

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

MARTIN RAPAPORT, RAPAPORT USA and INTERNET DIAMOND EXCHANGE, L.L.C.,	CIVIL ACTION NO. 04 06626 (RJH)
Plaintiffs,	
- vs. -	
IDEX ONLINE, LTD., IDEX ONLINE S.A., IDEX ONLINE ISRAEL, LTD., JOHN DOES I-XX, and ROE CORPORATIONS I-XX,	
Defendants.	

PLAINTIFFS' MEMORANDUM OF LAW IN REPLY TO DEFENDANTS'
OPPOSITION TO PLAINTIFFS' MOTION FOR LEAVE TO FILE FIFTH
AMENDED AND SUPPLEMENTED COMPLAINT AND IN OPPOSITION TO
DEFENDANTS' MOTION TO DISMISS

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PRELIMINARY STATEMENT

Defendants spend most of their submission urging dismissal of this action on the basis of *forum non conveniens*. Having been so successful in transferring the case to this District from the United States District Court for the District of Nevada, defendants roll the dice again, seeking this time to move the litigation even further east - across the ocean and into another hemisphere. But the preference of defendants to litigate this matter in Israel has already been rejected by the District of Nevada, and it is black-letter law that defendants are barred under the law of the case doctrine, as well as estoppel, from relitigating it.

In any event, as the District of Nevada found, plaintiffs have material connections to this District. In addition, facts, witnesses, and experts are conveniently located here - not to mention (as defendants do not) one of the defendants. Finally, the issues in this case involve the enforcement and validity of United States registered trademarks and patents. Certainly the owners of the rights in these registrations are entitled to have challenges to those rights adjudicated in a United States court.

Defendants also argue against plaintiffs' motion for leave to amend in conclusory fashion, on the basis of a supposed "repeated failure to cure deficiencies." Motions for leave to amend are routinely granted, and defendants have demonstrated no

good reason why that should not be the case in this instance. They make no serious argument about bad faith or prejudice, both of which must be weighed by a court considering an opposition to an amendment, and ignore their own considerable role in delaying these proceedings.

Defendants also argue that plaintiffs' motion for leave to amend should be denied on the basis of futility. They do so, however, based on a raft of factual submissions of precisely the sort that demonstrate the need for discovery, and which do nothing to demonstrate that, as the law requires, plaintiffs are entitled to the opportunity to prove a well-pled set of claims.

LEGAL ARGUMENT

I. THIS ACTION INVOLVING U.S.-BASED PARTIES, U.S. REGISTERED TRADEMARKS, U.S. PATENTS, AND STATUTORY AND COMMON LAW CLAIMS ARISING UNDER STATE LAW SHOULD BE LITIGATED IN THE UNITED STATES, NOT IN A FOREIGN COUNTRY.

A. The law of the case doctrine precludes defendants from relitigating the issue of *forum non conveniens*.

Defendants devote more than half of the argument section of their Memorandum of Law, and a significant amount of paper in the forms of affidavits and exhibits, to the proposition that this action should be dismissed under the doctrine of *forum non conveniens*. This issue, however, has already been decided and is controlled by the doctrine of law of the case, a fundamental principle of law.

As the Court doubtless recalls, this case was originally

filed in the United States District Court for the District of Nevada. (Plaintiff Rapaport USA, Inc., is incorporated and does business in Nevada.) Defendants swiftly moved the District Court in Nevada to dismiss the case for lack of jurisdiction or, in the alternative, for transfer to this District on the grounds of *forum non conveniens*. They got what they wanted: On August 3, 2004, the District Judge Howard D. McKibben denied defendants' motion to dismiss for lack of jurisdiction but granted defendants' alternative request to transfer the action to this District. (A copy of Judge McKibben's Order is attached to defendants' Notice of Cross-Motion at Exhibit C.)

Under the doctrine of law of the case, any decision made on an issue of law at one stage of a case becomes binding precedent to be followed throughout the litigation. In re PCH Assoc., 949 F.2d 585, 592 (2nd Cir. 1991). "[T]he doctrine posits that when a court decides upon a rule of law, that decision should continue to govern the same issues in subsequent stages in the same case." Christianson v. Colt Indus. Operating Corp., 486 U.S. 800, 815-16 (1988). The rationales for this doctrine are obvious: to maintain fairness to the parties; to maintain consistency throughout the litigation; to avoid reconsideration of matters once decided during the course of the litigation; and to promote judicial economy and societal interest in finality. Prisco v. A & D Carting Corp., 168 F.3d 593, 607 (2nd Cir. 1999)

(a litigant should not be allowed to disregard this doctrine to prejudice the party seeking the benefit of the doctrine); see also County of Suffolk v. Stone & Webster Eng'g Corp., 106 F.3d 1112, 1117 (2nd Cir. 1997); Soto-Lopez v. NYC Civil Serv. Comm., 840 F.2d 162 (2nd Cir. 1988). "Federal courts routinely apply law-of-the-case principles to transfer decisions of coordinate courts." Christianson v. Colt Indus. Operating Corp., 486 U.S. at 816. While the doctrine's constraint is a matter of discretion, in the Second Circuit, "the major grounds justifying reconsideration are an intervening change of controlling law, the availability of new evidence, or the need to correct a clear error or prevent manifest injustice." Virgin Atlantic Airways, Ltd. v. Nat'l Mediation Bd., 956 F.2d 1245, 1255 (2nd Cir. 1992).

