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SOUTHERN DISTRICT OF CALIFORNIA

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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

INTERLABSERVICE, OOO, a Russian
limited liability company,

Plaintiff,

v.

ILLUMINA, INC., a Delaware
corporation,

Defendant.

Case No.: 15cv2171-KSC

**ORDER DENYING DEFENDANT'S
MOTION TO AMEND THE CROSS-
COMPLAINT (CONSTRUED AS
MOTION TO AMEND
COUNTERCLAIMS AND FILE
SUPPLEMENTAL
COUNTERCLAIMS) [Doc. No. 45.]**

Before the Court is defendant Illumina Inc.'s Motion to Amend the Cross-Complaint [Doc. No. 45]; plaintiff's Opposition [Doc. No. 49]; defendant's proposed Amended Cross-Complaint [Doc. No. 50]; and defendant's Reply [Doc. No. 51]. In the Motion to Amend, defendant seeks to add new causes of action and factual allegations against plaintiff that it claims to have discovered in an investigation commenced in May 2016 and completed in December 2016. [Doc. No. 45-1, at p. 3.] For the reasons outlined more fully below, the Court construes plaintiff's Motion to Amend the Cross-Complaint as a Motion to Amend Counterclaims and to File Supplemental Counterclaims and finds that the Motion must be DENIED. [Doc. No. 45.]

1 Background

2 First Amended Complaint

3 Plaintiff's First Amended Complaint includes causes of action for breach of
4 contract and common counts. Plaintiff Interlabservice, OOO, is a limited liability
5 company based in Russia, and defendant Illumina is a Delaware corporation with
6 headquarters in San Diego. [Doc. No. 20, at pp. 1-2.]

7 Plaintiff alleges in the First Amended Complaint that it entered into a series of
8 distributor agreements with defendant between 2011 and 2014. Under the terms of these
9 agreements, plaintiff believes defendant was required to provide warranty services to end
10 customers who purchased defendant's products through plaintiff. [Doc. No. 20, at pp. 3-
11 4.] According to plaintiff, defendant was obligated under these agreements to reimburse
12 plaintiff for the expense of providing warranty services and replacement parts to end
13 customers. [Doc. No. 20, at pp. 4-8.]

14 Plaintiff alleges that defendant breached the distributor agreements by refusing to
15 honor its warranty obligations. As a result, plaintiff claims it was forced to provide
16 warranty services, supplies, and parts to customers without any compensation from
17 defendant. [Doc. No. 20, at pp. 5-6.] Plaintiff's claims for damages caused by
18 defendant's alleged failure to meet its contractual obligations exceeds \$500,000. [Doc.
19 No. 20, at p. 7.]

20 Defendant's Cross-Complaint Against Plaintiff

21 Defendant also filed a Cross-Complaint against plaintiff which includes the
22 following causes of action: (1) breach of written contract; (2) breach of covenant of good
23 faith and fair dealing; (3) breach of fiduciary duty; and (4) intentional interference with
24 economic advantage. [Doc. No. 2, at p. 1.] The Cross-Complaint claims damages in
25 excess of \$75,000. [Doc. No. 2, at pp. 7-8.]

26 Defendant's Cross-Complaint generally alleges that it entered into distributor
27 agreements with plaintiff which required plaintiff to "use all commercially diligent efforts
28 to market, distribute and support" defendant's medical devices in Russia and to refrain

1 from undertaking any "unilateral activities" involving defendant's medical devices after
2 the agreement terminated. [Doc. No. 2, at p. 3.] In connection with the distributor
3 agreements, defendant alleges that it also issued a written power of attorney authorizing
4 plaintiff to act as its representative in Russia, so that plaintiff could register defendant's
5 products with the Russian government as required under Russian law. [Doc. No. 2, at
6 p. 3.] Defendant believes plaintiff was aware that defendant could not import, market, or
7 sell its medical devices in Russia without "continued registration." [Doc. No. 2, at p. 3.]

8 The Cross-Complaint further alleges that the most recent distributor agreement
9 expired by its own terms on December 31, 2014. [Doc. No. 2, at p. 3.] Without
10 defendant's knowledge or consent, defendant alleges that plaintiff secretly and
11 maliciously de-registered defendant's medical devices in Russia sometime between
12 December 2014 and May 2015. [Doc. No. 2, at pp. 3-4.] Defendant's belief is that
13 plaintiff de-registered the medical devices in order to disrupt and interfere with
14 defendant's relationship with its new distributor and to retaliate against defendant for
15 allowing the final distributor agreement to terminate without renewal. [Doc. No. 2, at pp.
16 6-7.] As a result of this de-registration of medical devices, defendant claims it
17 experienced an "actual disruption" of its existing and potential business relationships and
18 its ability to market and sell its medical devices in Russia through its new distributor.
19 Defendant further claims that it incurred attorney's fees and other expenses to reinstate
20 registration of its medical devices. [Doc. No. 2, at pp. 4-7.]

