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IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF CALIFORNIA

E. & J. GALLO WINERY,
Plaintiff,
v.
PROXIMO SPIRITS, INC., et al.,
Defendants.

Case No. 1:10-cv-00411 LJO JLT
ORDER GRANTING MOTION TO AMEND
ANSWER TO COUNTERCLAIMS
(Doc. 103)

_____/

Counterdefendants E. & J. Gallo Winery and Tequila Supremo, S.A. de C.V., and Ecco Domani USA, Inc.¹, filed a motion to amend their answer to counterclaims asserted by Proximo Spirits, Inc. and Agavera Camichines, S.A. de C.V.² Gallo has filed an opposition to the motion, to which Proximo/Agavera have filed a reply. The Court has carefully considered the parties’ submitted papers and the parties’ arguments made during hearing on this matter. For the reasons set forth below, the Court **GRANTS** the motion to amend.

I. BACKGROUND

This case concerns the efforts of Gallo to launch a line of tequila. (Doc. 1 at ¶ 1.) Gallo initiated this action on March 8, 2010 against Proximo/Agavera seeking declaratory judgment that its “Familia

¹ Hereafter, referred collectively as “Gallo.”

² Hereafter referred collectively as “Proximo/Agavera.”

1 Camerena” tequila bottle and packaging does not infringe on the trademark or trade dress of “1800
2 Tequila,” which is manufactured and distributed by Proximo/Agavera. (See *id.* at ¶¶ 20-24.) Gallo also
3 asserts a claim for unfair competition, under California Business and Professions Code Section 17200.
4 (*Id.* at ¶¶ 25-28.)

5 On July 22, 2010, Proximo/Agavera moved to dismiss this action for lack of jurisdiction and for
6 failure to state a claim. (Doc. 26.) After permitting Gallo to conduct limited discovery on the issue of
7 jurisdiction, the Court denied the motion to dismiss. (Docs. 39, 80.) Proximo/Agavera subsequently
8 filed an answer on January 20, 2011, which included counterclaims for, among other things, trademark
9 infringement. (Doc. 85.) Gallo, in turn, moved to dismiss the counterclaims for failure to state a claim
10 on February 10, 2011. (Doc. 87.) The Court denied that motion, and Gallo filed its answer to the
11 counterclaims on March 28, 2011.³ (Docs. 94 & 95.)

12 On July 6, 2011 and July 7, 2011, Gallo conducted depositions pursuant to Federal Rule of Civil
13 Procedure 30(b)(6). (Doc. 108 at 3.) In light of the testimony garnered during the Rule 30(b)(6)
14 depositions, Gallo filed the instant motion to amend its answer on August 8, 2011. (Doc. 103.) Gallo
15 seeks to include “naked” licensing and trademark abandonment as an affirmative defense. (Doc. 103-1.)
16 Proximo/Agavera filed an opposition to the motion on September 1, 2011. (Doc. 114.) Gallo replied
17 a day later, on September 2, 2011. (Doc. 117.) The parties appeared for hearing on this matter on
18 September 12, 2011.

19 **II. LEGAL STANDARD**

20 Pursuant to Federal Rule of Civil Procedure 15, a court “should freely give leave [to amend]
21 when justice so requires.” Fed. R. Civ. P. 15(a)(2). The policy favoring leave to amend pleadings “is
22 to be applied with extreme liberality.” *Eminence Capital, LLC v. Aspeon, Inc.*, 316 F.3d 1048, 1051
23 (9th Cir. 2003) (citations omitted). Indeed, “the underlying purpose of Rule 15 is to facilitate decision
24 on the merits, rather than on the pleadings or technicalities.” *United States v. Webb*, 655 F.2d 977, 979
25 (9th Cir. 1981).

26 Factors to be considered by a court in determining the propriety of a motion to amend include:

27
28 ³ The Court concluded that Gallo had alleged sufficient facts to demonstrate that both Agavera and Proxmio had legal interests that were adverse to Gallo and that they were affiliates of Casa Cuervo and shared common ownership. (Doc. 70 at 8.) The Court *did not* find that they were not separate legal entities.

