

SUPREME COURT OF THE STATE OF NEW YORK — NEW YORK COUNTY

~~AMN. BERNARD J. FRIED~~

PART 60

PRESENT:

Index Number : 603778/2005
ELIZABETH ARDEN, INC.
vs
ABELMAN, FRANYE & SCHAWB
Sequence Number : 005
DISMISS

INDEX NO. _____
MOTION DATE _____
MOTION SEQ. NO. 005
MOTION CAL. NO. _____

10/26/10
ec

The following papers, numbered 1 to _____ were read on this motion to/for _____

Notice of Motion/ Order to Show Cause — Affidavits — Exhibits ...
Answering Affidavits — Exhibits _____
Replying Affidavits _____

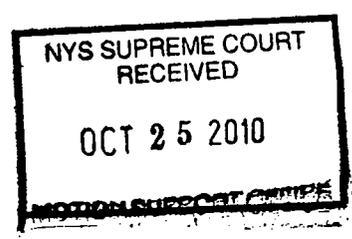
PAPERS NUMBERED

Cross-Motion: Yes No

Upon the foregoing papers, it is ordered that this motion

This motion is decided in accordance with the accompanying memorandum decision.

SO ORDERED



Dated: 10/22/2010

AMN. BERNARD J. FRIED J.S.C.

Check one: FINAL DISPOSITION NON-FINAL DISPOSITION

Check if appropriate: DO NOT POST

MOTION/CASE IS RESPECTFULLY REFERRED TO JUSTICE FOR THE FOLLOWING REASON(S):

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: PART 60

----- X
ELIZABETH ARDEN, INC., and FD
MANAGEMENT, INC.,

Index No. 603778/2005

Plaintiffs

- against -

DECISION AND ORDER

ABELMAN, FRAYNE & SCHWAB, THE FIRM
OF KARL F. ROSS, P.C., JOSEPH J.
CATANZARO, PHYLLIS DUBNO, AS Executrix
of the Estate of Herbert Dubno
(deceased), and JOHN DOES 1-5,

Defendants.
----- X

APPEARANCES:

For Plaintiff:
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(Joshua Paul)

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New York, New York 10004
Attorney for Ross defendants
(Douglas Capuder)

FRIED, J.:

In this legal malpractice action, plaintiff Elizabeth Arden, Inc. (Arden) seeks damages against the defendant law firms, Abelman, Frayne & Schwab (Abelman), and

The Firm of Karl F. Ross, P.C. (Ross), as well as two individual attorneys at each firm, Joseph J. Catanzaro (Catanzaro; Abelman includes Catanzaro unless the context otherwise requires), and the estate of Herbert Dubno (Dubno), relating to patent number 5,268,166 (the patent), which lapsed on December 7, 2001.

The patent covered a cosmetic application system, and would have expired on July 9, 2012, if all three periodic maintenance fees had been timely paid to the Patent and Trademark Office (PTO).

The patent was licensed to Mystic Tan, Inc., pursuant to a license agreement dated May 6, 1999 (the license agreement), which would have continued for the expected life of the patent. Arden had a contractual duty pursuant to the license agreement to maintain the patent.

Arden, in consultation with Abelman, intentionally decided not to pay the required maintenance fee, in order to reduce costs. Arden charges Abelman with malpractice for not advising it of the existence of the third-party license agreement. Arden also charges both Abelman and Ross with negligence for failing to bring a timely petition before the PTO to revive the patent on the ground of unintentional delay in paying the maintenance fee.

The regulations of the PTO allow for two distinct grounds for reinstatement of a lapsed patent, unintentional delay in payment (37 CFR 11.37 [b]), and unavoidable delay (37 CFR 11.37 [a]). The former requires merely a statement that the delay in payment was unintentional. The latter applies a more stringent standard and requires an evidentiary showing. Both require that the entire delay from the date of lapse be either unintentional or unavoidable, respectively.

