

**UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK**

<p>SHELIA A. MASTERSON,</p> <p><i>Plaintiff,</i></p> <p>v.</p> <p>NY FUSION MERCHANDISE, LLC</p> <p><i>Defendant.</i></p>	<p>CIVIL ACTION NO.</p> <p>13-cv-06559 (PKC)</p>
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**MEMORANDUM OF LAW IN SUPPORT  
OF DEFENDANT'S MOTION TO DISMISS THE COMPLAINT**

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**TABLE OF CONTENTS**

	<u>Page</u>
TABLE OF AUTHORITIES .....	ii
PRELIMINARY STATEMENT .....	1
STATEMENT OF FACTS .....	1
PROCEDURAL HISTORY .....	4
LEGAL ARGUMENT .....	5
I. LEGAL STANDARD APPLICABLE TO A MOTION TO DISMISS UNDER FED. R. CIV. P. 12(b)(6) .....	5
II. PLAINTIFF’S CLAIM OF DIRECT INFRINGEMENT IS BARRED BY THE DOCTRINE OF LACHES AND THEREFORE SHOULD BE DISMISSED .....	6
A. Masterson Delayed Filing Suit for an Unreasonable and Inexcusable Length of Time from the Date she Undeniably Knew of a Claim Against Defendant.....	8
B. Defendant Has Suffered Material Prejudice Attributable to the Delay .....	9
i. Defendant has sustained economic prejudice .....	10
ii. Defendant has sustained evidentiary prejudice.....	11
III. PLAINTIFF’S CLAIM OF DIRECT INFRINGEMENT IS ALSO BARRED BY THE DOCTRINE OF EQUITABLE ESTOPPEL AND THEREFORE SHOULD BE DISMISSED .....	12
IV. PLAINTIFF IS NOT ENTITLED TO REPLEAD .....	14
CONCLUSION.....	15

**TABLE OF AUTHORITIES**

	<u>Page(s)</u>
<b><u>Cases</u></b>	
<i>A.C. Aukerman Co. v. R.I. Chaides Constr. Co.</i> , 960 F.2d 1020 (Fed. Cir.1992).....	<i>passim</i>
<i>ABB Robotics, Inc. v. GMFanuc Robotics Corp.</i> , 52 F.3d 1062 (Fed. Cir. 1995).....	16
<i>Advanced Hydraulics, Inc. v. Otis Elevator Co.</i> , 525 F.2d 477 (7th Cir. 1975) .....	20
<i>Bell Atl. Corp. v. Twombly</i> , 550 U.S. 544 (2007).....	8
<i>C3 Media &amp; Mktg. Group, LLC v. Firstgate Internet, Inc.</i> , 419 F.Supp.2d 419 (S.D.N.Y. 2005).....	6, 23
<i>Conopco, Inc. v. Roll Int’l</i> , 231 F.3d 82 (2d Cir. 2000).....	8
<i>Cont’l Coatings Corp. v. Metco, Inc.</i> , 464 F.2d 1375 (7th Cir. 1972) .....	20
<i>Ecolab, Inc. v. Envirochem, Inc.</i> , 264 F.3d 1358 (Fed. Cir. 2001).....	19
<i>Fed. Express Corp. v. United States Postal Service, FCB</i> , 75 F. Supp. 2d 807 (W.D. Tenn. 1999).....	10
<i>FMC Corp. v. Guthery</i> , Case No. 07-cv-5409, 2009 WL 1033663 (D.N.J. Apr. 17. 2009).....	13
<i>Hor v. Chu</i> , 765 F. Supp. 2d 903 (S.D. Tex. 2011).....	18
<i>Ikelionwu v. United States</i> , 150 F.3d 233 (2d Cir. 1998).....	11
<i>Kassner v. 2nd Ave. Delicatessen, Inc.</i> , 496 F.3d 229 (2d Cir. 2007).....	22
<i>King v. Innovation Books, A Div. of Innovative Corp.</i> , 976 F.2d 824 (2d Cir. 1992).....	10
<i>Koulikina v. City of New York</i> , 559 F.Supp.2d 300 (S.D.N.Y. 2008).....	6

