UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF CALIFORNIA

J. Gary Shansby v. Edrington USA, Inc., et al.

Shansby · No. 22-cv-06907-JSC · Decided March 9, 2023

SUMMARY

The United States District Court for the Northern District of California grants Edrington USA’s motion to compel arbitration in a dispute arising from a tequila distribution venture. The court holds that the parties’ Membership Interest Purchase Agreement contains a broad arbitration clause and clearly and unmistakably delegates arbitrability questions to the arbitrator through incorporation of the JAMS rules. The claims against Edrington USA are stayed pending arbitration, while the plaintiff receives additional time to serve the remaining defendants.

CASE DETAILS

COURT	United States District Court for the Northern District of California
WRITING FOR THE COURT	Jacqueline Scott Corley
JURISDICTION	United States District Court for the Northern District of California
DECIDED	March 9, 2023
DOCKET	22-cv-06907-JSC
DISPOSITION	other
PROCEDURAL POSTURE	Defendant Edrington USA moved to compel arbitration under an arbitration provision and delegation clause in a Membership Interest Purchase Agreement. The district court granted the motion and stayed the claims against Edrington USA pending arbitration.
STANDARD OF REVIEW	The court applied the Federal Arbitration Act's two gateway inquiries: whether a valid arbitration agreement exists and whether it encompasses the dispute. Because the agreement delegated arbitrability by clear and unmistakable evidence, the court assessed only whether there was a good-faith argument that the claims fell within the arbitration clause.
PRECEDENTIAL VALUE	nonprecedential district court order
PARTIES	Edrington USA, Inc. v. J. Gary Shansby, trustee of the Shansby Community Property Trust

TOPICS

arbitration civil procedure contracts commercial litigation

PRACTICE AREAS

arbitration civil procedure contracts commercial litigation

QUESTIONS PRESENTED

1. Whether a valid arbitration agreement existed between Shansby and Edrington USA.
2. Whether incorporation of the JAMS arbitration rules clearly and unmistakably delegated threshold arbitrability questions to the arbitrator.
3. Whether there was a good-faith argument that Shansby's claims related to or were connected with the Purchase Agreement's broad arbitration clause.

HOLDINGS

1. A valid arbitration agreement existed because Shansby signed the Purchase Agreement containing the arbitration provision.
2. The Purchase Agreement clearly and unmistakably delegated threshold arbitrability questions to the arbitrator because it incorporated the JAMS arbitration rules.
3. The claims against Edrington USA were subject to arbitration because there was a good-faith argument that each claim related to or was connected with the Purchase Agreement's broad arbitration clause.

KEY QUOTATIONS

> *"As there is a good faith argument Shansby's claims relate to or are connected with the agreement, the Court must compel arbitration pursuant to the delegation clause."* (at 1)

> *"It applies to any claim that is related to or connected with the Purchase Agreement, not just claims that are based upon or allege a breach of the Purchase Agreement."* (at 5)

> *"As the Purchase Agreement delegates arbitrability to the arbitrator, and as there is a good faith argument Shansby's claims are covered by the arbitration provision, the claims against Edrington USA are compelled to arbitration pursuant to the Purchase Agreement arbitration provision's delegation clause."* (at 6)

FACTUAL BACKGROUND

Shansby founded the Tequila Partida brand, and his wholly owned company entered into several distribution and collaboration agreements with Edrington entities. After alleging that Edrington mismanaged the brand and impaired his ownership interest, Shansby sold his interest to a third party under a December 31, 2021 Membership Interest Purchase Agreement. Shansby's complaint asserted claims based principally on the distribution agreements but sought damages and restitution connected to amounts paid or payable under the Purchase Agreement, which contained a broad arbitration provision and delegation clause.

PROCEDURAL HISTORY

Shansby filed state-law contract and related claims in state court. Edrington removed the action to federal court based on diversity jurisdiction and moved to compel arbitration. After oral argument on March 9, 2023, the court granted the motion as to Edrington USA, stayed those claims, and granted Shansby an additional six months to serve the remaining defendants.

DISPOSITION

other

CASES CITED

- Lim v. TForce Logistics, LLC, 8 F.4th 992, 999-1000 (9th Cir. 2021)
- Henry Schein, Inc. v. Archer & White Sales, Inc., 139 S. Ct. 524, 530 (2019)
- Brennan v. Opus Bank, 796 F.3d 1125, 1130-1131 (9th Cir. 2015)
- Lorenzo Ford v. Hyundai Motor Am., No. 8:20-cv-00890-FLA (ADSx), 2021 U.S. Dist. LEXIS 249881, at *21-22, 26-27 (C.D. Cal. Oct. 5, 2021)
- Teleport Mobility, Inc. v. Sywula, No. 21-cv-00874-SI, 2021 U.S. Dist. LEXIS 105678, at *10 (N.D. Cal. June 4, 2021)
- MacClelland v. Cellco P’ship, No. 21-CV-08592-EMC, 2022 WL 2390997, at *3 (N.D. Cal. July 1, 2022)
- Genoptix, Inc. v. Dabbas, No. 3:17-CV-1468-CAB-AGS, 2017 WL 4541755, at *1 (S.D. Cal. Oct. 11, 2017)