Case 8:16-cv-02277-CJC-DFM Document 146-1 Filed 11/08/18 Page 2 of 15 Page ID

1 TABLE OF CONTENTS **PAGE** 2 3 I. INTRODUCTION 1 4 II. The Parties' Present Allegations 2 5 Relevant Discovery Between the Parties B. 3 6 ChromaDex's Proposed Allegations C. 4 7 Proposed Claims Against Mr. Morris 1. 4 8 Proposed New Claims Against Elysium 5 2. 9 Ш. LEGAL STANDARD5 10 IV. ARGUMENT......6 11 Mr. Morris and Elysium Are Not Prejudiced By This Amendment A. 6 12 The Other Foman Factors Weigh Toward Granting Leave to В. 13 Amend 8 ChromaDex Did Not Unduly Delay 1. 8 14 2. ChromaDex Does Not Seek Leave For Improper Reasons 9 15 3. The Proposed Amendment Would Not Be Futile 9 16 The PFAC Is Not An Attempt To Cure A Prior Pleading 4. 17 Deficiency 10 18 C. The Parties Request the Court Extend Discovery by Three Months 11 19 V. 20 21 22 23 24 25 26 27 28

1	TABLE OF AUTHORITIES
2	
3	Page(s)
4	Cases
5	Banc of California, Inc. v. Famers and Merchants Bank of Long Beach, 2017 WL 2972338 (C.D. Cal. Apr. 19, 2017) (Carney, J.)
6 7	Copart, Inc. v. Sparta Consulting, Inc., 2016 WL 3126108 (E.D. Cal. June 2, 2016)
8 9	DCD Programs, Ltd. v. Leighton, 833 F.2d 183 (9th Cir. 1987)
10	Dexcowin Glob., Inc. v. Aribex, Inc., 2017 WL 3485790 (C.D. Cal. Mar. 23, 2017)
11	
12	Eminence Capital, LLC v. Aspeon Inc., 316 F.3d 1048 (9th Cir. 2003)
13	
14	Excela Creative, LLC v. Deal Segments, LLC, 2014 WL 12589653 (C.D. Cal. Dec. 5, 2014) . Pursuant to the Second Amended Scheduling Order
15	
16	Foman v. Davis, 371 U.S. 178 (1962)
17	
18	Leonard Roofing, Inc. v. Aspen Specialty Ins. Co., 2013 WL 12144112 (C.D. Cal. Jan. 9, 2013)
19	
20	Navarro v. Eskanos & Adler, 2006 WL 3533039 (N.D. Cal. Dec. 7, 2006)
21	
22	
23	
24	
25	Statutes
26	
27	California Uniform Trade Secrets Act
28	Defend Trade Secrets Act
LLP .	' ii.

Case 8:16-cv-02277-CJC-DFM Document 146-1 Filed 11/08/18 Page 4 of 15 Page ID #:3742 **Other Authorities** Local Rule 37......5

I. INTRODUCTION

Plaintiff ChromaDex, Inc. ("ChromaDex") seeks leave to file an amended complaint based on newly discovered and de-designated information produced by Defendant Elysium Health, Inc. ("Elysium"). An amended pleading is warranted because the information on which the new claims in the proposed Fifth Amended Complaint ("PFAC") are premised only became available to ChromaDex after it filed its current Fourth Amended Complaint.¹ Further, Elysium does not oppose ChromaDex's filing of the PFAC.

The PFAC includes new claims against Elysium and claims against a new defendant: Mark Morris, an individual. Adding Mr. Morris as a defendant to the case at this stage is proper and will not cause prejudice to either him or Elysium (collectively, the "Defendants"). First, Mr. Morris has retained the same counsel as Elysium, and will benefit from his lawyers' knowledge of the case. He will also benefit from the current state of discovery between the parties, which already includes discovery requests directed at his involvement and documents in his possession. Further, because neither ChromaDex nor Elysium has yet taken a deposition or exchanged an expert report, Mr. Morris will be permitted to take part in that next stage of discovery. Finally, ChromaDex and Elysium jointly seek an extension of the case deadlines, including discovery, to eliminate any potential lingering prejudice to either defendant. (*See* Joint Stipulation to Request the Court Amend the Scheduling Order ("Joint Extension Request"), filed concurrently with this submission.)