<i>Kramer v. Time Warner Inc.</i> , 937 F.2d 767 (2d Cir. 1991).....	3
<i>Medinol Ltd. v. Cordis Corp.</i> , Case No. 13-cv-1408 (SAS), 2014 WL 1041362 (S.D.N.Y. Mar. 14, 2014).....	<i>passim</i>
<i>Miree v. Dekalb County</i> , 433 U.S. 25 (1977).....	7
<i>Neitzke v. Williams</i> , 490 U.S. 319 (1989).....	8
<i>Roth v. Jennings</i> , 489 F.3d 499 (2d Cir. 2007).....	3
<i>SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods., LLC</i> , Case No. 10-cv-122, 2013 WL 3776173 (W.D. Ky. July 16, 2013) .....	16
<i>Scholle Corp. v. Blackhawk Molding Co. Inc.</i> , 133 F.3d 1469 (Fed.Cir.1998).....	19
<i>Serdarevic v. Advanced Medical Optics, Inc.</i> , 532 F.3d 1352 (Fed. Cir. 2008).....	10, 15
<i>Tri–Star Pictures, Inc. v. Leisure Time Prods., B. V.</i> , 17 F.3d 38 (2d Cir.1994).....	10
<i>United States v. Bantau</i> , 907 F. Supp. 988 (N.D. Tex. 1995) .....	10
<i>Vaupel KG v. Meccanica Euro Italia S.P.A.</i> , 944 F.2d 870 (Fed. Cir. 1991).....	14
<i>Wafer Shave, Inc. v. Gillette Co.</i> , 857 F. Supp. 112 (D. Mass.).....	20
<i>Warner v. Sun Ship, LLC</i> , Case No. 11-cv-7830, 2012 WL 1521866 (E.D. Pa. Apr. 30, 2012) .....	11
<b><u>Statutes</u></b>	
Fed. R. Civ. P. 5(b)(2)(E) .....	6
Fed. R. Civ. P. 6(a)(1)(A) and (C) .....	7
Fed. R. Civ. P. 12(b) .....	<i>passim</i>
Fed. R. Civ. P. 15(a)(2).....	22

**Other Authorities**

*Service of Process in China*, ABA Section of Litigation 2012 Section Annual Conference April 18-20, 2012, available at

[http://www.americanbar.org/content/dam/aba/administrative/litigation/materials/sac\\_2012/19-1 service of process in china.authcheckdam.pdf](http://www.americanbar.org/content/dam/aba/administrative/litigation/materials/sac_2012/19-1_service_of_process_in_china.authcheckdam.pdf) .....17

## PRELIMINARY STATEMENT

Defendant NY Fusion Merchandise, LLC (“defendant” or “NY Fusion”), by and through its undersigned counsel, respectfully submits this memorandum of law in support of its motion to dismiss the Amended Complaint (“Complaint”) of plaintiff Shelia A. Masterson (“plaintiff” or “Masterson”), pursuant to 12(b)(6) of the Federal Rules of Civil Procedure (“Rules”).

Fundamentally, plaintiff’s claim is barred by the equitable doctrines of laches and estoppel. While Masterson’s claim of willful infringement rests on the alleged failure of NY Fusion to cease and desist its allegedly infringing activity upon plaintiff’s demand (Am. Compl.<sup>1</sup> ¶ 9), the indisputable documentary record shows that plaintiff waited more than five years from the date it first notified defendant of its assertion of right – which was promptly rejected in writing – to act on her vague claim of proprietary rights in her alleged invention.

The record is indisputable that plaintiff’s unjustifiable delay has resulted in material prejudice to defendant, who relied justifiably in plaintiff’s knowing acquiescence to its activities. Accordingly, and notwithstanding the untimeliness of its filing as discussed below, the Complaint should be dismissed with prejudice.

## STATEMENT OF FACTS<sup>3</sup>

Plaintiff Masterson is a citizen of the State of Texas. (Am. Compl. ¶ 1.) Defendant NY Fusion is a limited liability company organized under the laws of the State of New Jersey. (Am. Compl. ¶ 2.) On July 19, 2011, pursuant to an application filed on September 8, 2006, U.S. Patent No. 7,980,095 was issued to Masterson for an invention related to the field of

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<sup>1</sup> All citations to the Complaint filed on February 24, 2014 but not served on defendant until April 24, 2014 appear herein as “Am. Compl. ¶ \_\_.”

<sup>3</sup> Solely for the purposes of this motion, defendant assumes the truth of the allegations in the Complaint. However, in the event that the Complaint were not to be dismissed, defendant will deny that it has engaged in the acts of infringement as alleged, or that plaintiff has complied with its obligations under applicable law, or that there is any basis on which to impose liability against NY Fusion.

customizable jewelry (the “’095 Patent”). (Am. Compl. ¶ 7.) On July 9, 2013, pursuant to an application filed on June 20, 2011, Masterson also received the related U.S. Patent No. 8,479,536 in the same field (the “’536 Patent”) (collectively, the ’095 and the ’536 Patents are referred to as the “Patents”). (Am. Compl. ¶ 7.)