Defendants move to dismiss the second amended complaint (the complaint) in its entirety as untimely (CPLR 3211 [a] [5]), for summary judgment (CPLR 3212), and for failure to state a cause of action (CPLR 3211 [a] [7]), on the ground that, as a matter of law, defendants have established that Arden cannot prove, on this record, that it would have prevailed, but for defendants' alleged negligence, on a petition based on unintentional delay, which is the "case within the case" in this malpractice action (*see Ambase Corp. v Davis Polk & Wardwell*, 8 NY3d 428, 434 [2007]; *Aquino v Kuczinski, Vila & Associates, P.C.*, 39 AD3d 216, 219 [1st Dept 2007]).

This action was commenced by filing on October 25, 2005. Abelman has presented a prima facie case that it was replaced by Ross as counsel in the summer of 2002, except for some unrelated matters that it retained. This action therefore must be dismissed as untimely on its face, as against Abelman, unless Arden can present sufficient evidence to raise a triable issue of fact as to whether the statute of limitations (CPLR 214 [6]) was tolled by Arden's continuous representation on the specific matter of the revival of the patent after October 25, 2005.

The complaint contains five causes of action, denoted as "counts." The first three causes of action are against Abelman for professional negligence. The first is in connection with the lapse of the patent, consisting of failing to inform Arden of the facts surrounding the payment of the maintenance fee for the lapsed patent and the existence of the licensing agreement. The second cause of action alleges that Abelman failed to advise Arden properly about the significance of the PTO regulations in relation to payment of the maintenance fee for the patent before it lapsed, and the procedures available to Arden before the PTO. The third cause of action alleges that Abelman failed

to advise Arden properly about the requirements and procedures of the PTO after the patent had lapsed. The fourth cause of action has been withdrawn.

The fifth cause of action charges Ross, and defendant Phyllis Dubno, the administrator for her husband, a deceased Ross attorney, with numerous actions or omissions, including the failure to check the available public sources to determine the patent's status in October 2002; failure to send Arden a copy of an October 21, 2002 letter from Catanzaro, which suggested that Ross consult Arden on whether to pursue the petition on the grounds of unintentional delay, or to consult with Arden on the contents; failure to seek instructions from Arden on whether to continue with the petition; failure to notify Arden that the patent was not in full force; and failure to advise Arden of the necessity of filing a petition with the PTO expeditiously. Arden alleges that, but for Ross's negligence, the PTO would have granted a timely-filed petition based on unintentional delay.

No petition was filed on behalf of Arden by either Abelman or Ross. The applicable two-year statute of limitations for a petition on the ground of unintentional delay (35 USC 41 [c] [1]; 37 CFR 1.20) expired on December 7, 2003.

In 2005, upon learning that the patent had not been revived, Arden filed a petition to accept late payment on the ground that the maintenance fee had been unavoidably delayed (37 CFR 1.378 [a]). No petition was ever filed on the ground of unintentional delay.

The PTO denied the petition, and denied Arden's request for reconsideration. In that decision (deft.'s ex. 13), based on detailed submissions from Arden, the PTO considered the entire factual background, including how Arden outsourced the

administration of its newly acquired patent portfolio to outside counsel, and held that Arden had not shown that its conduct met the applicable standard that it exercised that degree of diligence that a reasonably prudent person “generally used and observed ... in relation to their most important business” to ensure that the maintenance fee was timely paid (*id.*). The PTO held that Arden had not satisfied the reasonably prudent person standard because it had an independent duty to investigate the patent, in order to ensure that the maintenance fee was timely paid, and counsel’s failure was not a sufficient excuse. The record does not indicate that Arden has sought judicial review of the PTO’s determination.

There are two distinct spheres of representation in which malpractice is alleged: Abelman’s services leading up to the ill-advised decision to allow the patent to lapse, and the failure of all defendants to file a petition to revive on the ground of unintentional delay with the PTO. In the former sphere, the issue on the timeliness motion is whether Abelman has established as a matter of law that the statute of limitations was not tolled by continuous representation with respect to its involvement in the decision to allow the patent to lapse. In the latter sphere, the issue on this motion with respect to all defendants is whether defendants have established as a matter of law that Arden could not have prevailed on a revival petition before the PTO, if it had been timely filed.