21 Procedural History

22 Plaintiff's original Complaint was filed in state court on April 29, 2015 and
23 removed to this Court on September 29, 2015, so the case has been pending for about two
24 years. [Doc. No. 1.] Defendant filed a Cross-Complaint against plaintiff on
25 September 29, 2015. [Doc. No. 2.] Plaintiff then filed the operative First Amended
26 Complaint on November 5, 2015. [Doc. No. 20.]

27 A Scheduling Order was entered on February 12, 2016. [Doc. No. 26.] The
28 Scheduling Order included a deadline of March 4, 2016 for amending or filing additional

1 pleadings¹ and a deadline of June 30, 2016 for completing fact discovery. [Doc. No. 26,
2 at p. 1.] Expert discovery was scheduled to be completed on October 31, 2016. [Doc.
3 No. 26, at p. 3.] The final Pretrial Conference was set for April 21, 2017. [Doc. No. 26,
4 at p. 5.]

5 Next, on March 23, 2016, defendant filed a Motion for Posting of a Bond Pursuant
6 to California Code of Civil Procedure Section 1030. [Doc. No. 30.] In this Motion,
7 defendant argued that plaintiff should be required to post a security bond in the amount of
8 \$77,517.50, because plaintiff resides in Russia, is essentially “immune from any
9 California judgment,” and there is a reasonable possibility defendant will prevail in the
10 action. [Doc. No. 30-1, at pp. 12-13.] In Opposition to the Motion, plaintiff submitted a
11 Declaration by Dmitry Veryutin, a member of plaintiff’s board of directors who is
12 responsible for legal affairs, stating in a conclusory fashion that requiring plaintiff to post
13 a large bond “would be [tantamount] to a terminating sanction.” [Doc. No. 33-1, at p. 4.]
14 According to Mr. Veryutin’s Declaration, plaintiff has “no credit history” in the United
15 States, and, as a result, would have to “deposit the full amount of [the] bond in cash in
16 lieu of surety.” [Doc. No. 33-1, at p. 4.] Mr. Veryutin’s Declaration also states in
17 conclusory fashion that plaintiff was “already taxed by being forced to litigate[] a case on
18 the other side of the world against a much bigger and much better financed party in its
19 own back yard.” [Doc. No. 33-1, at pp. 4-5.]

20 Since defendant was able to make the required showing under California Civil
21 Code Section 1030 and plaintiff’s opposing arguments were unsubstantiated, the Court
22 granted defendant’s Motion for Posting of a Bond. [Doc. No. 40, at pp. 9-13.] However,
23 on reasonableness grounds, the Court significantly lowered the requested amount of the
24 bond or surety from \$77,517.50 to \$58,422.50. [Doc. No. 40, at pp. 13-19.] Plaintiff was
25

26
27 ¹ Paragraph 1 of the Scheduling Order filed on February 12, 2016 states as follows:
28 “Any motion to join other parties, to amend the pleadings, or to file additional pleadings
shall be filed on or before March 4, 2016.” [Doc. No. 26, at p. 1 (emphasis in original).]

1 ordered to post the bond by November 3, 2016. [Doc. No. 40, at p. 19.] However,
2 plaintiff did not post any bond or surety. Nor did plaintiff seek reconsideration or
3 reduction of the amount of the bond based on the submission of additional financial
4 information supporting its contention that it would be unable to litigate the case because
5 of the bond requirement.

6 On June 1, 2016, with 29 days remaining to complete discovery, the parties filed a
7 Joint Motion to Extend the Discovery Cut-Off and Other Related Dates. [Doc. No. 35.]
8 In the Joint Motion, the parties represented they would be unable to complete discovery
9 by the June 30, 2016 deadline because of “logistical challenges.” [Doc. No. 35, at p. 3.]
10 They were in the process of translating and reviewing the 19,491 pages of documents that
11 had been produced in Russian and in English. [Doc. No. 35, at p. 3.] In addition, the
12 parties were trying to informally resolve discovery disputes as to where depositions
13 should take place, which depositions should proceed, and whether plaintiff should
14 produce additional “key documents.” [Doc. No. 35, at p. 3.]

15 The Court granted the parties’ Joint Motion to Extend the Discovery Cut-Off and
16 Other Related Dates and issued an Amended Scheduling Order. [Doc. No. 41.] The time
17 for completing discovery was extended from June 30, 2016 to January 31, 2017. [Doc.
18 No. 41, at p. 1.] Expert discovery was to be completed by May 12, 2017. [Doc. No. 41,
19 at p. 3.] The final Pretrial Conference is currently scheduled for October 6, 2017. [Doc.
20 No. 41, at p. 5.]