Years prior to the issuance of the Patents, however – on February 1, 2010 – Masterson, through counsel, transmitted a letter to NY Fusion, referenced only obliquely in its Complaint, that addressed what are obviously the same claims at issue here. (Am. Compl. ¶ 9.) The omission of the February 1, 2010 letter itself from the Complaint or even any detail concerning its contents is, in a pleading premised on intentional infringement, telling. It stated in relevant part (emphasis added):

Since at least 2008, you have been selling and offering for sale a line of jewelry embodying and exactly duplicating our client’s customizable jewelry system with multi-connector findings and strands. **Such sales have continued although Ms. Masterson instructed you to stop on or about June 5, 2008.**

We believe that these sales constitute a breach of the Mutual Nondisclosure Agreement into which you entered on April 18, 2007, a violation of our client’s trade secret rights, and state and Federal unfair competition. **In addition, they may comprise acts of patent infringement.**

We know who many of your customers are, and, from them, we have learned about your various misrepresentations, including an allegation that you own a patent on this novel, jewelry system. We also know where you have offered the infringing jewelry for sale and have witnessed, first hand, your illegal acts.

We hereby demand that you cease all offering for sale and sale of your jewelry embodying our client’s customizable system. We also expect a complete accounting of all sales and profits derived from the activities about which we herein complain. Please confirm your cessation within five business days and provide the requested information within ten business days.<sup>4</sup>

(Declaration of Joel G. MacMull dated May 12, 2014 (“MacMull Decl.”), Ex. A.)

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<sup>4</sup> “In certain circumstances, the court may permissibly consider documents other than the complaint in ruling on a motion under Rule 12(b)(6).” *Roth v. Jennings*, 489 F.3d 499, 509 (2d Cir. 2007). “Documents that are attached to the complaint or incorporated in it by reference are deemed part of the pleading and may be considered.” *Id.*; see also *Kramer v. Time Warner Inc.*, 937 F.2d 767, 773 (2d Cir. 1991).

On February 12, 2010 defendant responded by flatly and explicitly rejecting each of Masterson's claims. (Am. Compl. ¶ 9; MacMull Decl., Ex. B.) Defendant's response went further, stating "that to the extent that anyone's proprietary know-how and investment have been wrongfully exploited here, it is [NY Fusion's], and that the parties that should be rendering compensation for misappropriation are your clients." (MacMull Decl., Ex. B; *see also* Am. Decl. ¶ 9.) Defendant's February 12, 2010 response also made clear that any misrepresentations or interference by Masterson with defendant's commercial interests would not be tolerated and, to the extent such actions had already occurred, "immediate retractions and clarifications" were required. (MacMull Decl., Ex. B.)

Defendant received no reply to its February 12, 2010 letter. Masterson's silence, in light of NY Fusion's assertive response to her attorney, raised at least two reasonable inferences. One was that plaintiff could not establish the bona fides of her claim. Alternatively, Masterson would not or could not press whatever rights she did believe she had, even in the face of defendant's clear and affirmative rejection of her purported position. In any event, by its response plaintiff was placed on clear and unequivocal notice that NY Fusion had no intention of acknowledging plaintiff's claim or making any change in its conduct. Relying on plaintiff's years of subsequent silence, defendant continued to sell its jewelry products up through and including the date this action was commenced through November 15, 2013, the date on which NY Fusion was served with Masterson's initial complaint. (Am. Compl. ¶ 11; Dkt No. 7.) Masterson, meanwhile, filed her application, later approved, for the '536 Patent. She made no effort, however, to inform NY Fusion of that filing or the issuance of either the '095 Patent in 2011 nor of the '536 Patent until filing this lawsuit.



By delaying more than five years since she first put NY Fusion on notice of her claim of patent infringement (MacMull Decl., Ex. A) and more than three-and-a-half years following her February 1, 2010 letter until prosecuting that claim, plaintiff is attempting to collect a windfall in damages – i.e., to capture the business built by defendant in justifiable reliance on plaintiff’s silence – as well as attorneys’ fees. Because of that delay, however, she is not entitled any damages as a matter of law.

### **PROCEDURAL HISTORY**

Masterson commenced this action on September 17, 2014. (Dkt. No. 1.) Defendant was served with the initial complaint on November 15, 2013. (Dkt. No. 7.) On December 16, 2013, defendant filed a request for a pre-motion conference setting forth the basis for its anticipated motion to dismiss the initial complaint pursuant to Fed. R. Civ. P. 12(b)(6). (Dkt. No. 9.) Plaintiff was ordered to respond to defendant’s pre-motion conference letter by January 3, 2013, which it filed on January 1, 2014. (Dkt. Nos. 10, 11.)

