

**UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF CALIFORNIA**

XPANDORTHO, INC., a Delaware corporation; EXACTECH, INC., a Florida corporation,

Plaintiffs,

v.

ZIMMER BIOMET HOLDINGS, INC., a Delaware corporation; ZIMMER, INC., a Delaware corporation; ZIMMER U.S., INC., a Delaware corporation doing business as ZIMMER BIOMET SOUTHERN CALIFORNIA; ORTHOSOFT ULC, a Canadian corporation doing business as ZIMMER CAS,

Defendants.

) Case No.: 3:21-cv-00105-BEN-KSC

)

) **ORDER:**

)

) **(1) DEFENDANTS' MOTION TO DISMISS IS DENIED;**

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) **(2) DEFENDANTS' MOTION TO STRIKE IN PART PLAINTIFFS' FIRST AMENDED COMPLAINT IS DENIED;**

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) **(3) DEFENDANTS' REQUEST FOR JUDICIAL NOTICE IS DENIED;**

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) **(4) PLAINTIFFS' REQUEST TO STRIKE DEFENDANTS' EXHIBITS 2 THROUGH 4 IS DENIED, BUT PLAINTIFFS' REQUEST TO DISREGARD THE EXHIBITS IS GRANTED; AND**

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) **(5) THE PARTIES' MOTIONS FOR LEAVE TO FILE UNDER SEAL ARE GRANTED.**

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) **[ECF Nos. 44, 46, 48, 49, 51, 56]**

1    **I. INTRODUCTION**

2       Plaintiffs XpandOrtho, Inc., a Delaware corporation (“XpandOrtho”), and Exactech,  
3 Inc., a Florida corporation (“Exactech”) (collectively, “Plaintiffs”) bring this action against  
4 Defendants Zimmer Biomet Holdings, Inc., a Delaware corporation; Zimmer, Inc., a  
5 Delaware corporation; Zimmer US, Inc., a Delaware corporation doing business as Zimmer  
6 Biomet Southern California; and ORTHOsoft ULC, a Canadian corporation doing business  
7 as Zimmer CAS (collectively, “Defendants”) for alleged misuse of confidential  
8 information, fraud, unfair competition, breach of contract, and copyright infringement.  
9 First Amended Complaint, ECF No. 34 (“FAC”) at 3, ¶ 1.

10      Before the Court are the following motions: (1) Defendants’ Motion to Dismiss the  
11 FAC, ECF No. 44; (2) Defendants’ Motion to Strike In Part the FAC, ECF No. 44; (3)  
12 Defendants’ Request for Judicial Notice, ECF No. 44-1; (4) Plaintiffs request to strike or  
13 alternatively, disregard Exhibits 2 through 4 to Defendants’ Motion to Dismiss, ECF No.  
14 48 at 15; (5) Defendants’ Motion for Leave to File Certain Exhibits and Text Supporting  
15 their Motion to Dismiss and Strike Under Seal, ECF Nos. 46 and 56; and (6) Plaintiffs’  
16 Motion for Leave to File Portions of Their Opposition Under Seal, ECF No. 51.

17      The motions were submitted on the papers without oral argument pursuant to Civil  
18 Local Rule 7.1(d)(1) and Rule 78(b) of the Federal Rules of Civil Procedure. ECF No. 58.  
19 After considering the papers submitted, supporting documentation, and applicable law, the  
20 Court (1) **DENIES** Defendants’ Motion to Dismiss; (2) **DENIES** Defendants’ Motion to  
21 Strike; (3) **DENIES** Defendants’ Request for Judicial Notice; (4) **DENIES** Plaintiffs’  
22 request to strike Exhibits 2 through 4; (5) **GRANTS** Plaintiffs’ request to disregard  
23 Exhibits 2 through 4; and (6) **GRANTS** all Motions to file documents under seal.

24    **II. BACKGROUND**

25      This case involves the alleged misuse of confidential information related to  
26 acquisition discussions and the exchange of information between Defendants and  
27 XpandOrtho. XpandOrtho is a medical device company developing soft tissue balancing  
28 technology for knee surgery. Plaintiffs allege the following eight claims for relief: (1)

1 violation of the Defend Trade Secrets Act of 2016, 18 U.S.C. § 1836; (2) violation of the  
 2 California Uniform Trade Secrets Act, Cal. Civ. Code, section 3426, *et seq.*; (3) breach of  
 3 contract; (4) fraud; (5) breach of the implied covenant of good faith and fair dealing; (6)  
 4 intentional interference with prospective economic advantage; (7) copyright infringement;  
 5 and (8) violation of California’s Unfair Business Practices Law, Cal. Bus. & Prof. Code  
 6 section 17200, *et seq.* FAC at 1.

7       A. **Statement of Facts**<sup>1</sup>

8       Plaintiffs allege that in 2012, two orthopedic surgeons, Dr. Clifford Colwell and Dr.  
 9 Darryl D’Lima, “founded XpandOrtho to develop new technology to address the problem  
 10 of inaccurate soft tissue balancing during total knee arthroplasty.” FAC at 3, ¶ 2; 14, ¶ 47.  
 11 As a small startup, XpandOrtho “sought to join forces with an established company to bring  
 12 its technology to market.” *Id.* at 3, ¶ 2; 15, ¶ 51.

13       In 2015, Defendants and XpandOrtho initiated acquisition discussions. *Id.* at 15, ¶  
 14 51. On March 4, 2015, before disclosing any proprietary information to Defendants,  
 15 XpandOrtho and Defendants entered into a nondisclosure agreement (the “2015 NDA”).  
 16 *Id.* at 30, ¶ 96. Dr. Colwell signed on behalf of XpandOrtho, and Bradlee M. Quick  
 17 (Defendants’ VP of Knee Marketing) signed on behalf of Defendants. *Id.* at 30, ¶¶ 96–97.  
 18 XpandOrtho continued to interact with Mr. Quick during 2015 and “[f]rom the very  
 19 beginning, XpandOrtho made clear to [Defendants] that the content of the discussions  
 20 would be covered by an NDA.” *Id.* at 31–32, ¶ 105. On March 12, 2015, after signing the  
 21 2015 NDA, Dr. Colwell and Dr. D’Lima met with John Sillick (a general manager of  
 22 Defendants) in La Jolla, California and discussed XpandOrtho’s XO<sup>1</sup> device. *Id.* at 32, ¶  
 23 106. “Mr. Sillick provided XpandOrtho with . . . [Defendants’] knee implant to use in their  
 24

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25  
 26<sup>1</sup>       The majority of the facts set forth are taken from the FAC and for purposes of ruling  
 27 on Defendants’ Motion to Dismiss, the Court assumes the truth of the allegations pled and  
 28 liberally construes all allegations in favor of the non-moving party. *Manzarek v. St. Paul  
 Fire & Marine Ins. Co.*, 519 F.3d 1025, 1031 (9th Cir. 2008).

1 demonstration for [Defendants]" at a future meeting. *Id.*

2 In late March 2015, Dr. Colwell and Dr. D'Lima met with Mr. Quick to show "a  
 3 sample XO<sup>1</sup> device and conduct[] a 'dry' demonstration of [such]." *Id.* at 32, ¶ 107. They  
 4 also showed Mr. Quick "a PowerPoint presentation including scientific data from  
 5 XpandOrtho's tests" and its XO<sup>1</sup> Animation, which depicts "measuring balance data  
 6 through [the device's] full range of motion." *Id.* After the March 2015 meetings,  
 7 Defendants were not willing to initiate formal acquisition discussions, but "expressed  
 8 continued interest and encouraged XpandOrtho to stay in contact." *Id.* at 32, ¶ 108.

9 Plaintiffs allege that to Defendants, the most valuable information regarding "the  
 10 XO<sup>1</sup> device could only be obtained by inspecting, manipulating, and 'play[ing] with' it.  
 11 *Id.* at 33, ¶ 113. On November 6, 2015, Defendants' employee, Brian May, asked Dr.  
 12 D'Lima, 'Would it be possible to send us a unit for us to play with? While we'd certainly  
 13 like to see it in the OR, we feel we can learn the most by using the device instead of only  
 14 observing its use.'" *Id.* When XpandOrtho brought up concerns over whether the 2015  
 15 NDA still covered the discussions, Mr. May replied that it did and there was "[n]o need to  
 16 execute a new agreement." *Id.* at 33–34, ¶ 113.

17 Pursuant to the NDA, Dr. D'Lima subsequently "sent the XO<sup>1</sup> Animation in an email  
 18 to [Defendants'] employees Mr. Quick, Mr. May, and Bill Hartman." *Id.* at 34, ¶ 114.  
 19 "The XO<sup>1</sup> Animation was hosted on Vimeo and was password-protected and marked as  
 20 'Private' on the Vimeo site. The email . . . included a link to the Vimeo site and . . . the  
 21 password." *Id.* In August 2016, Dr. D'Lima shared the video with Dr. Russell Schenk of  
 22 Defendants, who promised to protect and limit access to the video. *Id.* at 34, ¶ 115.

23 In March 2016, Defendants informed "XpandOrtho they were not ready to commit  
 24 to an acquisition because the device was not FDA approved yet." *Id.* at 33, ¶ 110. Instead,  
 25 Defendants "suggested conducting an expanded clinical study of the XO<sup>1</sup>, which  
 26 Defendants" offered to fund. *Id.* Although XpandOrtho drafted a proposal for the study  
 27 and met with two of Defendants' employees regarding the matter, Defendants called off  
 28 the study in November 2016, "without providing a reason beyond budget availability." *Id.*

1 at 33, ¶¶ 110–112.

2 In October 2017, Mr. Hartman initiated email discussions with Dr. D'Lima and  
 3 “asked about the status of XpandOrtho’s prototype device,” indicating that Defendants  
 4 were interested in reviewing the technology. *Id.* at 34, ¶ 116. A meeting was scheduled  
 5 for February 6, 2018, in Chicago. *Id.* In the meantime, on November 6, 2017, Dr. D'Lima  
 6 emailed Mr. Hartman the password for the XO<sup>1</sup> Animation “to demonstrate the capabilities  
 7 of the XO<sup>1</sup> device, hoping this would help convince [Defendants] to acquire XpandOrtho.”  
 8 *Id.* at 35, ¶ 117.

9 On February 2, 2018, unbeknownst to XpandOrtho and four days prior to the  
 10 Chicago meeting, Defendants’ employee “Pierre Couture filed a provisional patent  
 11 application at the U.S. Patent Office . . . .” *Id.* at 35, ¶ 118. XpandOrtho had no knowledge  
 12 that Defendants had been working on the device depicted in the provisional application.  
 13 *Id.* at 35, ¶ 121. Plaintiffs further allege Defendants and Mr. Couture were not “actually  
 14 developing any soft tissue balancing device . . . .” *Id.* at 35–36, ¶¶ 120–121.

15 On February 6, 2018, Dr. Colwell and Dr. D'Lima met with Mr. Couture and Mr.  
 16 Hartman in Chicago, where “Mr. Couture asked technical questions about the XpandOrtho  
 17 device, including questions that elicited non-public, confidential and proprietary  
 18 information . . . .” *Id.* at 36, ¶¶ 122–123. Defendants “instructed Mr. Couture and its other  
 19 employees to use the diligence process to gain as much proprietary information from  
 20 XpandOrtho as possible so that Defendants had the option to pursue a similar device after  
 21 [Defendants] called off the acquisition.” *Id.* at 36, ¶ 123. “[A] demonstration of the  
 22 capabilities of the XO<sup>1</sup> device and software” was presented at the meeting, and there was  
 23 discussion of “future possibilities for the XO<sup>1</sup> product line.” *Id.* at 36, ¶ 124.

24 Several meetings occurred during March 2018. On March 8, 2018, XpandOrtho met  
 25 with Defendants’ CFO and employees Linda Smyth and Ewald Kreid (Defendants’ VP of  
 26 Corporate Strategy and Business Development), “and XpandOrtho gave a presentation to  
 27 surgeons associated with [Defendants].” *Id.* at 37, ¶ 125. Anticipating a letter of intent  
 28 that would prevent XpandOrtho from discussing acquisition with other companies, “Dr.

1 Colwell and Dr. D'Lima sought to gauge [Defendants'] level of commitment and how long  
 2 the due diligence process would take." *Id.* At another March meeting, Defendants "said  
 3 they intended to make an acquisition offer as part of the due diligence process." *Id.*

4 Also in March, Dr. Colwell and Dr. D'Lima met with "Dr. Louis-Phillipe Amiot,  
 5 [employee of Defendants and] the founder of ORTHOsoft, during which non-public  
 6 XpandOrtho information was disclosed." *Id.* at 37, ¶ 126. They discussed "the concept of  
 7 integrating the XO<sup>1</sup> with [Defendants'] robotic surgery system, called ROSA." *Id.*

8 In 2018, XpandOrtho sought to extend the terms of the 2015 NDA. *Id.* at 30, ¶ 99.  
 9 On May 8, 2018, XpandOrtho and Defendants executed an Amendment (the "2018  
 10 Amendment")<sup>2</sup> to the 2015 NDA. *Id.* at 30–31, ¶ 99. Dr. Colwell signed on behalf of  
 11 XpandOrtho and Mr. Kreid signed on behalf of Defendants. *Id.* at 31, ¶ 99. In the NDAs,  
 12 Defendants "agreed to keep XpandOrtho's proprietary information confidential,"  
 13 contracting "to hold it 'in strict confidence,' 'not to divulge' the information, 'not to make  
 14 any use whatsoever at any time' of the information except for the limited purpose of  
 15 evaluating a business relationship with XpandOrtho, and 'not to decompile, disassemble  
 16 or reverse engineer' the information." *Id.* at 31, ¶ 101.

17 During April and May of 2018, XpandOrtho and Defendants negotiated the Letter  
 18 of Intent ("LOI"). *Id.* at 38, ¶ 128. The first proposal of the letter "contained several  
 19 unfavorable material terms that Defendants initially refused to negotiate," and Defendants  
 20 "strongly rejected the inclusion of a [REDACTED] if [Defendants] were to later  
 21 back away from" acquisition. *Id.* at 38, ¶ 129. [REDACTED] also sent XpandOrtho a letter of  
 22 intent, [REDACTED] than those of Defendants' proposed letter. *Id.* at 38, ¶

25 \_\_\_\_\_  
 26 <sup>2</sup> The 2015 NDA and 2018 Amendment will be referred to collectively as, the NDAs.  
 27 Furthermore, throughout the entire FAC, Plaintiffs allege XpandOrtho relied on the NDAs  
 28 when divulging confidential, proprietary, and/or trade secret information and devices to  
 Defendants. *See, e.g., id.* at 52, ¶ 176; 53, ¶ 181. The Court understands Plaintiffs plead  
 reliance on the NDAs and will not restate these repetitive assertions in the Statement of  
 Facts.

1 130–131. On April 30, 2018, XpandOrtho informed Defendants (through Mr. Kreid and  
 2 Mr. Rob Braun) of the more favorable letter of intent. *Id.* at 38, ¶ 132.