1 undue delay, bad faith or dilatory motive, prejudice to the opposing party, and futility of amendment.
2 Eminence Capital, 316 F.3d at 1051-52 (citing Foman v. Davis, 371 U.S. 178, 182 (1962)). “[N]ot all
3 of the[se] factors merit equal weight,” however. Eminence Capital, 316 F.3d at 1052. For example,
4 undue delay by itself is insufficient to justify denying a motion to amend. Bowles v. Reade, 198 F.3d
5 752, 757 (9th Cir. 1999). “[P]rejudice to the opposing party,” on the other hand, “carries the greatest
6 weight.” Eminence Capital, 316 F.3d at 1052. “Absent prejudice, or a strong showing of the . . . [other]
7 factors, there exists a *presumption* under Rule 15(a) in favor of granting leave to amend. Id. (citation
8 omitted) (emphasis in the original).⁴

9 **III. ANALYSIS**

10 **A. Futility of the Amendment**

11 The parties expend considerable energy on the issue of whether amendment of the answer to
12 include “naked” licensing and abandonment as an affirmative defense is futile. “Futility of amendment
13 can, by itself, justify the denial of a motion for leave to amend.” Bonin v. Calderon, 59 F.3d 815, 845
14 (9th Cir. 1995). The Court therefore analyzes this factor first.

15 Naked licensing occurs when a trademark owner grants a license to its trademark but “fails to
16 exercise adequate quality control over the licensee.” FreecycleSunnyvale v. Freecycle Network, 626
17 F.3d 509, 515 (9th Cir. 2010) (quoting Barcamerica Int’l USA Trust v. Tyfield Importers, Inc., 289 F.3d
18 589, 596 (9th Cir. 2002)). “As a general matter, trademark owners have a duty to control the quality of
19 their trademarks.” FreecycleSunnyvale, 626 F.3d at 515 (citation omitted). Thus, where a trademark
20 licensor fails to exercise adequate quality control over a licensee, the Ninth Circuit has recognized that
21 “a court may find that the trademark owner has abandoned the trademark, in which case the owner [is]
22 estopped from asserting rights to the trademark.” Id. at 516 (internal quotation marks and citations
23 omitted). See Moore Business Forms, Inc. v. Ryu, 960 F.2d 486, 489 (5th Cir. 1992) (failure to control
24 quality of a trademark by a licensor works a forfeiture of the trademark).

25 Gallo contends that there are sufficient facts to support abandonment due to “naked” licensing
26

27 ⁴ Courts also consider whether the pleading has already been amended. See Ascon Properties, Inc. v. Mobile Oil
28 Co., 866 F.2d 1149, 1160 (9th Cir. 1989). However, because there has been no amendment to the pleading at issue here, this
factor does not apply.

1 in this case. Plaintiffs allege that: [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 [REDACTED] (Doc. 108 at 3-5; 8.)

7 For their part, Proximo/Agavera argue that Gallo cannot meet the stringent burden of proving
8 a “naked” license. See Moore Business Forms, 960 F.2d at 489 (“[T]he proponent of a naked license
9 theory faces a stringent standard of proof.”) (internal quotation marks and citations omitted).
10 Proximo/Agavera maintain that [REDACTED]
11 [REDACTED] (Doc. 115 at 6.) Furthermore,
12 Proximo/Agavera maintain that [REDACTED]
13 [REDACTED]
14 [REDACTED]. (Id. at 7.)

15 In the alternative, Proximo/Agavera contend that a “close working relationship” exists between
16 them such that Agavera could justifiably rely on Proximo to satisfy adequate quality control in the
17 absence of a formal agreement. See e.g., Taco Cabana Int’l, Inc. v. Two Pesos, Inc., 932 F.2d 1113,
18 1121 (5th Cir. 1991) (where a close working relationship exists between the parties, they may justifiably
19 rely on each other to maintain adequate quality). Proximo/Agavera point once again to [REDACTED]
20 [REDACTED]
21 [REDACTED].⁵ (See Doc. 115 at 8-9.)