The parties’ initial case management conference originally scheduled for January 17, 2014 was adjourned due to the prolonged hospitalization of defendant’s lead counsel. (Dkt. Nos. 12-14.) The parties subsequently convened before the Court on February 6, 2014, wherein a Civil Case Management Plan and Scheduling Order were agreed upon and entered. (MacMull Decl., Ex. C.) During the parties’ February 6, 2014 conference defendant’s pre-motion letter of December 16, 2013 was discussed at length, whereupon in recognition of the arguments raised by defendant the Court entered the following order:

Plaintiff is granted leave to amend by February 20, 2014 to address defendant’s arguments set forth at the conference of February 6, 2014 that: (1) certain claims are barred by the doctrine of laches; and (2) the failure to properly allege venue. If defendant chooses to, it may move to dismiss on the grounds that laches as a defense is established as a matter of law on the basis of the complaint. Defendant may also move on the ground of improper or inadequate allegations of venue.

(*See id.*) On Saturday, February 22, 2014, plaintiff advised via email that it had “timely filed an amended complaint.”<sup>5</sup> (MacMull Decl., Ex. D.) Defendant makes the instant motion in accordance with its time to do as provided under Rules 6(d) and 15(a)(3), i.e., 17 days after service of the amended pleading.<sup>6</sup>

## LEGAL ARGUMENT

### I. **LEGAL STANDARD APPLICABLE TO A MOTION TO DISMISS UNDER FED. R. CIV. P. 12(b)(6)**

When ruling on a motion to dismiss pursuant to Rule 12(b)(6), courts generally accept well-pled factual allegations as true and view them in the light most favorable to the non-moving party. *See Miree v. Dekalb County*, 433 U.S. 25, 27 n.2 (1977). The purpose of Rule 12(b)(6), however, is to “streamline litigation by dispensing with needless discovery and fact-finding” and

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<sup>5</sup> Attached to plaintiff’s counsel’s email of February 22, 2014 was an “unstamped” version of the Complaint. Additionally, on February 22, 2014 defendant had not yet agreed to accept service by electronic means as contemplated under Rule 5(b)(2)(E). On February 26, 2014, defendant’s counsel received notice via ECF that plaintiff had filed a “First Amended Complaint for Patent Infringement.” (MacMull Decl., Ex. E.) The ECF Notice of Electronic Filing indicated that the Complaint was filed on February 24, 2014. (*See id.*) This notice appeared to contradict plaintiff’s earlier “timely filed” representation of February 22, 2014 and, indeed, indicated that plaintiff’s filing of its amended pleading was four days past the due date ordered by this Court on February 6, 2014. (*Compare* MacMull Decl., Ex. C with Exs. D and E.) The February 26, 2014 ECF Notice of Electronic Filing did not include a hyperlink to an uploaded copy of the Complaint. (MacMull Decl., Ex. E.)

Based on the foregoing, therefore, by February 26, 2014, defendant had not actually been served with plaintiff’s amended pleading and plaintiff had not complied with the Court’s order requiring service by that date. Wishing to ensure that the version received via email on February 22, 2014 was the same as that actually filed with the Court, defendant requested a file stamped copy of the Complaint on February 26, 2014. (MacMull Decl., Ex. E.) Plaintiff agreed to honor defendant’s request on February 27, 2014. (MacMull Decl., Ex. F.) However, it would be weeks, in fact nearly two months and not until April 24, 2014, before defendant would receive a filed stamped version of the Complaint and then only after: (1) reminding plaintiff that it had not yet been served with the Complaint; and (2) proposing (without prompting) to accept service via electronic means as provided for under Rule 5(b)(2)(E). (MacMull Decl., Ex. G.)

It is well-settled that a court may look to matters outside the complaint in assessing the sufficiency of service. *See e.g., Koulkina v. City of New York*, 559 F.Supp.2d 300, 311 (S.D.N.Y. 2008); *C3 Media & Mktg. Group, LLC v. Firstgate Internet, Inc.*, 419 F.Supp.2d 419, 427 (S.D.N.Y. 2005). While the instant motion does not seek dismissal of the Complaint pursuant to Rule 12(b)(5) for insufficiency of service of process, NY Fusion does not waive this defense.

<sup>6</sup> Here, the seventeenth day following defendants’ agreed upon date of service of the Complaint is May 11, 2014 – a Sunday. However, pursuant to Rule 6(a)(1)(A) and (C), defendant’s period in which to timely file the instant motion terminates at midnight on Monday, May 12, 2014. *See* § 13.10 of the SDNY Electronic Case Filing Rules & Instructions.

eliminate baseless claims. *Neitzke v. Williams*, 490 U.S. 319, 326-27 (1989). Thus, where “the allegations in a complaint, however true, could not raise a claim of entitlement to relief, ‘this basic deficiency should ... be exposed at the point of minimum expenditure of time and money by the parties and the court.’” *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 556 (2007) (citation omitted). That is to say, if it appears from the face of the complaint that the plaintiff cannot prove a set of facts that would entitle him to the relief sought, the court should dismiss plaintiff’s claims. *See id.* at 570.