In a transaction that closed on January 23, 2001, Arden’s predecessor, through its subsidiary, plaintiff FD Management, Inc., acquired from a Unilever, Inc. (Unilever) subsidiary, not only the Arden name, which it adopted upon the closing, but also the patent, along with 791 other patents and a portfolio of trademarks. Prior to this transaction, Arden had owned trademarks, but no patents. Abelman had administered

Arden's trademark portfolio. Abelman represented Arden both in connection with performing due diligence for the Unilever transaction, and then, according to Oscar Marina (Marina), Arden's General Counsel, Abelman acted as Arden's outsourced patent and trademark department (pltf.'s ex. 7).

After the closing of the Unilever transaction, Arden and Abelman worked together to determine what patents had no value to Arden and could be allowed to expire by not paying the maintenance fee.

According to the declaration submitted to the PTO by James T. Perry (Perry), Associate General Counsel of Arden (deft.'s ex. 10 [A]), Abelman took possession of the patent files directly from Unilever prior to the closing, and some of the files were disorganized and incomplete. Abelman handled the actual payments of the maintenance fees to the PTO, in consultation with and subject to instructions from Arden.

According to the complaint, Abelman was charged with the responsibility of obtaining information about the patent portfolio from Unilever, communicating that information to Arden, and advising Arden as to the significance of that information. According to Marina, his expectation was that Abelman would take the information about the license agreement, "along with all the other information they were collecting with the patents, in order for them to provide us with legal advice at the right time with respect to a decision on whether to maintain or withdraw a patent" (pltf.'s ex. 7, at 44).

Abelman initially worked in consultation with Unilever's in-house patent counsel, Milton Honig (Honig), to determine which utility patents were worth keeping. In a March 9, 2001 telephone conference, Honig conveyed his opinion to Alan Gilliland (Gilliland), an attorney with Abelman, on which patents to keep, and which to drop, and

explained to Gilliland that the patent should be kept because it was licensed to Mystic Tan, Inc. Gilliland prepared a memorandum of that conversation that included a list of utility patents, including the patent, listed under its Unilever internal number of J3191, with the notation, "licensed to Mystic-Tan. Keep it" (ptff.'s ex. 26).

Honig sent a copy of a March 8, 2001 letter outlining the financial terms of the Mystic Tan license agreement to both Gilliland and Marina. Both Arden and Abelman thus had institutional knowledge of the existence of the Mystic Tan license, based on the documentary evidence that each had received. Honig also prepared a master list of utility patents worldwide (pltf's. ex. 40), and provided it to Gilliland.

On June 7, 2001, one of the maintenance fees became due, and was not paid. Gilliland had been notified of the due date, but the decision was made to take advantage of the six-month grace period for payment of maintenance fees. The PTO allows such maintenance fees to be paid prior to the expiration of a six-month grace period authorized by 35 USC 41 (b), with a minor surcharge.

On June 26, 2001, Arden hired Cathy Shore-Sirotn (Shore-Sirotn) as Associate General Counsel, and directed her to work with Abelman, and to obtain information from Honig and Anthony Vargas (Vargas), an Arden vice-president for product development, to determine what patents could be allowed to expire because they were of no value to Arden. Also in June 2001, Gilliland was largely replaced by Catanzaro in handling the Arden account.

By letter dated August 7, 2001 (deft.'s ex. 14), Catanzaro sent Shore-Sirotn a schedule of patents, including the lapsed patent, that had been acquired from Unilever, and asked her to review the patents with Vargas, and then provide Abelman with

instructions on how to proceed. That schedule did not have any notations written in next to the patent. Vargas advised Shore-Sirotin that Arden was not using the patent, but did not advise her of the existence of the license agreement.

By letter dated September 10, 2001, Catanzaro transmitted several schedules of patents worldwide, including patents in the United States, with maintenance fees due during the period of June through August 2001, to Shore-Sirotin, requesting that she review each patent to determine whether the maintenance fees should be paid. Shore-Sirotin returned that schedule to Catanzaro with the notations "drop" and "offer to buy" next to the lapsed patent, indicating that she was aware that there was an outstanding offer to purchase the lapsed patent. This raises an obvious question as to how Arden could indicate that a patent, for which there was an offer to buy, should be dropped.

