

69S8RAPA

1 UNITED STATES DISTRICT COURT
1 SOUTHERN DISTRICT OF NEW YORK

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2
3 INTERNET DIAMOND EXCHANGE, LLC,
3 et al.,

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4 Plaintiffs,

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5 v. 04 Cv. 6626 (RJH)

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6 IDEX ONLINE, LTD., et al.,

7
7 Defendants.

8 -----x

9
9 September 28, 2006
10 2:40 p.m.

10
11 Before:

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12 HON. RICHARD J. HOLWELL

12
13 District Judge

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14 APPEARANCES

14
15 BRAGAR, WEXLER & EAGEL, P.C.
15 Attorneys for Plaintiffs

16 BY: RONALD D. COLEMAN

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17 COHEN TAUBER SPIEVACK & WAGNER, L.L.P.
17 Attorneys for Defendants

18 BY: STEPHEN WAGNER
18 ESTHER TRAKINSKI

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1 (Case called)
2 THE DEPUTY CLERK: Counsel, please state your name for
3 the record.
4 MR. COLEMAN: For the plaintiff and movant Ronald
5 Coleman, Bragar Wexler & Eigel, New York.
6 MR. WAGNER: For the defendants, your Honor, Stephen
7 Wagner and Esther Trakinski, Cohen, Tauber, Spievack & Wagner.
8 THE COURT: Good afternoon.
9 This is, Mr. Coleman, your client's motion. Do you
10 want to begin by addressing it?
11 MR. COLEMAN: Thank you.
12 Your Honor, our original motion was a motion for leave
13 to amend the pleadings. We have argued in our papers that the
14 proposed amendment will not cause prejudice. I don't think
15 there has been a particularly serious argument about either
16 prejudice or bad faith. I think the main concern expressed in
17 the defendants' papers is that there was a failure to remedy
18 deficiencies in the pleadings. There was a general allegation
19 of bad faith, but I don't think it's been particularly proved.
20 There is a rather tortuous history of the pleadings, I will
21 acknowledge that, but there doesn't seem to be any harm done by
22 allowing us to put in one final better and finalized paper.
23 Futility, I think, is of more interest. The futility
24 arguments are closely related to the dismissal arguments made
25 by the defendants. So I suppose I should address those

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1 briefly.

2 THE COURT: Yes, would you, please?

3 The first is the preemption of the misappropriation
4 claim.

5 MR. COLEMAN: Misappropriation is a well-established
6 tort in the State of New York. The hot-news exception for
7 misappropriation under the Motorola case has been held to apply
8 even to material that might otherwise be thought to be
9 covered by copyright. Whether or not the information in this
10 case is appropriately analogized to the information in the
11 Motorola case is probably a mixed fact and law question, one
12 that should not be decided on the pleadings.

13 We think it's pretty clear that we certainly,
14 following the rule of Motorola, have alleged all of the
15 elements of hot-news misappropriation.

16 THE COURT: It appears that you have.

17 MR. COLEMAN: Then we will move to the breach of
18 contract claims or rather the breach of contract and the
19 tortious interference claim.

20 The breach of contract is premised on a violation of
21 the terms of service of the Web site. That's a fairly
22 straightforward claim. The only thing novel about it is that
23 it wasn't in the original complaint.

24 THE COURT: Where is the allegation as to precisely
25 what conduct defendants have engaged in that breaches the

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1 agreement?

2 MR. COLEMAN: Well, to some extent, that will require
3 discovery. The allegation is --

4 THE COURT: You can't just say there is a breach. You
5 have to say what conduct breached the contract, and I don't see
6 it.

7 MR. COLEMAN: What we claim is that there was a breach
8 of the terms of service agreement by all users, which is a
9 breach by all users of plaintiffs' Web site. We have reason to
10 believe that they either used -- they either joined the Web
11 site as members and breached the terms of service by using the
12 information on there for --

13 THE COURT: That shouldn't be on information and
14 belief. If there is a contract, you're a party to it.

15 MR. COLEMAN: That is not allegation or belief. Our

16 premise is that information that could only have been known to
17 people with access to the plaintiffs' Web site resulted in the
18 proprietary Web site of defendants. There are two possible
19 ways they could have gotten that. Either they employed or
20 worked with or engaged third parties to sign on, agree to the
21 terms of service, and then violate those terms of service by
22 mining the Web site for information which is prohibited by the
23 terms of service. Alternatively, that employees of IDEX
24 themselves did it. We have no way of knowing without discovery
25 which one of those is the case, but those are the allegations.

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1 THE COURT: All right. So that you're pleading in the
2 alternative, I take it, is what you're attempting here?

3 MR. COLEMAN: You could say it's in the alternative,
4 although they are not mutually exclusive. It's possible that
5 both things happened. Certainly, for purposes of the pleading
6 standards of 12(b)(6), which is the standard under a 12(b)(6)
7 motion, which actually is only addressed to the patent, or the
8 futility-based opposition to the motion to amend, they merely
9 have to know what we are alleging. We believe the complaint
10 makes it rather clear. In fact, the discussion in their papers
11 makes it clear that they do know what is being alleged.

12 THE COURT: How are these TOS agreements entered into?

13 MR. COLEMAN: By clicking I agree. It's pretty well
14 established in law that that certainly makes it an enforceable
15 contract on the Internet.

16 There are questions that have been raised by the
17 defendants as to whether or not the terms of the terms of
18 service agreement themselves permit this litigation to go
19 forward in this context, but I don't believe they have
20 adequately proved that they don't, and again, for purposes of
21 12(b)(6), we believe that we meet the minimal pleading
22 standards.