On a Rule 12(b)(6) motion, the Court may also consider whether a plaintiff has timely brought its claims. “Dismissal under Fed. R. Civ. P. 12(b)(6) is appropriate when a defendant raises ... an affirmative defense and it is clear . . . that the plaintiff’s claims are barred as a matter of law.” *Conopco, Inc. v. Roll Int’l*, 231 F.3d 82, 86 (2d Cir. 2000).

## **II. PLAINTIFF’S CLAIM OF DIRECT INFRINGEMENT IS BARRED BY THE DOCTRINE OF LACHES AND THEREFORE SHOULD BE DISMISSED**

Whether to apply the equitable remedy of laches lies with the sound discretion of the court. *See King v. Innovation Books, A Div. of Innovative Corp.*, 976 F.2d 824 (2d Cir. 1992); *Serdarevic v. Advanced Medical Optics, Inc.*, 532 F.3d 1352, 1358 (Fed. Cir. 2008). Because laches is an affirmative defense, a defendant asserting laches bears the burden of persuasion. *See A.C. Aukerman Co. v. R.I. Chaides Constr. Co.*, 960 F.2d 1020, 1038 (Fed.Cir.1992) (*en banc*). Because meeting that burden often requires consideration of facts outside the complaint, it is common for courts to decline ruling on laches in a pre-answer motion to dismiss pursuant to Rule 12. *See Tri–Star Pictures, Inc. v. Leisure Time Prods., B. V.*, 17 F.3d 38, 44 (2d Cir.1994); *Fed. Express Corp. v. United States Postal Service, FCB*, 75 F. Supp. 2d 807, 814 (W.D. Tenn. 1999). But “[t]he defenses of limitations or laches may be asserted by a motion to dismiss for failure to state a claim if the complaint shows affirmatively that the claims are barred.” *United*

*States v. Bantau*, 907 F. Supp. 988, 990 (N.D. Tex. 1995), citing *Herron v. Herron*, 255 F.2d 589, 593 (5th Cir. 1958); *see also, Ikelionwu v. United States*, 150 F.3d 233, 236 (2d Cir. 1998) (“[w]e have not yet settled definitively the appropriate standard to review the grant of a motion to dismiss, under Federal Rule of Civil Procedure 12(b), based on laches”); *Warner v. Sun Ship, LLC*, Case No. 11-cv-7830, 2012 WL 1521866, at \*2 (E.D. Pa. Apr. 30, 2012) *aff’d*, 507 F. App’x 107 (3d Cir. 2012) (“While some courts have cautioned against dismissing claims as barred by the doctrine of laches on a motion to dismiss . . . laches may serve as the basis for dismissal pursuant to Rule 12(b)(6) if applicability of the doctrine is apparent from the face of the Complaint”).

The leading case applying laches to a patent claim is the Federal Circuit’s decision in *A.C. Aukerman Co.*, *supra*. In *A.C. Aukerman*, the Federal Circuit clarified the rule that laches consists of two elements: (1) the plaintiff delayed filing suit for an unreasonable and inexcusable length of time from the time the plaintiff knew or reasonably should have known of its claim against the defendant; and (2) the delay operated to the prejudice or injury of the defendant. *See* 960 F.2d. at 1032. As to the definition of “delay” in this context, this Court explained just a few short weeks ago in *Medinol Ltd. v. Cordis Corp.*, Case No. 13-cv-1408 (SAS), 2014 WL 1041362 (S.D.N.Y. Mar. 14, 2014) (Scheidlin, J.) as follows: “The issuance of a patent establishes only the maximum period of delay. The actual period of delay begins when the patentee knew or reasonably should have known of the defendant’s alleged infringing activities to the date of suit.” *Id.* at \*6 (internal citations and quotation marks omitted).

As shown below, the key question in the first prong of the laches analysis – when Masterson knew of, or reasonably should have been expected to know of defendant’s alleged infringement – is readily described by the record. As set forth in the Complaint, plaintiff had

**actual** knowledge of defendant’s alleged infringement at least as early as June 2008 as discussed below. (Am. Compl. ¶ 9; MacMull Decl., Ex. A.) The second question of prejudice is discussed in the next section.

**A. Masterson Delayed Filing Suit for an Unreasonable and Inexcusable Length of Time from the Date she Undeniably Knew of a Claim Against Defendant**

No guesswork, discovery or supplementation is needed for the Court to establish the critical dates relevant to plaintiff’s inexcusable delay. The Complaint alleges that on February 1, 2010, plaintiff notified defendant in writing “that the jewelry products it sold embodied the combinations of multi-connector findings and strands invented by Masterson.” (Am. Compl. ¶ 9; *see also* MacMull Decl., Ex. A.) Plaintiff’s February 1, 2010 letter itself acknowledged the transmission of an even earlier cease and desist demand, which allegedly issued on June 5, 2008. (MacMull Decl., Ex. A.) Based on the response to this letter by defendant on February 12, 2010, plaintiff understands – per her own allegations – that defendant “would continue to sell jewelry that embodies the combinations or multi-connector findings and strands [allegedly] invented by Masterson ... .” (Am. Compl. ¶ 9; MacMull Decl., Ex. B.)

