

VALUE OF CARDINAL ZIN?

Avoiding BRANDING'S cardinal sins

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This past summer it was reported that industry giant The Wine Group acquired the Cardinal Zin and Big House wine brands from Randall Grahm's Bonny Doon Vineyards (Santa Cruz, CA). The Wine Group is rumored to have paid Bonny Doon \$50 million in the deal, and while it is said to have included inventory and grape contracts, undoubtedly the lion's share of the value can be attributed to the intellectual property involved — the brand names, label imagery, and overall "trade dress" for the products.

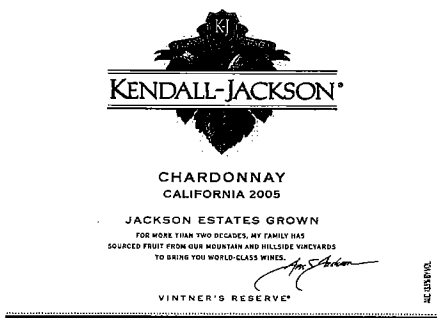
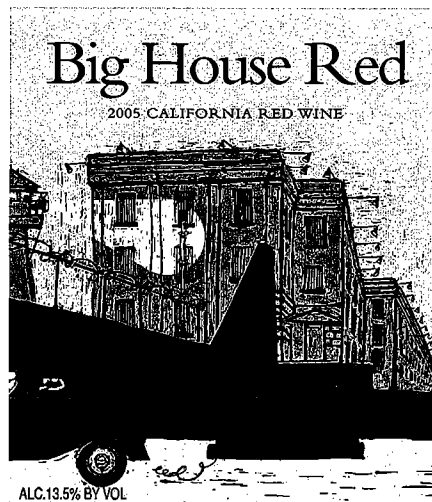
This staggering deal demonstrates the value of brands when a winery avoids the two cardinal sins of brand-

ing: adopting an unoriginal name with little distinctiveness and allowing competitors to eat away at the brand's distinctiveness by failing to prevent their use of similar brand names.

Law of Brand Protection

The main area of law dealing with brands and their protection is trademark law. A trademark is any symbol that functions to designate the source of a product to a consumer. The strongest and most common type of trademark is a brand name, although any symbol, from a logo to a bottle shape, can function as a trademark.

The law of trademarks recognizes that consumers most often remember a brand's name and rely on that name to symbolize the brand. Whether a product makes a good impression or a bad impression, that impression will be linked to the brand name and will

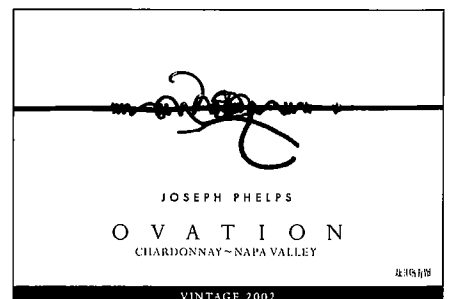


influence the consumer's future purchasing decisions.

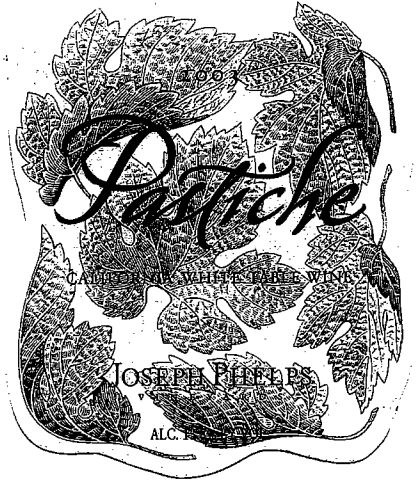
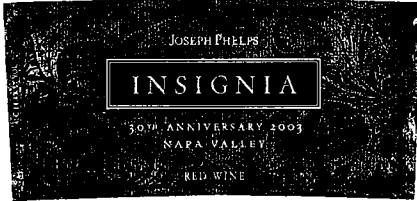
In the wine industry, a winery may use a single brand name (such as Sutter Home) under which it produces several different varietals. Brand names also include house brands (such as Kendall-Jackson), which function as flagship names for a series of brands at different price points, each with multiple varietals (such as Vintner's Reserve, and Grand Reserve).