Second, Mr. Morris will not be prejudiced by the PFAC because he is a current employee of Elysium and former employee of ChromaDex, and his actions vis-à-vis both parties with respect to this case have been relevant since ChromaDex first filed this action in December 2016. Mr. Morris has thus been constructively and actually

¹ The PFAC is attached as Exhibit 1 to the Declaration of Barrett J. Anderson ISO ChromaDex's Motion ("Anderson Decl."). A redline between the Fourth Amended Complaint and the PFAC is attached as Exhibit 2 to the Anderson Declaration.

aware of this case and his connection to it. However, ChromaDex was unaware of the full extent of his involvement until ChromaDex was permitted to view and consider documents recently produced and de-designated by Elysium, and thus was unable to bring the claims against Mr. Morris in the PFAC until now.

For those reasons, ChromaDex's Unopposed Motion for Leave to Amend to File Fifth Amended Complaint (the "Motion") satisfies both Federal Rule of Civil Procedure 15 and the test for an amended pleading set out in *Foman v. Davis*, 371 U.S. 178 (1962). "Because leave to amend should be granted with extreme liberality," [Dkt. 98 at 5], and because Elysium does not oppose amendment here, ChromaDex respectfully requests the Court grant the Motion and allow ChromaDex to file the PFAC.

II. RELEVANT HISTORY

A. The Parties' Present Allegations

ChromaDex filed this action on December 29, 2016 (the "Action"), asserting breach of contract for certain shipments of ingredients that Elysium had ordered and received, but for which it has never paid. [Dkt. 1.] Elysium answered on January 25, 2017, and alleged counterclaims for (among other things) breach of contract and patent misuse. [Dkt. 11.] By April 2018, after lengthy motion practice, the Action had resolved into the claims and defenses asserted in four pleadings: ChromaDex's Third Amended Counterclaims, [Dkt. 48], Elysium's Answer, [Dkt. 51], Elysium's Third Amended Counterclaims, [Dkt. 103], and ChromaDex's Answer [Dkt. 104].

Elysium thereafter produced a large batch of documents on April 2, 2018. In that production, ChromaDex discovered information providing grounds to bring new allegations. (Anderson Decl. ¶ 3.) On May 17, 2018, ChromaDex wrote to Elysium, requesting consent to file a Fourth Amended Complaint with claims for (1) misappropriation of trade secrets, (2) conversion of seven different ChromaDex documents, and (3) additional breach of contract claims. (*Id.* ¶ 4.) After protracted negotiations, ChromaDex agreed to a three-month extension of the case schedule and Elysium consented to the filing of the Fourth Amended Complaint. (*Id.*) Elysium

provided its supporting declaration on June 22, 2018, (*id.* ¶ 5), which allowed ChromaDex to file a redacted version of the Fourth Amended Complaint the same day, [*see* Dkt. 107, *et seq.*]. The Court then ordered ChromaDex to file an unredacted version of the Fourth Amended Complaint, which ChromaDex did on June 29, 2018. [Dkt. 108, 109.] On July 24, 2018, the Court issued the Second Amended Scheduling Order. [Dkt. 114.]

On July 9, 2018, Elysium moved to dismiss certain claims in the Fourth Amended Complaint, [Dkt. 111], and ChromaDex opposed, [Dkt. 112]. The Court sustained ChromaDex's new claims for misappropriation of trade secrets and breach of contract, but dismissed ChromaDex's conversion claim. [See generally Dkt. 115.] Elysium subsequently answered ChromaDex's remaining claims from the Fourth Amended Complaint and alleged a new counterclaim for breach of contract. [Dkt. 118.]

B. Relevant Discovery Between the Parties

Following Elysium's production on April 2, 2018, Elysium did not produce another batch of documents until May 25, 2018, almost two weeks after ChromaDex had requested Elysium's consent to file the Fourth Amended Complaint. (Anderson Decl. ¶ 6.) These are the Elysium documents from which many of the new allegations and claims in ChromaDex's PFAC arise.