3 On May 6, 2018, Mr. Kreid emailed a revised letter to Dr. Cowell, Dr. D’Lima, and  
 4 other XpandOrtho board members. *Id.* at 39, ¶ 134. This revised letter “was drastically  
 5 more favorable for XpandOrtho, both in price and material terms, and ultimately, became  
 6 the LOI.” *Id.* at 39, ¶¶ 134–35. Defendants’ CFO, Daniel P. Florin, signed the LOI on  
 7 behalf of Defendants. *Id.* at 39, ¶ 134. “The new LOI [REDACTED]

8 [REDACTED],” and “reversed  
 9 course on several representations and warranties [Defendants] previously refused to  
 10 negotiate.” *Id.* at 39, ¶ 135. Defendants, however, insisted on including an exclusivity  
 11 period in the LOI (not allowing XpandOrtho to discuss acquisition with other companies)  
 12 and “continued to refuse to agree to a breakup fee” should Defendants call off the  
 13 acquisition. *Id.* Plaintiffs allege Defendants included the favorable terms “with the specific  
 14 intent of luring XpandOrtho into ending . . . acquisition discussions with Exactech” and  
 15 “using the diligence process to gain as much proprietary information from XpandOrtho as  
 16 possible” for improper use in developing Defendants’ own product. *Id.* at 39, ¶ 136.

17 On May 8, 2018, XpandOrtho and Defendants signed the LOI, commencing the due  
 18 diligence period. *Id.* at 40, ¶ 137. Upon signing the LOI, XpandOrtho “[REDACTED]  
 19 [REDACTED]” *Id.* Also on May 8, 2018, in email correspondence, Mr. Kreid  
 20 committed to XpandOrtho that Defendants’ “intention with this acquisition is to profitably  
 21 develop, manufacture and market the XpandOrtho technology.” *Id.* at 40, ¶ 138. Plaintiffs  
 22 allege, however, that Defendants did not intend to acquire XpandOrtho and instead,  
 23 “desired to prevent or delay competitors such as Exactech from acquiring XpandOrtho and  
 24 to obtain XpandOrtho’s confidential and proprietary information, including . . . Trade  
 25 Secrets,<sup>3</sup> and improperly use the information in their own development.” *Id.* at 40, ¶ 140.

26  
 27 <sup>3</sup> Plaintiffs allege XpandOrtho’s trade secrets include (but are not limited to): (1) geometry, dynamics, and kinematics of the XO<sup>1</sup> device; (2) the XO<sup>1</sup> Animation and

1 “Mr. Kreid knew his commitment was false and intended to cause XpandOrtho to rely on  
 2 his misrepresentation,” and XpandOrtho did reasonably rely on the commitment. *Id.* at  
 3 40–41, ¶ 140.

4 Defendants requested a large amount of information pursuant to the NDA, which  
 5 Dr. D’Lima shared through a “private and confidential folder on the file-sharing website  
 6 Dropbox to serve as a data room.” *Id.* at 41, ¶ 141. Over 700 files were uploaded. *Id.*  
 7 Defendants’ employee Katy Hawkins sent a list of forty-six team members who would  
 8 need access to the information, and when Dr. D’Lima asked if the whole team needed  
 9 access, Ms. Hawkins affirmed. *Id.* at 41, ¶ 143. Due to security measures on the file-  
 10 sharing website, Dr. D’Lima could not give access to all forty-six people and in response,  
 11 Ms. Hawkins sent a list of twenty-eight people instead. *Id.* at 42, ¶¶ 144–45. Ms. Hawkins  
 12 highlighted in red certain individuals who did not necessarily need access, and Mr. Couture  
 13 was not listed in red. *Id.* at 42, ¶ 145. Dr. D’Lima gave access to additional personnel as  
 14 requested. *Id.* at 42, ¶ 147.

15 The data room contained “detailed engineering drawings of the XO<sup>1</sup>, including  
 16 three-dimensional CAD models of the individual components, as well as assemblies of the  
 17 components.” *Id.* at 42, ¶ 148. There were over 100 CAD files with which Defendants  
 18

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19  
 20 information regarding XO<sup>1</sup> contained therein; (3) designs of prototypes using multiple  
 21 actuators; (4) designs of sensors for soft tissue balancing devices; (5) benefits of certain  
 22 characteristics of the XO<sup>1</sup>; (6) confidential portions of XpandOrtho’s communications with  
 23 the FDA respecting 510(k) certification; (7) methods of sterilizing the XO<sup>1</sup> device; (8)  
 24 manufacturing information for the XO<sup>1</sup> device; (9) the wireless link between the controller  
 25 and the radio module; (10) the custom circuit board input in the trial implant, controller,  
 26 and radio module; (11) source code for the trial implant, controller, PC radio module, and  
 27 the tablet PC GUI; (12) calibration processes, equipment, and software; and (13) the  
 28 negative know-how contained in the history and results of XpandOrtho’s development  
 process (*i.e.*, the design paths evaluated, as well as reasons for following certain design  
 paths over others). *Id.* at 25–27, ¶ 84. Plaintiffs allege these trade secrets “were developed  
 by XpandOrtho in the course of its business at significant time, effort, and expense . . . .”  
*Id.* at 28, ¶ 86.

1 “could simulate motion of the XO<sup>1</sup> device throughout its entire range of motion,” among  
 2 other things. *Id.* at 43–44, ¶ 148. The “files also included two-dimensional engineering  
 3 drawings (“blueprints”) used for manufacturing the parts” consisting of “precise  
 4 dimensions, manufacturing tolerances, assembly instructions, material to use for each  
 5 component, revision history,” and more. *Id.* at 44, ¶ 149. The drawings contained the  
 6 condyle plate, along with the components, instructions for assembly, detailed dimensions,  
 7 and other information. *Id.* at 43–44, ¶¶ 149–50. The FAC alleges an extensive amount of  
 8 information in the data room, including the XO<sup>1</sup> Animation, and only some of the  
 9 information is described here. *See id.* at 44–48, ¶¶ 152–161.

10 On May 23 through 25, 2018, Defendants “spent three days in Southern California .  
 11 . . . meeting with XpandOrtho and its suppliers.” *Id.* at 48, ¶ 162. Confidential information  
 12 regarding XpandOrtho’s manufacturing and quality assurance programs was disclosed  
 13 during the visit. *Id.* at 48, ¶ 164.

14 On May 30, 2018, Defendants’ consultant, “Dr. Clarke, performed an evaluation of  
 15 the XO<sup>1</sup> on two cadaver knees at . . . [Defendants’] lab in Scottsdale, Arizona.” *Id.* at 49,  
 16 ¶ 165. XpandOrtho allowed Defendants to observe the evaluation “because XpandOrtho  
 17 believed they were in an advanced stage of due diligence.” *Id.* at 49, ¶ 166. “Dr. Clarke  
 18 operated on two cadaver knees during this evaluation” and “during the first surgery, the  
 19 XO<sup>1</sup> device was incorrectly placed, resulting in less-than-ideal balance—during the second  
 20 surgery, there were no issues, and the knee was well-balanced.” *Id.* at 49, ¶ 167. Photos  
 21 were taken during the evaluation and “were never shared with XpandOrtho, nor . . .  
 22 returned to XpandOrtho.” *Id.* at 51, ¶ 172. “During and after the cadaver lab, Dr. Colwell  
 23 and [Dr.] D’Lima” discussed “several possible improvements they had been planning,”  
 24 including confidential information regarding modifications to the condyle plate and a  
 25 noncompartmental design. *Id.* at 50, ¶ 169. On May 31, 2018, in email correspondence to  
 26 Dr. D’Lima, Mr. Hartman stated, “I believe in the current state we could use the system  
 27 and only make it better with [REDACTED].” *Id.* at 51, ¶ 171.

28 On May 31, 2018, Defendants’ employees met with XpandOrtho in Solana Beach,

1 California, and “discussed software, risk management, the DHF, use of the device, testing,  
2 manufacturing, and the projected cost of goods sold.” *Id.* at 51, ¶ 173–74. Defendants also  
3 reviewed copies of confidential documents, which XpandOrtho made available to them,  
4 “including the Design History File, FDA testing records, . . . some of XpandOrtho’s early  
5 quality system,” and more. *Id.* at 51, ¶ 174.

6 Defendants’ ORTHOsoft team also made several “specific requests for highly  
7 sensitive information, including XpandOrtho’s source code, access to several XO<sup>1</sup> devices  
8 that they could take apart . . . , and CAD models of the condyle plate.” *Id.* at 52, ¶ 176.  
9 Dr. D’Lima ultimately shared requested source code with two employees through a  
10 dedicated folder, outside the data room, because Dr. D’Lima was not comfortable sharing  
11 the code with a large number of people. *Id.* at 52–53, ¶¶ 177–79.

12 On June 6, 2018, a direct competitor of Defendants filed a Freedom of Information  
13 Act (“FOIA”) request to obtain the 510(k) XO<sup>1</sup> Application, and Dr. D’Lima notified  
14 Defendants’ employee, Ms. Hawkins. *Id.* at 54, ¶ 184. “XpandOrtho redacted the 510(k)  
15 application to prevent any confidential information from being released due to the FOIA  
16 request,” and the redacted “application was published under FOIA Request 2017-5574.”  
17 *Id.* at 54, ¶ 185.

18 “On June 4, 2018, Dr. D’Lima shipped to [Defendants] two XO<sup>1</sup> devices and a  
19 Windows tablet computer to run the custom-developed, confidential software for data  
20 acquisition and display.” *Id.* at 54, ¶ 187. The shipped devices contained additional  
21 materials and instructions for use of the XO<sup>1</sup> device, and the devices were received on June  
22 5, 2018. *Id.* at 54–55, ¶ 187. Defendants informed “XpandOrtho they were only using  
23 these devices for mechanical bench testing.” *Id.* Plaintiffs allege Defendants “conducted  
24 extensive mechanical testing on at least one of the XO<sup>1</sup> devices it received on June 5,  
25 2018,” providing details of the alleged testing. *Id.* at 55, ¶ 188. Mr. May acknowledged  
26 that “play[ing with]” and “using the device” provided the most information, more than  
27 simply “observing its use,” even “in the OR.” *Id.* at 55, ¶ 190. Defendants “acquired a  
28 wealth of confidential information about the XO<sup>1</sup> device,” through their “hands-on testing

1 and handling . . . . that could not have been determined from publicly available  
2 information.” *Id.* at 55, ¶ 192.

3 “Mr. Couture was very involved in the diligence process and very informed about  
4 the analysis and testing of the XO<sup>1</sup>, especially the mechanical testing.” *Id.* at 56, ¶ 196.  
5 Mr. Couture was present during a phone call on June 15, 2018. *Id.* During the call, Mr.  
6 Couture indicated for the first time “that the tilt limitation [regarding the XO<sup>1</sup> device] was  
7 an issue,” which surprised Dr. Colwell and Dr. D’Lima because “the feedback from  
8 [Defendants’] surgeon consultants had been generally positive.” *Id.* at 57, ¶ 197. “Mr.  
9 Couture was also concerned about a related limitation of the XO<sup>1</sup> concerning the device  
10 geometry in a specific configuration.” *Id.*

11 Also “[o]n June 15, 2018, XpandOrtho conducted a clinical evaluation on a live  
12 patient in La Jolla, California,” with three of Defendants’ personnel present. *Id.* at 57, ¶  
13 198. “Dr. D’Lima conducted a ‘dry’ demonstration” first to show Defendants “how the  
14 device worked.” *Id.* at 58, ¶ 200. The XO<sup>1</sup> device was then used on the patient’s knee—  
15 “[t]he surgery went very well, and the knee was well-balanced.” *Id.* Defendants indicated  
16 excitement over the device, and there was discussion of “how the XO<sup>1</sup> could be combined  
17 with other techniques and technologies . . . .” *Id.* at 58, ¶ 201.

18 Defendants performed another live clinical evaluation of the XO<sup>1</sup> in a cadaver lab  
19 on June 15, 2018, and no XpandOrtho employees were present. *Id.* at 59, ¶ 202.  
20 Defendants did not inform XpandOrtho of the clinical evaluation until a few days prior and  
21 when XpandOrtho indicated that it wanted Dr. Colwell or Dr. D’Lima in attendance,  
22 Defendants did not allow for rescheduling. *Id.* at 59, ¶ 203. No XpandOrtho employees  
23 were present and as Dr. Colwell and Dr. D’Lima suspected, Defendants’ employees  
24 “struggled without . . . [them] there, in particular when doing the gap balance technique.”  
25 *Id.* at 59, ¶ 204. More discussions of potential modifications and improvements occurred  
26 between XpandOrtho and Defendants. *Id.* at 60, ¶ 208.

27 On June 20, 2018, Defendants “terminated the due diligence process and told  
28 XpandOrtho they would not be proceeding with an acquisition.” *Id.* at 62, ¶ 213. Upon

1 termination, XpandOrtho terminated Defendants' access to the data room and source code  
2 repository and reminded Defendants that the "proprietary information remained  
3 confidential and that [Defendants] could make no further use of it." *Id.* at 62, ¶¶ 214, 216.  
4 Defendants were also asked "to return all 'products, materials and [p]roprietary  
5 information. . . .'" *Id.* at 62, ¶ 215.

6 Defendants failed to respond for a few days but eventually returned one of the XO<sup>1</sup>  
7 devices, saying "they had disposed of the [other] XO<sup>1</sup> device as biohazardous . . . ." *Id.* at  
8 62–63, ¶ 216. Defendants never confirmed whether they "deleted all of the electronic  
9 information XpandOrtho had provided them." *Id.* at 63, ¶ 216. Defendants did not provide  
10 "specific reasons for terminating the deal but did mention mechanical testing in the June  
11 20, 2018 phone call." *Id.* at 63, ¶ 217. Dr. Colwell and Dr. D'Lima were surprised by the  
12 termination based on the demonstrations and feedback Defendants provided. *Id.*

13 Three weeks after terminating the deal, Defendants "secretly filed two provisional  
14 patent applications" naming Mr. Couture as the inventor—the applications included figures  
15 taken directly from XpandOrtho's materials. *Id.* at 63, ¶ 218. Defendants "later filed  
16 nonprovisional applications that claim priority to the[] two provisional applications, as well  
17 as to [Defendants'] February 2018 [P]rovisional . . . ." *Id.* These nonprovisional  
18 applications were "later published as U.S. Patent Publication Nos. 2019/0240045 . . . and  
19 2019/0240046 . . . ."

20 During March 2019, after reentering negotiations, Exactech acquired XpandOrtho,<sup>4</sup>  
21 but neither Plaintiff knew Defendants had misappropriated XpandOrtho's information, and  
22 as such, had been harmed by Defendants' conduct. *Id.* at 5, ¶ 5. "Exactech seeks to further  
23 develop and bring to market XpandOrtho's technology" and at the time of acquisition,  
24 "believed it was acquiring a company with intellectual property assets that had not been  
25 misappropriated," establishing that both Plaintiffs were harmed by Defendants. *Id.*

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27  
28<sup>4</sup> "XpandOrtho is now a wholly-owned subsidiary of Exactech." *Id.* at 6, ¶ 8.

1 Plaintiffs allege Defendants' conduct and "abuse of the due diligence process is part  
2 of its pattern and practice of ignoring confidentiality obligations." *Id.* at 5, ¶ 6. Plaintiffs  
3 provide examples, citing three situations exemplifying Defendants' alleged improper use  
4 of trade secrets, occurring between 2011 and 2021. *Id.* at 5–6, ¶ 6; 84–87, ¶¶ 298–309.