A brand name (such as Joseph Phelps Vineyards) will serve as a single brand name for multiple varietals, and a house brand for various individual sub-brands of proprietary wines (including Insignia, Ovation, and Pastiche).

Some wine brands function as a house brand (such as Nickel & Nickel)



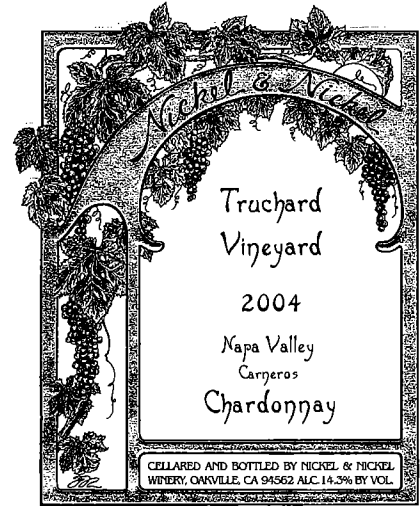
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for a variety of single vineyard-designate wines with the vineyard names functioning as sub-brands (Truchard Vineyard, Rock Cairn Vineyard, and Branding Iron Vineyard). All of these different types of brand names serve as symbols that the consumer associates with the particular product, and are therefore legally recognizable as trademarks.

The fact that multiple brand names often appear on a single bottle of wine creates an extremely crowded marketplace for wine brand names. This is further exacerbated by the sheer volume of wine in the marketplace. In 2005, 460 new wineries were started in the U.S. [*Wine Spectator*, August 2006, data released by federal Alcohol and Tobacco Tax and Trade Bureau.]

In 2005, the Alcohol and Tobacco Tax and Trade Bureau (TTB) issued more than 70,000 Certificates of Label Approval (COLAs) for domestic and imported wine labels. The U.S. Patent and Trademark Office (USPTO) received



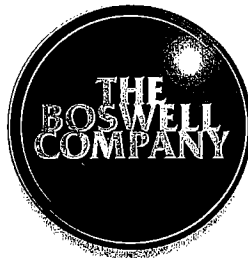
more than 3,000 trademark applications for wine. Thus, for a wine to be remembered by consumers, brand names selected for the wines must be different from those of other producers. Those names must be protected during the life

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of the brand from encroachment by similar names used by other wineries.

Selecting a brand name and building your fence

It is critically important that the brand you select is unique and not confusingly similar to a previously estab-

lished brand. This not only protects you from liability, but also helps ensure that the brand is entitled to a wide fence for protection against use of similar marks by other wineries.

A winery itself may take preliminary steps to determine trademark availability by searching for identical

marks for alcoholic beverages on the USPTO Trademark Register database on the USPTO web site; by searching COLAs on the TTB COLA database on the TTB web site; and by searching for identical marks for wine on popular Internet search engines.

After conducting these searches, it is wise to have an experienced trademark attorney do a further clearance search. The trademark attorney will be able to perform additional, more relevant searches and evaluate the risk beyond that presented by identical marks for identical goods.

There may be risk presented by similar marks (Camille wine and Camellia wine), by marks on different, but related goods or services, (Big Rock wine and Big Rock beer) or by marks considered to be famous, albeit on different goods (The Goddess Nike wine and Nike sneakers). Such risk assessments are better made by a trademark professional with experience in conducting such analysis. Furthermore, the trademark professional can also advise as to whether the proposed name is distinctive enough relative to other brands to be considered a "strong" brand under trademark law.



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Wineries often make the mistake of believing that the issuance of a fictitious business name statement, a corporate name acknowledgement, or a COLA means that the winery has a right to use a name as a brand. However, none of these documents confers any trademark rights or warranty against claims of trademark infringement.