21 On June 27, 2016, the parties filed two joint discovery motions. [Doc. Nos. 36 and
22 38.] In the parties’ first Joint Motion re Determination of Discovery Dispute, the parties
23 requested that the Court resolve disputes over the depositions of party witnesses. [Doc.
24 No. 36, at p. 2.] The most significant issue was the location for these depositions.
25 Defendant wanted party witnesses to be deposed in San Diego, because the parties
26 “contractually agreed” to litigate any disputes here. [Doc. No. 36, at p. 3.] For equitable
27 reasons, plaintiff wanted the depositions to be taken by videoconference and/or in a third
28 country, such as France or the United Kingdom. [Doc. No. 36, at pp. 10-11.]

1 Defendant argued that it would be prejudiced if the depositions proceeded via
2 videoconference. According to defendant, credibility is a key issue in the case, and
3 videoconference depositions would make it more difficult to observe the demeanor of the
4 deponents. In addition, defendant argued that videoconference depositions would be
5 “exceedingly difficult” to conduct because of the need to examine the witnesses using
6 “extensive documentation” in multiple languages. [Doc. No. 36, at p. 3.]

7 Plaintiff acknowledged in the Joint Motion that it does not have any offices,
8 employees, or operations in the United States and that a “proper” deposition of its
9 officers could not take place in Russia. [Doc. No. 36, at pp. 11-12.] Because of the
10 hardship and expense involved in having its executives obtain visas and travel to San
11 Diego, plaintiff argued that it was unfair to require that depositions take place here.
12 According to plaintiff, defendant “is a multinational corporation with offices in nine
13 countries,” so a trip to San Diego for a deposition would only be “one of the frequent
14 trips to the headquarters.” [Doc. No. 36, at p. 12.] Plaintiff, on the other hand, only has
15 offices in Russia. [Doc. No. 36, at p. 12.] As a result, it was plaintiff’s view that
16 defendant wanted the depositions to take place in San Diego to “force” a settlement “on
17 unreasonable terms.” [Doc. No. 36, at p. 13.] Without support, plaintiff also claimed that
18 the parties’ contract was one of “adhesion drafted by [defendant].” [Doc. No. 36, at
19 p. 11.] As a result, the contract included a “litigation clause,” so plaintiff had no choice
20 but to bring the case in California rather than in Russia “where most events took place
21 and most evidence is located.” [Doc. No. 36, at pp. 11-12.] Although defendant
22 removed the case to this Court, plaintiff filed the action in state court, because state court
23 rules require depositions to be taken near the deponent’s “place of abode” unless the
24 court orders otherwise. [Doc. No. 36, at p. 11.]

25 To ensure that the Court had authority over the witnesses and to protect the
26 integrity of the deposition process under the circumstances presented, the Court ordered
27 that all depositions of all party witnesses were to occur in person within the Southern
28 District of California. [Doc. No. 42, at p. 2.] Based on information provided by

1 defendant in connection with its later filed Motion for Terminating Sanctions, it appears
2 that the depositions of party witnesses were not completed. [Doc. No. 53-1, at pp. 2-5.]

3 In the parties' second Joint Motion re Determination of Discovery Dispute,
4 plaintiff argued that defendant's responses to certain Requests for Production of
5 Documents were inadequate. Plaintiff therefore sought an order compelling defendant to
6 produce all responsive documents. [Doc. No. 38, at pp. 1-13.] Based on the documents
7 sought in these requests, it was apparent that plaintiff's objective was to undertake a
8 fishing expedition to attempt to uncover documents to support an untimely motion to
9 amend the First Amended Complaint, which would have significantly expanded
10 discovery and the scope of the case. In other words, plaintiff was looking for evidence to
11 support new allegations that defendant unlawfully terminated its distributor agreement
12 with plaintiff on or about December 31, 2014. The anticipated motion to amend would
13 have requested the addition of new parties and causes of action related to defendant's
14 decision to retain a new distributor rather than renew its distributor agreement with
15 plaintiff. Any such motion to amend would have been filed more than a year after the
16 Complaint was filed in state court on April 29, 2015 [Doc. No. 1]; long after the March 4,
17 2016 deadline for amending the pleadings [Doc. No. 26, at 1]; and without good cause for
18 extending the deadline for amending the pleadings. [Doc. No. 38, at pp. 1-13; Doc. No.
19 43, at pp. 4-9.] As a result, the Court concluded that plaintiff was not entitled to an order
20 compelling defendant to produce additional documents, because plaintiff's document
21 requests were overly broad and sought access to documents that were not relevant to the
22 matters at issue in the parties' pleadings. [Doc. No. 43, at pp. 1-11.]

23 Defendant's Motion to Amend the Cross-Complaint is not the only motion
24 currently pending before the Court. Defendant also filed a Motion to Dismiss seeking
25 dismissal of plaintiff's Complaint under Federal Rule of Civil Procedure 41(b), because
26 of plaintiff's failure to comply with the Court's Order to post a bond or surety. [Doc. No.
27 44.] In addition, defendant filed a Motion for Terminating Sanctions requesting that the
28 Court enter a default against plaintiff for its alleged failure to participate in discovery and

1 make witnesses available for deposition. [Doc. No. 53.] Plaintiff has opposed both of
2 these Motions. [Doc. Nos. 46 and 54.]