5 All of these allegations are important for deciding whether Plaintiffs' claims for  
6 relief are plausible and cognizable.

7 **B. Procedural History**

8 On January 20, 2021, Plaintiffs brought suit against Defendants by filing their  
9 original complaint. ECF No. 1. On May 28, 2021, Defendants filed a Motion to Dismiss  
10 the original complaint. ECF No. 20. On June 21, 2021, Plaintiffs filed their FAC and on  
11 June 29, 2021, the Court denied Defendants' original Motion to Dismiss as moot and  
12 granted-in-part Plaintiffs' request to file the unredacted version of their FAC under seal,  
13 which was lodged as ECF No. 31. *See* ECF No. 34; ECF No. 36 at 11–15.

14 On July 27, 2021, the parties filed a Joint Motion for Leave to File Excess Pages for  
15 Defendants' forthcoming motion (and related briefing) responding to the FAC. ECF No.  
16 42. The Court granted the Joint Motion on July 29, 2021. ECF No. 43.

17 On July 30, 2021, Defendants filed a Motion to Dismiss and Strike Portions of the  
18 FAC, ECF No. 44 ("Motion"); a Motion for Leave to Allow the Non-Electronic Filing of  
19 Exhibits G and O to Defendants' Motion to Dismiss and Strike, ECF No. 45; and a Motion  
20 for Leave to File Documents Under Seal, ECF No. 46. On August 24, 2021, Plaintiffs filed  
21 an Opposition to Defendants' Motion to Dismiss and Strike the FAC, Opposition, ECF No.  
22 48 ("Oppo."); and an Opposition to Defendants' Request for Judicial Notice, ECF No. 49.  
23 Plaintiffs also requested that the Court strike Exhibits 2 through 4 to Defendants' Motion  
24 to Dismiss. ECF No. 48 at 15. That same day, Plaintiffs filed a Motion for Leave to File  
25 Portions of Their Opposition Under Seal. ECF No. 51. On August 31, 2021, Defendants  
26 filed a (1) Reply brief, ECF No. 55 ("Reply"), and (2) Motion for Leave to File the Reply  
27 Under Seal, ECF No. 56.

28 On February 23, 2022, the Court granted Defendants' Motion for Leave to File

1 Video Exhibits Non-Electronically.<sup>5</sup> ECF No. 73.

2 **III. DISCUSSION**

3 Defendants seek: (1) to dismiss all claims in Plaintiffs' FAC; (2) to strike certain  
4 allegations in the FAC as immaterial, impertinent, disparaging, and scandalous; and (3)  
5 judicial notice of nineteen Exhibits attached to the declaration of Jeffrey A. Pade, ECF No  
6 44-7 (the "Pade Decl."). *See Motion*; ECF No. 44-1 at 2-4. Plaintiffs seek to strike  
7 Defendants' Exhibits 2 through 4. *See generally Oppo.*; ECF No. 49. Lastly, Plaintiffs  
8 and Defendants filed Motions for leave to file under seal portions of their briefing and  
9 accompanying Exhibits. The Court addresses each issue in turn.

10 **A. Motion to Dismiss**

11 Under Rule 12(b)(6) of the Federal Rules of Civil Procedure, a complaint must be  
12 dismissed when a plaintiff's allegations fail to set forth a set of facts which, if true, would  
13 entitle the complainant to relief. *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 555 (2007);  
14 *Ashcroft v. Iqbal*, 556 U.S. 662, 679 (2009) (holding that a claim must be facially plausible  
15 to survive a motion to dismiss). The pleadings must raise the right to relief beyond the  
16 speculative level; a plaintiff must provide "more than labels and conclusions, and a  
17 formulaic recitation of the elements of a cause of action will not do." *Twombly*, 550 U.S.  
18 at 555. On a motion to dismiss, a court accepts as true a plaintiff's well-pleaded factual  
19 allegations and construes all factual inferences in the light most favorable to the plaintiff.  
20 *Manzarek*, 519 F.3d at 1031. However, a court is not required to accept as true legal  
21 conclusions couched as factual allegations. *Iqbal*, 556 U.S. at 678.

22 **1. Rule 8(a) Pleading Standard**

23 Defendants argue Plaintiffs fail to plead their claims for violations of California's  
24 Unfair Business Practices Law, Cal. Bus. & Prof. Code section 17200, *et seq.* (the "UCL")

25 \_\_\_\_\_  
26  
27 <sup>5</sup> Despite this Order, the Court never received Exhibits G and O. However, because  
28 the Court will not engage in resolving factual disputes, the Exhibits at issue are not required  
to decide Defendants' Motion. *See infra* Part III.A.6-7; Part III.B.

1 and intentional interference with prospective economic advantage in conformance with  
2 Rule 8(a) of the Federal Rules of Civil Procedure. Motion at 22–26. Rule 8(a) requires  
3 only a short and plain statement of the claim. Fed. R. Civ. P. 8(a).

4 **i. Intentional Interference with Prospective Economic Advantage**

5 Under California law, a plaintiff alleging a claim for relief for intentional  
6 interference with prospective economic advantage must prove: “(1) an economic  
7 relationship between the plaintiff and some third party, with the probability of future  
8 economic benefit to the plaintiff; (2) the defendant’s knowledge of the relationship; (3)  
9 intentional [wrongful] acts on the part of the defendant designed to disrupt the relationship;  
10 (4) actual disruption of the relationship; and (5) economic harm to the plaintiff proximately  
11 caused by the acts of the defendant.” *Sybersound Recs., Inc. v. UAV Corp.*, 517 F.3d 1137,  
12 1151 (9th Cir. 2008). Plaintiffs have sufficiently pled a plausible claim for relief.

13 Defendants argue Plaintiffs’ allegations of XpandOrtho’s potential business  
14 relationship with Exactech is too speculative to state a claim, because they consist of only  
15 “prospective negotiations,” which do not suffice. Motion at 32–33. Defendants further  
16 argue that “Exactech’s alleged prospective negotiations to acquire XpandOrtho also did  
17 ‘not hold the promise’ of future economic advantage.” *Id.* at 33. Defendants explain the  
18 alleged advantages are not sufficiently definite and that it is only speculation that Exactech  
19 would have acquired XpandOrtho earlier but for Defendants’ LOI. *Id.* Defendants further  
20 contend whether Exactech would have developed, improved, and marketed its technology  
21 based on XpandOrtho’s confidential information and whether an advantageous market for  
22 such technology existed, are also speculative. *Id.* at 33–34. Finally, Defendants contend  
23 Plaintiffs failed to plead a wrongful act, because entering into agreements such as the  
24 NDAs and LOI cannot be considered independently harmful. *Id.* at 34. However, the  
25 suggested additional allegations go beyond what is required.

26 Plaintiffs correctly contend that Defendants’ arguments related to the alleged  
27 economic benefits are premature, and that these arguments raise factual questions  
28 regarding “the amount of technological development and profit Exactech would have

1 received from an earlier acquisition of XpandOrtho.” *Id.* at 30–31.

2 The existing allegations go beyond what is required by Rule 8(a) to include  
3 numerous details, such as: (1) [REDACTED] provided XpandOrtho with a letter of intent,  
4 including [REDACTED] than the one offered by Defendants; (2) Defendants,  
5 including Mr. Kreid, knew the value and economic advantages of gaining access to  
6 XpandOrtho’s confidential and trade secret information; (3) Defendants and Mr. Kreid,  
7 knowing of the [REDACTED] letter, subsequently offered the LOI with [REDACTED],  
8 with the intention of fraudulently inducing XpandOrtho to sign; (4) Defendants’ new LOI  
9 included an exclusivity period requiring XpandOrtho to [REDACTED]  
10 [REDACTED]; (5) Exactech’s acquisition of XpandOrtho was delayed as a result of signing the  
11 LOI with Defendants; and (6) Exactech’s delayed acquisition resulted in reduced economic  
12 advantages and ultimately, irreparable injury. FAC at 38, ¶¶ 130–133; 102–106, ¶¶ 397–  
13 99, 401–409. Furthermore, Plaintiffs specifically allege several prospective economic  
14 advantages, including the “advantage of being the sole user of XpandOrtho’s confidential,  
15 proprietary, and trade secret information,” and “the sole innovator to develop and market  
16 new technology” based on this information. *Id.* at 103, ¶ 399.

17 The Court agrees with Plaintiffs and finds the FAC sufficiently pleads a claim for  
18 intentional interference of prospective economic advantage. First, Plaintiffs allege an  
19 existing relationship between Exactech and XpandOrtho based on allegations of previous  
20 negotiations between them, as well as [REDACTED] letter of intent. These exchanges  
21 plausibly describe actual negotiations—not just prospective negotiations. Second,  
22 Plaintiffs’ allegations of economic benefit rely on their assertion that the information was  
23 confidential and/or constituted trade secrets, the truth of which is a factual dispute for  
24 summary judgment or trial. *See infra* Part III.A.6. For example, Defendants benefited  
25 from the use of this information through its filing of patent applications—if Defendants  
26 were in fact, the sole recipient of XpandOrtho’s technical information, that exclusive  
27 access constitutes a benefit. If the information was public, however, the benefit would not  
28 exist. Because the issue of whether the information was public raises questions of fact, not

1 appropriate for a motion to dismiss, *see infra* Part III.A.6, Plaintiffs' allegations suffice at  
2 this stage in the proceedings.

3 Finally, Defendants' contention that entering into the NDAs and LOI was not  
4 independently wrongful ignores Plaintiffs' allegations that XpandOrtho relied on  
5 Defendants' misrepresentations in signing the LOI. The alleged misrepresentations form  
6 the wrongful act. Accordingly, the Court **DENIES** Defendants' Motion to Dismiss  
7 Plaintiffs' claim for intentional interference with prospective economic advantage.

8 **ii. UCL Claim**

9 California's UCL prohibits business acts or practices that are: (1) fraudulent, (2)  
10 unlawful, or (3) unfair. *Davenport v. Litton Loan Servicing, LP*, 725 F. Supp. 2d 862, 878  
11 (N.D. Cal. July 16, 2010); *see also Sybersound*, 517 F.3d at 1151 (applying California law).  
12 Each prong of the UCL constitutes a separate and distinct theory of liability. *Kearns v.*  
13 *Ford Motor Co.*, 567 F.3d 1120, 1127 (9th Cir. 2009). Plaintiffs have sufficiently pled a  
14 plausible claim for relief.

15 “A ‘business act or practice’ is ‘unlawful’ under the unfair competition law if it  
16 violates a rule contained in some other state or federal statute.” *Sandoz Inc. v. Amgen Inc.*,  
17 137 S. Ct. 1664, 1673 (2017) (citing *Rose v. Bank of America, N. A.*, 57 Cal. 4th 390, 396  
18 (2013)). Where a plaintiff cannot state a claim under a “borrowed” law, he or she cannot  
19 state a UCL claim, but that is not the case here. *See, e.g., Ingels v. Westwood One Broad*  
20 *Servs., Inc.*, 129 Cal. App. 4th 1050, 1060 (2005) (“A defendant cannot be liable under §  
21 17200 for committing unlawful business practices without having violated another law”);  
22 *see also Silvas v. E-Trade Mortgage Corp.*, 514 F. 3d 1001, 1007 n.3 (9th Cir. 2008).

23 “The ‘unfair’ prong under the UCL, targets conduct that ‘threatens an incipient  
24 violation of an antitrust law, or violates the policy or spirit of one of those laws because its  
25 effects are comparable to or the same as a violation of the law, or otherwise significantly  
26 threatens or harms competition.’” *Satmodo, LLC v. Whenever Commc’ns, LLC*, No. 17-  
27 cv-0192-AJB-NLS, 2017 WL 1365839, at \*8 (S.D. Cal. Apr. 14, 2017) (quoting *Cel-Tech*  
28 *Commc’ns, Inc. v. Los Angeles Cellular Tel. Co.*, 20 Cal. 4th 163, 187 (1999)).

1 Accordingly, a plaintiff must allege that a defendant's conduct "(1) violates the policy or  
2 spirit of the antitrust laws because the effect of the conduct is comparable to or the same  
3 as a violation of the antitrust laws, or (2) it otherwise significantly threatens or harms  
4 competition." *Obesity Rsch. Inst., LLC v. Fiber Rsch. Int'l, LLC*, 165 F. Supp. 3d 937, 953  
5 (S.D. Cal. Feb. 25, 2016) (quoting *People's Choice Wireless, Inc. v. Verizon Wireless*, 131  
6 Cal. App. 4th 656, 662 (2005)) (internal citations omitted).

7 Defendants argue Plaintiffs' allegations for unlawful and unfair practices under the  
8 UCL are insufficiently pled. Motion at 35. First, Defendants contend Plaintiffs have not  
9 pled an injury in fact and a resulting loss of money or property due to the unfair  
10 competition. *Id.* Defendants explain the amount of Plaintiffs' damages are unknown, and  
11 that Plaintiffs do not plead any property belonging to them that Defendants acquired. *Id.*  
12 Second, Defendants argue Plaintiffs' claim for unfair competition does not plead a  
13 violation of antitrust law, or the policy or spirit of such, and therefore, the claim fails. *Id.*  
14 at 36. Finally, Defendants argue Plaintiffs' claim for unlawful acts is not based on a  
15 violation separate from the UCL, and that Plaintiffs' other common law claims do not  
16 suffice. *Id.*

17 Plaintiffs argue the UCL claim is that Defendants used its powerful position in the  
18 medical device field to induce a small startup into signing "an LOI by dangling the prospect  
19 of a blow-out price and promising profitable futures." Oppo. at 27. Plaintiffs argue this  
20 conduct was taken "to frustrate the efforts of its competitor, Exactech, to get a foothold in  
21 the soft tissue balancing industry space," which are precisely the type of acts prohibited by  
22 the unfair prong of the UCL. *Id.* (citing *Satmodo*, No. 3:17-cv-00192, 2017 WL 1365839,  
23 at \*8).

24 Defendants' argument that Plaintiffs do not plead that any of Plaintiffs' property was  
25 acquired by Defendants is incorrect. Throughout the FAC, Plaintiffs allege that Defendants  
26 were given Plaintiffs' devices, as well as confidential, proprietary, and trade secret  
27 information. *See, e.g.*, FAC at 41–47, ¶ 141–61. Plaintiffs further plead they did not  
28 receive all the information back. *See id.* at 51, ¶ 172; 63, ¶ 216. Plaintiffs alleged

1 confidential information is Plaintiffs' property, which Defendants were given. In addition,  
2 Defendants' argument that Plaintiffs fail to state an injury is also incorrect. Plaintiffs' UCL  
3 claim plainly reads:

4 As an additional result of such acts, Plaintiffs have suffered, and will continue  
5 to suffer, irreparable harm by Defendants unlawful practices and unfair  
6 competition, including but not limited to their business reputations, good will,  
7 and stature, in the business community and with its customers, for which there  
is no adequate remedy at law, thereby justifying injunctive relief.