23 As to the patent, your Honor, the rule is fairly clear
24 under 12(b)(6) that you do not determine the merits of the
25 claim. That's not just for patents, that's for anything.

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1 Fundamentally, the submissions with the extensive
2 printouts from the Web site, the extensive material from
3 outside of the pleadings submitted by defendants is meant to
4 say we couldn't possibly win the patent case, but not to say it
5 doesn't adequately, in our view, make out a defense to our
6 being able to plead it. The controlling rule is set out in a
7 case that is actually cited by the defendants, Phonometrics,
8 but only where they want it. Phonometrics fundamentally
9 requires that there be a claim of patent infringement, that the
10 patent is identified, that the plaintiffs are owners and
11 licensees of the right, title and interest of the invention,
12 that it is described generally, and there is an allegation of
13 infringement by the defendants. More than that is not
14 necessary on a 12(b)(6) level.

15 THE COURT: As a technical matter, do you have to cite
16 the section of the patent law that you're invoking?

17 MR. COLEMAN: I am not aware that you do. For
18 purposes of notice pleading, your Honor, I don't know why we
19 would.

20 One very, I think, interesting issue in the papers is
21 whether or not it is appropriate for defendants to have
22 submitted extensive printouts from their Web site, and not only
23 printouts from the Web site, but commentary on printouts on the
24 Web site, none of which are in the pleadings. And the
25 rationale for that is, Well, you refer to the Web site in the

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1 pleadings. Surely the IDEX Web site is central to this
2 litigation. We wouldn't claim otherwise, that's what the whole
3 case is about. Therefore, they are incorporated into the
4 pleadings and our reference to them and our use of them as a
5 springboard for outside the pleadings affidavits is appropriate
6 because they are incorporated by reference.

7 I think that's a very dubious proposition. There have
8 been cases where clearly identified finite documents have been
9 incorporated by reference and courts have said everyone knows
10 what that document says, whether it's a particular Web page
11 that has some kind of provision on it or whether it's some kind
12 of agreement that's a contract among the parties or between two
13 parties in dispute, but we are not aware of any case where a
14 court has said that by virtue of litigating about a Web site

15 anything on that Web site becomes fair game at the 12(b)(6)
16 level.

17 Put somewhat differently, if this had been converted
18 into a summary judgment motion on that one topic, I am not sure
19 how it would look any different from the way it looks under the
20 12(b)(6) standard. There is a lot of additional material here,
21 and we have declined fundamentally to get into the merits and
22 hire experts to swear out answering expert affidavits on the
23 topic of how the two Web sites work because we don't believe
24 the law requires us to do this at this level of pleading.

25 THE COURT: Let me hear from defendants first on their
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1 opposition to the motion for leave to amend.

2 MS. TRAKINSKI: Esther Trakinski for the IDEX
3 defendants.

4 Mr. Coleman covered quite a lot of ground in his
5 argument, and for the sake of convenience I will follow both
6 your Honor and Mr. Coleman's lead.

7 In a general sense, there is very much an issue of bad
8 faith in this litigation. They have had now six chances to get
9 this complaint right, six substantive amendments to this
10 pleading that have still left them without a single claim that
11 has any merit, your Honor.

12 The notion that there has been no harm done or would
13 be no harm done is also incorrect. If nothing else, the vast
14 sums of money spent by our client in trying to defend against
15 the default that was entered mistakenly in Nevada. Your Honor
16 is probably well familiar with the history. The fact is it's
17 time for this strike tactic to be ended. Mr. Rapaport's clear
18 objective here is to push down a competitor that is giving him
19 a run for his money in a marketplace that he to date
20 monopolized.

21 Let's look at the individual claims. The
22 misappropriation claim clearly and unequivocally is preempted.
23 The hot-news exception does not apply here. The hot-news
24 exception applies to minute-by-minute information: Scores of
25 ball games, breaking news, God help me, 9/11, the towers are

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1 falling. That's the hot-news exception, when there is news put
2 on the wire that other bodies are allowed to disseminate. This
3 is not the case here. The information that the plaintiff is
4 alleging is being misappropriated here, quote unquote, is
5 weeks' old information concerning prices of diamonds that are
6 publicly available anywhere that they sell for a profit. This
7 is not a hot-news exception.

8 There is also no specific allegation of exactly what
9 information is being misappropriated here. So even if by some
10 construction of the Motorola case that I don't think is
11 appropriate, that no case I have ever read has held to be
12 appropriate, would subsume the allegations in this case that
13 there generally is some prohibition against or their complaint
14 pleads a misappropriation claim, they don't allege the specific
15 information. Generally, they are referring to years worth of
16 pricing information that may or may not have been used.

17 We have taken a position in the answers that we have
18 submitted and filed to date that there has been no
19 misappropriation, there has been no use of information. The
20 patent argument covers that issue, and I will get to what it is
21 we do and what information we use and where it comes from.
22 Suffice it to say, the misappropriation claim under New York
23 law is not properly pled. New York law requires that a trade
24 secret be alleged to be misappropriated. They never allege
25 this as trade secrecy. They never allege they keep them

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1 secret. They never allege they protect the information as
2 proprietary in any way. The hot-news exception does not apply.

3 The new terms of service claims are also
4 insupportable. They are not properly pled. Again, general
5 references to 12(b)(6) notice pleading don't get them very far.
6 They are alleging that there are some undisclosed number of
7 subscribers out there who the parties have in common, that IDEX
8 is causing their subscribers to breach their terms of service
9 agreements by using our service. First of all, there is no
10 known breach by the joint subscribers so I am not sure that any
11 tortious interference claim could even stand if there was any
12 validity to that argument, but the fact is they have failed to
13 plead sufficiently, even under 12(b)(6) standards I might add,

14 any claim for breach of contract.