3 *Discussion*

4 *I. Defendant's Proposed Amendments.*

5 In the Motion to Amend, defendant seeks to add new facts and causes of action
6 that allegedly occurred during two distinct time periods. [Doc. No. 50-1, at pp. 5-6.]
7 Defendant's first proposed amendment relates to actions that plaintiff allegedly took in
8 August 2014, before the parties' final distributor agreement expired in December 2014
9 and before the original Complaint was filed in this action on April 29, 2015. This first
10 proposed amendment alleges that in August 2014, plaintiff unilaterally and secretly filed
11 for registration in Russia of trademarks for two of defendant's devices: the MiSeq and
12 the HiSeq. Defendant alleges that plaintiff was expressly prohibited under the distributor
13 agreement and the power of attorney from taking these actions which harmed defendant.
14 [Doc. No. 50-1, at p. 5.]

15 Defendant's second proposed amendment relates to actions plaintiff allegedly took
16 on or about May 21, 2016, long after the parties' final distributor agreement expired in
17 December 2014 and long after the original Complaint was filed in this action on April 29,
18 2015. This second proposed amendment alleges that on May 21, 2016, plaintiff assigned
19 the MiSeq and HiSeq trademarks to "a dormant third party company, Legal Assistance,
20 LLC, which appears to be affiliated with plaintiff," causing harm to defendant. [Doc. No.
21 50-1, at p. 6.] Defendant also claims that plaintiff was not authorized to assign these
22 trademarks to a third party and was expressly prohibited from doing so under the
23 distributor agreement and the power of attorney. [Doc. No. 50-1, at p. 6.] In addition,
24 defendant's proposed amendments state that plaintiff "may have also unilaterally and
25 secretly" taken similar actions as to defendant's trademarks in Kazakhstan and Belarus,
26 causing defendant further harm. The time period for these allegations is not stated. [Doc.
27 No. 50-1, at p. 6.] Defendant believes plaintiff took all of these "intentional, malicious
28 and oppressive" actions in retaliation for defendant's retention of a new distributor and

1 also to interfere with its business interests and with its relationship with its new
2 distributor. Defendant therefore seeks compensatory and punitive damages against
3 plaintiff. [Doc. No. 50-1, at pp. 8, 12.]

4 **II. Crossclaims vs. Counterclaims.**

5 “A pleading may state as a crossclaim any claim by one party against a coparty if
6 the claim arises out of the transaction or occurrence that is the subject matter of the
7 original action or of a counterclaim or if the claim relates to any property that is the
8 subject matter of the original action. . . .” Fed.R.Civ.P. 13(g). “Such cross-claims are
9 permissive rather than mandatory.” *Peterson v. Watt*, 666 F.2d 361, 363 (9th Cir. 1982).
10 In other words, crossclaims are not waived if a party fails to assert them and they can be
11 pursued in a separate action. *Id.* By contrast, counterclaims are filed against an opposing
12 party, such as when a defendant seeks affirmative relief against a plaintiff. *See, e.g.,*
13 *Polimaster Ltd. v. RAE Sys., Inc.*, 623 F.3d 832, 839 (9th Cir. 2010).

14 Here, defendant’s crossclaims are actually counterclaims, because they seek
15 affirmative relief against plaintiff, an opposing party. The title of a pleading is not
16 determinative. *See, e.g., U.S. for Use & Benefit of Wulff v. CMA, Inc.*, 890 F.2d 1070,
17 1073 (9th Cir. 1989) (stating that “[t]he erroneous characterization of the corrected
18 pleading as an ‘amended complaint’ rather than as a supplemental pleading is
19 immaterial”). Accordingly, from this point forward, the Court construes defendant’s
20 existing crossclaims and proposed amendments against plaintiff as counterclaims.

21 **III. Permissive vs. Compulsory Counterclaims.**

22 Counterclaims can either be permissive or compulsory. “Permissive counterclaims
23 are claims that do ‘not aris[e] out of the transaction or occurrence that is the subject
24 matter of the opposing party’s claim.’ Fed.R.Civ.P. 13(b).” *Sparrow v. Mazda Am.*
25 *Credit*, 385 F. Supp. 2d 1063, 1066 (E.D. Cal. 2005). “Such unrelated counterclaims are
26 referred to as permissive, since a party need not plead them, but instead may bring a
27 separate action on the claim in the forum of his own choosing.” *Harris v. Steinem*, 571
28 F.2d 119, 122 (2d Cir. 1978). “If a party has a counterclaim which is compulsory and

1 fails to plead it, it is lost, and cannot be asserted in a second, separate action after
2 conclusion of the first.” *Hydranautics v. FilmTec Corp.*, 70 F.3d 533 (9th Cir. 1995).