8

9 *Id.* at 108, ¶ 433. Furthermore, although Plaintiffs do not provide a precise sum of their  
10 UCL damages, they allege that the amount will be proven at trial. *Id.* at 108, ¶ 432.  
11 Plaintiffs' prayer for relief provides the contours of Plaintiffs' alleged damages, including  
12 but not limited to Defendants' profits, disgorgement of any unjust monetary gains, and  
13 Plaintiffs' lost profits. *See id.* at 110–111, at ¶¶ 11–14. Finally, while Plaintiffs do not  
14 plead a specific violation of antitrust law, Plaintiffs clearly allege Defendants' intentions,  
15 and the actions taken, to frustrate its competitor, Exactech, in its attempt to acquire  
16 XpandOrtho. *See, e.g., id.* at 38–41, ¶¶ 128–41. Defendants' alleged conduct, including  
17 its intent and the actions taken to disrupt the Exactech negotiations, is conduct that violates  
18 the spirit of antitrust law, because it delayed Exactech's acquisition of XpandOrtho. This  
19 delay removed Exactech from the marketplace for XpandOrtho's technology for a period  
20 of time. *See Satmodo*, No. 17-cv-0192-AJB-NLS, 2017 WL 1365839, at \*8 (finding  
21 conduct that removes a competitor from the marketplace for a period of time “violates the  
22 spirit of antitrust laws and seriously threatens competition”). Plaintiffs also allege harm to  
23 Exactech, based on Exactech's belief “that it was acquiring a company with intellectual  
24 property assets that had not been misappropriated.” *Id.* at 5, ¶ 5; 110, ¶ 14. Accordingly,  
25 Defendants' Motion to Dismiss Plaintiffs' UCL claim for failure to state a claim pursuant  
26 to Rule 8(a) is **DENIED**.

27 **2. Claims Sounding in Fraud**

28 A claim sounds in fraud when the plaintiff “allege[s] a unified course of fraudulent

1 conduct and rel[ies] entirely on that course of conduct as the basis of a claim.” *Vess v.*  
2 *Ciba-Geigy Corp. USA*, 317 F.3d 1097, 1104 (9th Cir. 2003). “[C]laims sounding in fraud  
3 are subject to the heightened pleading requirements of Rule 9(b).” *Goldstein v. Gen.*  
4 *Motors LLC*, 445 F. Supp. 3d 1000, 1010 (S.D. Cal. Apr. 13, 2020). An entire complaint,  
5 or an entire claim within a complaint, can sound in fraud, *see Vess*, 317 F.3d at 1107, but  
6 fraud does not suddenly become an element of such claims. *Mallen v. Alphatec Holdings,*  
7 *Inc.*, 861 F. Supp. 2d 1111, 1125 (S.D. Cal. Mar. 22, 2012), *aff’d sub nom.*, *Fresno Cty.*  
8 *Employees’ Ret. Ass’n v. Alphatec Holdings, Inc.*, 607 F. App’x 694 (9th Cir. 2015) (citing  
9 *In re Daou Sys., Inc.*, 411 F.3d 1006, 1027 (9th Cir. 2005)). Instead, [w]here averments of  
10 fraud are made in a claim in which fraud is not an element, . . . [t]he proper route is to  
11 disregard [the] averments . . . not meeting Rule (9)(b)’s standard and then ask whether a  
12 claim has been stated.” *Mallen*, 861 F. Supp. 2d at 1125 (quoting *Lone Star Ladies Inv.*  
13 *Club v. Schlotzsky’s Inc.*, 238 F.3d 363, 368 (5th Cir. 2001)). “Fraud can be averred by  
14 specifically alleging fraud, or by alleging facts that necessarily constitute fraud . . . ” but  
15 “[a]verments of fraud must be accompanied by ‘the who, what, when, where, and how’ of  
16 the misconduct charged.” *Vess*, 317 F.3d at 1105 (citations omitted); *see also Kearns*, 567  
17 F.3d at 1124.

18 Defendants argue all eight of Plaintiffs’ claims sound in fraud and must therefore  
19 satisfy the heightened pleading standard of Rule 9(b) of the Federal Rules of Civil  
20 Procedure. Motion at 15. Plaintiffs concede that four of their claims do sound in fraud,  
21 including claims for fraud, for breach of the implied covenant of good faith and fair dealing,  
22 for intentional interference with prospective economic advantage, and the UCL claim.  
23 Oppo. at 24–25. However, Plaintiffs argue these four claims already do satisfy Rule 9(b).  
24 *Id.* Plaintiffs contend the remaining four claims, including those for trade secret  
25 misappropriation, for breach of contract, and for copyright infringement, do not sound in  
26 fraud. *Id.* at 23. In *Vess*, the entirety of the complaint was comprised of allegations of a  
27 unified fraudulent course of conduct. 317 F.3d at 1106. That is not the case here. The  
28 detailed allegations set forth in Plaintiffs’ 111-page FAC sufficiently plead all claims for

1 relief.

2 ***i. Trade Secret Misappropriation Claims***

3 To plead a claim for misappropriation of trade secrets, a plaintiff must allege both  
4 the: (1) existence of a trade secret and (2) subsequent misappropriation of that trade secret.  
5 *Pellerin v. Honeywell Int'l, Inc.*, 877 F. Supp. 2d 983, 988 (S.D. Cal. July 6, 2012) (Benitez,  
6 J.). The existence of a protectable trade secret is necessary for a trade secret  
7 misappropriation claim under the California Trade Secrets Act (“CUTSA”) as well as the  
8 federal Defend Trade Secrets Act (“DTSA”). “Federal courts in the Ninth Circuit look to  
9 *Diodes* for guidance on the applicable pleading standard for claims brought under the  
10 CUTSA.” *Navigation Holdings, LLC v. Molavi*, 445 F. Supp. 3d 69, 77 (N.D. Cal. 2020)  
11 (citing, *inter alia*, *Diodes, Inc. v. Franzen*, 260 Cal. App. 2d 244, 253 (1968)). In *Diodes*,  
12 the California Court of Appeal set out the appropriate pleading standard for pleading the  
13 existence of a trade secret:

14  
15 Before a defendant is compelled to respond to a complaint based upon claimed  
16 misappropriation or misuse of a trade secret . . . , the complainant should  
17 describe the subject matter of the trade secret with sufficient particularity to  
18 separate it from matters of general knowledge in the trade or of special  
19 knowledge of those persons who are skilled in the trade, and to permit the  
20 defendant to ascertain at least the boundaries within which the secret lies. If  
21 the subject matter of the claimed trade secret is a manufacturing process, *the plaintiff must not only identify the end product manufactured, but also supply sufficient data concerning the process*, without revealing the details of it, to  
22 give both the court and the defendant reasonable notice of the issues which  
23 must be met at the time of trial and to provide reasonable guidance in  
ascertaining the scope of appropriate discovery.

24 260 Cal. App. 2d at 253 (emphasis added); *see also Pellerin*, 877 F. Supp. 2d at 988.

25 Defendants argue Plaintiffs’ factual allegations related to trade secret  
26 misappropriation focus only on the XO<sup>1</sup> Animation, and that the remaining allegations are  
27 based only “on information and belief.” Motion at 26. Defendants also contend Plaintiffs  
28 are alleging disclosure of trade secrets but are assuming misappropriation without alleging

1 how Defendants “misappropriated the alleged trade secrets to develop its knee-balancing  
2 technology.” *Id.* Finally, Defendants argue Plaintiffs rely on speculation, not facts, which  
3 is insufficient to survive a motion to dismiss. *Id.* at 27.

4 Plaintiffs argue Defendants mischaracterize the trade secrets at issue and base their  
5 argument on the false premise that the other trade secrets alleged do not form the basis of  
6 any claim. Oppo. at 16. Plaintiffs contend the trade secrets particularly described in  
7 paragraph 84 of the FAC are the trade secrets forming the basis of Plaintiffs’ trade secret  
8 and breach of NDA claims. *Id.*

9 Finally, Plaintiffs argue the trade secret allegations are not speculative because they  
10 allege how Defendants misappropriated the trade secrets. Defendants accessed the  
11 information by utilizing XpandOrtho’s reliance on the NDAs, used that information to  
12 develop their own technology, and published that information in their patent applications.  
13 *Id.* at 20–21. Plaintiffs further explain “to the extent Plaintiffs’ allegations are based on  
14 information and belief, it is because, as is typical in trade secret cases, the granular proof  
15 of misappropriation is in the possession of Defendants.” *Id.* at 21.

16 Here, the Court finds Plaintiffs have sufficiently pled trade secret misappropriation.  
17 Plaintiffs list thirteen general trade secrets along with explanations. For example, Plaintiffs  
18 list “[m]anufacturing information for the XO<sup>1</sup> device” as one trade secret, naming the end  
19 product but also explaining that the protected information involves the “[m]aterials used  
20 for the components of the XO<sup>1</sup> device,” and “[t]he processes for joining components of the  
21 XO<sup>1</sup> device together.” FAC, at 26, ¶ 84. In addition, Plaintiffs allege broadly that  
22 “[g]eometry, dynamics, and kinematics of the XO<sup>1</sup> device” constitute a trade secret. *Id.* at  
23 25, ¶ 84. Plaintiffs then provide five specific examples of such, one of them being  
24 “[d]etailed three-dimensional kinematics of the XO<sup>1</sup> as the knee moves through its range  
25 of motion, determined from examining, handling, and measuring the XO<sup>1</sup> device.” *Id.*  
26 Plaintiffs further allege “source code” as a trade secret and go on to state the product the  
27 source code involves, as well as the code’s firmware version with respect to each product.  
28 *Id.* at 27, ¶ 84.

1 Plaintiffs also allege the efforts taken to maintain the secrecy of XpandOrtho’s trade  
2 secrets, including: (1) the use of NDAs; (2) restricting physical access to XpandOrtho’s  
3 facilities—*(i.e.*, a front desk receptionist, key cards, physical keys, and restricted areas with  
4 limited access for written documents), and password protected file-sharing systems. *Id.* at  
5 29–30, ¶¶ 91–95. Reading the FAC in the light most favorable to the non-moving party,  
6 the Court finds Plaintiffs have sufficiently pled the existence of trade secrets.

7 The Court also finds Plaintiffs have sufficiently alleged misappropriation of their  
8 trade secrets. Defendants’ assertion that Plaintiffs allege only three trade secrets disclosed  
9 in Defendants’ patent applications is too self-forgiving. Plaintiffs allege thirteen trade  
10 secrets (with additional subcategories) and refer to those trade secrets collectively as  
11 XpandOrtho’s Trade Secrets. *Id.* at 25–27, ¶ 84. In alleging misappropriation through  
12 patent applications, Plaintiffs refer to XpandOrtho’s “Trade Secrets” several times,  
13 implicating all alleged trade secrets in the patent applications at issue. *Id.* at 66–80, ¶¶  
14 231–32, 236–37, 239, 250, 254–55, 266, 272–73, 275–77. Plaintiffs allege how  
15 Defendants gained access to the trade secrets—through various meetings, discussions, and  
16 evaluations, during which XpandOrtho provided the information pursuant to the NDA. *See*  
17 *e.g.*, *id.* at 37–38, ¶¶ 125–27; 57–58, ¶ 197–201. Plaintiffs allege that Defendants used the  
18 information to develop their own technology, evidenced by XpandOrtho’s information  
19 appearing in Defendants’ published patent applications. *See e.g.*, *id.* at 76, ¶ 264.  
20 Furthermore, Plaintiffs’ allegations, made on information and belief, set out several facts.  
21 For example, Plaintiffs allege that even after calling off the acquisition, “Defendants  
22 refused to return or destroy all the materials obtained from XpandOrtho, including  
23 electronic materials and summaries of testing of confidential XpandOrtho devices . . . .”  
24 *Id.* at 37, ¶ 238. Accordingly, Plaintiffs have successfully stated a claim for trade secret  
25 misappropriation.

26 Regarding Defendants’ assertion that Plaintiffs’ trade secret claims sound in fraud  
27 and are therefore subject to Rule 9(b)’s heightened pleading requirement, it matters little.  
28 When stripped of the fraudulent allegations, Plaintiffs’ claims for trade secret

1 misappropriation remain undisturbed. As stated above, Plaintiffs allege numerous trade  
2 secrets in paragraph 84 of the FAC. In addition, Plaintiffs allege Defendants accessed the  
3 trade secrets pursuant to the NDAs and subsequently published them in patent application  
4 filings. Whether or not Defendants made fraudulent misrepresentations when entering into  
5 the LOI, based on Plaintiffs' allegations, Defendants violated the NDAs by disclosing  
6 confidential trade secret information and thus, misappropriated Plaintiffs' alleged trade  
7 secrets. Therefore, Plaintiffs' claims for misappropriation of trade secrets do not sound in  
8 fraud. Accordingly, the Court **DENIES** Defendants' Motion to Dismiss Plaintiffs' claims  
9 for trade secret misappropriation for failure to state a claim.

10           ii. **Breach of Contract Claim**

11           A claim for relief for breach of contract under California law must show: (1) a legally  
12 enforceable contract between the parties; (2) the defendant's breach of that contract; and  
13 (3) damage to the plaintiff caused by the defendant's breach. *Hickcox-Huffman v. US*  
14 *Airways, Inc.*, 855 F.3d 1057, 1062 (9th Cir. 2017); *McKell v. Wash. Mut., Inc.*, 142 Cal.  
15 App. 4th 1457, 1489 (2006).

16           Plaintiffs describe, and Defendants do not deny, that XpandOrtho and Defendants  
17 signed and agreed to the terms of the 2015 NDA and the 2018 Amendment. Upon these  
18 NDAs, Plaintiffs plead two legally enforceable contracts. Plaintiffs also successfully plead  
19 breach of the NDAs by Defendants, based on allegations that Defendants were not  
20 permitted to disclose confidential information covered by the NDA but did so despite their  
21 contractual obligations. Finally, Plaintiffs sufficiently state damages caused by  
22 Defendants' breach through allegations of lost revenue that Plaintiffs would have received  
23 but for Defendants' violation of the NDAs.

24           All of the above allegations remain intact even absent Plaintiffs' fraud allegations.  
25 Whether or not Defendants made fraudulent misrepresentations when entering into the  
26 LOI, the contract claims do not "sound in fraud" because Plaintiffs plead Defendants  
27 breached the NDA by disclosing confidential information, resulting in alleged damage to  
28 Plaintiffs. Therefore, Plaintiffs' breach of contract claim does not sound in fraud and is

1 subject only to the general pleading standard of Rule (8)(a). The Court **DENIES**  
2 Defendants' Motion to Dismiss Plaintiffs' claim for breach of contract for failure to state  
3 a claim.

4                   **iii. Copyright Infringement Claim**

5                   A violation of copyright infringement requires: (1) ownership of a valid copyright,  
6 and (2) that the defendant copied elements of the protected work. *Skidmore v. Led*  
7 *Zeppelin*, 952 F.3d 1051, 1064 (9th Cir. 2020) (en banc).