However, ChromaDex could not immediately view and consider the documents Elysium produced on May 25. Elysium designated a large portion of that material as "Highly Confidential – Attorney's Eyes Only" ("AEO") under the parties' stipulated protective order (the "Protective Order"). [Dkt. 55.] As such, ChromaDex's counsel was unable to show those documents, or even discuss the contents and import of those documents, with their client. (Anderson Decl. ¶ 6.) On June 29, 2018, ChromaDex requested that Elysium de-designate the material pursuant to paragraph 18 of the Protective Order. (*Id.* ¶ 7.) On July 9, 2018, Elysium responded and rejected ChromaDex's request, thereby maintaining the "AEO" designation on those documents. (*Id.*) Pursuant to Local Rule 37, ChromaDex notified Elysium on July 20, 2018 that

ChromaDex intended to move to compel de-designation of certain of those documents. ($Id. \P 8.$) On August 1, 2018, after extended negotiations between the parties, Elysium agreed to consider de-designation of certain of the relevant documents on which the allegations and claims in the PFAC are premised. (Id.)

Elysium re-produced some of the requested documents on August 10, 2018, this time with a "Confidential" designation under the Protective Order, thereby permitting ChromaDex's lawyers to consult with and advise their client about the contents of those re-designated documents. (*Id.* ¶ 9.) On August 24, 2018, ChromaDex informed Elysium that there were more documents for it to de-designate and, on August 28, ChromaDex provided a list of those additional documents. (*Id.* ¶ 10.) On September 7, 2018, Elysium re-produced more of the material at issue under a "Confidential" designation. (*Id.*) As before, now ChromaDex was allowed to review and consider the contents of those re-designated documents. (*Id.*)

On October 19, 2018—only six weeks after receiving Elysium's permission to review the Elysium material and consider its import—ChromaDex served Elysium with the PFAC. (*Id.* ¶ 11.) ChromaDex also provided a redline comparison between the Fourth Amended Complaint and the PFAC. (*Id.*) The parties met and conferred by phone on October 30 and 31, 2018. (*Id.* ¶ 12.) Among other things, Elysium agreed not to oppose ChromaDex's filing of the PFAC, and the parties jointly agreed to seek an extension of the case schedule to accommodate the new claims and the addition of a new defendant, Mr. Morris. (*Id.*) During a meet-and-confer call on November 7, 2018, counsel for Elysium confirmed that the same law firm would represent Mr. Morris in response to the allegations in the PFAC. (*Id.* ¶ 13.)

C. ChromaDex's Proposed Allegations

Based on the new information now available to ChromaDex, ChromaDex seeks to add claims against Elysium and the new individual defendant, Mr. Morris.

1. <u>Proposed Claims Against Mr. Morris</u>

ChromaDex seeks to add five causes of action against Mr. Morris. First, the

PFAC includes claims against Mr. Morris for misappropriation of trade secret claims under the California Uniform Trade Secrets Act ("CUTSA") and the federal Defend Trade Secrets Act ("DTSA"). (Ex. 1, PFAC ¶ 192.) While ChromaDex currently maintains these two causes of action against Elysium, the new information from Elysium's documents has also provided the grounds to allege them against Mr. Morris personally. Second, the PFAC adds two causes of action for breach of certain confidentiality agreements between Mr. Morris and ChromaDex. (*Id.* ¶¶ 19, 20, 23–25.) Third, the PFAC includes a claim for breach of the fiduciary duty that Mr. Morris, as a manager of ChromaDex, owed to the corporation. (*Id.* ¶¶ 27, 76.)

2. Proposed New Claims Against Elysium

ChromaDex seeks to add a new cause of action against Elysium: aiding and abetting Mr. Morris's breach of fiduciary duty to ChromaDex. (Ex. 1, PFAC ¶¶ 244–51.) The PFAC also includes a new count for breach of contract with respect to Elysium's confidentiality obligations to ChromaDex. (*Id.* ¶¶ 162–66.)

III. LEGAL STANDARD

Under Rule 15 of the Federal Rules of Civil Procedure, leave to amend is freely given whenever justice so requires. Fed. R. Civ. P. 15(a)(2). "[L]eave to amend should be granted with extreme liberality" [Dkt. 98 at 5.] When considering whether to grant leave to amend, courts weigh five factors: (1) undue prejudice; (2) undue delay; (3) bad faith or dilatory motive by the moving party; (4) futility of amendment; and (5) repeated failures to cure deficiencies by previous amendments. *Foman*, 371 U.S. at 182. Although prejudice is the "touchstone of the inquiry under [R]ule 15(A) . . . [a]bsent prejudice, or a strong showing of any of the remaining *Foman* factors, there exists a *presumption* under Rule 15(a) in favor of granting leave to amend." *Eminence Capital*, *LLC v. Aspeon Inc.*, 316 F.3d 1048, 1052 (9th Cir. 2003) (internal citations and quotation marks omitted) (emphasis in original).