3 Compulsory counterclaims are defined in Federal Rule of Civil Procedure 13(a)(1),
4 which states as follows:

5 A pleading must state as a counterclaim any claim that—at the time of
6 its service—the pleader has against an opposing party if the claim:

7 (A) arises out of the transaction or occurrence that is the subject
8 matter of the opposing party’s claim; and

9 (B) does not require adding another party over whom the court
10 cannot acquire jurisdiction.

11 Fed.R.Civ.P. 13(a)(1)(A)&(B).

12 **IV. Logical Relationship Test for Compulsory Counterclaims.**

13 To determine whether a claim arises out of the “same transaction or occurrence,” a
14 “logical relationship” test is applied. *Mattel, Inc v. MGA Entertainment, Inc.*, 705 F.3d
15 1108, 1110 (9th Cir. 2013). “A logical relationship exists when the counterclaim arises
16 from the same aggregate set of operative facts as the initial claim, in that the same
17 operative facts serve as the basis of both claims or the aggregate core of facts upon which
18 the claim rests activates additional legal rights otherwise dormant in the defendant.” *Id.*
19 In other words, “a logical relationship between claims exists where separate trials on each
20 of the claims would ‘involve a substantial duplication of effort and time by the parties
21 and the courts. Such a duplication is likely to occur when claims involve the same
22 factual issues, the same factual and legal issues, or are offshoots of the same basic
23 controversy between the parties.” *Transamerica Occidental Life Ins. Co. v. Aviation*
24 *Office of Am., Inc.*, 292 F.3d 384, 389–390 (3^d Cir. 2002) (internal citations and
25 quotations omitted).

26 “The requirement that counterclaims arising out of the same transaction or
27 occurrence as the opposing party’s claim ‘shall’ be stated in the pleadings was designed
28 to prevent multiplicity of actions and to achieve resolution in a single lawsuit of all

1 disputes arising out of common matters.” *Southern Construction Co., Inc. v. Pickard*,
2 371 U.S. 57, 60 (1962). In *Baker v. Southern Pacific Transportation*, 542 F.2d 1123 (9th
3 Cir. 1976), for example, the plaintiff was the driver of a truck involved in a collision with
4 the defendant’s train. The plaintiff sued the defendant railroad company to recover for
5 his injuries. The defendant railroad company then filed a counterclaim against the
6 plaintiff and added the trucking company that owned the truck as a party to the
7 counterclaim. *Id.* at 1126. A jury attributed 75 percent of the fault for the accident to the
8 railroad. *Id.* The trucking company then filed a separate action against the railroad to
9 recover for the damage to its truck. *Id.* The Ninth Circuit said this was “exactly the type
10 of situation that Rule 13(a) was designed to prevent.” *Id.* The trucking company’s claim
11 against the railroad company was a “compulsory counterclaim” and should have been
12 asserted in the prior action. Having failed to assert it there, the trucking company waived
13 the claim and could not maintain a separate action to recover any damages. *Id.*

14 By contrast, the Ninth Circuit in *Mattel, Inc. v. MGA Entertainment, Inc.*, 705 F.3d
15 1108 (9th Cir. 2013), concluded there was no compulsory counterclaim even though
16 opposing parties in the same case each claimed the other stole its trade secrets. The
17 plaintiff claimed that several of its employees defected and disclosed trade secrets to the
18 defendant. The defendant claimed the plaintiff stole its trade secrets “by engaging in
19 chicanery (such as masquerading as buyers)” at trade fairs. *Id.* at 1110. Although the
20 legal theories were the same, the factual allegations arose out of “an entirely different or
21 independent transaction or occurrence under Rule 13(a).” *Id.* quoting 6 Charles A.
22 Wright & Arthur R. Miller, *Federal Practice & Procedure* § 1410, at 52 (3d ed. 2010).

23 Here, defendant’s counterclaims are not compulsory, because they do not arise
24 “out of the transaction or occurrence” that is the subject of plaintiff’s First Amended
25 Complaint. Fed.R.Civ.P. 13(a)(1)(A). Other than the existence of a contractual
26 relationship between the parties, there is no overlap between the factual allegations or
27 theories of liability alleged in the First Amended Complaint and those alleged in
28 defendant’s counterclaims. Separate trials on the parties’ respective pleadings would not

1 involve significant duplication. The causes of action in the First Amended Complaint are
2 for breach of contract and common counts. [Doc. No. 20, at p. 1.] Plaintiff's factual
3 allegations against defendant arose while the parties were actively engaged in a
4 contractual business relationship between 2011 and 2014. Plaintiff was defendant's
5 distributor during this time period, and the allegations in the First Amended Complaint
6 seek a determination as to whether defendant failed to pay amounts allegedly due under
7 the parties' distributor agreements based on events that took place while these agreements
8 were in effect. [Doc. No. 20, at pp. 3-7.]