15 The alleged breach is also not specified.

16 Notwithstanding, again, the generalized 12(b)(6) argument that
17 Mr. Coleman would rely on to have his complaint pass muster,
18 they don't allege how we breach 12(b)(6). There is a
19 presumption that every single one of IDEX's subscribers is
20 doing something in common on our Web site that somehow violates
21 their terms of service. Again, we don't know which provision
22 of the terms of service agreements are being breached, but
23 let's assume there is something applicable. There is just no
24 way that anybody can fathom what the claim is. We have 1100
25 subscribers alone. We don't know how many of them subscribe to

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1 Rapaport's service, if any. Again, it's not possible even
2 under 12(b)(6) standards, but they don't meet the standards for
3 breach of contract, pleading a breach of contract in any event.

4 As to the patent claim, with all due respect to
5 Mr. Coleman, I don't suspect he is a patent lawyer. Pleading
6 requirements for patent claims are vastly more complex than the
7 simple 12(b)(6) notice pleading fallback. For one thing,
8 patent lawyers routinely engage in due diligence. The courts
9 have consistently held in this circuit, in the federal circuit,
10 and every other circuit that patent lawyers are under a
11 heightened duty to conduct due diligence before asserting a
12 patent claim, including creating a patent chart, much like the
13 claim chart that's annexed as Exhibit J to my affidavit, the
14 Trakinski affidavit, in support of the cross-motion.

15 They have not done that. In fact, Mr. Coleman has
16 again admitted that they didn't want to waste money on experts.
17 They declined to look into the merits. That is as a matter of
18 law unacceptable when asserting a patent claim.

19 Their only argument is general 12(b)(6) notice
20 pleading and we have gone outside of the pleading. Again, I
21 believe he is incorrect. Your Honor has held many times in
22 many cases that any documents referred to are expressly
23 incorporated by reference into the complaint and are fair game
24 on a motion to dismiss. Just because they decline to attach
25 the relevant portions of the Web site to their complaint

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1 doesn't put it outside of the scope of the motion to dismiss.
2 It's not unlike a massive contract that's not attached as an
3 exhibit. It is what it is. So on that point Mr. Coleman has
4 no argument.

5 The fact is, your Honor, that they failed to plead a
6 patent claim because under the patent law, in order to plead a
7 claim for patent infringement, the alleged infringing invention
8 has got to utilize or manifest every limitation of at least one
9 independent claim in the patent. The Borgato '178 patent,
10 which is the patent at issue, has four independent claims. In
11 our brief, we discuss the specificity of independent claim
12 number one so I will use that as the example. The claims chart
13 that is Exhibit J to the Trakinski affidavit goes through each
14 of the independent claims.

15 Their invention, the INDEX Web site, compares prices
16 and ranks prices by highs and lows. What IDEX Online does is
17 it averages pricing information that is gleaned directly from
18 its suppliers' databases, which speaks to what I referred to
19 earlier as the issue of whether or not there is
20 misappropriation at all. There is no misappropriation here and
21 that's in the Web site, that's information that's contained in
22 the Web site, so it's within fair game, it's my position, on
23 this motion.

24 IDEX Online draws its information directly from its
25 suppliers' databases, its actual sale information. Mr.

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1 Rapaport's information are price predictions and averages. So
2 what you see on IDEX Online are a series of averages that are
3 calculated pursuant to very complex formulas and algorithms
4 that were written and designed and are constantly perfected by
5 mathematicians in Israel. So there is no overlap here.

6 There is no patent infringement claim. They haven't
7 alleged how we infringed the patent, and I submit if your Honor
8 reads the brief and thinks about it, because it's written more
9 clearly than I can articulate it because I have had the aid of
10 a patent lawyer that my client had to hire in order to address
11 the patent claim that sort of came out of left field. Suffice
12 it to say, they don't plead a claim for patent infringement,

13 neither in the fourth amended complaint, which is the basis of
14 our motion to dismiss that claim, nor do they rectify the
15 defects in that claim in the fifth amended complaint. So the
16 motion should be denied on the grounds that it's futile.

17 THE COURT: Would you like to address the forum non
18 conveniens?

19 MS. TRAKINSKI: Certainly, your Honor.

20 All this talk about the fifth amended complaint
21 notwithstanding, this case shouldn't be here anyway.

22 As your Honor will recall, the defendants in this
23 case, IDEX Online S.A., IDEX Online Israel and IDEX Online USA,
24 were not parties to the original complaint that was commenced
25 in Nevada on December 3, 2004. They are entirely new entities

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1 that -- let me take that back. IDEX Online S.A. is a new
2 entity that purchased the assets of the original defendant,
3 IDEX Online, Ltd. After the commencement of the action it
4 purchased the assets, not the liabilities. It's not a
5 successor in interest. It just purchased the assets of the
6 business. You have completely new parties here. So to the
7 extent Mr. Coleman's response was there is a judicial estoppel
8 here, judicial estoppel doesn't apply here. We don't have the
9 same parties.

10 THE COURT: I don't disagree with that proposition.
11 It seems to me that the major problem you have on the forum non
12 conveniens is it depends on the court not permitting the
13 inclusion of or dismissing the patent and trademark claims.