On December 6, 2001, the last day before the end of the grace period for payment of the maintenance fee, Shore-Sirotin sent Catanzaro by fax a copy of the schedule that he had sent her with the notation "drop" next to the lapsed patent. In accordance with this apparent instruction from Shore-Sirotin, Abelman did not pay the maintenance fee on the lapsed patent prior to expiration of the grace period on December 7, 2001.

Shore-Sirotin testified at her deposition that Marina never informed her of the Mystic Tan license. The Abelman firm also did not advise Arden not to drop the patent because it was licensed to Mystic Tan.

Several months after the patent had lapsed, Shore-Sirotin learned from Honig that the patent was licensed, and immediately sent an e-mail dated March 19, 2002, referencing the patent and its United Kingdom analogue, to Pat Tormey, an Abelman legal assistant, stating, "[P]lease do NOT DROP these patents in the U.S ... We have

licensed these patents in the U.S. and have a duty to maintain them [capitalization in original]" (deft.'s ex 10 [A]).

In a series of e-mail exchanges in early June 2002, Shore-Sirotnin and Catanzaro discussed the cost of reviving the patent. At that time, a fee dispute had arisen between Arden and Abelman over what Arden considered excessive amounts billed for attorney services, primarily involving Catanzaro, for work that Marina believed should have been done by paralegals. According to Shore-Sirotnin's declaration to the PTO on its petition (deft.'s ex. 11 [B]), Arden had made the decision in the spring of 2002 to transfer its intellectual property work from Abelman to Ross. Arden instructed Abelman to obtain prior approval for further patent work.

Abelman quoted Arden a projected cost of \$4,600 to handle the proceeding. By e-mail dated June 3, 2002, Catanzaro requested instructions from Arden with respect to how to proceed. Arden instructed Abelman to file the petition. Abelman never filed any petition with the PTO to revive the patent. Abelman states that it did not bring the petition because the debit notice it had submitted for advance payment for the PTO proceedings had not been paid. The only work that Abelman apparently performed on the petition for reinstatement was less than two hours of paralegal time, in June and July of 2001, spent reviewing the client's instructions and drafting a petition that was never filed. Arden paid \$225.00 for these services.

Arden has not shown that the debit notice for advance payment of Abelman's fee to revive the patent was ever paid.

Shore-Sirotnin notified Abelman by e-mail dated August 1, 2002, that Arden did "not want any patent work done without our specific approval," and that it would notify

Abelman shortly as to where to send the files. The last bill entered for paralegal time drafting the petition had been July 31, 2002. She asked Catanzaro to respond to a PTO request for one patent, and to provide a printout of all patent deadlines for the next six months.

By e-mail dated August 14, 2002 (deft's ex. 25), Shore-Sirotnin wrote to Abelman, directing them to send the patent files to Ross, and listing six discrete matters on which Abelman would continue to represent Arden, with cost limits in parentheses after each. The lapsed patent was not among the six matters.

Ross notified Arden by letter dated October 4, 2002 [deft.'s ex. 10 (A)], headed, "TRANSMITTAL OF LETTERS PATENT," referencing the patent, including the original letter patent, and stating that the next maintenance fee was due on June 7, 2007. Regardless of whether Arden made any connection between this letter and the status of the petition that Shore-Sirotnin alleges that she believed that Abelman had filed, the October 4, 2002 letter shows that Ross had entered the patent in its tracking system as of that date. The PTO decision held that the October 4, 2002 letter was insufficient to support Arden's position that it believed that the patent had been revived. This letter does, however, establish that Ross had succeeded Abelman as the third-party administrator of the patent three weeks beyond the three-year limitations period for this action.