Here, defendants have neither requested reconsideration of Judge McKibben's Order nor suggested any reason why they might do so. It is not a rule of law either in Nevada or New York, however, that if one ignores the law of the case, it will go away. Defendants papers make it seem as if defendants are pretending that the Nevada proceedings never took place. The law of this case is that the appropriate forum for this litigation is this District, and that ruling is binding precedent to be followed throughout the litigation. On this basis alone, defendants' *forum non conveniens* arguments are simply meritless.

B. Defendants are estopped from changing their arguments regarding the appropriate forum from the ones made in

the Nevada proceedings.

In any event, defendants should not be heard to complain now, a year after the case was transferred, about the location of the litigation because they specifically argued for a transfer to this District. They are therefore barred from changing their position under the doctrine of judicial estoppel, which mandates that a party is estopped from taking two opposing sides on the same legal issue in litigation. See, New Hampshire v. Maine, 532 U.S. 742 (2001). This doctrine, usually applied to successive litigations, applies a *fortiori* within the same case. See, Feder v. Electronic Data Systems Corp., __ F.3d __, 2005 WL 2757510 (C.A. Tex. 2005) at *9.

As recently set out in In re G.S. Distribution, Inc., 331 B.R. 552 (Bkrtcy. S.D.N.Y. 2005), a party should be judicially estopped where (a) the party's later position is clearly inconsistent with its earlier position; (2) the would-be switching party has succeeded in persuading a court to accept that party's earlier position; and (3) the party seeking to assert an inconsistent position would derive an unfair advantage or impose an unfair detriment on the opposing party if not estopped. Based on these factors, defendants should be estopped from changing their position here.

In the Nevada proceedings, defendants argued that this District was the most convenient forum to resolve this case. They conceded - indeed, they insisted - that plaintiffs have an

office in New York and regularly conduct business here. They argued that litigating the case in New York would both increase convenience and decrease the expense to the parties. (See Memorandum of Points and Authorities in Support of Defendant IDEX Online, Ltd.'s Motion to Dismiss at p. 15, a copy of which is attached to the Affirmation of David Stein as Exhibit A.)

Defendants themselves asserted:

[P]erhaps most significantly for a case involving trademarks in the diamond industry, New York is the center of the U.S. diamond trade and can provide a ready and local source of expert testimony regarding the likelihood of confusion in the diamond industry between the trademarks at issue in this case.

Id. Furthermore, in their reply brief to the Nevada court, defendants insisted that "the most convenient location for marshalling the most significant facts and witnesses is the Southern District of New York, which is the location of the office of the sole U.S. subsidiary of IDEX in the United States, and the most convenient U.S. forum for IDEX's documents and witnesses . . ." (See Reply in Support of IDEX Online, Ltd.'s Motion to Dismiss at p.8, a copy of which is attached to the Affirmation of David Stein as Exhibit B.) Defendants then alleged that the convenience of witnesses strongly favors transfer to the Southern District because "every significant witness for IDEX is in Israel or the Southern District of New York." Id. at 9. Lastly, defendants argued that the facts central to the alleged infringements are in New York "where the

vast majority of Idexonline.com's members in the United States are located and where the alleged likelihood of confusion . . . has allegedly occurred." Id. at 10.

Not only that, but at the time Judge McKibben found jurisdiction over defendants and transferred the matter to the Southern District, defendants' U.S.-based entity was not even a party to the litigation. Now, IDEX Online USA, based in Manhattan, is a party to the litigation, and there is even more reason for this case to remain in this District.

In sum, if the doctrine of law of the case did not damn defendants' *forum non conveniens* argument, their own words do under the doctrine of judicial estoppel and just plain fairness. Defendants pushed for a transfer of the litigation to New York, over the strenuous objections of, and at considerable expense to, plaintiffs. They got what they asked for, and this Court should deny their attempt to move this case incrementally from court to court across the globe until they find a forum they like.

C. This action has significant connections to the Southern District of New York.

As set forth above, the District of Nevada has already determined as the law of this case that:

Because New York is the center of the diamond industry and because Rapaport's companies regularly maintain New York offices and regularly do business in New York as does Idex, a transfer of this action to the Southern District of New York would be more convenient

to both parties based upon the location of witnesses, documents, and expertise regarding the commercial diamond trade.