8                   Plaintiffs' FAC alleges “[t]he XO<sup>1</sup> Animation is a set of sequential illustrations, and  
9 as such, is a creative artistic work subject to the highest degree of copyright protection.”  
10 FAC at 105, ¶ 412. Plaintiffs further allege “XpandOrtho owns all U.S. copyright rights  
11 in the XO<sup>1</sup> Animation and owns a valid and subsisting copyright registration, U.S. Reg.  
12 No. PAu 4-057-718 for that work.” *Id.* at 105, ¶ 413. Finally, Plaintiffs set forth allegations  
13 that Defendants continue “to engage in, the unauthorized copying, reproduction, and  
14 distribution of the XO<sup>1</sup> Animation, and the unauthorized preparation, reproduction, and  
15 distribution of derivative works based on the XO<sup>1</sup> Animation.” *Id.* at 106, ¶ 414. Plaintiffs  
16 further specify the three images used in Defendants' provisional applications in alleging  
17 infringement. *Id.* at 106, ¶¶ 415–16.

18                   Defendants do not argue the copyright claim fails to meet Rule 8(a)'s pleading  
19 standard—only that it does not meet the heightened standard of Rule 9(b). However, none  
20 of Plaintiffs' fraud allegations, relating to Defendants' misrepresentations to induce  
21 XpandOrtho into signing the LOI, are present in Plaintiffs' allegations for copyright  
22 infringement. Plaintiffs' claim for copyright infringement, therefore, does not “sound in  
23 fraud” and is not subject to Rule 9(b). Accordingly, the Court **DENIES** Defendants'  
24 Motion to Dismiss Plaintiffs' copyright infringement claim for failure to state a claim.

25                   **3. Heightened Pleading Under Rule 9(b)**

26                   “In alleging fraud . . . a party must state with particularity the circumstances  
27 constituting fraud . . . , [while] [m]alice, intent, knowledge, and other conditions of a  
28 person's mind may be alleged generally.” Fed. R. Civ. P. 9(b). “[T]o plead fraud with

1 particularity, the complaint must allege the time, place, and content of the fraudulent  
2 representation; conclusory allegations do not suffice . . . . Claims made on information and  
3 belief are not usually sufficiently particular unless they accompany a statement of facts on  
4 which the belief is founded.” *Shroyer v. New Cingular Wireless Servs., Inc.*, 622 F.3d  
5 1035, 1042 (9th Cir. 2010) (citing *Moore v. Kayport Package Express, Inc.*, 885 F.2d 531,  
6 540 (9th Cir.1989)).

7 As to all claims,<sup>6</sup> Defendants argue Plaintiffs’ fraudulent allegations are “based  
8 solely ‘on information and belief,’ unaccompanied by specific alleged facts as necessary  
9 under Rule 9(b).” Motion at 15–16. That is an over-generalization that does not pan out.  
10 Defendants point to several examples in the FAC of what they claim to be allegations based  
11 solely on information and belief. *Id.* at 16. *See also* FAC at ¶¶ 379, 123, 136, 140, 309,  
12 379, 391, 392, 402, 404. Defendants contend “Plaintiffs’ core [fraud] allegation is based  
13 solely ‘on information and belief’ that ‘Mr. Kreid and [Defendants] did not intend to  
14 acquire XpandOrtho at the offered price,’ and instead ‘actually intended to prevent or  
15 substantially delay . . . . Exactech . . . from acquiring XpandOrtho’s technology.’” Motion  
16 at 16 (citing FAC at 99–100, ¶ 379). Defendants argue that without these allegations,  
17 Plaintiffs’ fraud theory relies on “two primary facts: (1) Plaintiffs allowed Defendants to  
18 access information during the acquisition discussions under an NDA; and (2) Defendants  
19 filed patent applications with images of the XO<sup>1</sup> device.” *Id.* at 16. Defendants contend  
20 these allegations “cannot establish fraud as a matter of law, and the FAC thus fails under  
21 Rule 9(b).” *Id.* Defendants also argue Plaintiffs fail to identify specific individuals and at  
22 most, identify only corporate Defendants. *Id.* Defendants contend that although the fraud  
23 and intentional interference claims “name at least one individual” allegedly involved in  
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26 <sup>6</sup> As established above, the Court will apply the heightened pleadings standard of Rule  
27 9(b) only to Plaintiffs’ claims for fraud, breach of the implied covenant of good faith and  
28 fair dealing, intentional interference with prospective economic advantage, and violation  
of the UCL.

1 some fraudulent conduct, the accompanying allegations include “impermissible non-  
2 limiting language, such as ‘for example’ or ‘including.’” *Id.* at 17 (citing FAC at ¶¶ 367,  
3 379, 398–99, 401–408, 410).

4 Plaintiffs say that the claims subject to Rule 9(b) rest on the “allegations concerning  
5 the negotiations between [Defendants] and XpandOrtho before signing the LOI.” Oppo.  
6 at 24–25. Plaintiffs explain these claims are pled with sufficient particularity, because the  
7 FAC identifies: (1) the who, as Ewald Kreid; (2) the what, as Defendants’ stated  
8 commitment to XpandOrtho based on its intention to profitably develop, manufacture, and  
9 market XpandOrtho’s technology; (3) the when, as May 8, 2018; (4) the where, as email  
10 correspondence; and (5) the how, as Defendants’ inducement of XpandOrtho to sign the  
11 LOI and thereby interrupt negotiations with Exactech. Oppo. at 25. Plaintiffs further  
12 contend that “[t]he text of Rule 9(b) make clear that ‘[m]alice, intent, knowledge, and other  
13 conditions of a person’s mind may be alleged generally.’” *Id.* at 26 (quoting Fed. R. Civ.  
14 P. 9(b)).

15 Reading the allegations in the light most favorable to Plaintiffs, the Court agrees that  
16 those claims involving fraud provide the who, what, when, where, and how required by  
17 Rule 9(b). The FAC identifies Mr. Kreid as the who and Defendants’ commitment to  
18 XpandOrtho to profitably develop, manufacture, and market its technology as the what.  
19 See FAC at 30–31, ¶ 99; 40, ¶ 138. The FAC further pleads May 8, 2018, as the when, and  
20 email correspondence as the where. See *id.* at 30–31, ¶ 99; 40, ¶ 137–38. Finally, Plaintiffs  
21 plead the how as Defendants’ inducement of XpandOrtho to sign the LOI, [REDACTED]  
22 [REDACTED] requiring XpandOrtho to [REDACTED]  
23 [REDACTED]. See, e.g., *id.* at 39, ¶¶ 136–38, 140.

24 Additionally, Defendants’ broad-brush criticism that Plaintiffs’ allegations are made  
25 “on information and belief,” disregards those paragraphs in the FAC that provide specific  
26 factual allegations. Plaintiffs do allege Defendants’ intent based on information and belief,  
27 along with whether certain individuals were Defendants’ employees, representatives, or  
28 consultants. However, these allegations are surrounded by specific factual allegations,

1 such as: (1) Defendants' representations made during discussions with XpandOrtho, (2)  
2 Defendants' initial letter of intent, (3) Defendants' revised and improved LOI, (4)  
3 Defendants' insistence on an [REDACTED]; (5)  
4 Defendants' abrupt termination of the deal with little explanation; and (6) Defendants' use  
5 of XpandOrtho's information in patent filings. *See id.* at 38–40, ¶ 129–39; 62–63, ¶¶ 213–  
6 218. These surrounding facts provide sufficient context and support for those allegations  
7 made on information and belief.

8 Furthermore, the core fraud allegations (which Defendants argue are made on  
9 information and belief) involve Defendants' intentions related to inducing XpandOrtho to  
10 sign the LOI in order to gain access to confidential information and delay Exactech's  
11 prospective acquisition of XpandOrtho. Rule 9(b) specifically permits allegations of  
12 malice, knowledge, and intent to be pled generally. Fed. R. Civ. P. 9(b). Therefore,  
13 Plaintiffs' allegations regarding Defendants' intentions and knowledge are sufficiently  
14 pled under Rule 9(b). Accordingly, the Court **DENIES** Defendants' Motion to Dismiss  
15 Plaintiffs' claims for fraud, breach of the implied covenant of good faith and fair dealing,  
16 intentional interference with prospective economic advantage, and violation of the UCL.

17 **4. Preemption Under CUTSA**

18 CUTSA preempts common law and statutory claims that allege the same nucleus of  
19 facts as a trade secret misappropriation claim. *See Applied Biological Lab'ys, Inc. v.*  
20 *Diomics Corp.*, No. 3:20-cv-2500-AJB-LL, 2021 WL 4060531, at \*5 (S.D. Cal. Sept. 7,  
21 2021) (citing *K.C. Multimedia, Inc. v. Bank of Am. Tech. & Operations, Inc.*, 171 Cal. App.  
22 4th 939, 961 (2009)). “However, state law claims that rely on additional and different facts  
23 or theories of liability than those forming the basis for the trade secret claim are not  
24 preempted . . . .” *Amron Int'l Diving Supply, Inc. v. Hydrolinx Diving Commc'n, Inc.*, No.  
25 11-cv-1890-H-JMA, 2011 WL 5025178, at \*9 (S.D. Cal. Oct. 21, 2011). Specifically,  
26 CUTSA excludes from preemption “(1) contractual remedies, whether or not based upon  
27 misappropriation of a trade secret, [and] (2) other civil remedies that are not based upon  
28 misappropriation of a trade secret . . . .” Cal. Civ. Code § 3426.7.

1 Defendants argue Plaintiffs' claims for fraud, intentional interference with  
2 prospective economic advantage, and violation of the UCL, are preempted by CUTSA and  
3 should therefore, be dismissed. Motion at 18. Defendants contend all of these claims "stem  
4 from the same nucleus of facts" regarding Defendants' acquisition discussions with  
5 XpandOrtho and alleged misuse of XpandOrtho's information. *Id.* at 17. Defendants argue  
6 CUTSA is the exclusive civil remedy for claims based on a nucleus of facts alleging  
7 misappropriation of trade secrets and the wrongful taking of business and proprietary  
8 information. *Id.* at 17–18. Defendants also argue that Plaintiffs' attempt to avoid  
9 preemption by asserting fraud in the FAC but because fraud remains inseparable from the  
10 alleged misappropriation, the claim is preempted. *Id.* at 18–19.<sup>7</sup> Defendants similarly  
11 argue Plaintiffs' allegations of intentional interference with prospective economic  
12 advantage and violation of the UCL cannot support independent claims when "stripped of  
13 the facts supporting trade secret misappropriation." *Id.* at 19–20.

14 Plaintiffs, of course, disagree because their intentional interference claim relies on  
15 conduct separate and apart from their trade secret allegations. Oppo. at 31 (citing *R.R.*  
16 *Donnelley & Sons Co. v. Pappas*, No. 2:21-cv-00753-JAM-AC, 2021 WL 3488502, at \*3  
17 (E.D. Cal. Aug. 9, 2021)). Essentially, Plaintiffs' lawsuit says that Mr. Kreid and others  
18 working on behalf of Defendants made an offer to acquire XpandOrtho, "pushing forward

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<sup>7</sup> Defendants further note that Plaintiffs' fraud claim is also preempted by the Copyright Act "because it relies on alleged harm that is equivalent to that in Plaintiffs' copyright claim—that Defendants misused and disclosed frames from the XO<sup>1</sup> Animation." Motion at 18 n.4. Defendants make this argument in a footnote with no further explanation or analysis. *See id.* Plaintiffs contend the argument fails because the harm resulted from Exactech's delay in acquiring XpandOrtho, and not from the use of the copyrighted images. Oppo. at 33 n.13. Given the dispute and reading the FAC in the light most favorable to the non-moving party, the Court agrees with Plaintiffs. *See also Khoja v. Orexigen Therapeutics, Inc.*, 498 F. Supp. 3d 1296, 1309 (S.D. Cal. Nov. 2, 2020) (quoting *Cheever v. Huawei Device USA, Inc.*, No. 18-cv-06715-JST, 2019 WL 8883942, at \*3 (N.D. Cal. Dec. 4, 2019)) (explaining that parties waive "arguments raised only in footnotes").

1 under the pretense of a potential acquisition,” without a serious interest in acquiring  
2 XpandOrtho. Oppo. at 31. Defendants’ purpose was to “prevent or substantially delay  
3 Exactech and XpandOrtho from consummating their negotiations,” and Defendants caused  
4 this “delay by having XpandOrtho agree to the LOI,” [REDACTED]  
5 [REDACTED] requiring XpandOrtho to [REDACTED]. *Id.* at 31.  
6 Plaintiffs explain that “even if no trade secret misappropriation had taken place, Exactech’s  
7 acquisition of XpandOrtho would have still been delayed as a result of [Defendants’]  
8 interference.” *Id.* at 32. Plaintiffs further argue their fraud and UCL claims fall outside  
9 the scope of CUTSA preemption. *Id.* at 32–33. Plaintiffs contend these claims are “based  
10 in part on misrepresentations made during the LOI negotiation process between April and  
11 May of 2018,” establishing “a clear delineation in time between these allegations and the  
12 allegations that form the basis of Plaintiffs’ trade secret misappropriation claims.” *Id.* at  
13 32.

14 Many district courts have evaluated factual issues related to CUTSA preemption in  
15 deciding motions to dismiss. *See Yeiser Rsch. & Dev. LLC v. Teknor Apex Co.*, 281 F.  
16 Supp. 3d 1021, 1051–52 (S.D. Cal. Nov. 29, 2017) (deciding CUTSA preemption on a  
17 motion to dismiss); *Applied Biological Lab’ys*, No. 3:20-cv-2500-AJB-LL, 2021 WL  
18 4060531, at \*7 (same); *Applied Pro. Training, Inc. v. Mira Costa Coll.*, No. 10-cv-1372-  
19 DMS-MDD, 2011 WL 13127664, at \*3 (S.D. Cal. Aug. 30, 2011) (same). However, other  
20 courts have held that the fact-based analysis of CUTSA preemption is better suited for  
21 summary judgment or trial rather than a motion to dismiss. *See Amron*, No. 11-cv-1890-  
22 H-JMA, 2011 WL 5025178, at \*10 (“Other courts have held that the question of  
23 preemption cannot be addressed prior to determining whether the allegedly  
24 misappropriated information constitutes a trade secret.”); *DJO Glob., Inc. v. Glader*, No.  
25 3:16-cv-02208-CAB-NLS, 2016 WL 11622009, at \*6 (S.D. Cal. Dec. 22, 2016) (“Several  
26 courts have held that the question of whether claims are superseded by CUTSA is a fact-  
27 based inquiry better suited for summary judgment than a motion to dismiss.”); *I-Flow*  
28 *Corp. v. Apex Med. Techs., Inc.*, No. 07-cv-1200-DMS-NLS, 2008 WL 11342258, at \*3

1 (S.D. Cal. Apr. 14, 2008) (explaining factual disputes related to CUTSA preemption could  
2 not be resolved at the motion to dismiss stage, and holding there was no preemption  
3 because, assuming the allegations were true, the non-trade secret allegations formed the  
4 basis of the claims); *Bryant v. Mattel, Inc.*, No. CV 04-9049 DOC-RNBx, 2010 WL  
5 3705668, at \*22 (C.D. Cal. Aug. 2, 2010) (holding that determination of whether  
6 information constitutes trade secrets, for purposes of determining CUTSA preemption,  
7 could “be addressed at summary judgment and/or trial.”); *U.S. Legal Support, Inc. v.*  
8 *Hofioni*, No. CIV. S-13-01770-LKK-AC, 2013 WL 6844756, at \*11 (E.D. Cal. Dec. 20,  
9 2013) (holding that “the question of supersession [by CUTSA] is properly addressed at  
10 summary judgment” and not through a motion to dismiss).