14 MS. TRAKINSKI: I don't think that's right, your
15 Honor, and let me say why.

16 First of all, the patent claims are patently
17 frivolous. With all due respect to your Honor, if we were to
18 lose the motion to dismiss those claims in this court, I would
19 strongly recommend my client appeal because I really do believe
20 that those claims do not state a cause of action, and under any
21 construction of the applicable patent decisions, the 12(b)(6)
22 general pleading rule just doesn't get them there, and I feel
23 very strongly about it. So there is a notion that those
24 claims, in my view, should be just set aside for a moment.

25 The trademark claim I don't view as a problem. There

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1 are plenty of cases that dismiss on forum non grounds that
2 involve trademark and copyright under the Lanham Act. In this
3 case, if they were to be litigated in Israel, if Rapaport was
4 to commence his action in Israel, where he lives by the way,
5 any injunction that's entered in Israel is going to de facto
6 give them the relief they need here because all of the activity
7 of the company that constitutes trademark infringement, with
8 the exception of just being able to log on to the Web site in
9 the United States, takes place in Israel. If they are enjoined
10 in Israel from using the name, they have effectively gotten the
11 relief they want. As Justice Breyer said in the How decision,
12 it is just another road to Rome.

13 We submit on top of it, their trademark is exceedingly
14 weak. It is a descriptive mark. One thing your Honor needs to
15 understand, which Mr. Coleman hasn't really focused on and I
16 haven't gotten to yet, is the INDEX service doesn't contain the
17 pricing information. It utilizes the pricing information that
18 is in their indices, and Rapaport's businesses are indices. So
19 the trademark is descriptive. It's not going to withstand
20 challenges on -- there is no secondary meaning. The trademark
21 is really of little consequence. They also never used it until
22 IDEX Online cranked up its business and all of a sudden Mr.
23 Rapaport decided he has got this trademark he is going to start
24 using.

25 That's besides the point because on the forum non
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1 argument, they can get the relief they need in Israel. In
2 fact, if your Honor issues an injunction in the United States,
3 query whether or not it's enforceable in Israel. They are
4 operating in Israel. They program their Web site in Israel.
5 The name was chosen in Israel. 21 of the employees are in
6 Israel. All of the decision-makers that had anything to do
7 with choosing the name are in Israel or in Switzerland. They
8 have 37 employees total, 21 in Israel, seven in India, three in
9 Antwerp, two in Switzerland, and four employees in the United
10 States, one of whom is an executive that's with us, Mr. Stern,
11 who joined the company less than six months ago, two of the

12 other three employees have been there less than a year. You
13 have got no witnesses in the U.S. who have much relevant
14 information that can't be obtained from the relevant parties in
15 Israel.

16 The algorithms, as I mentioned, and the Web site and
17 the invention that is the IDEX Online service was created and
18 is maintained in Israel by independent contractors. That's all
19 laid out in Mr. Cohen's affidavit. So all of our sources of
20 proof are in Israel. All the documents are in Israel. Most of
21 the testimony that you're going to get from Israeli employees,
22 who are most of the employees, is going to be in Hebrew. We
23 are going to need to translate them. A substantial percentage
24 of the documents will be in Hebrew. We are going to need to
25 translate them.

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1 This is a case, in my view, that screams out for
2 dismissal. Mr. Rapaport lives in Israel. He runs his
3 businesses from Israel. In the affidavits submitted in Nevada
4 they argued that New York was inconvenient for them because
5 they have no offices here, they have no documents here. If
6 anything, Nevada was the only U.S. jurisdiction that Rapaport
7 took the position would be remotely convenient. There is
8 nothing about New York, except that counsel is here, to make
9 this the right forum for this litigation.

10 THE COURT: Let me hear from Mr. Coleman on the forum
11 non conveniens.

12 MR. COLEMAN: Your Honor, do I have the opportunity to
13 comment on the other issues?

14 THE COURT: Yes, you can do both.

15 MR. COLEMAN: I will go in order again.

16 I just have to take some exception to the suggestion
17 that there have been six substantive changes to the complaint.
18 That's not true. In fact, most or at least half of the changes
19 have been minor clerical and the suggestion that there is no
20 merit in any of them I think is a little bit of overreaching by
21 the defendants.

22 The hot-news exception only applies to
23 minute-by-minute information. Whether or not the Rapaport
24 price list is that information -- by the way, defendants know very
25 well what information we are referring to. On page 29 of their

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1 brief, they acknowledge that we are talking about the Rap
2 prices which is the standard diamond indexing prices in the
3 world. Whether or not that qualifies as hot enough for
4 defendants is a fact question. The reason that my client
5 offers real-time information on its Web site is because that
6 information is more valuable than old information. Are they
7 using old information or new information? I don't know. In
8 fact, to a large extent we are asked to consider the patent
9 claims by what IDEX tells us the Web site does. We don't know
10 what the Web site does or can do or is capable of doing. We
11 only know what it looks to the consumer that it is able to do
12 today. We don't know what algorithms are really being used.
13 We don't know whether the Rap price, which can be seen on the
14 display, is input by users entirely or whether it is part of
15 the algorithm. We don't know.

16 I must say I don't understand why there is this
17 constant suggestion that we are falling back on a bare-bones
18 12(b)(6) standard for the patent claim. Like Ms. Trakinski, I
19 am not a patent lawyer, and like Ms. Trakinski, my client hired
20 a patent lawyer. We did get a letter, which is mentioned in a
21 footnote to the brief, demanding that we withdraw the patent
22 claim or suffer the slings and arrows of a Rule 11 claim. We
23 took a second substantive look as required under the rule after
24 having done the first substantive look to decide whether there
25 was a bona fide claim. We were satisfied we could withstand

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1 that and no Rule 11 claim was brought. Neither one of us is a
2 patent lawyer, and we both acknowledge that, but for some
3 reason Phonometrics, the federal circuit's test for the
4 pleading standards for a patent case, doesn't get mentioned by
5 defendants. Maybe at some time today we will hear about it.