By letter dated October 21, 2002, (ex. E to Weber Dec. [pltf.'s ex. 10(B)], Abelman wrote to Ross, advising that Arden had instructed Abelman to file a petition to revive the lapsed patent with the PTO, and suggesting that Ross "contact the client and obtain updated instructions as to whether they wish to file a petition to revive." There is

no evidence of any action taken by Ross to consult with Arden about filing a petition to revive the patent.

In January 2004, Arden took all patent work in-house.

In March of 2005, Arden realized that the patent had not been revived when Perry received a call alerting him to a declaratory judgment action in California challenging the validity of the patent. Thereafter, Arden filed a petition with the PTO to accept the late payment of the maintenance fee on the ground of unavoidable delay. This was the only recourse for Arden, because the two-year period in which a petition on the ground of unintentional delay could have been brought had elapsed.

Defendants have demonstrated their entitlement to judgment as a matter of law with respect to all causes of action in the complaint that are based on the failure to file a petition to revive with the PTO, and Arden has failed to demonstrate the existence of a triable issue of fact (*see Alvarez v Prospect Hosp.*, 68 NY2d 320 [1986]; *Zuckerman v City of New York*, 49 NY2d 557 [1980]).

Abelman and Ross could not have ethically filed a petition to revive on the ground of unintentional delay because PTO regulations require “[a] statement that the entire delay ... from the due date ... until the filing of a grantable petition pursuant to this paragraph was unintentional” (37 CFR 1.137 [b] [3]).

“[T]he plain meaning of the word ‘entire’ here is that revival may not be granted where a party intentionally delays seeking revival for even a few weeks” (*New York University v Autodesk, Inc.*, 495 F Supp 2d 369, 374 n 4 [SD NY 2007]). Here, Arden did not even discover the lapse until months later.

Defendants were ethically bound not to make a false statement or use false evidence knowingly in the representation of Arden (*see* DR 7 102 [a] [4], [5][22 NYCRR 1200.33 [a] [4], [5]; *Matter of Berg*, 54 AD3d 66, 69 [4th Dept 2008]). Indeed, filing a petition to revive containing a false statement that the delay was unintentional constitutes inequitable conduct that can render the patent unenforceable (*see Lumenyte Intl. Corp. v Cable Lite Corp.*, 1996 WL 383927, *4 1996 US App Lexis 16400 [Fed Cir 1996]).

The attorney's ethical compliance is integral because the PTO

relies upon the applicant's duty of candor and good faith and accepts the statement that "the entire delay in filing the required reply from the due date for the reply until the filing of a grantable petition pursuant to 37 CFR 1.137 (b) was unintentional" without requiring further information *in the vast majority of petitions under 37 CFR 1.137 (b)*. This is because the applicant is obligated under 37 CFR 10.18 to inquire into the underlying facts and circumstances when a practitioner provides this statement to the Office

(*Enzo Therapeutics, Inc. v Yeda Research and Development Co. of Weizmann Institute of Science*, 477 F Supp 2d 699, 715 [ED VA 2007]).

Even if defendants had filed a petition on the ground of unintentional delay, the only way it could have succeeded would have been if it were granted without being scrutinized, based on the attorney's representation that the delay was unintentional. Plainly, the delay was not unintentional. As the PTO Manual provides, "[a] delay caused by a deliberately chosen course of action is not unintentional delay" (Manual of Patent Examining Procedure [ptf's ex. 55 at 700-146]). Also, the PTO may require additional information where there is a question whether the delay was unintentional.

Clearly, I cannot make a finding that the plaintiff would have prevailed in the underlying proceeding by violating ethical requirements.

With regard to the second sphere of alleged malpractice, Abelman's representation of Arden in connection with the decision to allow the patent to lapse, the issue, in light of Abelman's prima facie showing that the action is time-barred, is whether Arden has met its burden of showing that a factual issue is presented whether the continuous representation exception to the statute of limitation tolls the limitations period beyond October 25, 2002 (*see Symbol Technologies, Inc. v Deloitte & Touche, LLP*, 69 AD3d 191, 195 [2d Dept 2009]; *Hasty Hills Stables, Inc. v Dorfman, Lynch, Knoebel & Conway, LLP*, 52 AD3d 566, 567-568 [2d Dept 2008]).