Federal Rule of Civil Procedure 21 governs the addition of a defendant. Adding a new defendant is proper so long as it does not prejudice the new party; specifically,

the inquiry is whether the addition of a new defendant is so prejudicial such that it outweighs Rule 15's mandate that leave to amend "shall be freely given." *See Copart, Inc. v. Sparta Consulting, Inc.*, 2016 WL 3126108, at *5–6 (E.D. Cal. June 2, 2016); *DCD Programs, Ltd. v. Leighton*, 833 F.2d 183, 187 (9th Cir. 1987) ("[A]voiding prejudice to the party to be added thus becomes [the] major objective.") (internal quotation marks omitted) (alterations added).

IV. ARGUMENT

Each of the *Foman* factors weigh in favor of granting the unopposed Motion, and thus the Court should permit ChromaDex to file the PFAC.

A. Mr. Morris and Elysium Are Not Prejudiced By This Amendment

The factor of undue prejudice "carries the greatest weight." *Eminence*, 316 F.3d at 1052. Undue prejudice exists where additional claims would significantly shift the nature of the case, requiring the opposing party to engage in new discovery or "an entirely new course of defense" late in the case. *Leonard Roofing, Inc. v. Aspen Specialty Ins. Co.*, 2013 WL 12144112, at *3 (C.D. Cal. Jan. 9, 2013). However, any prejudice incurred by the addition of a defendant "can be offset by further modifications to the case schedule." *Copart*, 2016 WL 3126108, at *5. Under this standard, neither Mr. Morris nor Elysium is prejudiced by the filing of the PFAC.

First, Mr. Morris is not prejudiced (let alone unduly) because discovery is still ongoing between ChromaDex and Elysium. *Pipe Restoration Techs., LLC v. Pipeline Restoration Plumbing*, No. 00499, slip. op. at 2 (C.D. Cal. Apr. 11, 2014) (Carney, J.) (holding that there was no undue prejudice when "discovery [had] not closed in this case . . ."). The same law firm that currently represents Elysium informed ChromaDex that it will also be representing Mr. Morris, and therefore his defense will benefit from the knowledge of the case that his counsel already possesses. (Anderson Decl. ¶ 13.) Further, given that Mr. Morris is integral to several of ChromaDex's claims against Elysium, Mr. Morris will benefit because much of the relevant material has already been identified, collected, reviewed, and exchanged between the parties. (*Id.* ¶¶ 2, 14.)

Further, neither party has yet taken a deposition or exchanged an expert report, so Mr. Morris will be able to take part in those discovery efforts. (Id. \P 2.) And the parties have agreed to seek an extension of the case deadlines by three months to eliminate any possible lingering prejudice to Mr. Morris. (See Joint Extension Request.) Because Mr. Morris will both benefit from the current discovery and have the opportunity to seek his own, he will not be prejudiced by being added as a defendant now.

Additionally, Mr. Morris will not be prejudiced by his addition to the case because he has been on constructive (and likely actual) notice that ChromaDex could seek to add him as a defendant. Mr. Morris is both a former ChromaDex employee and a current Elysium employee. ChromaDex cites Mr. Morris by name repeatedly in the Fourth Amended Complaint, alleging his actions as an agent of Elysium. [See, e.g., Dkt. 109 ¶ 22, 23, 30, 34, 55.] Further, ChromaDex served Mr. Morris with a subpoena related to this Action on August 31, 2017, and his conduct has also been the subject of several discovery requests to Elysium, likely requiring Elysium's counsel to communicate with him about the pending claims. (Anderson Decl. ¶¶ 2, 14.) It is inconceivable that Mr. Morris would be unaware that his actions, once fully uncovered by ChromaDex, would not provide grounds for ChromaDex to add him as a defendant.