9 Although one of defendant's counterclaims is for breach of contract, the
10 corresponding factual allegations and proposed amendments are unrelated to plaintiff's
11 breach of contract cause of action in the First Amended Complaint. In contrast to
12 plaintiff's breach of contract allegations in the First Amended Complaint, defendant's
13 counterclaim for breach of contract involves different terms of the parties' distributor
14 agreement, as well as a separate power of attorney, and, for the most part, allegedly
15 occurred during a different time period. [Doc. No. 2, at pp. 4-5.] Defendant's existing
16 counterclaim for breach of contract alleges that plaintiff breached the distributor
17 agreement and the power of attorney by secretly and unilaterally de-registering
18 defendant's devices in Russia sometime between December 2014 (*i.e.*, around the time
19 the final distributor agreement expired by its own terms on December 31, 2014) and May
20 2015. [Doc. No. 2, at pp. 3-4.] One of defendant's proposed amendments alleges that in
21 August 2014 plaintiff secretly and without authority filed for registration in Russia of
22 trademarks for two of defendant's devices. Defendant's remaining proposed amendment
23 relates to conduct that allegedly occurred on or about May 21, 2016, long after the
24 parties' business relationship had terminated, and alleges that plaintiff assigned two of
25 defendant's trademarks to a third party. [Doc. No. 20, at pp. 3-4; Doc. No. 50-1, at p. 6.]

26 Defendant's existing counterclaims also allege three other theories of liability for
27 breach of the covenant of good faith and fair dealing, breach of fiduciary duty, and
28 intentional interference with economic advantage. All of these theories of liability are

1 based on the same factual allegations as defendant's counterclaims for breach of contract,
2 so they are all unrelated to the allegations in the First Amended Complaint. [Doc. No. 2,
3 at pp. 5-7.] Accordingly, the Court finds that all of defendant's counterclaims are
4 permissive rather than compulsory, because they do not arise out of the transactions or
5 occurrences alleged in plaintiff's First Amended Complaint. In other words, it appears
6 possible that defendant's counterclaims could be resolved in a separate action in a
7 different and more convenient location.²

8 **V. Leave to Amend.**

9 Federal Rule of Civil Procedure 15(a) allows a party to add claims or to allege
10 facts that arose *before* the original pleading was filed. *Fresno Unified Sch. Dist. v. K.U.*
11 *ex rel. A.D.U.*, 980 F. Supp. 2d 1160, 1174 (E.D. Cal. 2013). Federal Rule of Civil
12 Procedure 13(e) states that: "The court *may* permit a party to file a supplemental
13 pleading *asserting a counterclaim that matured or was acquired by the party after*
14 *servicing an earlier pleading.*" Fed.R.Civ.P. 13(e) (emphasis added). In addition, Federal
15 Rule of Civil Procedure 15(d) "provides a mechanism for parties to file additional causes
16 of action based on facts that [did not] exist when the original [pleading] was filed." *Eid*
17 *v. Alaska Airlines, Inc.*, 621 F.3d 858, 874 (9th Cir. 2010). In this regard, Rule 15(d)
18 states as follows: "On motion and reasonable notice, the court may, on just terms, permit
19 a party *to serve a supplemental pleading setting out any transaction, occurrence, or*
20 *event that happened after the date of the pleading to be supplemented.*" Fed.R.Civ.P.
21 15(d) (emphasis added). *See, e.g., United States ex rel Westrick v. Second Chance Body*
22 *Armor, Inc.*, 893 F.Supp.2d 258, 266 (D. D.C. 2012).

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26 ² Plaintiff's Opposition argues that Russian law would apply to defendant's
27 proposed counterclaims, and represents that witnesses with relevant information are
28 located in Russia. [Doc. No. 49, at p. 2.] The Court expresses no opinion on the
applicable law or on issues of jurisdiction or venue. However, plaintiff's arguments do
suggest that defendant's counterclaims could not be effectively resolved here.

1 Based on the foregoing, defendant's proposed allegations about conduct that
2 occurred in August 2014, before defendant's original counterclaims were filed on
3 September 29, 2015, would be considered proposed amendments to defendant's original
4 counterclaims. The remaining trademark allegations related to conduct that occurred on
5 or about May 21, 2016 would need to be asserted in a new, separate pleading as
6 supplemental counterclaims. Accordingly, the Court construes plaintiff's Motion as a
7 Motion to Amend Counterclaims and Motion to File Supplemental Counterclaims.

8 Federal Rule of Civil Rule 15(a)(2) states that: "The court should freely give leave
9 [to amend] when justice so requires." Fed.R.Civ.P. 15(a)(2). Generally, the standards for
10 considering whether to grant or deny a motion for leave to file a supplemental pleading
11 are the same as those for granting a motion to file an amended complaint. *Glatt v.*
12 *Chicago Park Dist.*, 87 F.3d 190, 194 (7th Cir. 1996); *Fresno Unified Sch. Dist. v. K.U. ex*
13 *rel. A.D.U.*, 980 F. Supp. 2d 1160, 1175 (E.D. Cal. 2013). Supplemental pleadings are
14 generally favored because they "promote the economical and speedy disposition of the
15 controversy." *Keith v. Volpe*, 858 F.2d 467, 473 (9th Cir. 1988). While "some
16 relationship must exist between the newly alleged matters and the subject of the original
17 action, they need not all arise out of the same transaction." *Id.* at 474.

