositions and cancellations), and contested matter histories.
9. Obtain documents relating to trademark ownership.
10. Obtain documents relating to trademark licensing, from and to third parties, and any documents relating to costs incurred or revenue generated.

**Copyrights** (a secondary but important IP asset for most wineries)

1. Identify and review all registrations for copyright; review pending applications.
2. Secure and review written agreements and any correspondence relating to transfers of copyright rights.
3. Secure and review any documents relating to the creation of label designs, including agreements with artists or graphic designers, consultancy agreements, assignments, agreements to assign, work-for-hire agreements, etc.; determine those pertinent to identified IP.
4. Secure and review employee agreements relating to the obligation to assign rights in copyright works not created in the course and scope of employment; determine those pertinent to identified IP.
5. Identify all unregistered works used on labels, advertising, website, and other company materials; list candidate works for copyright protection and investigate authorship and applicable rights transfer documents.
6. Determine whether any third parties have made any claims of IP violations based on target winery use of works.

**Patents** (an unlikely and tertiary, but potentially important IP asset for wineries) [This necessarily entails having counsel with patent expertise involved. Note: This is an abridged checklist in view of the rarity of patents comprising important IP for wineries.]

1. Secure copies of all domestic and foreign utility and design patents and patent applications; note filing, expiration, annuity, and maintenance fee due dates.
2. Ensure pending patents are being actively prosecuted.
3. Determine maintenance status and fees due for issued patents.
4. Identify winery goods or methods covered by patents and/or pending claims.
5. Identify inventors and evaluate rights transfers or obligations to transfer rights to winery.
6. Secure and review invention assignment agreements.
7. Secure and review all documents relating to patent disputes – enforcement or third party claims of infringement.

8. Check marking, if applicable.
9. Evaluate patent database for company for tracking portfolio status.

### **Domain Name Registrations**

1. Check to ensure that registration for domain name of target winery website is current and schedule renewals well in advance of expiration dates.
2. Check scope of domain name protective zone; plan to ensure nearby/adjacent domain names using keyword variations and alternative TLDs and purchase primary domains for all markets (countries) where business revenue is significant; include check to evaluate need for registration of domain name(s) in alternative TLDs: .com, .net, .org, .co, .us, .biz
3. Check for registry locks that prevent domain name transfers; if absent, plan implementation.

### **IP Documents and Policies Generally**

1. Secure and review employee agreements; analyze confidentiality provisions, protection of trade secrets, agreements to assign IP created in the course and scope of employment.
2. Secure and review agreements with company principals and former principals re same.
3. Identify and review any encumbrances on winery IP.
4. Secure and review any documents potentially relevant to IP
  - a. Licenses (inbound/outbound)
  - b. consultant and independent contractor agreements (evaluate scope of obligations to assign IP created in course and scope of contract)
  - c. distribution agreements
  - d. winery policies and practices relating to IP protection
  - e. affiliate/partnership/parent documents relating to use and control of IP
5. Secure and evaluate overall IP database to ensure winery has entire IP portfolio in a form easily reviewed for status evaluation and decision making.

## **Shortcuts**

The future: Bypass the investigation steps above and simply outsource the task to Bing AI – that is, ask Bing to answer each due diligence question. If desired, ask for marriage, financial, and child-rearing advice, as well as the next winning numbers for Powerball, and perhaps how your client should rebrand their winery. The results might be troublingly insane, but they might also be insanely interesting.

This is, of course, entirely tongue-in-cheek, but with respect to outsourcing IP investigations and analysis, it may not be that farfetched and not all that far off. AI tools are rapidly being developed for prior art searching, evaluating the relevance of prior art, drafting patents with patentable claims and prosecuting those same patents, and evaluating risk and valuing patents. Without question we will soon see those same tools put to use in the due diligence context, and immediately in nearly all IP evaluation contexts in a hybrid manual/AI approach.



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Craig has been practicing law in the San Francisco Bay Area for slightly over 30 years, the first seven in civil litigation, the past 23 as a registered patent attorney specializing in intellectual property. While his emphasis has been in writing and prosecuting patent applications and filing and prosecuting trademark applications, each before the United States Patent and Trademark Office, he also assists clients in registering copyrights, engaging in intellectual property rights transfers through licensing and assignments, working with foreign associates and using international systems to extend rights to foreign jurisdictions, and defending and enforcing intellectual property rights in various forums. While he works in several technical arts in patent law, living in Wine Country has naturally led to a large portfolio of work directed to the needs of a winery clientele.