Second, Elysium is also not prejudiced by the PFAC because the parties are still engaged in discovery. Elysium has taken no depositions and exchanged no expert reports, (*id.* ¶ 2), and will have the opportunity to serve additional document discovery, if warranted. Courts regularly find no undue prejudice for an amended pleading when discovery has yet to close. *Pipe*, No. 00499, slip. op. at 2 (Carney, J.) (holding that there was no undue prejudice when "discovery [had] not closed in this case…"); *Hip Hop Beverage Corp. v. RIC Representcoes Importação e Comercio Ltda.*, 220 F.R.D. 614, 622 (C.D. Cal. 2003) ("However, [defendant's] Motion for Leave is not an 'eleventh hour' action; the discovery cut-off is two months away"). And the Joint Extension Request will eliminate any potential remaining prejudice with respect to case deadlines. *Copart*, 2016 WL 3126108, at *5 (holding "prejudice can be offset by further

modifications to the case schedule.").

In any event, the new claims in the PFAC will require little (if any) additional discovery because they do not improperly enlarge the factual scope of the case from the allegations in the Fourth Amended Complaint. For that reason, there can be no undue prejudice to Elysium because "[t]he basic fact pattern will remain the same. All that is being added is another legal string to the same old bow." *Navarro v. Eskanos & Adler*, 2006 WL 3533039, at *3 (N.D. Cal. Dec. 7, 2006). There can also be no prejudice to Elysium because it has long been in possession of the very documents that form the basis of the new allegations and claims in the PFAC. *See e.g.*, *Dexcowin Glob.*, *Inc. v. Aribex, Inc.*, 2017 WL 3485790, at *4 (C.D. Cal. Mar. 23, 2017) (finding no undue prejudice where "the relevant evidence has always been in possession of the [non-moving party]"); *Trimble Navigation Ltd. v. RHS, Inc.*, 2007 WL 2727164, at *11 (N.D. Cal. Sept. 17, 2007) (finding no undue prejudice to plaintiff when "defendants' new allegations all relate to evidence and discovery that is in plaintiff's possession and control").

For the above reasons, neither Mr. Morris nor Elysium will be prejudiced by the PFAC. This *Foman* factor therefore weighs in favor of permitting the amendment.

B. The Other Foman Factors Weigh Toward Granting Leave to Amend

In the absence of undue prejudice, only "a strong showing of any of the remaining *Foman* factors" will overcome Rule 15(a)(2)'s mandate that "leave [to amend] shall be freely given when justice so requires." *Eminence*, 316 F.3d at 1052 (internal quotation marks omitted). Here, the remaining factors support ChromaDex's unopposed Motion.

1. <u>ChromaDex Did Not Unduly Delay</u>

ChromaDex did not unduly delay bringing the PFAC. ChromaDex first viewed and considered all of the relevant documents undergirding the new claims in the PFAC on September 7, 2018, when Elysium produced the last batch under a new confidentiality designation. (Anderson Decl. ¶ 10.) ChromaDex thereafter served the PFAC on Elysium on October 19, 2018, only six weeks later. (*Id.* ¶ 11.) That is not

undue delay. In any event, there is no undue delay when the amendment is filed within the deadline set by the court's scheduling order. *Excela Creative, LLC v. Deal Segments, LLC*, 2014 WL 12589653, at *8 (C.D. Cal. Dec. 5, 2014) ("Defendants, moreover, filed their motion to amend within the deadline for amendment set by the scheduling order . . . there is no indication that they 'unduly delayed.""). Pursuant to the Second Amended Scheduling Order, "[t]he parties shall have until **February 4**, **2019** to file and have heard all other motions, including motions to join or amend the pleadings." [Dkt. 114 at 1 (emphasis in original).] That deadline is still three months away, rendering this Motion timely.

2. <u>ChromaDex Does Not Seek Leave For Improper Reasons</u>

ChromaDex does not seek leave to amend in bad faith or with a dilatory motive. "A party acts in bad faith when it seeks to amend its pleadings solely for a 'wrongful motive' such as unnecessary delay or harassment." *Excela*, 2014 WL 12589653, at *7 (internal quotation marks omitted). Here, ChromaDex seeks to add new allegations based on new information learned through proper discovery and its efforts to dedesignate Elysium information, and not to delay the case or harass Elysium.