(See Exhibit C of defendants' Notice of Cross-Motion at p. 2; emphasis added.) Nonetheless, because defendants have forced the issue, plaintiffs are compelled to demonstrate to the Court that, even based on any other facts that may be evinced in this motion, this action belongs in this District and certainly not in a foreign country.

1. **Plaintiffs** Plaintiffs have significant ties to New York. Plaintiff Martin Rapaport is the owner of the corporate plaintiffs Rapaport USA, Inc., Internet Diamond Exchange LLC, and Diamonds.net LLC, as well as other related companies. Defendants' claim that Mr. Rapaport "runs all of his business from his Tel Aviv office" is simply false. In fact, Rapaport USA, Inc., Internet Diamond Exchange LLC, and Diamonds.net LLC have offices and full-time staff at 3930 Howard Hughes Parkway, Las Vegas, Nevada. Almost all of the diamond trading by the INDEX[®] website is transacted by Rapaport Diamond Corporation of New York. Rapaport Diamond Corporation is a New York Corporation with offices and full-time staff at 1212 Avenue of the Americas, New York, New York. It is and has always been fully owned by Mr. Rapaport and has been in continuous operation in New York's diamond district since its establishment in the 1970's. (See Declaration of Martin Rapaport attached hereto as

Exhibit C.)

Furthermore, defendants' unsupported suggestions to the contrary, three of the plaintiffs in this action - Rapaport USA, Inc., Internet Diamond Exchange LLC, and Diamonds.net LLC - have no material connection with Israel. They maintain no offices, no staff, and no records in Israel, nor do they actively operate or transact business in Israel. (See id.)

Plaintiff Martin Rapaport himself has close and ongoing ties to New York. Although he currently resides in Jerusalem, Israel for personal reasons, he is not an Israeli citizen but of the United States, and has been for his whole life. He owns residential property in New York, including an apartment where he stays while on his frequent business trips to the United States. He carries a New York State driver's license and has done so for decades; this license is valid through January 13, 2011. On average, Mr. Rapaport spends no more than five days per month in his Israel office. (See id.)

Moreover, while Mr. Rapaport is indeed a member of the Israel Diamond Exchange, he is also a member of the Dubai Diamond Exchange in the United Arab Emirates. Far more significantly, he has been an active member of the New York Diamond Dealers Club since 1977 and served as an elected director of the New York Diamond Dealers Club for six years. He is also a member of the Diamond Manufacturers and Importers

Association, based in New York. (See id.)

The various companies through which Mr. Rapaport conducts business do have offices in Israel, but also in New York, Las Vegas, Antwerp, Vicenza, Dubai, Mumbai, and Hong Kong. In New York, Rapaport Diamond Corporation purchases and sells diamonds on behalf of plaintiff Internet Diamond Exchange LLC. Mr. Rapaport's New York office is not a mere showcase or mail drop. It comprises approximately 5,700 square feet of prime office space in midtown Manhattan and is currently leased by Rapaport Diamond Corporation through 2014. (See id.)

Plaintiff Internet Diamond Exchange LLC has a significant client base in New York, which is one of the world's centers of diamond trading and sales. Rapaport USA Inc., Internet Diamond Exchange LLC, and Diamonds.net have numerous New York clients, appear in trade shows in New York, and direct significant amounts of their business towards New York. (See id.)

It is hardly debatable, therefore, that plaintiffs maintain close ties to the instant forum, and on this basis alone, the litigation should remain in the Southern District of New York.

2. Defendants Defendants also have substantial reasons to face this litigation in the current forum, as they originally requested. First, defendant IDEX Online USA is based in Manhattan, so it can hardly complain about litigating in the District where it does business. Second, as found by the Nevada

Court, every significant witness for defendants who is not located in Israel is located here. Furthermore, the central facts pertaining to defendants' infringements are located in New York, where the majority of the United States members of IDEXonline.com are located, and where the likelihood of confusion that plaintiffs will prove, occurred.

Additionally, this case involves trade practices in the diamond industry, and New York, arguably, is the worldwide center of the diamond trading industry, or certainly one of them, as the Nevada court recognized. Expert and fact testimony concerning likelihood of confusion and other aspects of plaintiffs' unfair competition claims concerning the diamond industry, therefore, will naturally be more readily available in New York than in any other conceivable place.

Moreover, the trademarks that are the subject of this case are United States registered trademarks, and it is axiomatic that a United States court is better equipped than any foreign court to adjudicate such rights. In any event, given defendants' *forum non conveniens* track record, it is not hard to imagine that even if this case were sent to Israel, defendants would next argue that Switzerland, home to one defendant, is "really" the best place to conduct the litigation.

Ultimately there can be no serious argument that any court, much less a court in a foreign country, is a more convenient and

appropriate to resolve the issues in this case than this this one. Defendants' *forum non conveniens* argument should be wholly rejected by this Court.