In an effort to add more of the subjective intent element to her allegations, plaintiff avers defendant’s “willful defiance” by virtue of defendant’s member Lily Lin’s supposed taunting of Masterson in May 2012 that the latter could not stop NY Fusion’s sales of allegedly infringing jewelry. (Am. Compl. ¶ 10.) Taken together with the earlier written correspondence, and even construing these allegations in a light most favorable to plaintiff, these facts cannot plausibly be construed as “ongoing licensing negotiations,” the only conceivable excuse for plaintiff’s delay in bringing suit that courts have applied to roughly comparable situations. *See e.g., FMC Corp. v. Guthery*, Case No. 07-cv-5409, 2009 WL 1033663, at \*4 (D.N.J. Apr. 17, 2009), citing *A.C.*

*Aukerman Co.*, 960 F.2d at 1033 (listing recognized excuses for justifiable delay that operate to rebut the presumption of laches).

Plaintiff's delay bears little meaningful difference from the six years typically acknowledged in this Circuit as raising a presumption of unreasonable delay. *See, e.g., Medinol*, 2014 WL 1041362, at \*7. Indeed, "[t]he Federal Circuit has 'affirmed findings of unreasonableness for delays of less than six years.'" *Id.* at \*7 (quoting *Meyers v. Asics Corp.*, 974 F.2d 1304, 1307 (Fed.Cir.1992) (collecting cases)). In cases such as this, where "there has been contact or a relationship between the parties" during the period between discovery and filing suit, "the length of delay, the seriousness of the prejudice, the reasonableness of excuses, and the defendant's conduct or culpability must be weighed to determine whether the patentee dealt unfairly with the alleged infringer by not promptly bringing suit." *A.C. Aukerman Co.*, 960 F.2d at 1034. "What is important is whether [defendant] had reason to believe it was likely to be sued." *Vaupel KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 878 (Fed. Cir. 1991).

The facts alleged in the Complaint, including the documents incorporated by reference in it, establish that defendant had every reason to believe it would not be sued given Masterson's failure to bring suit in any of the preceding five plus years despite her knowledge of NY Fusion's activities and the defendant's explicit and affirmative rejection of plaintiff's claim of right. For these reasons, this prong of defendant's laches defense is satisfied by reference to the pleadings as a matter of law.

**B. Defendant Has Suffered Material Prejudice Attributable to the Delay**

The second showing necessary for the application of laches is material prejudice suffered by the defendant arising from the delay in bringing suit. *See Serdarevic*, 532 F.3d at 1358. Such prejudice may be evidentiary or economic, as the court explained in *Aukerman*:

Evidentiary, or “defense” prejudice, may arise by reason of a defendant’s inability to present a full and fair defense on the merits due to the loss of records, the death of a witness, or the unreliability of memories of long past events, thereby undermining the court’s ability to judge the facts.

... Economic prejudice may arise where a defendant ... will suffer the loss of monetary investments or incur damages which likely would have been prevented by earlier suit. Such damages or monetary losses are not merely those attributable to a finding of liability for infringement. The courts must look for a change in the economic position of the [defendant] during the period of delay.

960 F.2d at 1033 (citations omitted); *see also Medinol Ltd.*, 2014 WL 1041362, at \*7. “Courts have found that a patentee’s delay in bringing a suit can cause prejudice by ‘depriv[ing] [the alleged infringer] of the opportunity to modify its business strategies.’” *Medinol Ltd.*, 2014 WL 1041362, at \*7, citing *Lautzenhiser Tech. LLC v. Sunrise Med. HHG, Inc.*, 752 F. Supp. 988, 1004 (S.D. Ind. 2010) (“If [plaintiff] had sued earlier, Defendants likely never would have expended time and money to [develop the allegedly infringing products and] Defendants would have modified their business strategies”); *see also SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods., LLC*, Case No. 10-cv-122, 2013 WL 3776173, at \*7 (W.D. Ky. July 16, 2013) (“SCA’s delay in bringing an infringement action deprived First Quality of the opportunity to modify its business strategies”). Based on the allegations of the Complaint, plaintiff’s delay in filing suit has caused defendant both economic and evidentiary prejudice.