3. The Proposed Amendment Would Not Be Futile

ChromaDex's proposed amendments are not futile with respect to either Mr. Morris or Elysium. "A 'proposed amendment is futile only if no set of facts can be proved under the amendment to the pleadings that would constitute a valid and sufficient claim or defense." *Banc of California, Inc. v. Famers and Merchants Bank of Long Beach*, 2017 WL 2972338, at *1 (C.D. Cal. Apr. 19, 2017) (Carney, J.).

First, the new claims against Mr. Morris are not futile. ChromaDex seeks to add causes of action against Morris for misappropriation of trade secrets, breach of contract, and breach of fiduciary duty. The Court already ruled that ChromaDex "sufficiently pled the existence of a protectable trade secret and damages from Elysium's purported misappropriation." [Dkt. 115 at 10.] The PFAC alleges that Mr. Morris personally is liable for the same basic conduct. (Ex. 1, PFAC ¶¶ 189–213.) ChromaDex's claims for

misappropriation of trade secrets under both CUTSA and the DTSA therefore constitute valid claims for misappropriation of trade secrets against Mr. Morris. Likewise, ChromaDex has adequately pleaded that Elysium's "alleged disclosure of information was governed by the confidentiality provisions." [Dkt. 115 at 8 n.2.] ChromaDex alleges similar facts against Mr. Morris for his breaches of his contractual obligations, (Ex. 1, PFAC ¶ 214-237), and ChromaDex's claims against him are sufficient for the same reasons. The PFAC also contains facts that constitute a valid claim against Mr. Morris for breach of fiduciary duty. The PFAC alleges that: (1) Mr. Morris, as an officer of ChromaDex who participated in management, owed ChromaDex a fiduciary duty; (2) he engaged in conduct in blatant violation of his fiduciary duties; and (3) he was aware that his actions would harm ChromaDex. (*Id.* ¶ 27, 42, 49.) The new claims against Mr. Morris are thus not futile.

Second, the new claims against Elysium are also sufficiently pleaded. With respect to the claim for aiding and abetting Mr. Morris's breach of fiduciary duty, ChromaDex (1) alleges that Elysium was aware of his fiduciary obligations to ChromaDex and knew that Mr. Morris's actions were in violation of his fiduciary duties; (2) identifies the actions that constitute Elysium's encouragement of and further inducement for his breach; (3) describes the substantial acts Elysium undertook to assist him in his breach; and (4) avers that Elysium's conduct was a substantial factor in causing harm to ChromaDex. (*Id.* ¶¶ 245–49.) And with respect to the additional count of breach of Elysium's confidentiality obligations to ChromaDex, the Court has determined that "ChromaDex adequately pleads that alleged disclosure of the information was governed by the confidentiality provisions of the parties' agreement and that Elysium breached those provisions" for breach of a similar contract between ChromaDex and Elysium. [*See* Dkt. 115 at 8 n.2.] ChromaDex's new claims against Elysium are therefore not futile.

4. The PFAC Is Not An Attempt To Cure A Prior Pleading Deficiency
ChromaDex has not attempted to previously allege the same claims as those in

the PFAC. This is thus not a situation "where prior attempts have failed to cure a deficiency and it is clear that the proposed amendment likewise does not correct the defect." *Excela*, 2014 WL 12589653, at *7. Rather, ChromaDex seeks leave to amend because documents produced and de-designated during discovery in this Action have provided it the grounds to do so.

C. The Parties Request the Court Extend Discovery by Three Months

The Joint Extension Request filed by the parties concurrently with this Motion requests that the Court grant a three-month extension to the current case schedule. As stated in the Joint Extension Request, the parties request that the Court find good cause under Federal Rule of Civil Procedure 16(b) to extend the discovery and trial dates in order to eliminate any possible prejudice to the Defendants. The parties agree that three months will be sufficient. Under the current Second Amended Scheduling Order, discovery closes on December 21, 2018, and the trial begins on April 2, 2019. [Dkt. 114 at 1.] The parties therefore propose an extension of the discovery deadline to April 5, 2019, and the trial date to July 2019, based on the Court's availability. (*See* Joint Extension Request.)

V. CONCLUSION

For the foregoing reasons, ChromaDex respectfully requests that the Court grant ChromaDex's unopposed Motion and permit it to file the PFAC.

/s/ Barrett J. Anderson
Barrett J. Anderson

Attorneys for Plaintiff and Counter-Defendant ChromaDex, Inc.