18 "Although leave to amend 'shall be freely given when justice so requires,'
19 Fed.R.Civ.P. 15(a), it 'is not to be granted automatically.'" *Zivkovic v. S. California*
20 *Edison Co.*, 302 F.3d 1080, 1087 (9th Cir. 2002), quoting *Jackson v. Bank of Hawaii*, 902
21 F.2d 1385, 1387 (9th Cir.1990). Once a scheduling order is entered and the deadline for
22 amending the pleadings has already expired, amendment is not permitted unless the
23 scheduling order is modified to re-open the deadline. Fed.R.Civ.P. 16(b)(4). To obtain
24 such a modification, "good cause" must be shown. Fed.R.Civ.P. 16(b)(4); *Johnson v.*
25 *Mammoth Recreations, Inc.*, 975 F.2d 604, 609 (9th Cir. 1992). The "good cause"
26 standard "primarily considers the diligence of the party seeking the amendment." *Id.*
27 "[C]arelessness is not compatible with a finding of diligence and offers no reason for a
28 grant of relief." *Id.*

1 In *Foman v. Davis*, 371 U.S. 178, 182 (1962), the Supreme Court set forth a
2 number of factors to consider in determining whether leave to amend should be granted.
3 *Id.* at 182. These factors include “undue delay, bad faith or dilatory motive on the part of
4 the movant, repeated failure to cure deficiencies by amendments previously allowed,
5 undue prejudice to the opposing party by virtue of allowance of the amendment, [and]
6 futility of amendment.” *Id.*

7 “Prejudice to the opposing party is the most important factor.” *Jackson v. Bank of*
8 *Hawaii*, 902 F.2d at 1387. The Ninth Circuit has repeatedly indicated that prejudice may
9 effectively be shown when a motion to amend is filed after the cutoff date for such
10 motions, when discovery has closed or is about to close, and/or additional discovery
11 would be required. *See, e.g., Zivkovic v. S. California Edison Co.*, 302 F.3d at 1087
12 (finding prejudice when motion to amend was filed several days before the deadline for
13 completing discovery and three months before trial seeking to add causes of action that
14 would have required additional discovery without a showing of good cause to extend the
15 deadlines in the scheduling order); *Coleman v. Quaker Oats Co.*, 232 F.3d 1271, 1295
16 (9th Cir. 2000) (finding prejudice when plaintiffs filed a motion to amend after the
17 deadline in the scheduling order without a showing of good cause and it was likely the
18 proposed amendment would have “required reopening discovery so that [defendant]
19 could develop its evidence to prepare its defenses to [the additional] theory [of
20 liability]”); *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 986 (9th
21 Cir. 1999) (concluding there was prejudice when the plaintiff filed a motion to amend
22 several months after the deadline in the scheduling order without giving a reason for the
23 delay and where it was apparent that the amendments would require re-opening
24 discovery); *Texaco, Inc. v. Ponsoldt*, 939 F.2d 794 (9th Cir. 1991) (affirming denial of
25 motion for leave to amend filed after discovery was complete and the case was only four
26 and a half months away from trial because the defendant would be “unreasonably
27 prejudiced by the addition of numerous new claims so close to trial”); *Jackson v. Bank of*
28 *Hawaii*, 902 F.2d at 1387-1389 (holding that the plaintiff’s motion to amend was

1 properly denied because “additional discovery would have to be undertaken” on new
2 claims that advanced “different legal theories and require[d] proof of different facts”);
3 *Johnson v. Mammoth*, 975 F.2d at 607-610 (affirming denial of motion to amend filed
4 after the deadline without a showing of good cause to modify the deadline in the pre-trial
5 scheduling order).

6 In its Opposition to defendant’s Motion to Amend, plaintiff argues that it is “[t]oo
7 late” to amend the pleadings, because defendant’s Motion was filed “[a]lmost two years”
8 after the action was commenced on April 29, 2015. [Doc. No. 49, at p. 2.] In addition,
9 plaintiff complains that it is “[t]oo late,” because defendant’s Motion was filed after the
10 January 31, 2017 deadline for completing discovery, and this deadline had already been
11 extended from June 30, 2016 until January 31, 2017. [Doc. No. 49, at p. 2.] In its Reply,
12 defendant argues that it did not seek amendment “too late,” because it did not learn of the
13 conduct alleged in its proposed amendments until “late May 2016” and did not complete
14 an investigation until December 2016. [Doc. No. 51, at pp. 2-3.]