II. THE COURT SHOULD GRANT PLAINTIFFS' MOTION FOR LEAVE TO FILE THEIR FIFTH AMENDED COMPLAINT.

A. Plaintiffs' amendments were not occasioned by bad faith or repeated failures to remedy deficiencies in the pleading.

Plaintiffs stand by the arguments previously set forth in their Memorandum of Law in support of their motion for leave to amend, but wish to respond to some of defendants' assertions. It is noteworthy that defendants have cited no good reason under Foman v. Davis, 371 U.S. 178 (1962), to deny plaintiffs' motion for leave to amend. Foman lists six factors that courts weigh in evaluating a motion for leave to amend. Defendants address only two of those factors, namely "repeated failure to remedy problems in the complaint" and futility; defendants do write the words "bad faith" once in their "failure to cure deficiencies" section, but do so only as a perfunctory throw-in without elaboration. Defendants, meanwhile, cannot and do not argue that granting plaintiffs' motion for leave to amend would cause undue delay, undue prejudice, or that it is offered as a dilatory tactic.

The sequence of plaintiffs' amendments to their complaint bears reiteration because it demonstrates that plaintiffs have not "repeatedly failed to remedy" problems in their complaint

and certainly have not engaged in bad faith. The initial amended complaint was filed in November 2004, omitting inadvertently its exhibits, as certain middle-aged lawyers wrestled inelegantly with electronic filing. In March 2005, when plaintiffs became aware of this oversight, they filed their second amended complaint, identical to the November 2004 complaint, save for the now-attached exhibits. One month later, in April 2005, after defendants filed their Rule 26(a)(1) disclosures and identified their New York-based entity, plaintiffs prepared and served on defendants their third amended complaint which, again, was identical to amended complaints one and two, but which named the New York-based entity. This complaint was not filed with the Court, however, because communications between counsel suggesting that defendants might consider ending their game of "hide the corporation." Indeed, in June of this year, the defendants agreed to supply the identities of the proper corporate entities, including the New York defendant, accept service on behalf of those entities, and not object to jurisdiction. Plaintiffs, in turn, agreed to dismiss IDEX Online, Ltd., from the action. In July 2005, therefore, plaintiffs filed a "fourth" amended complaint which, again, was identical to amended complaints one, two, and three, but which now added the proper corporate entities, including the New-York based entity, excluded IDEX Online, Ltd. as a party,

and added a claim for patent infringement as a result of defendants' then-new infringing activities.¹ The "fifth" (really the fourth) amended complaint, which is the subject of this motion, contains no new factual allegations, but reclassifies a now-removed copyright infringement claim as a misappropriation claim and which further amplifies a breach of contract claim.

It is significant that defendants do not even attempt to argue that plaintiffs' motion would cause undue delay or that it is offered for dilatory purposes. The fact is that in this litigation, defendants are the ones who have displayed dilatory intentions, as is evidenced by the further delay which the instant papers have caused. Plaintiffs, meanwhile, have tried mightily to move this case along, notwithstanding defendants' delay tactics.

Consider, for instance, defendants' corporate shell game and their pressing for Hague Convention service abroad which wasted months of plaintiffs' time and money and which, all the while, enabled defendants to continue with their harmful infringing activities even as they do now. Shortly after a

¹ The "newness" of the claim is not immaterial, because at a status conference earlier this year, a representation was made by defendants' counsel that amendment to include the patent claims was inappropriate because there was nothing being done at the Idex website that was new since the time of the original filing of this actino. It was to rebut this claim only (and certainly not to adopt the truth of defendants' representations as to other matters) that the language quoting defendants' own news releases as to their website's new functionality, released last spring, was added to the pending amended complaint.

detailed scheduling order was adopted by the Court and parties, defendants changed counsel and requested yet more time for their new attorneys to get up to speed with the litigation. Plaintiffs, on the other hand, served discovery on defendants and noticed 14 depositions before this motion brought discovery to a halt.

Now a year into the Southern District litigation, defendants can boast of exactly one substantive accomplishment other than the instant baseless papers - IDEX Online, Ltd., which is not even in the case anymore, answered the initial amended complaint back in December 2004. Plaintiffs, conversely, have answered defendants' counterclaim and affirmative defenses, propounded interrogatories and request for production of documents, and noticed a full schedule of depositions, all of which were postponed at the request of defendants' counsel. If any party has dragged its feet, it is defendants, not plaintiffs.

The sequence of events in this litigation hardly demonstrates repeated failures on the part of plaintiffs to cure deficiencies with their complaint and surely does not demonstrate bad faith. Defendants' baseless assertions do not overcome the strong bias towards granting motions for leave to amend, and, accordingly, this Court should reject defendants' arguments and permit the amendment.