6 Now, as to the question of the forum non conveniens
7 motion, of course forum non conveniens fundamentally is a
8 concept rooted in equity. The idea that a defendant can sell
9 all of its assets after getting -- that a defendant could make
10 a motion asking a court in district A to move a litigation to

11 district B, and in the interim or shortly thereafter, after
12 having --

13 THE COURT: Ms. Trakinski's position is it's a
14 different party.

15 MR. COLEMAN: That's precisely my point. All the
16 assets, and we believe, your Honor, they are using the same
17 name, it's the same business.

18 THE COURT: If it's a sale of assets, the entity is
19 different.

20 MR. COLEMAN: If this were to be transferred to Israel
21 tomorrow, how do we know that all those assets would not then
22 be sold to a Bulgarian company and this case could never be
23 litigated. It's the same business, the same principals, the
24 same brand name, the same Web site. As an equitable matter, I
25 think it's disturbing to suggest that merely by playing a

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1 corporate shell game you can make an infinite number of
2 applications.

3 On the merits of it, Ms. Trakinski has discussed quite
4 a bit about the fact that IDEX is fundamentally an Israeli
5 business, but Rapaport isn't. Yes, Mr. Rapaport lives in
6 Israel. We have submitted his affidavit. It can't be
7 rebutted. He does some business in Israel. He does a lot of
8 business in the United States. His business is run in the
9 United States. His business is headquartered in the United
10 States. As the Nevada court found, this is the world capital
11 of the diamond industry and there will be expert testimony and
12 there will be factual testimony that will be adduced from and
13 in New York.

14 It's very strange for me to hear about how everything
15 about this case is Israeli when we are talking fundamentally
16 about the operation of an English language Web site with a dot
17 com extension which is used for American Web sites, customer
18 service is in English, there is not a single word of Hebrew
19 that we are aware of on the Web site. Something very American
20 is going on here besides the patents, besides the trademarks,
21 besides the legal claims, besides the fact that the Rapaport
22 business is located in the United States.

23 IDEX is a United States business. And the suggestion
24 which was mentioned in the brief, and I was reluctant to bring

25 it up but Ms. Trakinski brought it up again today, query

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1 whether an injunction issued by this court would be enforceable
2 in Israel. I wonder whether the defendants will tell us right
3 now if they are suggesting that if this court enters an
4 injunction --

5 THE COURT: I think that's beyond the scope of today's
6 discussion.

7 MR. COLEMAN: That's my response.

8 MS. TRAKINSKI: Just a few quick points.

9 THE COURT: On the FNC issue.

10 MS. TRAKINSKI: First of all, the fact that we haven't
11 yet brought a Rule 11 claim is of no moment simply because we
12 don't have the right to bring it yet because the claims haven't
13 been dismissed yet, it's premature, which is why there has been
14 no Rule 11 claim asserted as yet. So the suggestion that we
15 really don't believe what we said in the Rule 11 letter is
16 silly frankly. I am going to ignore that.

17 The fact that they had a patent lawyer look at this
18 case makes this complaint even more problematic. They have not
19 done their due diligence. There is no claim chart. There is
20 no specific allegations of how the elements of the limitations
21 in any independent claim in the Borgato '178 are being
22 infringed by IDEX Online, and under all of the prevailing
23 federal circuit law, that is not a sufficient pleading of the
24 patent claim. I have no doubt, your Honor, and your law clerks
25 will read the cases and you will see that that is in fact the

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1 law. I think the patent claim is really a nonissue.

2 On the forum non issue, it's very disturbing that
3 plaintiffs are still insisting that the sale of the assets was
4 somehow some corporate shell game to avoid liability in this
5 litigation. Setting aside the fact that that is simply untrue,
6 it's offensive. Your Honor has the supplemental affidavit of
7 David Cohen in opposition to the motion to amend and in support
8 of the motion to dismiss and Mr. Cohen testifies under oath
9 that this is a bona fide arm's length transaction with third

10 parties for a legitimate business purpose. The control group
11 is not the same. The owners are not the same. One of the
12 assets of the business, as everyone in this courtroom is well
13 aware, was the name. We buy and sell trademarks all the time.
14 Names are very, very valuable assets of any ongoing business in
15 this day and age. That's what was sold. We have different
16 parties here. We were not in front of the Nevada court. There
17 is no motion to dismiss on forum non grounds. What was in the
18 minds of counsel for the predecessor defendant when they made a
19 motion to transfer I can't speak to, I don't know. All I know
20 is no court has yet looked at the forum non record.

21 The fact that Rapaport is, quote unquote, not an
22 Israeli business is also superficially incorrect and
23 substantively incorrect. Mr. Rapaport lives in Israel. He is
24 a member of the Israeli diamond exchange. It's all of public
25 record. It's all over their Web site. They have no offices in
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1 New York. Their original choice of forum, which was Nevada,
2 was already rejected by a district court. Your Honor is bound
3 by that decision. The district court in Nevada found that it
4 wasn't persuasive that their choice of forum is entitled to any
5 deference. Under Iraborri and all the other forum non cases in
6 this and other circuits, if their choice of forum is not
7 entitled to deference, then the analysis goes on.