It is necessary to undertake the due diligence of a preliminary screening search to best insure your rights to a mark, that you are not impinging on the rights of another party, and that your selected mark is strong and not diluted.

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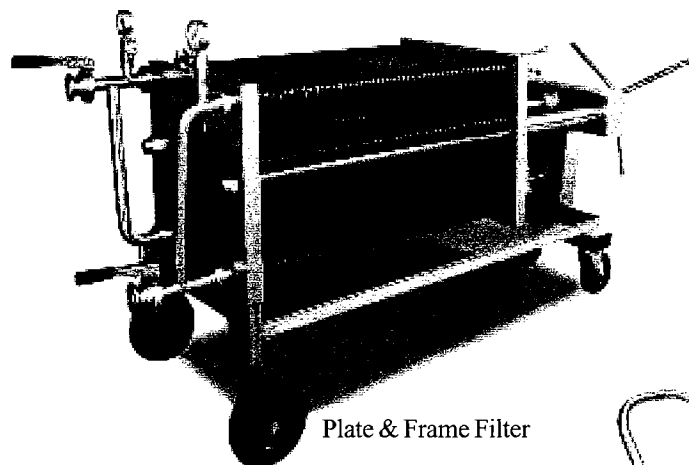
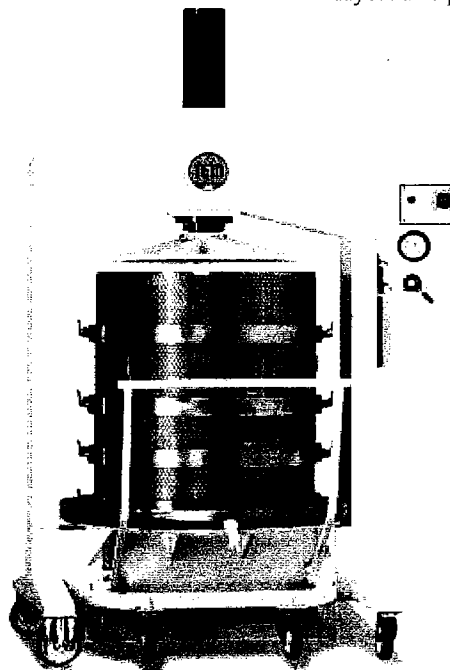
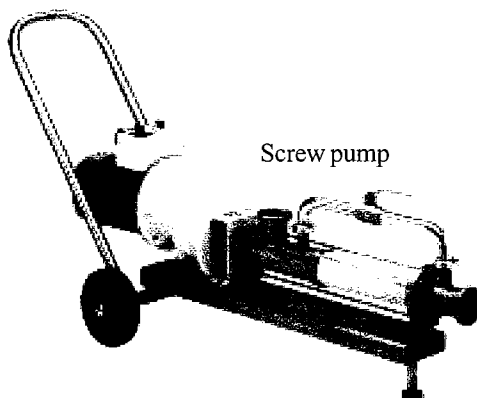