B. Defendants will suffer no prejudice if plaintiffs' leave to amend is granted.

Whether a party will suffer undue prejudice from an amendment is one of the Foman factors that a Court must consider when weighing a party's request for the rare denial of a non-frivolous application to amend. It is striking that nowhere in defendants' papers does the word "prejudice" even appear. That is because defendants will suffer not one bit of prejudice if plaintiffs' motion to amend is granted. Defendants have known the facts of this case for more than a year and have done absolutely nothing in this Southern District litigation other than to stall and to file an answer by predecessor counsel nearly a year ago. The effect of a denial of leave to amend on plaintiffs, on the other hand, would be severe, because they would be unable to pursue viable theories of recovery against culpable defendants. Both the Federal Rules and case law demonstrate that leave to amend should be freely given, and defendants have not stated a single viable reason as to why plaintiffs' request should be denied.

C. Plaintiffs' proposed amendments are not futile.

What is futile here is defendants' argument that plaintiffs' motion for leave to amend should be denied on the basis of futility. We consider the respective claims sought to be added seriatim.

1. Misappropriation Defendants' arguments and would-be

supporting case law are completely off the mark as to plaintiffs' misappropriation claim. Plaintiffs have not pleaded a garden variety claim for misappropriation but, rather, a claim for "hot news" misappropriation which, as demonstrated below, is not preempted by the exclusive rights created by the Copyright Act. When determining whether a state right is equivalent, courts usually ask whether an "extra element" is present. 17 U.S.C.A. § 301(b)(1). An extra element is present when violating the state right requires an act that is qualitatively different from the act that would violate the federal copyright law. 17 U.S.C.A. § 301(c).

Defendants are alleged to have violated arguably the best known potentially nonequivalent New York right, namely the right not to have the fruits of one's labor misappropriated. Misappropriation, which is one form of unfair competition, was first recognized as unlawful by the Supreme Court in International News Service v. Associated Press, 248 U.S. 215 (1918). In that case, the Supreme Court held that INS had competed unfairly by "interfer[ing] with the normal operation of [AP's] legitimate business precisely at the point where the profit is to be reaped, in order to divert a material portion of the profit from those who have earned it to those who have not; with special advantage to [INS] in the competition because of the fact that it is not burdened with any part of the expense of

gathering the news." Id. at 240.

Federal courts sitting in New York have not only accepted the INS claim against misappropriation, they have expanded it. See generally Demetriades v. Kaufmann, 698 F.Supp. 521, 525-28 (S.D.N.Y. 1988). There is no doubt that after the seminal decision in National Basketball Ass'n v. Motorola, Inc., 105 F.3d 841 (2nd Cir. 1997) ("Motorola"), a claim for misappropriation concerning material otherwise within the realm of copyright remains viable in circumstances such as those alleged here.

In Motorola, the NBA asserted a claim under New York's law of unfair competition by misappropriation. Defendant Motorola sold a paging device that supplied information about NBA basketball games while the games were in progress. The information that was supplied to the pager came from reporters who were watching the games on television or who were listening to them on radio. The District Court, relying on New York's broad misappropriation law, found Motorola liable for misappropriation, even though the broadcasts were also protected by copyright. On appeal, the Second Circuit held that a portion of New York's misappropriation law survived preemption and that the contested use of Motorola's device did not fall within the portion of the copyright law and had not been preempted.

According to the Second Circuit, a hot news

misappropriation claim for actions concerning material within the realm of copyright survives protection if

(i) the plaintiff generates or gathers information at a cost; (ii) the information is time-sensitive; (iii) a defendant's use of the information constitutes free-riding on the plaintiff's efforts; (iv) the defendant is in direct competition with a product or service offered by the plaintiff; and (v) the ability of other parties to free-ride on the efforts of the plaintiff or others would so reduce the incentive to produce the product or service that its existence or quality would be substantially threatened.

Id. at 845. The extra elements that make a violation of the hot news misappropriation law qualitatively different from copyright infringement are (ii), (iii), and (v). Id. at 853.

Here, plaintiffs' complaint explicitly alleges requirements (ii), (iii), and (v) of Motorola. Defendants' simply ignore this case law, and their arguments concerning futility should be rejected.

2. Contract, Torious Interference, and Patent Similarly, the proposed Eighth and Ninth claims for relief are not preempted by the patent infringement claim. The Eight and Ninth causes of action are for breach of contract and tortious interference with contract, respectively, where the contract is the Terms of Service (TOS) set forth on the www.diamonds.net website.

There is no preemption by the patent law in this case for one simple reason: Neither the Eighth or Ninth causes of action are based upon infringement of the patent. Rather, the Eighth

and Ninth causes of action are both based upon a breach of the TOS agreement agreed to by all users of plaintiffs' website. In fact, neither cause of action even mentions the patent or patent rights.² In contrast, the patent infringement claim stated in the proposed Tenth Claim for Relief is based upon defendants' website infringing the patent. Because patent infringement is not the basis for either the breach of contract or the tortious interference claims, there can be no preemption and, thus, no futility. The proposed Eighth and Ninth claims for relief, therefore, should not be dismissed.