8 THE COURT: Tell me again why it's not entitled to
9 deference.

10 MS. TRAKINSKI: For one, the Nevada court has already
11 rejected it. New York is not their choice of forum. In fact,
12 they fought very hard against New York. Take a look at Exhibit
13 H to my affidavit, the Trakinski affidavit. You have got the
14 affidavit of Mr. Graham, one of the executives in Nevada, who
15 testified that New York is inconvenient, we have no business
16 there, we have no offices there. Nevada is where we need to
17 be. Mr. Rapaport doesn't travel to New York, he travels to
18 Nevada.

19 THE COURT: I am not inclined to find that the
20 defendants are foreclosed from bringing a forum non motion, but
21 I am also not inclined to believe that the court in Nevada
22 resolved the forum non conveniens issue.

23 MS. TRAKINSKI: I don't think they did. I meant only

24 that the issue of the deference to be paid to the choice of
25 forum is Nevada is only one of the three elements to be
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1 considered by the court. I don't mean to suggest that Nevada
2 has addressed it. On the contrary, Nevada has not done a forum
3 non analysis.

4 THE COURT: That court was only comparing two
5 jurisdictions.

6 MS. TRAKINSKI: Correct.

7 The last point I wanted to make in response to
8 Mr. Coleman's presentation is to observe that he has
9 essentially made our point that the Web site is fair game and
10 should be included in the motion to dismiss. He himself is
11 relying, at least in part, on the fact that it is an English
12 Web site and there is not a single word of Hebrew on the Web
13 site. In fact, the Web site is pivotal to this case. It is
14 IDEX Online business. It embodies it, it discusses it, it
15 describes it, it discloses it. There is no way that this
16 pleading can be evaluated, even under the standard that
17 Mr. Coleman urges, which is the general notice pleading
18 standard, without reference to the Web site.

19 That being said, that the Web site demonstrates the
20 lack of merit in the patent claim is clear on its face. If you
21 look at the patent claim and you look at what the Web site
22 descriptions do, and they are all carefully referenced in my
23 papers, it will be clear to the court that there is no claim
24 for patent infringement alleged here.

25 The last thing I observe is that also, in terms of
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1 your Honor's own information and research in support of the
2 notion that Mr. Rapaport's business is conducted largely in
3 Israel, and I also might add under the Iragorri analysis and
4 all the other Second Circuit precedent, after the court
5 determines that the choice of forum is not to be given
6 deference, or in the course of making that determination, I
7 should say, the international nature of the plaintiff's
8 business has got to be taken into consideration. Mr.

9 Rapaport's business is international in nature. He has got
10 offices in five or seven different countries. He travels among
11 them he says in his affidavit. So even if he does have a
12 presence in New York, he has an international business, which
13 under the cases, including *Iragorri*, I wouldn't say mandate,
14 but militate against deference to the choice of forum, even if
15 New York was their choice of forum.

16 THE COURT: All right. We are going to take a
17 ten-minute recess and I am going to determine whether or not we
18 will rule this afternoon from the bench.

19 (Recess)

20 THE COURT: The court, having heard argument of
21 counsel and reviewed the parties' submissions, will rule on the
22 pending motions.

23 In opposition to plaintiffs' motion to amend,
24 defendants argued that such motion should be denied on the
25 grounds that plaintiffs have exhibited bad faith and that

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1 plaintiffs' proposed amendments are futile.

2 The court as an initial matter finds that despite the
3 fact that this will be plaintiffs' fifth amended complaint, the
4 plaintiff has not acted in bad faith or with a dilatory motive,
5 nor at this point does the court find that the defendant will
6 suffer any undue prejudice should the amendment be allowed.

7 Regarding futility, the law is clear that an amendment
8 to a pleading is futile if it could not withstand a motion to
9 dismiss under Rule 12(b)(6). *Lucente v. International Business*
10 *Machines Corp.*, 310 F.3d 243, 258 (2d Cir. 2002).

11 Defendants argue that the proposed new claim 7 is
12 futile because (1) the misappropriation claim is preempted by
13 federal law; and (2) because it fails to state a claim for
14 which relief may be granted.

15 Plaintiffs argue that they have pleaded a claim for
16 "hot-news misappropriation" -- derived from *International News*
17 *Service v. Associated Press*, 248 U.S. 215 -- which is not
18 preempted by the exclusive rights created by the Copyright Act.

19 To decide whether a state law claim is preempted, this
20 court employs the "extra element" test which holds that: If an
21 extra element is "required instead of or in addition to the
22 acts of reproduction, performance, distribution or display, in

23 order to constitute a state-created cause of action, then the
24 right does not lie within the general scope of copyright, and
25 there is no preemption." Computer Associates International,
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1 Inc. v. Altai, Inc., 982 F.2d 693, 716 (2d Cir. 1992). The
2 extra element must change the nature of the action so that it
3 is qualitatively different from a copyright infringement claim.
4 Mayer v. Josiah Wedgwood & Sons, Ltd., 601 F.Supp. 1523, 1535
5 (S.D.N.Y. 1985).

6 The Second Circuit has held that only a narrow
7 hot-news misappropriation claim survives preemption for actions
8 concerning material within the realm of copyright. National
9 Basketball Association v. Motorola, Inc., 105 F.3d 841, 852 (2d
10 Cir. 1997).

11 The elements central to a hot-news misappropriation
12 claim are: "(i) the plaintiff generates or collects
13 information at some cost or expense; (ii) the value of the
14 information is highly time-sensitive; (iii) the defendant's use
15 of the information constitutes free-riding on the plaintiff's
16 costly efforts to generate or collect it; (iv) the defendant's
17 use of the information is in direct competition with a product
18 or service offered by the plaintiff; and (v) the ability of
19 other parties to free-ride on the efforts of the plaintiff
20 which so reduce the incentive to produce the product or service
21 that its existence or quality would be substantially
22 threatened. Id. Of these elements, the first three are extra
23 elements that allow the claim for misappropriation to survive
24 preemption.