22 In taking this position, Proximo/Agavera seem to argue also that because Gallo has previously
23 argued that these entities are affiliated via Casa Cuervo, that this interrelationship means that Agavera
24 exercised sufficient control over Proximo such that, as a matter of law, that the naked license defense
25 cannot apply. (Doc. 115 at 9 n.3.) This presumes too much. First, Proximo and Agavera are separate
26 corporate entities, even if both are owned, ultimately, by the same shareholders. Second, even if they

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28 ⁵ [REDACTED]
[REDACTED]

1 are alter egos of Casa Cuervo, the ownership of the mark held by Agavera has not been disputed by
2 Proximo and, instead, for at least one year, [REDACTED]
3 [REDACTED]. This indicates, not common control over the mark but, to the contrary, a clear delineation
4 as to which legal entity, indeed, owns the mark.⁶ Moreover, Proximo/Agavera do not argue here to the
5 contrary, but iterate that Proximo is a “mere” distributor. (Doc. 115 at 9.)

6 Finally, Proximo/Agavera dismiss the relevance of [REDACTED]
7 [REDACTED]
8 [REDACTED]. (Doc. 115 at 9.) As such,
9 Proximo/Agavera maintain that [REDACTED]
10 [REDACTED]. (Id.)

11 The arguments of Proximo/Agavera are well-taken but ultimately miss the mark. As Gallo
12 correctly explains in the reply, the question before the Court regarding the futility of the proposed
13 amendment is not whether the allegations presented ultimately have merit, but whether “no set of facts
14 can be proved under the amendment to the pleadings that would constitute a valid and sufficient . . .
15 defense.” Miller v. Rykoff-Sexton, Inc., 845 F.2d 209, 214 (9th Cir. 1988) (emphasis added). But see
16 Cal. v. Neville Chem. Co., 358 F.3d 661, 673 (9th Cir. 2004) (“Futility includes the inevitability of a
17 claim’s defeat on summary judgment.”). At this juncture, the Court cannot say that Gallo will
18 undoubtedly fail to prove any set of facts showing that Proximo/Agavera abandoned the trademarks and
19 trade dress now in dispute. Instead, Gallo has alleged facts that are sufficient to raise a colorable
20 defense. Specifically, Gallo alleges facts demonstrating that there was [REDACTED]
21 [REDACTED]. The Court
22 is not free, on this motion, to decide otherwise.

23
24 ⁶ In Great Seats, Ltd. v. Great Seats, Inc., 2007 TTAB LEXIS 68, 22-23 (Trademark Trial & App. Bd. June 14,
25 2007), the TTAB held, “Even though Mr. Matta, like the individual principal in Daltronics, may have treated both
26 corporations as his alter egos, the ‘410 corporation’s use of the mark prior to the filing date did not constitute use of the mark
27 by the ‘660 corporation, a separate and distinct legal entity. Moreover, even though Mr. Matta could have merely changed
28 the name of the ‘410 corporation from Premier Entertainment, Inc. to Great Seats, Inc. prior to the application filing date,
leaving only the one corporation in existence to be the owner of the mark and proper applicant, no such name change occurred
until July 7, 1997, well after the application filing date. Instead of merely changing the name of the ‘410 corporation prior
to the application filing date, Mr. Matta formed the new ‘660 corporation, an entity separate and distinct from the earlier ‘410
corporation. There was no transfer of rights in the mark from the ‘410 corporation to the new ‘660 corporation prior to the
application filing date. [Footnote.] It therefore was the ‘410 corporation, not the ‘660 corporation, that was the owner of
the mark as of the filing date.” (Footnote omitted).

1 Accordingly, the Court concludes that the proposed amendment is not plainly futile and leave
2 to amend should not be denied for that reason. See Bd. of Trustees of the Auto. Indus. Welfare Fund
3 v. Groth Oldsmobile/Chevrolet, Inc., No. C 09-0465 PJH, 2010 U.S. Dist. LEXIS 24809, at *7 (N.D.
4 Cal. Mar. 4, 2010) (“This court normally will not rule on the futility of an amendment at the motion to
5 amend stage of the litigation unless the proposed amendment is clearly and unambiguously futile. In
6 general, the futility of an amendment is better tested in a motion to dismiss . . . or a summary judgment
7 motion.”); *Schwarzer, California Practice Guide: Federal Civil Procedure Before Trial* at 8:422 (The
8 Rutter Group, 2002) (ordinarily courts will defer challenges to the merits of a proposed amended pleading
9 until after leave to amend is granted).