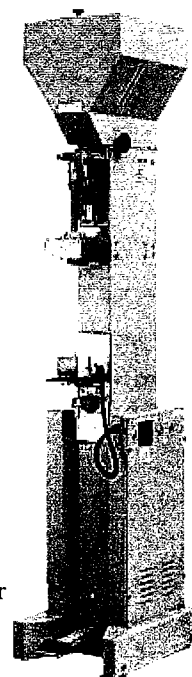
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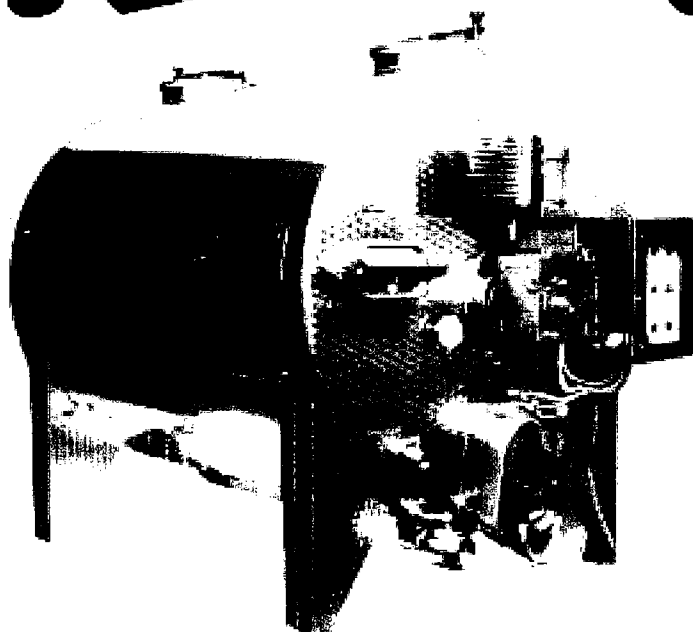
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Frequently, wineries choose to forego clearance of a mark and take their chances in the belief that they may be too small to concern anyone or because they have limited plans for the brand, such as using it for only one vintage.

However, if the senior user of a mark does not act to stop others from using confusingly similar marks, no matter how small the use, the strength of that senior mark is weakened and its protection diminished.

As a result, many small wineries that adopt marks without determining their availability often find themselves up against a large winery on the wrong side of a trademark infringement lawsuit. This usually results in legal fees far in excess of the cost of a trademark clearance search. Thus, the maxim "penny wise and pound foolish" is fairly apt where parties fail to undertake proper due diligence before adopting a brand name and end up in expensive trademark litigation.

Furthermore, even in those cases where a lawsuit can be avoided through negotiation, the failure to conduct a trademark clearance search can nonetheless lead to the unanticipated loss of a valuable brand.

For example, a winery adopts a mark for a second label to move excess bulk wine. The winery may view this as a one-time use not deserving of the cost of a trademark clearance search. However, if the brand performs well, this view could change — unless of course it is subsequently discovered that the brand infringes on the rights of another party. Then, what was perceived as a promising new brand would likely have to be given up in order to avoid a lawsuit. A simple preliminary search may have disclosed such risk. Thus, failure to conduct the search can lead to exposure for loss of valuable intellectual property.

Failure to conduct a trademark clearance search can also lead to ignorance as to the distinctiveness of your brand relative to those of your competitors. If you adopt a brand name and invest in it only to later discover that the name is in common usage, and perhaps not even exclusively protectable by you as a trademark, this too reflects a lack of due diligence. For

example, adoption of "mélange" as a brand would be ill-advised as it is a term commonly used in brand names by many wineries.


You wouldn't rely on grapes from vineyards open for all to use, so why would you adopt a brand that could be used by any of your competitors? As in


acquiring real property, make sure your intellectual property is capable of being fenced in for protection.


Establishing the fence around your brand


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name appears to be clear and protectable. Can you go ahead and just use your mark? Yes. Is this the best trademark protection strategy? No.

The United States provides common law rights in a trademark. This means that wherever you are the first one to use your mark on your product, you receive the rights to that mark for that area. However, those rights are limited to the geographic area of your use. Thus, if you use your mark in California for five years and then expand your distribution to New York, only to find that a winery there has adopted the identical mark in the interim, you would be precluded from using your mark in New York even though you used your mark first, because your use was in California and not New York.

A better strategy is to apply for a federal trademark registration. Once a federal trademark application is filed, that filing date serves to secure your

rights in the mark nationwide once a registration is issued. Furthermore, you can file a trademark application before you have actually used a mark by basing the application on your intended use of the mark.

If you have a brand name in mind but the grapes for your wine are only being harvested this year, and due to production and ageing, the release is two years away, you can nonetheless secure your trademark rights now by filing a trademark application. It establishes your rights as of the application filing date, and if any party adopts the same or a similar mark before your wine is released, you will be able to stop such use once you begin using your mark and your trademark registration is issued.