**i. Defendant has sustained economic prejudice**

The Complaint itself alleges that plaintiff’s representative encountered defendant’s member Lily Lin at trade shows in May 2012 and September 2013 in the New York area. (Am. Compl. ¶¶ 10-11.) This fact, assumed true for purposes of the present motion, demonstrates real economic prejudice, as these encounters track defendant’s increased expansion into the marketplace and its investment in its business, as in *ABB Robotics, Inc. v. GMFanuc Robotics Corp.*, 52 F.3d 1062, 1065 (Fed. Cir. 1995), where the Federal Circuit found economic prejudice

from delaying litigation based on the alleged infringer's ongoing investment in its business during the delay period.

Here, too, defendant's investment in its business by virtue of the personal and capital equity expended in preparing for, paying for and participating in multiple jewelry tradeshows more than plausibly implies economic prejudice. (Am. Compl. ¶¶ 10-11; Dkt. Nos. 11, 11-1.) Paired with the unreasonableness of plaintiff's delay, the Complaint should be dismissed on the basis of laches.

**ii. Defendant has sustained evidentiary prejudice**

The pleadings themselves also establish the high likelihood of evidentiary prejudice, based on defendant's alleged ties to China in the design and manufacturing of the allegedly infringing jewelry. (Dkt. Nos. 11, 11-2.) Axiomatically, defendant would, to defend against plaintiff's claim, need to locate and secure the participation of key Chinese nationals in establishing its defense – an undertaking which will require their voluntary cooperation.<sup>8</sup> But it is well known that, over time, memories fade about the relevant events – and that effect is only exacerbated by a protracted delay in proceeding with litigation. *See Hor v. Chu*, 765 F. Supp. 2d 903, 919–20 (S.D. Tex. 2011) (finding evidentiary prejudice after years of delay, the death of a key witness, and parties' fading memories), *rev'd in part on other grounds*, 699 F.3d 1331 (Fed. Cir. 2012).

For this reason, defendant has also suffered evidentiary prejudice in its ability to adequately defend itself against plaintiff's belated infringement claim. Because of the evidentiary

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<sup>8</sup> See *Service of Process in China*, ABA Section of Litigation 2012 Section Annual Conference April 18-20, 2012, available at [http://www.americanbar.org/content/dam/aba/administrative/litigation/materials/sac\\_2012/19-1\\_service\\_of\\_process\\_in\\_china.authcheckdam.pdf](http://www.americanbar.org/content/dam/aba/administrative/litigation/materials/sac_2012/19-1_service_of_process_in_china.authcheckdam.pdf), last visited May 12, 2014 (chronicling the difficulties of compelling the participation of Chinese nationals in U.S. based litigations notwithstanding that China is a signatory to the Hague Convention).



prejudice set forth above and the unreasonableness of plaintiff's delay, the Complaint should be dismissed in its entirety.

**III. PLAINTIFF'S CLAIM OF DIRECT INFRINGEMENT IS ALSO BARRED BY THE DOCTRINE OF EQUITABLE ESTOPPEL AND THEREFORE SHOULD BE DISMISSED**

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Equitable estoppel to assert a claim is another defense addressed to the sound discretion of the trial court. *See A.C. Aukerman Co.*, 960 F.2d at 1041. "Where equitable estoppel is established, all relief on a claim may be barred. Like laches, equitable estoppel is not limited to a particular factual situation nor subject to resolution by simple or hard and fast rules." *Id.* (internal citations and quotations omitted.) Equitable estoppel consists of three elements: (1) misleading conduct by the patentee which leads the alleged infringer to reasonably infer that the patent owner does not intend to enforce its patent against the alleged infringer; (2) reliance on that conduct by the alleged infringer; and (3) material prejudice of the alleged infringer as a result of that reliance. *See Ecolab, Inc. v. Envirochem, Inc.*, 264 F.3d 1358, 1371 (Fed. Cir. 2001). An equitable estoppel defense precludes a patent owner from any recovery from the alleged infringer, for either pre- or post-filing infringement. *See Scholle Corp. v. Blackhawk Molding Co. Inc.*, 133 F.3d 1469, 1471 (Fed. Cir. 1998). As discussed below, each of the three elements of the defense are met here.

The first element of equitable estoppel concerns the statements or conduct of the patentee which must communicate something in a misleading way. The "something" in this case, as well as in the vast majority of equitable estoppel defenses as expressed in patent cases, is that the accused infringer will not be disturbed by the plaintiff patentee in the activities in which the former is currently engaged. *See A.C. Aukerman Co.*, 960 F.2d at 1042.

The patentee's conduct must have supported an inference that the patentee did not intend to press an infringement claim against the alleged infringer. . . . The alleged infringer also must know or reasonably be able to infer that the patentee has known of the former's activities for some time. In the most common situation, the patentee specifically objects to the activities currently asserted as infringement in the suit and then does not follow up for years.