Similarly, defendants' assertion that plaintiffs' tortious interference claim fails to state a claim is untenable. Defendants themselves set forth the four elements that must be pled in a claim for tortious interference and then *admit* (at p. 30 of their Memorandum of Law) that plaintiffs generally have satisfied those elements, but that plaintiffs supposedly have failed to be more specific in their allegations. Defendants cite Sedona Corp. v. Ladenberg Thalmann & Co., 2005 WL 1902780 (S.D.N.Y. Aug. 9, 2005), a securities action that is totally inapposite to the facts of this case. In Sedona, plaintiff

² Defendants' reference in their brief at page 28 to "reverse engineering" is misleading, because plaintiffs never alleged that defendants "reverse engineered" their website technology. Rather, plaintiffs merely restated in paragraph 122 of the Fifth Amended Complaint a portion of the TOS, in which the User agreed to not access the service in any unauthorized manner, including reverse engineering.

failed to plead sufficient facts to state a cause of action for tortious interference claim. The Court granted plaintiff leave to replead. Unlike in Sedona, however, here the complaint alleges the contract which has been breached (the TOS); alleges that defendants have induced third persons to violate the contract; alleges that defendants' actions have been willful, malicious, and unjustified; and alleges that plaintiffs have been damaged. (See plaintiffs' Fifth Amended Complaint at ¶¶ 128-31.) Plaintiffs' complaint exceeds the notice-pleading standard for tortious interference, just as a complaint must do.

Lastly, the one-sentence argument that that plaintiffs' contract and tortious interference claims are barred by the TOS itself merely raises a mixed fact-law issue that ought to be hashed out in discovery and has no place in a motion to dismiss. Accordingly, this argument also should be rejected by the Court.

III. PLAINTIFFS' CLAIM FOR PATENT INFRINGEMENT STATES A CAUSE OF ACTION AND SHOULD NOT BE DISMISSED.

Defendants seek dismissal of plaintiffs' patent infringement claim under Fed. R. Civ. P. 12(b)(6). Contrary to defendants' claim, however, the Fifth Amended Complaint³ more than adequately states a cause of action for patent

³ For purposes of convenience, plaintiffs, as did defendants in their moving papers, simply refer to the Fifth Amended Complaint, although the arguments will equally apply with respect to the Fourth Amended Complaint.

infringement.

A. Plaintiffs have met the pleading requirements for patent infringement under Rule 12(b)(6).

In order to prevail on a motion to dismiss a patent claim, the moving party must show "beyond doubt that the plaintiff can prove no set of facts in support of his claim [that] would entitle him to relief." Conley v. Gibson, 355 U.S. 41, 45-46 (1957); see also Padavan v. United States, 82 F.3d 23 (2d Cir. 1996). In fact, dismissal for failure to state a claim is a summary disposition on the merits and is disfavored. Baker v. Cuomo, 58 F.3d 814, 818 (2d. Cir. 1995). For purposes of Rule 12(b)(6), the court must accept the plaintiff's factual allegations as true, Baker v. Pataki, 85 F.3d 919, 922 (2d Cir. 1996), and draw all reasonable inferences in plaintiff's favor. Bernheim v. Litt, 79 F.3d. 318, 321 (2d Cir. 1996). A trial court should construe a plaintiff's allegations liberally since the rules require only general or "notice" pleading, rather than detailed fact pleading. Salahuddin v. Cuomo, 861 F.2d 40, 42 (2d. Cir. 1988).

In analyzing what constitutes a sufficient claim for a patent infringement, the Federal Circuit stated that, "[A] patentee need only plead facts sufficient to place the alleged infringer on notice. This requirement ensures that an accused infringer has sufficient knowledge of the facts to enable it to answer the complaint and defend itself." Phonometrics, Inc. v.

Hospitality Franchise Systems, Inc., 203 F.3d 790, 794 (Fed. Cir. 2000). Accord, Asip v. Nielsen Media Research, Inc., 2004 WL 315269 (S.D.N.Y. 2004); Haddad Brothers Inc. v. Little Things Mean a Lot, Inc., 2000 WL 1099866 (S.D.N.Y. 2000); Digigan, Inc. v. Ivalidate, Inc., 2004 WL 203010 (S.D.N.Y. 2004). See also, One World Technologies, Ltd. V. Robert Bosch Tool Corp., 2004 WL 1576696 (N.D. Il. 2004); Advanced Cardiovascular Sys. V. SciMed Life Sys., 989 F.Supp. 1237, 1249 (N.D. Cal. 1997); LG Electronics, Inc. v. Asustek Computers, 126 F.Supp.2d 414 (E.D. Va. 2000).