15 As noted above, the deadline for amending the pleadings expired in this case on
16 March 4, 2016. [Doc. No. 26, at p. 1.] Defendant’s Motion to Amend was not filed until
17 February 1, 2017, almost a year after this deadline expired. [Doc. No. 45.] Defendant
18 has not requested an extension of the deadline and does not argue there is good cause for
19 such an extension. [Doc. No. 45, at pp. 1-7; Doc. No. 51, at pp. 1-6.] Nor is diligence on
20 the part of defendant apparent from the papers submitted in support of the Motion to
21 Amend.

22 First, defendant’s initial counterclaims, which were presented in a document
23 entitled Cross-Complaint on September 28, 2015, alleged that sometime between
24 December 2014 and May 2015, plaintiff de-registered defendant’s devices in Russia.
25 [Doc. No. 1-3, at pp. 4-5.] In part, defendant’s proposed amendments include allegations
26 that in August 2014, plaintiff also filed for registration of two of defendant’s trademarks
27 in Russia without defendant’s knowledge or authorization. [Doc. No. 50-1, at p. 5.]
28 There is nothing to indicate why plaintiff did not uncover conduct that allegedly occurred

1 in August 2014 until about two years later between May 2016 and December 2016. As a
2 result, the Court is unable to conclude that defendant was diligent in seeking amendment
3 as to the August 2014 allegations or that there is good cause to extend the March 4, 2016
4 deadline for seeking amendment of the pleadings.

5 Second, the remainder of defendant's proposed amendments allege that on or about
6 May 21, 2016, plaintiff assigned two of defendant's devices to a third party even though
7 it had no authority to do so. [Doc. No. 50-1, at p. 6.] Although defendant asserts in the
8 Motion to Amend that it did not discover these "improper" assignments until "late May
9 2016" and did not complete its investigation into this matter until December 2016, there
10 is nothing to indicate why the investigation took so long or why it took until February 1,
11 2017 to file the Motion to Amend. [Doc. No. 45-1, at p. 3.] As a result, the Court is
12 unable to conclude that defendant was diligent in seeking to supplement its pleadings
13 with these allegations or that there is good cause to extend the March 4, 2016 deadline for
14 seeking to amend or supplement the pleadings.

15 Even if plaintiff could show good cause for extending the March 4, 2016 deadline
16 for seeking to amend or supplement the pleadings, the circumstances indicate that
17 defendant's proposed amendments would be prejudicial to plaintiff. The deadline for
18 completing discovery expired on January 31, 2017 [Doc. No. 41, at p. 1], the day before
19 defendant's Motion to Amend was filed on February 1, 2017 [Doc. No. 45]. As noted
20 above, this deadline had already been extended from June 30, 2016 until January 31,
21 2017. [Doc. No. 26, at p. 1; Doc. No. 41, at p. 1.]

22 Plaintiff denies any involvement with the alleged assignment of defendant's
23 trademarks to a third party. [Doc. No. 49, at p. 2.] It is therefore apparent that it would
24 be necessary for plaintiff to undertake additional discovery to prepare a defense to
25 defendant's new allegations. Accordingly, it would be necessary for the Court to re-open
26 discovery for an undetermined amount of time for this discovery to be completed. In
27 addition, plaintiff's Opposition to defendant's Motion to Amend indicates that it would
28 be necessary to obtain access to witnesses and other evidence located in Russia. [Doc.

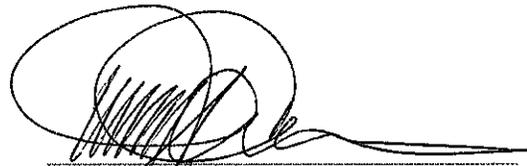
1 No. 49, at p. 2.] Plaintiff also questions this Court's jurisdiction to preside over any such
2 discovery or defendant's new trademark allegations. [Doc. No. 49, at p. 2.] As
3 mentioned above, discovery in the case has already been adversely affected because key
4 witnesses are located in Russia, and defendant previously advised the Court that "Russian
5 law prohibits the taking of depositions in Russia for American lawsuits – even if the
6 depositions are taken by videoconference." [Doc. No. 36, at p. 5.] In any event,
7 prejudice to plaintiff is obvious. The discovery necessary for plaintiff to prepare a
8 defense to these new allegations has the potential to further delay this proceeding for an
9 extended period of time, and the case has already been pending for more than two years
10 since April 29, 2015. For these reasons, the Court finds that defendant's Motion to
11 Amend must be DENIED.

12 Conclusion

13 Based on the foregoing, IT IS HEREBY ORDERED that defendant's Motion to
14 Amend is DENIED. [Doc. No. 45.] Defendant's Motion to Amend was filed after the
15 March 4, 2016 deadline for amending or filing new pleadings, and defendant has not
16 established good cause for re-opening and extending this deadline. In addition, it is
17 apparent from the record that plaintiff would be prejudiced by the proposed amendments,
18 in that it would be necessary to re-open and once again extend the time for completing
19 discovery and to delay the resolution of the case for an indefinite period of time.

20 IT IS SO ORDERED.

21 Dated: September 19, 2017



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23 Hon. Karen S. Crawford
24 United States Magistrate Judge
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