*Id.* "Misleading conduct" has been held to include **inaction**. *See id.* And inaction is above all what characterizes plaintiff's failure to police its alleged rights here. The Complaint establishes Masterson's inaction for more than five years in the face of defendant's clear and repeated periodic rejections of any infringement claims spanning some three and a half years. (Am. Compl. ¶¶ 9-11; MacMull Decl., Exs. A and B.)

The second element, reliance, requires a showing that the accused infringer relied on the misleading conduct of the patentee in connection with taking some action. "To show reliance, the infringer must have had a relationship or communication with the plaintiff which lulls the infringer into a sense of security. . . ." *Id.* at 1043. The series of demands, followed up by years of inaction – in the context of NY Fusion's explicit promise to continue the activities complained of – certainly qualifies as reliance. "In the present case, [plaintiff's] threat of litigation became misleading when it was followed by several years during which the patentee did not reassert the infringement claim. . . . A reasonable factfinder could not find otherwise." *Wafer Shave, Inc. v. Gillette Co.*, 857 F. Supp. 112, 120-121 (D. Mass.), *aff'd*, 26 F.3d 140 (Fed. Cir. 1994) (finding estoppel where plaintiff continued to learn of infringement during delay period). As the Seventh Circuit held in *Advanced Hydraulics, Inc. v. Otis Elevator Co.*, 525 F.2d 477, 481 (7th Cir. 1975), "Here . . . the critical fact . . . was the failure of [plaintiff] over a five-year period to follow up on its threat of prompt and vigorous enforcement of its patent. It is. . . therefore estopped." *Id.* That decision, in turn, relied on an earlier ruling – also finding estoppel on a patent claim –

by that court in *Cont'l Coatings Corp. v. Metco, Inc.*, 464 F.2d 1375 (7th Cir. 1972), in which it explained as follows:

[I]t is appropriate to identify explicitly the fact we consider critical. That fact is the infringement notice threatening prompt and vigorous enforcement of the patent, which was then followed by a period of unreasonable and unexcused delay. Having made such a threat, the patentee was thereafter estopped to deny that it was then ready, willing and able to establish the validity of the patent in court if necessary. A comparable fact was present in each of the cases in which this court has implicitly or explicitly sustained an estoppel defense.

*Id.* at 1380. The same fact is presented, based on the plaintiff's own allegations, here. Defendant had no reasonable expectation that it would be sued following the parties' alleged interaction in May 2012 (Am. Compl. ¶ 10), considering that, by then: (1) nearly four years had passed since defendant was allegedly first put on notice of its "potential infringement" on or about June 5, 2008 (MacMull Decl., Ex. A.); (2) it had clearly rejected Masterson's infringement claim, or any threat of a claim, at least twice (Am. Compl. ¶¶ 9-10); and (3) it would not hear even a whisper more about any allegation of infringement from plaintiff for another sixteen months! (Am. Compl. ¶ 11.) On the face of the Complaint, there is no plausible dispute but that defendant relied to its detriment on Masterson's prolonged inaction.

Finally, in establishing material prejudice under equitable estoppel, the prejudice sustained may be a change of economic position or loss of evidence as in the case of laches. *See A.C. Aukerman Co.*, 960 F.2d at 1043. For the same reasons as discussed in Section II(B) above, the presence of material prejudice to defendant satisfies the defense of equitable estoppel and therefore the dismissal of the Complaint.

#### **IV. PLAINTIFF IS NOT ENTITLED TO REPLEAD**

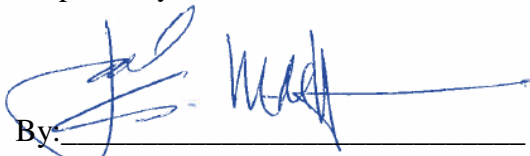
While leave to amend under the Federal Rules of Civil Procedure is "freely granted," *see* Fed. R. Civ. P. 15(a)(2), any entitlement to replead cannot be said to apply, where, as here, plaintiff has demonstrated a failure to comply with the Court's prior scheduling order concerning

such an amendment. *See Kassner v. 2nd Ave. Delicatessen, Inc.*, 496 F.3d 229, 244 (2d Cir. 2007) (“[W]e hold that amendment of a pleading as a matter of course pursuant to Rule 15(a) is subject to the district court’s discretion to limit the time for amendment of the pleadings in a scheduling order issued under Rule 16(b).”) As described above, plaintiff failed to comply with this Court’s previous scheduling order of February 6, 2014. Further, permitting plaintiff to again amend its untimely Complaint would cause undue delay and would unduly prejudice defendant.

### CONCLUSION

For all of the foregoing reasons, defendant NY Fusion Merchandise LLC respectfully requests that its motion to dismiss the Amended Complaint be granted in its entirety with prejudice, and that the Court grant such other and further relief as it deems appropriate.

Respectfully submitted,

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