A federal trademark registration has additional benefits. It establishes the distinctiveness of your mark as a matter of law in an infringement action, whereas such distinctiveness must be

proven when relying on common law rights. A registration serves as constructive notice of your rights, so that parties conducting trademark clearance searches will know that your mark is unavailable for use.

After five years of continuous use of the registered mark, the registration becomes incontestable and cannot be challenged by another party on the basis of confusing similarity. From a practical use standpoint, a registration establishes an ownership interest, which can be used as a security for seeking financing.

Thus, the investment in a trademark registration serves to protect a valuable intellectual property interest and is no less important than investing in insurance to protect a vineyard or winery facility.

Vigilantly guarding the fence around your brand

A winery or vineyard owner would not likely allow a neighbor to come onto her property without permission and plant grapevines for the neighbor to use for the production of his own wine. In fact, under most real property laws, if she allowed this to happen and did not put a stop to it, the winery or vineyard owner would lose her right in the property to her neighbor.

Similar intellectual property laws exist in regard to trademarks. Like a piece of land, a trademark must be protected from encroachment by others if it is to be preserved. Accordingly, in order to insure the value of a brand, a brand owner must make certain that its fence of protection is not breached or compromised.

Where one adopts a unique or arbitrary brand name and conducts a trademark clearance search to ensure that such name is not in common usage, the brand starts its trademark life with a wide fence to prevent use of similar marks by others. Thus, it is easier to protect the fence of the distinctive mark.

In 2001, Rabbit Ridge Vineyards (Paso Robles, CA) was able to obtain an injunction preventing use of the mark Rabbit Hill by another winery because the court found the use of the word "rabbit" on wine to be arbitrary and unique to Rabbit Ridge, such that consumers perceived Rabbit Ridge as

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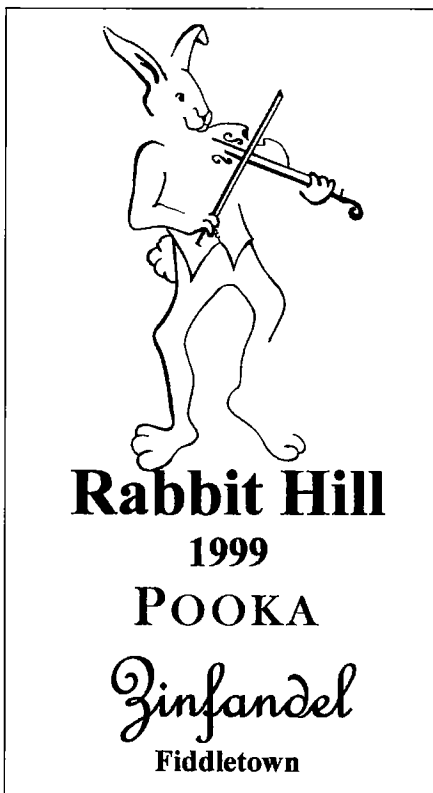
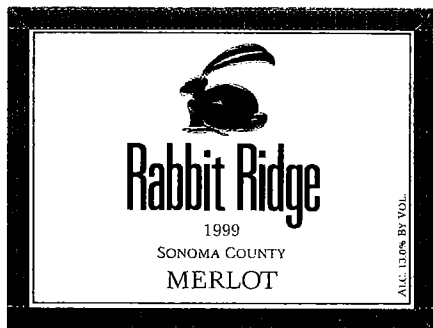
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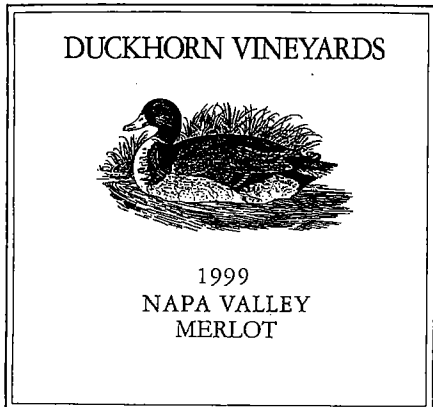
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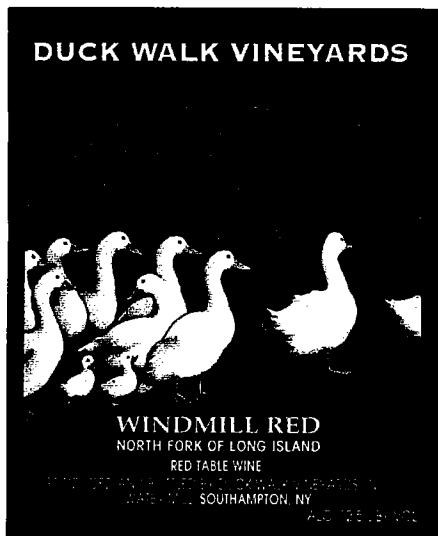
the "rabbit" wine. The court held that, because consumers have an imperfect recollection of brand names, they would believe the Rabbit Hill wine to be Rabbit Ridge because the Rabbit Hill mark included the distinctive term "rabbit."