Application of the continuous representation doctrine "is limited to situations in which the attorney who allegedly was responsible for the malpractice continues to represent the client in that case. When that relationship ends, for whatever reason, the purpose for applying the continuous representation rule no longer exists" (*Glaum v Allen*, 57 NY2d 87, 94 [1982]).

In order for the continuous representation doctrine to apply,

there must be clear indicia of an ongoing, continuous, developing, and dependant relationship between the client and the attorney which often includes an attempt by the attorney to rectify an alleged act of malpractice. One of the predicates for the application of the doctrine is continuing trust and confidence in the relationship between the parties. However, its application is limited to instances in which the attorney's involvement in the case after the alleged malpractice is for the performance of the same or related services and is not merely the continuity of a general professional relationship [internal citations omitted]"

(*Luk Lamellen U. Kupplungbau GmbH v Lerner*, 166 AD2d 505, 506-507 [2d Dept 1990]).

The rationale for the continuous representation doctrine is that a client with a pending case is not expected

to jeopardize his pending case or his relationship with the attorney handling that case during the period that the attorney continues to represent the person. Since it is impossible to envision a situation where commencing a malpractice suit would not affect the professional relationship, the rule of continuous representation tolls the running of the Statute of Limitations on the malpractice claim until the ongoing representation is completed [citation omitted]

(*Shumsky v Eisenstein*, 96 NY2d 164, 167 -168 [2001]).

Applying the foregoing principles, Arden has failed to raise a factual issue as to whether the statute of limitations is tolled by the continuous treatment doctrine. The simple fact is that Arden fired Abelman as counsel because the bills were more than Arden believed they should have been. There was no continuing relation to jeopardize by filing a malpractice action. However profusely Arden's deponents may profess their continuing trust and confidence in Abelman, even after taking its business elsewhere, the evidence does not raise a triable issue of fact whether, after October 25, 2002, there existed "a mutual understanding of the need for further representation on the specific subject matter underlying the malpractice claim" (*McCoy v Feinman*, 99 NY2d 295, 306 [2002]).

The remaining claims against Ross lack merit to the extent that they relate to the failure to file a petition with the PTO. Ross, has not, however, established its entitlement to judgment as a matter of law with respect to Arden's allegations that Ross failed to perform the services that it had promised by not checking the status of the patent against PTO records. Paragraph 92 of the complaint alleges that Ross represented to Arden that

Ross would “verify the patents’ status against publicly available sources of information,” before entering each of the patents received from Abelman in Ross’s docketing system. While nothing Ross could have done would have resulted in reinstatement of the patent by the PTO, it cannot be said, as a matter of law, that Arden did not incur damages resulting from Ross’s alleged malpractice. For more than two years after Ross’s alleged failure to advise Arden that the patent had lapsed, Arden continued to collect royalties under the license agreement. It would be entirely speculative to hold that Arden would not have mitigated its damages, had Ross apprised it of the lapse of the patent, either by checking its status on the PTO records. If Ross had determined from verifying the patent’s lapsed status with the PTO, as it allegedly undertook to do, prior to entering the patent in its docketing system, Arden would have been alerted to the lapse more than two years earlier.

Accordingly, it is

ORDERED that the motion of defendants Abelman, Frayne & Schwab, and Joseph J. Catanzaro, to dismiss the complaint as untimely (CPLR 3211 [a] [5]), and for summary judgment (CPLR 3212), is granted and the complaint is dismissed in its entirety as against said defendants, with costs and disbursements to said defendants as taxed by the Clerk of the Court, and the Clerk is directed enter judgment accordingly in favor of said defendants; and it is further

ORDERED that the action is severed and continued against the remaining defendants; and it is further

ORDERED that the motion of The Firm of Karl L. Ross, P.C., and Phyllis Dubno,
as Executrix of the estate of Herbert Dubno, to dismiss the complaint is denied.

Dated: 10/22/2010

E N T E R:



J. S. C.

HON. BERNARD J. FRIED