In the present case, plaintiffs have more than adequately pled facts sufficient to place defendants on notice of patent infringement. Specifically, plaintiffs' Fifth Amended Complaint alleges that their claim of patent infringement is being brought under the U.S. Patent laws (Fifth Amended Complaint, ¶ 133); that the patent involved in the litigation is United States Letter Patent No. 5,950,178 (the '178 patent) entitled "Data Processing System and Method for Facilitating Transactions in Diamonds" issued on September 7, 1999 to Sergio Borgato (¶ 134; Exhibit H to the Fifth Amended Complaint); that plaintiffs are the owners and licensees of all of the right, title and interest in and to the '178 patent (¶¶ 135-137); and that the invention embodied in the '178 patent is a data processing system for listing and facilitating transactions involving precious stones

such as diamonds. (Exhibit H to complaint.)

Furthermore, the Complaint alleges that defendants are the owners and operators of the IDEX website (¶¶ 7, 10); that the IDEX website is an online database that allows a user to view diamond asking and buying prices as well as trade directly on line with suppliers and buyers of diamonds (¶¶ 138-139); and that the IDEX website infringes, induces infringement and contributorily infringes the '178 patent by, among other things, listing, selling, offering for sale and facilitating the sale of diamonds by the means set forth in the '178 patent without permission of plaintiffs (¶ 140).

As such, the Fifth Amended Complaint readily satisfies the 12(b)(6) pleading requirements set forth by the Federal Circuit in Phonometrics, Inc. and as subsequently followed by the courts of this judicial District. Specifically, the Fifth Amended Complaint alleges ownership of the '178 patent, names the individual defendants, cites the '178 patent as the basis for the action, describes the means by which defendants allegedly infringe the '178 patent, and indicates that infringement is based upon defendants' directly infringing, contributorily infringing and inducing infringement within the meaning of the U.S. patent law.⁴ Plaintiffs have met the standard set forth

⁴ Patent infringement claims are governed by 35 U.S.C. § 271. Direct infringement occurs when a person, without authority, infringes a patent by making, using, offering to sell, or

regarding the 12(b)(6) pleading requirements - and, as addressed below, despite the mounds of paper and affidavits submitted by defendants, this is a 12(b)(6) motion, not a summary judgment motion - and have plead facts sufficient to place defendants on notice of patent infringement, thereby allowing them to answer the complaint.

B. Defendants are improperly asking the court to determine the ultimate merits of the claim rather than to determine whether a cause of action has been stated.

The heart of defendants' argument is that the Fifth Amended Complaint should be dismissed under Rule 12(b)(6) because defendants have not infringed plaintiffs' patent. For purposes of deciding a 12(b)(6) motion, however, the issue is not whether the plaintiff will ultimately prevail, but rather whether the claimant is entitled to offer evidence to support its claims. See, Bernheim v. Litt, 79 F.3d. 318, 321 (2d Cir. 1996). Defendants have condemned many trees analyzing why they believe they have not infringed plaintiffs' patent. Specifically, they have discussed the concept of claim construction of the patent and how particular claims in the patent should be construed. They attempt to compare specific elements of the patent's independent claims with defendants' allegedly infringing system.

selling any patented invention. See 35 U.S.C. § 271(a). Indirect infringement occurs when a person induces the infringement of a patent by another or contributes to a patent's infringement through its activities. See 35 U.S.C. § 271(b)-(c).

While such analysis may be appropriate for ultimately determining the merits of patent infringement, however, the cases are clear that it is wholly irrelevant for purposes of a 12(b)(6) motion. As the United States Supreme Court has stated, "The question presented by a motion to dismiss is not whether a plaintiff will prevail in the action, but whether she is entitled to offer evidence in support of her claim." Scheuer v. Rhodes, 416 U.S. 232 (1974). Because plaintiffs have properly set forth a claim for patent infringement, defendants' arguments for non-infringement are not relevant, and the Rule (12)(b)(6) motion must be denied.

C. Defendants improperly request the court to consider evidence outside the pleadings as part of this 12(b)(6) motion.

As discussed above, plaintiffs have properly alleged a cause of action for patent infringement. Defendants improperly ask the Court to consider and weigh several massive documents annexed to their moving papers. These documents should not be considered and their submission in fact constitutes additional grounds justifying the denial of defendants' 12(b)(6) motion.

In deciding whether to grant a motion to dismiss, a court may consider only the facts alleged in the pleadings, documents which are attached as exhibits or incorporated by reference in the pleadings, and matters of which the judge may take judicial notice. Hirsch v. Arthur Andersen & Co., 72 F.3d 1085, 1088, 1092 (2d Cir. 1995); Paulemon v. Tobin, 30 F.3d. 307, 308-309

(2d Cir. 1994). Where a plaintiff relies on the terms and effect of a document in drafting the complaint and that document is integral to the complaint, its contents may be considered even if it is not formally incorporated by reference. Broder v. Cablevision Systems Corporation, 418 F.3d 187, 196 (2d Cir. 2005).