11 Here, Plaintiffs’ FAC describes thirteen trade secrets and provides details. *See* FAC  
12 at 25–27, ¶ 84. Due to the largely fact-specific analysis required to determine whether the  
13 alleged confidential information constitutes trade secrets, the Court finds determination of  
14 CUTSA preemption improper at this stage in the proceedings. Accordingly, the Court  
15 **DENIES** Defendants’ Motion to Dismiss Plaintiffs’ claims for fraud, intentional  
16 interference with prospective economic advantage, and violation of the UCL as preempted  
17 by CUTSA.

18 Even if the Court were to assume, *arguendo*, the information alleged constitutes  
19 trade secrets, the claims at issue are premised on additional and separate facts. Plaintiffs’  
20 claims for fraud, intentional interference with prospective economic advantage, and UCL  
21 violations rest on the alleged misrepresentations set forth while negotiating the LOI.  
22 Although these misrepresentations led to Defendants’ access to the alleged trade secret  
23 information, Defendants’ misuse of such occurred afterward and is alleged separate and  
24 apart from the misrepresentations. Taking away the misappropriation allegations, the  
25 claims at issue remain based on misrepresentations made during the LOI process and the  
26 resulting delay of Exactech’s acquisition of XpandOrtho. Because the claims at issue have  
27 independent factual bases and are therefore, at least in part, not based on the same nucleus  
28 of facts involving the trade secret misappropriation claims, the Court would deny the

1 motion to dismiss Plaintiffs' claims for fraud, intentional interference with prospective  
2 economic advantage, and violation of the UCL as preempted by CUTSA.

3 **5. Improper Venue**

4 In passing, Defendants argue that the claims for breach of the implied covenant of  
5 good faith and fair dealing and for intentional interference with prospective economic  
6 advantage should be dismissed due to improper venue. Motion at 21. Defendants rely  
7 solely on 28 U.S.C. § 1406(a) and Rule 12(b)(3) in their short argument.<sup>8</sup> They do not  
8 discuss the doctrine of *forum non conveniens*. They do not mention 28 U.S.C. § 1404(a).

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11       First, Defendants suggest that the claim for breach of the implied covenant of good  
12 faith and fair dealing arises from the LOI and Defendants' alleged larger effort to delay or  
13 stop negotiations between XpandOrtho and Exactech. Motion at 21. Second, Defendants  
14 contend that the intentional interference with prospective economic advantage claim  
15 involves Defendants' alleged interference with XpandOrtho and Exactech's prospective  
16 relationship, which caused XpandOrtho to end discussions with Exactech and enter into  
17 the LOI with Defendants. *Id.* Defendants argue both of these claims rely on the LOI, and  
18 the LOI contains a forum-selection clause specifying Wilmington, Delaware as the  
19 exclusive venue for actions arising out of or related to the LOI.<sup>8</sup> *Id.* at 21–22.

20       Plaintiffs take the position that Defendants waived their venue argument when they  
21 agreed not to challenge venue while seeking more time to respond to Plaintiffs' original  
22 complaint. Oppo. at 34. Plaintiffs explain Defendants' waiver also should apply to the  
23 FAC, because the original complaint involved the same parties and factual circumstances,  
24 and repeatedly mentioned the LOI. *Id.* Plaintiffs point out that even if Defendants did not  
25 waive their venue challenge, it should fail because Exactech was not a party to the LOI and  
26 did not consent to the forum-selection clause. *Id.*

27       Defendants reply that their "agreement not to challenge venue in response to  
28 Plaintiffs' original complaint does not apply to the FAC because Plaintiffs revised the  
fundamental basis for" the claims at issue. Reply at 13. Defendants assert "Plaintiffs never  
indicated that they would add the LOI as a basis for their claims when they requested a  
venue waiver." *Id.* at 13 n.10. Defendants explain the original complaint based the  
applicable claims on the NDAs, but the FAC based them on the LOI, which is an entirely  
different agreement containing a forum-selection clause. *Id.* at 14. Defendants further  
argue Exactech is XpandOrtho's parent company and bound by the LOI. *Id.* at 13.  
Defendants contend Exactech cannot sue based on the LOI and then claim it is not subject  
to the LOI's forum-selection clause. *Id.*

1       The argument is untenable. In *Atlantic Marine Const. Co. v. U.S. Dist. Ct. for W.*  
2 *Dist. of Texas*, the Supreme Court concludes “that §1406(a) and Rule 12(b)(3) are not  
3 proper mechanisms to enforce a forum-selection clause.” 571 U.S. 49, 61 (2013). “The  
4 appropriate way to enforce a forum-selection clause pointing to a state or foreign forum is  
5 through the doctrine of *forum non conveniens*,” which applies § 1404(a) rather than §  
6 1406(a). *Atlantic Marine*, 571 U.S. at 55. The Court explains that when deciding a transfer  
7 correctly based on a forum-selection clause, the court should consider only public interest  
8 factors, because the clause acts as a waiver of the plaintiff’s private interests. *Id.* at 64.

9       Because Defendants rely solely on Rule 12(b)(3) and 28 U.S.C. § 1406(a), the  
10 motion is denied. *Atlantic Marine*, 571 U.S. at 61; *see also Depuy Synthes Sales, Inc. v.*  
11 *Howmedica Osteonics Corp.*, No. 21-55126, 2022 WL 761495, at \*10 (9th Cir. 2022)  
12 (applying 28 U.S.C. § 1404(a) in determining whether the district court abused its  
13 discretion when it denied transfer based on a forum-selection clause). Defendants’  
14 improper mechanism for enforcement of the forum-selection clause is reason enough to  
15 deny Defendants’ Motion to Dismiss for improper venue. Had they instead argued venue  
16 on the correct grounds, the outcome would not change. If one were to use the proper §  
17 1404(a) analysis and consider the public interest factors for transfer, the fact that  
18 Defendants seek to dismiss or transfer only two of Plaintiffs’ eight claims is a unique factor.  
19 Considering only public interest factors, separating the lawsuit among two different courts  
20 on opposite sides of the country would lead to inefficiency, delay, and multiplication of  
21 expensive proceedings. It would needlessly waste scarce judicial resources through largely  
22 unnecessary duplication of judicial efforts which could lead to varying outcomes.  
23 Therefore, consistent with Supreme Court precedent, and Rule 1 of the Federal Rules of  
24 Civil Procedure,<sup>9</sup> the Court **DENIES** Defendants’ Motion to Dismiss for improper venue.

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27       <sup>9</sup> Rule 1 states that all of the Rules “should be construed, administered, and employed  
28 by the court and the parties to secure the just, speedy, and inexpensive determination of  
every action and proceeding.” Fed. R. Civ. P. 1.

1                   **6. Publication of Trade Secrets and Confidential Information**

2                   As stated *supra*, Plaintiffs have sufficiently pled claims for breach of contract and  
3 misappropriation of trade secrets under the DTSA and CUTSA. *See supra* Part III.A.2.i–  
4 ii. Now, however, Defendants argue Plaintiffs’ claims for trade secret misappropriation  
5 and breach of contract should be dismissed because they “are premised solely on  
6 [Defendants’] alleged misuse or disclosure of *public* information.” Motion at 22.  
7 Defendants contend XpandOrtho published the information that it now alleges are trade  
8 secrets, “in journal articles, patent applications and conference papers at least a year before  
9 any alleged misappropriation.” *Id.* at 23. Specifically, Defendants contend Plaintiffs  
10 published: (1) three images taken from the XO<sup>1</sup> Animation; (2) the concept of the  
11 unicompartmental (*i.e.*, unicondylar) pneumatic trial implant; and (3) the concept of using  
12 magnetic sensors to measure displacement. *Id.* at 23–25. Defendants argue the breach of  
13 contract claim should also be dismissed because the trade secrets are public, explaining the  
14 NDAs cover only proprietary information, which does not extend to public information.  
15 *Id.* at 26

16                   In so arguing, Defendants rely almost entirely on a factual challenge to the  
17 confidential nature of the XpandOrtho Trade Secrets. Plaintiffs’ FAC alleges  
18 XpandOrtho’s efforts to protect its confidential and trade secret information. *See* FAC at  
19 29–30, ¶¶ 91–95. Plaintiffs’ allegations create a clear factual dispute as to whether the  
20 information qualifies as protectable trade secrets.

21                   Essentially, Defendants ask the Court to conclude Plaintiffs’ alleged trade secrets  
22 are not at all secret. Defendants attach to the Pade Declaration several Exhibits, which it  
23 claims prove XpandOrtho’s trade secrets were publicized. *See* Exhibits A, B, C, D, E, F,  
24 and I to Pade Decl. The Exhibits include scholarly articles in medical journals, a scholarly  
25 poster, patent applications, the XO<sup>1</sup> user manual, and screenshots from the XO<sup>1</sup>

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1 Animation.<sup>10</sup> *See id.* After a cursory review of the Exhibits, the Court does not find clear  
2 publications of the alleged trade secrets on the face of these documents. For example,  
3 Defendants argue Plaintiffs previously disclosed the concept of a unicompartmental or  
4 unicondylar pneumatic trial implant and the Court only finds the words unicompartmental  
5 and condylar in certain Exhibits. In addition, although one of the selected images in the  
6 FAC and in Exhibit A appear identical, reading the FAC in the light most favorable to  
7 Plaintiffs, that particular image could be relating to Plaintiffs' copyright infringement claim  
8 because it comes from the XO<sup>1</sup> Animation and involves Defendants' patent illustrations.  
9 *See* FAC at 75, ¶ 261; Exhibit A to Pade Decl. at 4.

10 To definitively determine whether the alleged trade secrets were previously public,  
11 the Court would need to engage in an in-depth analysis of these highly technical documents  
12 and resolve factual disputes between the parties. Such an analysis would require  
13 converting the motion to dismiss into a motion for summary judgment. Therefore, the  
14 Court declines to resolve these fact-specific arguments. *See E. & J. Gallo Winery v.*  
15 *Instituut Voor Landbouw-En Visserijonderzoek*, No. 1:17-cv-00808-DAD-EPG, 2018 WL  
16 2463869, at \*6 (E.D. Cal. June 1, 2018) ("The court concludes that the issue of whether all  
17 of plaintiffs' alleged trade secrets have been publicly disclosed is a factual issue which is  
18 properly the subject of discovery."); *Nelson Bros. Pro. Real Est. LLC v. Jaussi*, No. SA  
19 CV 17-0158-DOC-JCGx, 2017 WL 8220703, at \*5 (C.D. Cal. Mar. 23, 2017) (citing *DVD*  
20 *Copy Control Ass'n., Inc. v. Bunner*, 116 Cal. App. 4th 241, 252 (2004)) ("Whether the  
21 alleged trade secrets are actually generally known to the public is a question of fact and  
22 beyond the scope of a motion to dismiss."). Accordingly, the Court **DENIES** Defendants'

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25<sup>10</sup> Defendants filed a Motion to File Certain Exhibits, including the XO<sup>1</sup> Animation,  
26 (Exhibit G and O to Pade Decl.), Non-Electronically. ECF No. 45. The Court granted this  
27 Motion but did not receive the specified Exhibits. ECF No. 73. However, based on the  
28 screenshots of the XO<sup>1</sup> Animation provided, and the Court's conclusion that it will not  
resolve factual disputes at this stage, the Exhibits are unnecessary for deciding the instant  
Motion to Dismiss.

1 Motion to Dismiss Plaintiffs' misappropriation of trade secret and breach of contract  
2 claims.

3 **7. Fair Use Under the Copyright Act**

4 "The fair use defense permits courts to avoid rigid application of the copyright  
5 statute when, on occasion, it would stifle the very creativity which the law is designed to  
6 foster." *Dr. Seuss Enterprises, L.P. v. ComicMix LLC*, 983 F.3d 443, 451 (9th Cir.  
7 2020), *cert. denied*, 141 S. Ct. 2803 (2021), (quoting *Dr. Seuss Enters., L.P. v. Penguin*  
8 *Books USA, Inc.*, 109 F.3d 1394, 1399 (9th Cir. 1997)). Defendants argue Plaintiffs' claim  
9 for copyright infringement of the XO<sup>1</sup> Animation should be dismissed because Defendants'  
10 use of the images constitutes fair use.<sup>11</sup> Motion at 27. Defendants explain they used three,  
11 low-resolution figures from the XO<sup>1</sup> Animation to "illustrate the functionality of a medical  
12 device that XpandOrtho itself publicly disclosed . . ." to show "ORTHOsoft's  
13 improvements to its surgical knee replacement robot . . ." *Id.* Defendants argue "[f]air  
14 use can be resolved on a motion to dismiss where all of the material facts are properly  
15 before the court and not in dispute." *Id.* at 28 (citing *Leadsinger, Inc. v. BMG Music Pub.*,  
16 512 F.3d 522, 530 (9th Cir. 2008)).

17 Defendants argue the purpose and character of their use of the XO<sup>1</sup> Animation is  
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20 <sup>11</sup> The following factors are considered into determining whether the use of a work  
21 constitutes fair use:

22 (1) the purpose and character of the use, including whether such use is of a  
23 commercial nature or is for nonprofit educational purposes;  
24 (2) the nature of the copyrighted work;  
25 (3) the amount and substantiality of the portion used in relation to the  
26 copyrighted work as a whole; and  
27 (4) the effect of the use upon the potential market for or value of the  
28 copyrighted work.

17 U.S.C.A. § 107(1)–(4).

1 transformative, because they were used “to show the Patent Office and public an  
2 improvement in the field of knee replacements surgery . . . .” *Id.* at 29. Defendants contend  
3 the still images are shown “in a fundamentally different context than the XO<sup>1</sup> Animation.  
4 *Id.* Defendants also claim the purpose of use was to advance science and “not to generate  
5 revenue from commercial exploitation . . . .” *Id.* Defendants argue the nature of the XO<sup>1</sup>  
6 Animation is factual, meaning it is afforded less protection under copyright law. *Id.* at 29–  
7 30. Defendants argue there is less protection because the images have been published  
8 (which the Court already refused to decide). *Id.* at 30. Defendants argue the substantiality  
9 of the portions used from the XO<sup>1</sup> Animation is reasonable, because the use consisted of  
10 only three, black and white, isolated still frames from the three-minute Animation. *Id.*  
11 Finally, Defendants argue “there is no market for the XO<sup>1</sup> Animation that could be  
12 affected” and even if there were, the only harm to Plaintiffs would be “the loss of  
13 opportunity to license the XO<sup>1</sup> Animation to [Defendants] and” other unnamed entities. *Id.*  
14 at 31. Defendants’ Reply asserts similar arguments. Reply at 14–15.