25 In the fifth amended complaint, plaintiff has pled
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1 each element of this claim. Precisely how time-sensitive the
2 contested information is has to be tested in discovery. But as
3 pleaded, plaintiffs have stated a non-preempted cause of action
4 for hot-news misappropriation, and therefore survive a motion
5 to dismiss under Rule 12(b)(6).

6 Defendants next argue that the new breach of contract
7 claim asserted as claim number 8 must be dismissed because it

8 too is preempted by the federal law, in this case the federal
9 patent law. However, defendants do not offer any support for
10 the proposition that plaintiffs' breach of contract claim is in
11 fact its patent claim restated in state law terms. The cause
12 of action arises solely from the alleged breach of the TOS
13 agreement allegedly entered into by the defendants.

14 To state a breach of contract claim plaintiffs must
15 allege: (1) the existence of a contract; (2) performance by one
16 party; (3) breach of the contract; and (4) resulting damages.
17 *Leepson v. Allan Riley, Co., Inc.*, 2006 WL 2135806, *3
18 (S.D.N.Y. July 31, 2006).

19 The sole paragraph in the complaint alleging breach of
20 contract states, "The actions of defendants set forth in this
21 fifth amended and supplemented complaint constitute breaches of
22 the TOS to which defendants agreed to be bound." (Proposed
23 Fifth Amended Complaint, paragraph 125). By this language,
24 plaintiff fairly incorporates the allegations contained in
25 paragraph 109 that the information published by defendant at

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1 IDEXONLINE.com is derived directly from plaintiffs' proprietary
2 information subject to the TOS.

3 Well, while this allegation may be thin at the
4 pleading stage, it is sufficient to state a cause of action and
5 therefore the motion to amend to add this claim is granted.

6 Defendants make the same preemption argument with
7 respect to plaintiffs' proposed claim for tortious interference
8 with contract set forth as claim number 9. The court finds
9 this argument unpersuasive.

10 Under New York law, in order to find a claim for
11 tortious interference of contract, the plaintiffs must
12 demonstrate: "(1) the existence of a valid contract between the
13 plaintiff and a third party; (2) defendants' knowledge of that
14 contract; (3) defendants' intentional procurement of the
15 third-party's breach of the contract without justification; (4)
16 actual breach of the contract; and (5) damages resulting
17 therefrom." *Lama Holding, Co. v. Smith Barney, Inc.*, 668
18 N.E.2d 97 (N.Y. 1996).

19 The proposed cause of action suffers from a variety of
20 defects. First of all, while plaintiffs identify a class of
21 contracts that may exist, they have not pointed to a specific

22 enforceable TOS agreement that underlies their claim for
23 tortious interference with contract.

24 Second, assuming arguendo that plaintiffs sufficiently
25 identified a broad class of contracts that defendants ought to
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1 have known existed between plaintiffs and unidentified
2 third-party users, plaintiffs do not allege any conduct by
3 these unknown third parties that would constitute a breach of
4 that agreement.

5 Finally, the proposed cause for tortious interference
6 does not include an allegation that but for defendants' conduct
7 there would not have been a breach of the TOS by these
8 unidentified third parties. Therefore, this claim would not
9 survive a motion to dismiss and the motion for leave to amend
10 with respect to this claim is denied.

11 With respect to the patent infringement claim proposed
12 as new claim number 10, "To state a claim for patent
13 infringement, a plaintiff need only plead facts sufficient to
14 place the defendant on notice of the asserted claim and to
15 ensure that the defendant has adequate knowledge of the facts
16 alleged in order to reasonably form a response." *Home &*
17 *Nature, Inc. v. Sherman Specialty Co., Inc.*, 322 F.Supp.2d 260,
18 265 (E.D.N.Y. 2004).

19 A complaint for patent infringement satisfies the
20 above requirements, as well as the limited criteria of Rule
21 8(a), when the plaintiff: (1) alleges ownership of the patent;
22 (2) names each individual defendant; (3) cites the patent that
23 is allegedly infringed; (4) describes the manner in which the
24 defendants allegedly infringed; and (5) identifies the specific
25 sections of the patent law invoked. See *Asip v. Nielsen Media*

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1 *Research, Inc.*, 2004 WL 315269, *2 (S.D.N.Y. Feb. 17, 2004).

2 Here plaintiff has alleged its ownership of the
3 asserted patent, named each individual defendant, cites the
4 patent allegedly infringed, describes the manner in which
5 defendants allegedly infringe, and sufficiently, albeit
6 indirectly, identifies that their claim is one for direct

7 infringement. See Asip supra at *3.

8 Accordingly, at the pleading stage, the court
9 concludes that the patent claim would not be subject to a
10 motion to dismiss and leave to amend is therefore granted.

11 With respect to the defendants' motion for forum non
12 conveniens, as an initial matter, the court does not believe
13 that the defendants are estopped from raising the forum non
14 conveniens issue in this court.

15 With respect to the legal standard, the analysis upon
16 a motion to dismiss for forum non conveniens proceeds in
17 several stages. *Pollux Holding, Ltd. v. Chase Manhattan Bank*,
18 329 F.3d 64, 70 (2d Cir. 2003). "At step one, a court
19 determines the degree of deference properly accorded to
20 plaintiff's choice of forum. At step two, it considers whether
21 the alternative forum proposed by the defendants is adequate to
22 adjudicate the parties' dispute. Finally, at step three, a
23 court balances the private and public interests implicated in
24 the choice of forum." *Norex Petroleum, Ltd. v. Access*
25 *Industries, Inc.*, 416 F.3d 146, 153 (2d Cir. 2005).