10 **B. Other Factors**

11 The Court also finds that the other relevant factors – undue delay, prejudice, and bad faith – are
12 not present here and do not warrant the denial of the instant motion to amend.

13 In Howey v. United States, 481 F.2d 1187, 1191 (9th Cir. 1973), the Ninth Circuit Court of
14 Appeals observed, “The purpose of the litigation process is to vindicate meritorious claims. Refusing,
15 solely because of delay, to permit an amendment to a pleading in order to state a potentially valid claim
16 would hinder this purpose while not promoting any other sound judicial policy.” Thus, by itself, undue
17 delay is insufficient to prevent the Court from granting leave to amend. DCD Programs, Ltd. v.
18 Leighton, 833 F.2d 183, 186 (9th Cir. 1986).

19 When evaluating undue delay, the Court must consider whether “permitting an amendment
20 would . . . produce an undue delay in the litigation.” Jackson v. Bank of Hawaii, 902 F.2d 1385, 1387
21 (9th Cir. 1990). In addition, a Court should examine “whether the moving party knew or should have
22 known the facts and theories raised by the amendment in the original pleading.” Id. at 1388; see also
23 Eminence Capital, 316 F.3d at 1052 (“As this circuit and others have held, it is the consideration of
24 prejudice to the opposing party that carries the greatest weight.”)

25 Here, the parties disagree as to whether Gallo could have raised “naked” licensing and
26 abandonment as an affirmative defense sooner. Proximo/Agavera suggest that Gallo became aware of
27 at least some of the facts that allegedly support this defense as early as October 28, 2010. (See Doc. 115
28 at 2 n.1.) Gallo counters by indicating that the full import of these earlier facts were not known until

1 July 2011, when [REDACTED].

2 Nevertheless, in their written documents Proximo/Agavera provided no analysis regarding how
3 this untimeliness, even if true, resulted in any prejudice. See Bowles, 198 F.3d at 757 (undue prejudice
4 in of itself is insufficient to deny leave to amend); Eminence Capital, 316 F.3d at 1052 (“As this circuit
5 and others have held, it is the consideration of prejudice to the opposing party that carries the greatest
6 weight.”); DCD Programs, Ltd., 833 F.2d at 187 (the burden of showing prejudice rests on the party
7 opposing amendment). However, at the hearing, counsel noted that because fact discovery closed on
8 September 2, 2011, if the amendment was granted, it would be left without the ability to discover, at
9 a minimum, Gallo’s factual basis for this affirmative defense. Notably, Fed. R. Civ. P. 26(b) permits
10 that “parties may obtain discovery regarding any nonprivileged matter that is relevant to any party’s
11 claim or defense.” Because Gallo had not yet plead as an affirmative defense “naked”
12 licensing/trademark abandonment, Proximo/Agavera had no reason to conduct discovery on this topic.

13 Nevertheless, the question remains whether extending time to conduct this discovery would cause
14 an undue delay in the litigation. As noted above, lay discovery ended on September 2, 2011 and expert
15 discovery is scheduled to complete on October 21, 2011. Thus, there is some time available to complete
16 the needed discovery without unduly delaying the litigation.

17 Finally, the Court finds that any delay, to the extent there is one, was not the product of bad faith
18 or gamesmanship.

19 **IV. CONCLUSION**

20 Accordingly, for all the reasons set forth above, it is **HEREBY ORDERED** that:

- 21 1. Gallo’s August 8, 2011 motion to amend their answer (Doc. 103) is **GRANTED**;
- 22 2. Within two days of the date of this order, Gallo shall file and serve the amended answer
23 as proposed in the motion to amend; and

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3. Proximo/Agavera is granted leave to conduct discovery on the newly added affirmative defense. All such discovery SHALL be completed no later than October 21, 2011 but the deadlines related to nondispositive motions SHALL NOT be modified. NO OTHER DEADLINES set forth in the scheduling order, as amended, are modified.

IT IS SO ORDERED.

Dated: September 14, 2011

/s/ Jennifer L. Thurston
UNITED STATES MAGISTRATE JUDGE