15 Plaintiffs counter that the FAC sufficiently pleads copyright infringement because it  
16 alleges “XpandOrtho owns the valid copyright for the XO<sup>1</sup> Animation” and “Defendant[s]  
17 copied protected elements in the XO<sup>1</sup> Animation in their patent applications.” Oppo. at 24.  
18 Plaintiffs also argue Defendants’ affirmative defense of fair use is not appropriate for a  
19 motion to dismiss, where facts are in dispute and all inferences must be drawn in favor of  
20 Plaintiffs. *Id.* at 35. Plaintiffs set forth their factual disputes and further contend that even  
21 if the Court were to analyze the issue of fair use, Defendants’ arguments are lacking.<sup>12</sup> *Id.*

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22  
23 <sup>12</sup> Plaintiffs argue the use of the XO<sup>1</sup> Animation is not transformative because as  
24 Defendants state in their Motion, the “figures are used to ‘illustrate the functionality of [an  
25 XpandOrtho] medical device.’” *Id.* at 37 (citing Motion at 17). Plaintiffs also claim that  
26 copying the images was a shortcut so that Defendants would not have to “creat[e] their own  
27 illustration or, pay[] to license an illustration . . . .” and therefore, the use was to save costs.  
28 Oppo. at 37. Plaintiffs contend that Defendants ask the Court to disregard the commercial  
nature of Defendants’ use of the images, because “a patent’s primary function [is] to  
provide a limited monopoly on making, using, and selling the claimed invention for the

1 at 35–36.

2       Although the Court may decide fair use at the motion to dismiss stage, here,  
3 Plaintiffs dispute several facts regarding the copyrighted work, such as: (1) whether use of  
4 the images to illustrate functionality constitutes transformative work; (2) the creative  
5 versus factual nature of the work; (3) the video compared to the visual portions of the work  
6 submitted to the Copyright Office; (4) the qualitative distinction between the images in the  
7 video as compared to those in the patent application; and (5) the commercial benefits of  
8 using the images, such as use in the patent illustration industry. *See id.* at 37–38. Given  
9 the numerous factual issues in dispute, it would be improper to resolve the question of  
10 Defendants’ fair use on a motion to dismiss; the issue is better suited for summary judgment  
11 or trial. *See Leadsinger*, 512 F.3d at 530 (explaining that deciding fair use on a motion to  
12 dismiss is unusual, but may be proper when no material facts are in dispute); *Dr. Seuss*,  
13 256 F. Supp. at 1104 (citing *Leadsinger*, 512 F.3d at 530) (explaining that because fair use  
14 analysis is a question of law and fact, it is “usually adjudicated either at trial or on a motion  
15 for summary judgment where no material facts are in dispute); *ESI Grp. v. Wave Six, LLC*,  
16 No. 3:17-cv-02293-AJB-NLS, 2018 WL 6588524, at \*5 (S.D. Cal. Sept. 25, 2018) (holding  
17 analysis of the fair use defense as premature in deciding a motion to dismiss); *Browne v.*  
18 *McCain*, 611 F. Supp. 2d 1073, 1078 (C.D. Cal. Feb. 20, 2009) (“[I]n order to undertake  
19 the fair use analysis, a court usually must make factual findings, or rely on undisputed or  
20 \_\_\_\_\_

21 owner’s commercial benefit.” *Id.* Plaintiffs also claim the XO<sup>1</sup> Animation is creative due  
22 to the included set of sequential illustrations, thus affording copyright protection. *Id.* at 38;  
23 *see also* FAC at 81, ¶ 286. Plaintiffs further argue the copyrighted work is not the two-  
24 minute video as a whole, but “the visible portions of the work that were submitted to the  
25 Copyright Office for registration.” Oppo. at 38. Plaintiffs contend that Defendants fail to  
26 explain how the cropping, resizing, and displayed modifications qualitatively distinguish  
27 the images used in the patent applications from the XO<sup>1</sup> animation. *Id.* Finally, Plaintiffs  
28 claim Defendants make conclusory statements that there is no market for the XO<sup>1</sup>  
Animation, and that given the patent illustrations industry and Defendants’ lack of evidence  
to support this claim, the factor weighs in favor of Plaintiffs. *Id.* at 39.

1 admitted material facts.”). Accordingly, the Court **DENIES** Defendants’ Motion to  
2 Dismiss Plaintiffs’ claim for copyright infringement on the basis of fair use.

3 **B. Request for Judicial Notice**

4 Federal Rule of Evidence 201 authorizes a court to take judicial notice of facts “not  
5 subject to reasonable dispute because [they] ... can be accurately and readily determined  
6 from sources whose accuracy cannot reasonably be questioned.” Fed. R. Evid. 201(b). A  
7 court may take judicial notice of documents “whose contents are alleged in a complaint  
8 and whose authenticity no party questions, but which are not physically attached to the  
9 plaintiff’s pleading.” *Knievel v. ESPN*, 393 F.3d 1068, 1076 (9th Cir. 2005).

10 Defendants seek judicial notice of nineteen Exhibits attached to the Pade  
11 Declaration, including Exhibits A–G, and I–T. ECF No. 44-1 at 2–4. Defendants argue  
12 Exhibits D, I, J, N, O, P, and T constitute records or reports from government agencies and  
13 are therefore, subject to judicial notice. *See* ECF No. 44-1 at 5–6. Defendants argue  
14 Exhibits A–C and E–G are also “subject to judicial notice because these materials are  
15 voluntarily published scientific journal articles and presentations readily available online  
16 and accessible to the public.” ECF No. 44-1 at 6–7. Defendants argue Exhibits A–C and  
17 E–G are “not subject to reasonable dispute by Plaintiffs” because they were published by  
18 XpandOrtho or its representatives (*i.e.*, Dr. Colwell and Dr. D’Lima). Defendants argue  
19 Exhibits K (the LOI), L (the 2015 NDA), and M (the 2018 Amendment), are subject to  
20 judicial notice, “because Plaintiffs explicitly and extensively discussed and relied on these  
21 documents in their” FAC, incorporating them by reference. ECF No. 44-1 at 7–8. Finally,  
22 Defendants argue Exhibits Q, R, and S are subject to judicial notice because they are  
23 foreign court documents. ECF No. 44-1 at 8.

24 Plaintiffs do not oppose the Court taking “judicial notice of Exhibits L and M, but  
25 do oppose the use of these exhibits to resolve factual issues in a Rule 12(b)(6) motion,  
26 which [Plaintiffs argue] Defendants ask the Court to do.” ECF No. 49 at 5. Plaintiffs  
27 explain that although the Court may incorporate by reference documents referred to in the  
28 FAC, “it is improper to use incorporated documents ‘only to resolve factual disputes

1 against the plaintiff's well-pled allegations in the complaint.”” ECF No. 49 at 5 (citing  
2 *Khoja*, 899 F.3d at 1014). On the other hand, Plaintiffs do oppose the Court taking judicial  
3 notice of Exhibits A–G, I, J, and T “to show XpandOrtho’s trade secrets were public or  
4 disclosed at the relevant time period.” ECF No. 49 at 3. Plaintiffs explain Defendants are  
5 attempting “to resolve disputed issues of fact relating to . . . the scope of the trade secrets  
6 and whether the trade secrets are generally known.” *Id.* Plaintiffs argue these contested  
7 factual disputes are “beyond the scope of a motion to dismiss.” *Id.* at 4 (quoting *Nelson*  
8 *Bros.*, No. SA CV 17-0158-DOC-JCGx, 2017 WL 8220703, at \*5).

9 The Exhibits<sup>13</sup> for which Defendants seek judicial notice are largely used in arguing  
10 the merits of Defendants’ defense in this case. Exhibits A through G, I, L, and M are used  
11 to argue that Plaintiffs’ alleged trade secrets were publicized and therefore, not offered  
12 protection under the NDAs. *See* Motion at 24–26; Exhibit 2 to Motion at 2–3, 12–15. The  
13 Court has already determined this issue will not be decided today. *See supra* Part III.A.6.  
14 Exhibit K is used to argue improper venue, which the Court also denies. *See supra* Part  
15

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16  
17 <sup>13</sup> Exhibits A and B are two scholarly journal articles authored by Dr. Colwell and Dr.  
18 Dr. D’Lima (among others) and Exhibit C is a Poster from the Orthopedic Research Society  
19 2016 Annual Meeting. Exhibits A, B, and C to Pade Decl. Exhibit D is a 2015 patent  
20 application submitted by XpandOrtho, listing Dr. Colwell and Dr. D’Lima as two of the  
21 inventors, and Exhibit I is a 2013 patent application submitted by Dr. Colwell and Dr.  
22 D’Lima. Exhibits D and I to Pade Decl. Exhibit E is XpandOrtho’s XO<sup>1</sup> User Manual.  
23 Exhibit E to Pade Decl. Exhibit F are screenshots from the XOAir Animation. Exhibit F  
24 to Pade Decl. Exhibit G was not received by the Court but is said to be the XOAir  
25 Animation. Exhibit G to Pade Decl. Exhibit J is a 2018 patent submitted by Defendants.  
26 Exhibit J to Pade Decl. Exhibit K is the LOI executed between Defendants and  
27 XpandOrtho. Exhibit K to Pade Decl. Exhibits L and M are the 2015 NDA and the 2018  
28 Amendment between Defendants and XpandOrtho. Exhibits L and M to Pade Decl.  
Exhibit O was not received by the Court but is said to be the copyrighted XO<sup>1</sup> Animation,  
and Exhibit N is the official certification issued by the U.S. Copyright Office. Exhibits N  
and O to Pade Decl. Exhibit P is a letter sent to the U.S. Copyright Office as an attachment  
to the XO<sup>1</sup> Animation. Exhibit P to Pade Decl. Exhibits Q, R, S, and T are foreign court  
filings and opinions. Exhibits Q, R, and S to Pade Decl. Exhibit T is a Securities and  
Exchange Commission Form. Exhibit T to Pade Decl.

1 III.A.5; Motion at 21. Exhibits N, O, and P are used to support Defendants' fair use  
2 argument in the context of Plaintiffs' copyright claim, which the Court likewise will not  
3 decide today. *See supra* Part III.A.7; Motion at 11, 13, 29, 30. Exhibits Q, R, and S are  
4 used to support Defendants' Motion to Strike, which the Court denies based on the  
5 relevance of the allegations. *See infra* Part III.C.1.; Motion at 38, 44. Finally, Exhibits J  
6 and T are used to argue that Defendants were working on a device prior to commencing  
7 due diligence with XpandOrtho, which is a factual dispute improper for resolution here.  
8 *See* Motion at 12, 23 n.9.

9 Because the Court finds the documents unnecessary for deciding today's Motion to  
10 Dismiss and Motion to Strike, Defendants' Request for Judicial Notice is **DENIED**. *See*  
11 *Kahn by & through Kahn v. San Diego Unified Sch. Dist.*, No. 3:17-cv-01008-BEN-WVG,  
12 2018 WL 1963743, at \*2 (S.D. Cal. Apr. 25, 2018) (denying a request for judicial notice  
13 because the court found the documents unnecessary to resolve the motion to dismiss); *Bols*  
14 *v. Newsom*, 515 F. Supp. 3d 1120, 1124 n.1 (S.D. Cal. Jan. 26, 2021) (Benitez,  
15 J.), *reconsideration denied sub nom. JD Bols v. Newsom*, No. 20-cv-873-BEN-BLM, 2021  
16 WL 1313545 (S.D. Cal. Apr. 8, 2021) (quoting *In Re Samsung Galaxy Smartphone Mktg.*  
17 & *Sales Practices Litig.*, No. 16-cv-06391-BLF, 2020 WL 7664461, at \*4 (N.D. Cal. Dec.  
18 24, 2020)) ("A court is not required to take judicial notice of judicially noticeable  
19 information.").

20 **C. Motion to Strike**

21 Defendants move to strike portions of Plaintiffs' FAC, and Plaintiffs request to strike  
22 Exhibits 2, 3, and 4 to Defendants' Motion to Dismiss. Motion at 36–37; Oppo. at 15.

23 **1. Defendants' Motion to Strike Portions of the FAC**

24 Defendants move to strike certain allegations in Plaintiffs' FAC as immaterial,  
25 impertinent, and scandalous pursuant to Rule 12(f) of the Federal Rules of Civil Procedure.  
26 Motion at 36–37. Specifically, Defendants move to strike "pages 2–3, paragraph 6, and  
27 Section XI (paragraphs 298–309) regarding Defendants' alleged conduct in other cases . .  
28 . ." Motion at 37. Defendant argues these portions of the FAC relate to three independent

1 matters: (1) an ITC case involving Defendants and third-party, Haraeus; (2) *Howmedica*  
2 *Osteonics v. Zimmer*, No. 2:11-cv-01857-DMC-JBC (D.J.N.); and (3) [REDACTED]  
3 [REDACTED]. Motion at 37. Defendants argue the matters have “no relevance  
4 to the dispute between Plaintiffs and [Defendants], would effectively require re-litigating  
5 the unrelated cases, and is offered merely to disparage” Defendants. *Id.*

6 Federal Rule of Civil Procedure 12(f) allows a court to “strike from a pleading an  
7 insufficient defense or any redundant, immaterial, impertinent, or scandalous matter.”  
8 Immaterial matters are “those which ha[ve] no essential or important relationship to the  
9 claim for relief or the defenses being pleaded.” *Fantasy, Inc. v. Fogerty*, 984 F.2d 1524,  
10 1527 (9th Cir. 1993), *rev’d on other grounds*, 510 U.S. 517 (1994) (internal quotation  
11 marks omitted). Impertinent matters “do not pertain, and are not necessary, to the issues  
12 in question.” *Id.* (internal quotation marks omitted). “Scandalous matters are those that  
13 reflect cruelly upon a person’s moral character, use repulsive language, or detract from the  
14 dignity of the court.” *Jadwin v. County of Kern*, 2007 WL 3119670, at \*1 (S.D. Cal Oct.  
15 23, 2007) (citing *Skadegaard v. Farrell*, 578 F. Supp. 1209, 1221 (D.N.J. Jan. 19, 1984),  
16 *overruled on other grounds*, *Aitchison v. Raffiani*, 708 F.2d (3rd Cir. 1983)).

17 The purpose of a Rule 12(f) motion “is to avoid the expenditure of time and money  
18 that must arise from litigating spurious issues by dispensing with those issues prior to trial.”  
19 *Whittlestone, Inc. v. Handi-Craft Co.*, 618 F.3d 970, 973 (9th Cir. 2010) (internal quotation  
20 marks omitted). “Motions to strike are generally disfavored and ‘should not be granted  
21 unless the matter to be stricken clearly could have no possible bearing on the subject of the  
22 litigation.’” *Luxul Tech. Inc. v. NectarLu, LLC*, No. 14-cv-03656-LHK, 2015 WL  
23 4692571, at \*3 (N.D. Cal. Aug. 6, 2015) (quoting *Platte Anchor Bolt, Inc. v. IHI, Inc.*, 352  
24 F. Supp. 2d 1048, 1057 (N.D. Cal. Apr. 19, 2004)). The decision to grant a motion to strike  
25 ultimately lies within the discretion of the trial court. *Rees v. PNC Bank, N.A.*, 308 F.R.D.  
26 266, 271–72 (N.D. Cal. Apr. 7, 2015) (citing *Whittlestone*, 618 F.3d at 973); *see*  
27 *Whittlestone*, 618 F.3d at 973 (“We review the district court’s decision to strike matter  
28 pursuant to Federal Rule of Civil Procedure 12(f) for abuse of discretion.”) (internal

1 quotation marks omitted).