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1 As plaintiff Martin Rapaport is a U.S. citizen, though
2 he resides in Israel, and as the plaintiff's corporations are
3 organized under the United States law and located in the United
4 States, there is a presumption that a United States forum is
5 appropriate.

6 To determine whether to depart from this presumption,
7 the Second Circuit has instructed that "the greater the
8 plaintiff's or the lawsuit's bona fide connection to the United
9 States and to the forum of choice and the more it appears that
10 considerations of convenience favor the conduct of the lawsuit
11 in the United States, the more difficult it will be for the
12 defendant to gain dismissal for forum non conveniens. *Gross* at
13 386 F.3d 230.

14 The deference afforded to a plaintiff's choice of
15 forum grows stronger where that plaintiff is a U.S. citizen
16 whose claims arise under U.S. law. *Greenlight Capital, Inc. v.*
17 *Greenlight S.A.*, 2005 WL 13682, at *4 (S.D.N.Y. Jan. 3, 2005).
18 Because plaintiffs' claims arise in large part out of U.S.
19 trademark and patent law, a fair amount of deference is owed to
20 plaintiffs' choice of forum in this case.

21 Once the degree of deference owed to plaintiffs'
22 choice of forum has been decided, the court must then
23 determine: (1) if there is an adequate alternative forum; and
24 if so, (2) whether the public and private interests favor the
25 plaintiffs' or defendants' choice of forum. Gross, 386 F.3d at

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1 230. "The defendant seeking dismissal bears the burden as to
2 both questions." Aguinda v. Texaco, Inc., 303 F.3d 470, 476
3 (2d Cir. 2002).

4 The court need not reach the second inquiry as it has
5 concluded that the defendants have not carried their burden
6 with respect to whether Israel is an adequate alternative
7 forum.

8 An adequate alternative forum exists if the defendants
9 are amenable to service of process there and the forum permits
10 litigation of the subject matter in dispute. VictoriaTea.com,
11 Inc., 239 F.Supp.2d at 383. The first criterion is evidently
12 satisfied, as defendants have stated that they are either
13 subject to or will submit to the jurisdiction of the Israeli
14 courts. However, there is no evidence that plaintiffs will be
15 able to fully litigate its U.S. trademark rights in Israel
16 because "trademark rights are largely territorial, as they
17 exist in each country solely according to that country's
18 statutory scheme." Jose Armando Bermudez & Co. v. Bermudez
19 International, 2000 U.S. Dist. LEXIS 12354, at *11 (S.D.N.Y.
20 Aug. 29, 2000).

21 Accordingly, "The courts of this district have
22 declined to dismiss cases pursuant to forum non conveniens
23 where plaintiffs assert U.S. trademark or copyright claims."
24 Id. at *12. Defendants' assertion that Israeli trademark law
25 and U.S. trademark law are substantially similar does not

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1 compel a contrary result.

2 Furthermore, the inclusion of the patent claim would
3 give rise to an additional reason to deny defendants' forum non
4 conveniens motion. Defendants' Israeli law expert does not
5 even address whether the courts of Israel can or should enforce

6 U.S. patent rights. The record does not reflect that Israeli
7 courts permit the consideration of a U.S. patent claim.
8 Therefore, defendants have not established that Israel is an
9 adequate alternative forum. See Greenlight, 2005 WL 13682, and
10 Jose Armando Bermudez & Co., 2000 U.S. Dist. LEXIS 12354, at
11 *13 and *16. See also Ideal Instruments, Inc. v. Rivard
12 Instruments, Inc., 434 F.Supp.2d 598, 631 (N.D. Iowa 2006).

13 That's the ruling of the court on the pending motions.

14 What is the status of the case otherwise? Is there
15 any type of a scheduling order in place?

16 MR. COLEMAN: No, your Honor. There was a stay of
17 discovery which expired well into the period after we submitted
18 the motion, but considering the pendency of the motion,
19 everyone --

20 THE COURT: I would like the parties to meet and
21 confer and submit a proposed scheduling order to the court in a
22 single document. To the extent that the parties do not agree
23 on any particular time periods, they may set forth their
24 alternative proposals and the court will then determine what
25 the appropriate schedule is.

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1 Is there anything further we need to address this
2 afternoon, counsel?

3 MR. COLEMAN: No.

4 MS. TRAKINSKI: No, your Honor.

5 THE COURT: Then we are adjourned.

6 (Adjourned)

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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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MARTIN RAPAPORT, et al.,

Plaintiffs,

- against -

04 Civ. 6626 (RJH)

IDEX ONLINE, LTD., et al.

ORDER

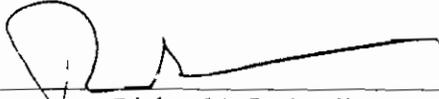
Defendants.

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For the reasons stated on the record at oral argument, held September 28, 2006, plaintiffs' motion for leave to amend the complaint [24] is granted in part and denied in part. Plaintiffs are granted leave to file the Fifth Amended and Supplemental Complaint including Counts I through 8 (as denoted therein) and 10. Count 9, for tortious interference with contract, does not state a claim for which relief can be granted, and amendment to include this claim is therefore futile. Furthermore, defendants' motion to dismiss [37] is denied.

SO ORDERED.

Dated: New York, New York
September 28, 2006


Richard J. Holwell
United States District Judge