The first party to use a distinctive term as a trademark has the option of keeping the mark strong by preventing use of the same or similar terms by others, or allowing the term to become weakened and diluted through common usage or through use by others of variations on the term. The stronger a mark, the greater its value. The more diluted a mark becomes, the more its value diminishes.



In a case somewhat similar to Rabbit Ridge, Duckhorn Vineyards (St. Helena, CA) objected to the use of the mark Duck Walk Vineyards by a Long Island, NY winery claiming it infringed the Duckhorn Vineyards mark. However, unlike the Rabbit Ridge case, Duckhorn and Duck Walk reached a settlement whereby both parties agreed to co-exist and continue use of their respective



"duck" marks. While Duckhorn asserted its rights in its "duck" mark, it likely was done too late.

The Duck Walk mark had already been in use for several years and other wineries had also begun use of "duck"

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as part of wine brand names, such as Duck Pond Cellars (Dundee, OR). Thus, when Duckhorn objected to the Duck Walk mark, Duck Walk sued Duckhorn seeking a court declaration of non-infringement. The settlement likely resulted from Duckhorn's realization that the window to claim exclusive rights in "duck" on wine had closed, and therefore proving infringement in court would be very difficult.

The bare minimum required of any wine trademark owner is to prevent the use of identical marks by other wineries. Failure to prevent the use of an identical mark results in the complete elimination of the owner's fence, opening the mark to free use by all.

For example, the COLA database indicates that several COLAs for wine have been issued to different entities for labels with the term "black bear." Accordingly, none of these parties can claim exclusive rights in the term "black bear" and their rights are lim-

ited to the use of "black bear" in association with other source-designating elements, such as the label and logo design for the wine. Thus, the term "black bear," by itself, has no value as a trademark.

Policing third party use of similar marks is no easy task, especially with the increasing influx of foreign wines into the U.S. However, there are tools such as trademark watch services available to assist in this policing. Wineries can even take it upon themselves to do this policing by periodically checking the filing of new trademark applications and COLAs on the USPTO and TTB Internet databases. It requires effort and cost, but such diligence is essential to maintaining the value of the brand.

Conclusion

Vineyards have fences. Wineries have locks. This is how real property is protected from others to insure its value.

Winery owners should take equal care in selecting and protecting the value of their brands. Otherwise, no matter how excellent the wine, consumers will not be able to remember it if they cannot remember the brand relative to other brands in the marketplace. ■

UPCOMING: In subsequent articles, we will discuss geographic issues affecting trademarks and labeling for wine, and adoption and protection of logos and design elements on wine labels.

[Scott Gerien has represented wineries and vineyards on trademark matters for more than 10 years. He is head of the intellectual property department at Dickenson, Peatman & Fogarty (Napa, CA), a member of DP&F's wine industry practice group, and Chairman of the International Trademark Association's North American Subcommittee on Geographical Indications. He may be reached at 707/252-7122 or sgerien@dpfnapa.com.]

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