2 First, Defendants argue the ITC case with Heraeus resulted in no finding of  
3 violations, that some of Heraeus's alleged trade secrets were not trade secrets, and that the  
4 case involved bone cements—not soft tissue balancing technology. Motion at 37–38.  
5 Second, Defendants argue the *Howmedica* case is mischaracterized by Plaintiffs, over ten  
6 years old, and “related to a preliminary injunction, which did not decide any liability . . .”  
7 and “settled without any material findings against [Defendants].” *Id.* at 39. Defendants  
8 further argue the case involved “the mobility of sales personnel in the spinal medical device  
9 industry,” which is “wholly unrelated to the present case.” Motion at 39. Finally,  
10 Defendants argue its history with [REDACTED] is immaterial because “it involves unrelated  
11 negotiations with no relevance to Plaintiffs’ claims.” *Id.* at 40. Defendants also contend  
12 Plaintiffs allege no facts of any “wrongdoing in [Defendants’] interactions with [REDACTED] . . .  
13 . . .” *Id.* Defendants explain the matter “involved an independent due diligence process  
14 with an entirely different entity,<sup>10</sup> and [REDACTED] ultimately backed out from  
15 acquisition discussions.” *Id.*

16 Plaintiffs argue Defendants failed to satisfy their Rule 12(f) burden, because  
17 Defendants cannot prove “the allegations at issue could have ‘no possible bearing’ on the  
18 litigation.” Oppo. at 39–40 (citing *Simpson Performance Prods., Inc. v. NecksGen Inc.*,  
19 No. 3:18-cv-01260-BEN-MDD, 2019 WL 4187463, at \*3 (S.D. Cal. Mar. 25, 2019)  
20 (Benitez, J.)). Plaintiffs further argue the allegations are material to exemplary damages,  
21 because when deciding whether to award such damages, “a court will consider whether the  
22 conduct involved repeated actions or was an isolated incident.” Oppo. at 40 (citations  
23 omitted). Plaintiffs also argue the allegations are not scandalous because Defendants’  
24 actions “are indications of [Defendants’] repeated practice of trade secret  
25 misappropriation.” *Id.* at 44. Plaintiffs argue the language may be strong but it is not  
26 scandalous, because it does “nothing more than accurately describe facts pertaining to  
27 [Defendants’] own repetitive misconduct.” *Id.*

28

1 Plaintiffs' allegations could have relevance to their claims. *Wilson v. Wal-Mart*  
2 *Stores, Inc.*, No. 05-cv-1216-BEN-BLM, 2005 WL 3477827, at \*5 (S.D. Cal. Oct. 12,  
3 2005) (quoting *Miller v. Group Voyagers, Inc.*, 912 F.Supp. 164, 168 (E.D. Pa. Jan. 26,  
4 1996)) ("Motions to strike 'are not favored and will generally be denied unless the material  
5 bears no possible relation to the matter at issue and may result in prejudice to the moving  
6 party.'"). The Court will not decide whether those allegations are true at this stage in the  
7 proceedings or the extent to which they are relevant.

8 It is well established that district courts have broad discretion in determining motions  
9 to strike. Here, striking allegations is not warranted. *See Wilson*, No. 05-cv-1216-BEN-  
10 BLM, 2005 WL 3477827, at \*1 (citing *Anchor Hocking Corp. v. Jacksonville Elect.*  
11 *Authority*, 419 F.Supp. 992, 1000 (D.C. Fla. Aug. 10, 1976)) ("While the Court has broad  
12 discretion in disposing of motions to strike, they are granted only where clearly  
13 warranted."); *see also Vess v. Bank of Am., N.A.*, No. 10-cv-920-AJB-WVG, 2012 WL  
14 113748, at \*12 (S.D. Cal. Jan. 13, 2012) (citing *Stanbury Law Firm v. IRS*, 221 F.3d 1059,  
15 1063 (9th Cir. 2000)) ("The decision whether to grant a motion to strike is within the broad  
16 discretion of the district court.")

17 Because Plaintiffs' allegations regarding Defendants' pattern of behavior bears some  
18 relevance to the claims at issue, the Court **DENIES** Defendants' Motion to Strike portions  
19 of Plaintiffs' FAC.

20 **2. Plaintiffs' Request to Strike Exhibits 2 Through 4**

21 On procedural grounds, Plaintiffs ask the Court to strike Exhibits 2, 3, and 4 from  
22 Defendants' Motion, because "each exhibit contains new legal and factual analysis that  
23 should count toward the [Motion's] page limit." Oppo. at 15. Plaintiffs point out the  
24 Court's Order extending the page limit by ten additional pages and now argue the Exhibits  
25 at issue expand on arguments related to the public nature of XpandOrtho's trade secrets, as  
26 well as Defendants' fair use defense and Rule 9(b) arguments. *Id.*; *see also* Exhibits 2, 3,  
27 and 4 to Motion. Plaintiffs contend these Exhibits amount to a twenty-six-page extension  
28 of said arguments and "[c]onsideration of these exhibits would prejudice Plaintiffs' ability

1 to fully respond.” Oppo. at 15 (citing S.D. Cal. Civ. R. 1.1(e)(2), 7.2). Alternatively,  
2 Plaintiffs ask that the Exhibits be disregarded as a violation of the Court’s Order. Oppo. at  
3 15.

4 Defendants reply that Exhibits 2 through 4 only “summarize the material already in  
5 other exhibits and analyzed in” the Motion and are provided solely as a helpful reference  
6 to the Court’s evaluation of the parties’ arguments and relevant facts. Reply at 17.  
7 Defendants view the Exhibits as compliant with normal practice and note that similar  
8 Exhibits were included in their motion to dismiss Plaintiffs’ original complaint, with no  
9 objection from Plaintiffs. *Id.* at 17 n.11.

10 In *Sidney-Vinstein v. A.H. Robins Co.*, the Court held that “[u]nder the express  
11 language of . . . [Rule 12(f)], only pleadings are subject to motions to strike.” 697 F.2d  
12 880, 885 (9th Cir. 1983). There, the district court’s decision to strike the plaintiff’s motion  
13 for reconsideration was appealed. In holding that the district court erred in striking the  
14 plaintiff’s entire motion, the Court further explained, “[t]he appellees have cited no cases  
15 that have construed . . . [Rule 12(f)] as allowing a district court to strike material not  
16 contained in the pleading.” *Sidney-Vinstein*, 697 F.2d at 885. However, it is a well-  
17 established rule that district courts have the inherent right to control their own dockets, *see, e.g.*,  
18 *Landis v. N. Am.*, 299 U.S. 248, 254 (1936), and several courts have interpreted this  
19 right to include the power to strike documents other than pleadings. *See Lamos v. Astrue*,  
20 275 F. App’x 617, 618 (9th Cir. 2008); *In re Acadia Pharm. Inc. Securuties Litig.*, No. 18-  
21 cv-01647-AJB-BGS, 2020 WL 2838686, at \*3 (S.D. Cal. June 1, 2020); *Cheng Jiangchen v. Rentech, Inc.*, No. CV 17-1490-GW-FFMx, 2017 WL 10363990, at \*2 (C.D. Cal. Nov. 20, 2017). Furthermore, “[t]he district court has considerable latitude in managing the  
23 parties’ motion practice and enforcing local rules that place parameters on briefing.” *See also Christian v. Mattel, Inc.*, 286 F.3d 1118, 1129 (9th Cir. 2002). Included in that right,  
26 is the Court’s ability to strike exhibits from the record. *See In re Acadia Pharm.*, No. 18-  
27 cv-01647-AJB-BGS, 2020 WL 2838686, at \*3 (striking an exhibit supporting a motion to  
28 dismiss holding the chart therein, “identify[ing] 108 statements [and] encompassing 38

1 paragraphs of the complaint,” was “simply an extension of Defendants’ argument and thus,  
2 . . . exceeded the . . . page limit for their briefs.”).

3 Exhibit 2 contains four tables. Exhibit 2 to Motion at 2–16. The first table lists what  
4 Defendants allege are public disclosures of XpandOrtho’s supposed trade secrets  
5 (including journal articles, posters, patent applications, and the XO<sup>1</sup> User Manual and  
6 Animation), along with three explanatory footnotes. *Id.* at 2. The second table shows  
7 images corresponding to paragraphs in the FAC alongside images of what Defendants  
8 claim XpandOrtho publicly disclosed. *Id.* at 3–5. The third table provides conceptual  
9 phrases from the FAC, citing the specific paragraphs, alongside XpandOrtho’s alleged  
10 public disclosures and wording in Defendants’ patent applications. *Id.* at 6–7. The fourth  
11 table also provides conceptual phrases from the FAC, comparing them to XpandOrtho’s  
12 alleged public disclosures, along with information Defendants claim was within their prior  
13 knowledge. *Id.* at 8–16. Exhibit 3 contains a table of still images of the XO<sup>1</sup> Animation,  
14 and corresponding FAC citations, with portions of Defendants’ patent applications in  
15 support of Defendants’ fair use argument. Exhibit 3 to Motion at 3–10. Exhibit 4 contains  
16 a chart of Plaintiffs’ fraud allegations—citing specific paragraphs and including certain  
17 phrasing—indicating the allegations associated with each specific claim for relief. Exhibit  
18 4 to Motion at 2–3. Exhibit 4 also includes one explanatory footnote. *Id.* at 2.

19 While Exhibits 2 through 4 would be useful in resolving factual disputes and whether  
20 all of the eight claims sound in fraud, the Court declines to resolve such factual disputes at  
21 this stage in the proceedings and already determined which claims sound in fraud. *See*  
22 *supra* Part III.A.2 and III.A.6–7. Although the Court will not use the Exhibits to determine  
23 factual disputes and the issue of whether the FAC sounds in fraud, it is unnecessary to  
24 strike the Exhibits from the Motion. Therefore, Plaintiffs’ request to strike Exhibits 2  
25 through 4 is **DENIED** and Plaintiffs’ request to disregard the Exhibits is **GRANTED**.

26 **D. Motion for Leave to File Documents Under Seal**

27 Except for certain documents “traditionally kept secret,” federal courts begin a  
28 sealing analysis with “a strong presumption in favor of access to court records.” *Foltz v.*

1 *State Farm Mut. Auto. Ins. Co.*, 331 F.3d 1122, 1135 (9th Cir. 2003). A party seeking to  
2 seal a judicial record must “articulate [] compelling reasons supported by specific factual  
3 findings,” *id.*, that outweigh the general history of access and the public policies favoring  
4 disclosure, such as the “public interest in understanding the judicial process.” *Hagestad v.*  
5 *Tragesser*, 49 F.3d 1430, 1434 (9th Cir. 1995). The Court “conscientiously balance[s] . . .  
6 the competing interests” of the public and the party who seeks to keep certain judicial  
7 records secret. *Foltz*, 331 F.3d at 1135. After considering these interests, if the Court  
8 decides to seal certain judicial records, it “base[s] its decision on a compelling reason and  
9 articulate[s] the factual basis for its ruling, without relying on hypothesis or conjecture.”  
10 *Hagestad*, 49 F.3d at 1434; *see also Kamakana v. City & Cty. of Honolulu*, 447 F.3d 1172,  
11 1179 (9th Cir. 2006) (applying compelling reasons standard to dispositive motions).

12 “[S]ources of business information that might harm a litigant’s competitive  
13 standing” may also constitute a compelling reason to seal, *see Nixon v. Warner*  
14 *Communications, Inc.*, 435 U.S. 589, 598 (1978), such as a company’s confidential profit,  
15 cost, and pricing information, which if publicly disclosed could put the company at a  
16 competitive disadvantage. *See Apple, Inc. v. Samsung Elec. Co.*, 727 F.3d 1214, 1225  
17 (Fed. Cir. 2013) (“[I]t seems clear that if Apple’s and Samsung’s suppliers have access to  
18 their profit, cost, and margin data, it could give the suppliers an advantage in contract  
19 negotiations, which they could use to extract price increases for components.”).  
20 Proprietary information can also be sealed to protect a business from potential harm. *See*  
21 *Obesity Rsch. Inst., LLC v. Fiber Rsch. Int’l, LLC*, No. 15-cv-00595-BAS-MDD, 2017 WL  
22 6270268, at \*2 (S.D. Cal. Dec. 8, 2017) (granting a motion to file documents containing  
23 proprietary business information under seal).

24 **1. Defendants’ Motions to File Under Seal**

25 Defendants’ Motions to File Under Seal seek to redact from the public record  
26 portions of text in its Motion, Reply, Exhibit 2 to its Motion, and Exhibit H to the Pade  
27 Declaration. *See* ECF Nos. 46, 56. The unredacted versions of such are lodged as ECF  
28 Nos. 47 and 57. Defendants argue the sentences they seek to seal consist of: (1) Plaintiffs’

1 alleged trade secrets and confidential information; (2) portions of the LOI that discuss price  
2 and other sensitive terms; (3) confidential information related to the parties' business  
3 practices and acquisition discussions; and (4) acquisition dicussions involving third parties.  
4 ECF No. 46 at 2–3; ECF No. 56 at 2. Defendants further argue that much of the sealed  
5 information is based on the Court's prior order granting-in-part Planitiffs' motion to file  
6 portions of the FAC under seal. ECF No. 46 at 3; ECF No. 56 at 2.

7 Because the information Defendants seek to seal is narrowly tailored and consists of  
8 alleged trade secrets and other confidential information, as well as the statements sealed in  
9 Plaintiffs' FAC, Defendants' Motions to File Under Seal are **GRANTED**. The Clerk is  
10 directed to file under seal unredacted versions of the documents and Exhibits Lodged at  
11 Docket Numbers 47 and 57.

12 **2. Plaintiffs' Motion to File Under Seal**

13 Plaintiffs' Motion to File Under Seal seeks to redact from the public record certain  
14 portions of its Opposition to Defendants' Motion to Dismiss and Strike. *See* ECF No. 51.  
15 The unredacted version of Plaintiffs' Opposition is lodged as ECF No. 52. Plaintiffs argue  
16 the portions of text it seeks to seal contain confidential information related to the nature of  
17 their trade secrets, confidential business practices, and other proprietary data—"disclosures  
18 of which would result in serious competitive harm to Plaintiffs." ECF No. 51 at 2.  
19 Plaintiffs further argue the only information it has sealed "is the same or substantially  
20 related to the information this Court authorized for sealing previously. *Id.*

21 Because the information Plaintiffs seek to seal is narrowly tailored and consists of  
22 alleged trade secrets and other confidential information, as well as the statements sealed in  
23 Plaintiffs' FAC, Plaintiffs' Motion to File Under Seal is **GRANTED**. The Clerk is directed  
24 to file under seal the unredacted version of Plaintiffs' Opposition at Docket Number 52.

25 **IV. CONCLUSION**

26 The Court rules on the above motions and requests as follows:

27 1. Defendants' Motion to Dismiss is **DENIED**.  
28 2. Defendants' Motion to Strike in Part Plaintiffs' FAC is **DENIED**.

3. Defendants' Request for Judicial Notice is **DENIED**.

4. Plaintiffs' Request to Strike Defendants' Exhibits 2 through 4 is **DENIED**, but Plaintiffs' Request to Disregard the Exhibits is **GRANTED**.

5. The parties' Motions to File Documents Under Seal are **GRANTED**.

## IT IS SO ORDERED.

DATED: March 15, 2022

**HON. ROGER T. BENITEZ**

## United States District Judge