Despite these limitations, repeatedly refer to the Affidavit of Ester S. Trakinski, defendants' counsel, and the affidavit of Ehud Cohen, a director of defendants, and the exhibits attached thereto. (Moving papers pp. 33-38.) Specifically, defendants ask the court to consider a patent claim chart (Exhibit J, attached to Trakinski Affidavit), portions of the affidavit of Ehud Cohen (¶¶ 44-47), and portions of the IDEX website (Ehud Cohen Affidavit, exhibits A and B). Under the authority cited above, however, these documents may not be considered for purposes of this motion.

1. **The patent claim chart** Defendants rely in part upon a patent claim chart prepared by patent counsel for defendants in support of their to motion dismiss. (Moving papers p. 34, fn. 22, and p. 37.) This claim chart compares the claims contained in the Borgato '178 patent with the functionalities and features of the IDEX website. This claim chart, however, was not part of the pleadings either as an exhibit or by incorporation, is not subject to judicial notice, and was not an integral document for

purposes of the complaint. It is clearly of an evidentiary nature, and for that matter is black-letter hearsay. This Court should not consider it for purposes of this 12(b)(6) motion.

2. The Ehud Cohen affidavit Defendants also rely upon portions of the Affidavit of Ehud Cohen, a director of defendants. The relevant language in the affidavit addresses the internal operation of the IDEX website and purports to explain why defendants have not infringed plaintiffs' patent. Here too, the averments in the Cohen affidavit were not alleged in the complaint, were not attached as an exhibit or incorporated in the pleadings, are not subject to judicial notice, and are not an integral document for purposes of the pleadings. It goes without saying that plaintiffs have not had the opportunity to depose Mr. Cohen nor to conduct any discovery such as would permit them to respond appropriately to his submission, even if it were appropriate to consider such extrinsic material on a motion to dismiss. This Court should not consider it.

3. IDEX Website printouts Throughout their moving papers, defendants rely upon pages from Exhibits A and B of the Cohen affidavit. (Moving papers, pp. 33, 35, and 36.) Exhibit A is purportedly a copy of the IDEX website accessible to subscribers from August 24, 2005 (bearing production numbers 100-43), and Exhibit B (bearing production numbers 144-156) is an excerpt of

"Diamond Prices" and "How Does this Work" sections from the IDEX website. (Cohen affidavit, ¶ 5.)

While the IDEX website is mentioned throughout plaintiffs' amended complaint, however, defendants' submissions do not include all relevant documents. None of the website printouts included as Exhibits A and B to the Cohen Affidavit shows an *actual* set of listings for any particular diamond. Instead, defendants have simply included printouts from the initial blank screens from each web page and as instructions and explanations of how the website "works." While this may be informative for purposes of explaining and showing how the website *should* work, it is irrelevant as to how the website *actually* works, which is the basis of the patent infringement claim.

Furthermore, the Second Circuit has stated that a "plaintiff's *reliance* on the terms and effect of a document in drafting the complaint is a necessary prerequisite to the court's consideration of the document on a dismissal motion; mere notice or possession is not enough." Chambers v. Time Warner, Inc., 282 F.3d 147, 153 (2d. Cir. 2002). In the present case, while plaintiffs' Fifth Amended Complaint does make reference to defendants' website, it does not rely on the website pages from Exhibits A and B, cited by defendants. This is easily determined by comparing the allegations of the Fifth Amended Complaints with defendants' Exhibits A and B. As such,

it is inappropriate for the Court to consider these exhibits as part of this motion. See also, Moore U.S.A., Inc. v. Standard Register Company, 139 F.Supp. 348, 363 (W.D.N.Y. 2001) (pages from Internet website are not public records that may be cited in opposition to motion to dismiss under Fed. R. Civ. P. 12(b)(6)). Thus, this Court should not consider the website printouts for purposes of this motion.

Based upon the foregoing, plaintiffs have clearly made out a cause of action for patent infringement for purposes of Rule 12(b)(6). Furthermore, the Court should disregard the extrinsic material which defendants have included in support of their motion. Therefore, defendants' motion to dismiss under Rule 12(b)(6) must be denied.

CONCLUSION

For the foregoing reasons, plaintiffs respectfully request that this Court grant their motion seeking leave to amend and deny defendants' motion to dismiss.

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Dated: November 15, 2005

CERTIFICATION OF SERVICE

I hereby certify that true and correct copies of plaintiffs' Memorandum of Law, Declaration of David Stein and exhibits were furnished to counsel for defendants by ECF and email per agreement of the parties on this 15th day of November, 2005 to counsel of record.

A handwritten signature in blue ink, appearing to read "Ronald Coleman", is written above a horizontal line.

Ronald Coleman