

Wathne Imports, Ltd. v PRL USA, Inc.

2013 NY Slip Op 30606(U)

March 27, 2013

Supreme Court, New York County

Docket Number: 603250/05

Judge: Charles E. Ramos

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

PRESENT: CHARLES E. RAMOS
Justice

PART 53

WATHNE IMPORTS

INDEX NO. 603250/05

- v -

MOTION DATE _____

PRL USA

MOTION SEQ. NO. 024

MOTION CAL. NO. _____

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

Notice of Motion/Order to Show Cause - Affidavits - Exhibits No(s) _____

Answering Affidavits - Exhibits No(s) _____

Replying Affidavits No(s) _____

Upon the foregoing papers, it is ordered that this motion is:

FILED


MAR 23 2013

NEW YORK
COUNTY CLERKS OFFICE

Motion is decided in accordance with
accompanying Memorandum Decision.

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

DATED: 3/27/2013


CHARLES E. RAMOS J.S.C.

- 1. CHECK ONE : CASE DISPOSED NON-FINAL DISPOSITION
- 2. CHECK AS APPROPRIATE : MOTION IS: GRANTED DENIED GRANTED IN PART OTHER
- 3. CHECK IF APPROPRIATE : SETTLE ORDER SUBMIT ORDER
- DO NOT POST FIDUCIARY APPOINTMENT REFERENCE

COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: COMMERCIAL DIVISION

-----x
WATHNE IMPORTS, LTD.,

Plaintiff,

Index No.
603250/05

-against-

DECISION AND
ORDER

PRL USA, INC., THE POLO/LAUREN
COMPANY, L.P., POLO RALPH LAUREN
CORPORATION, and RALPH LAUREN,

FILED

Defendants.

MAR 21 2013

NEW YORK
COUNTY CLERKS OFFICE

Charles E. Ramos, J.S.C.:

In this commercial action, plaintiff Wathne Imports, Ltd. (Wathne) moves for permission to present damages testimony at trial through its owner and chief executive Berge Wathne.

Wathne is a family business that has been a licensee of defendants PRL USA, Inc., the Polo/Lauren Company, L.P., Polo Ralph Lauren Corporation (Polo) since 1984. On November 23, 1999, Wathne entered into an amended licensing agreement with Polo (the Agreement), pursuant to which Wathne had the exclusive license through December 31, 2007 to manufacture and sell men's, women's and children's luggage and handbags bearing the trademarks "Polo By Ralph Lauren," "Ralph (Polo Player Design) Lauren," "Ralph Lauren," "Polo Sport," "Lauren/Ralph Lauren," and "Polo Jeans Co," in the United States and Canada.

Pursuant to the Agreement, if Polo discontinued one of those trademarks, Polo was obliged to provide Wathne with a replacement

trademarks, Polo was obliged to provide Wathne with a replacement mark of "substantially equivalent market value." Wathne alleges that Polo discontinued the use of the "Polo Sport" and "Ralph Lauren" trademark and Wathne suffered damages, including lost profits.

After conducted extensive discovery in this action, plaintiff filed the note of issue on April 21, 2011.

Shortly after plaintiff's current counsel entered the action, they purportedly discovered that prior counsel had not selected a witness to testify about plaintiff's damages for its claim for breach of contract related to the Ralph Lauren trademark.

Earlier in the litigation, plaintiff's damages expert, Glenn Newman, submitted a report, dated May 17, 2010, opining as to damages flowing from the discontinuance of the Polo Sport, Collection and Children's Backpack products. According to Newman's supplemental report, his original report addressed damages involving the use of the Ralph Lauren trademark, but in his subsequent deposition preparation, he discovered that the "price points and distributions [sic] channels of products sold under the Ralph Lauren trademark changed after 2000," and that "after 2000, the Ralph Lauren trademark was segmented into various labels including Collection and Blue Label" As a result, with the submission of his supplemental report, Newman

withdrew his damages calculation for the Ralph Lauren-Collection line.

Wathne's prior counsel then planned to replace Newman's testimony concerning the Ralph Lauren/Collection line with the testimony of Laura Gunther (Gunther), Wathne's former president. In a January 23, 2012 decision, this Court barred Gunther from testifying as to these damages, because she was unprepared to testify about Wathne's Collection line damages at her deposition in 2007. Wathne's counsel argued that, at the time of Gunther's deposition, she had not done the work "necessary to quantify the damages" on the Collection mark. Upon discovering that Wathne's counsel did not supplement its disclosure with the information about which Gunther would testify at trial, the Court ruled that she was not permitted to testify as to these damages as trial.

As set forth in this Court's January 23, 2012 transcript of proceedings, this Court stated:

"MR. SUMMIT: She [Gunther] can testify - the cases are almost unanimous that an officer of a company is in a position to talk about how a company was injured.

"THE COURT: I agree, but if she testifies at a deposition that she can't do it and you don't supplement the deposition, she is precluded"

(Aff of Steiner, Exhibit I at 11).

"THE COURT: Have you submitted something to the defendants that would now fill in the void in the deposition testimony so we know how she is going to testify?

"MR. CALLAGY: Nothing, your Honor.

"MR. SUMMIT: No.

"THE COURT: Then how can I permit her to testify? We don't try cases by surprise and ambush"

(Aff of Steiner, Exhibit I at 12).

As a result, Wathne's present counsel has elected to offer the testimony of lay witness Berge Wathne, Wathne's co-owner and chief executive, on the Ralph Lauren/Collection line damages. Berge Wathne avers that her testimony would focus on the sales projections set forth in a business projection known as the 5-Year Plan, agreed to by Wathne and Polo as the basis for renewing the License Agreement in 1999.

In a letter dated June 18, 2012, Wathne's counsel notified Polo's counsel of this designation, and offered to re-produce Berge Wathne for a deposition in July 2012, while expert discovery was proceeding. In a June 22, 2012 letter, Polo's counsel refused, and motion practice ensued.

According to plaintiff's counsel and Berge Wathne's affidavit, Berge Wathne will testify generally as follows:

"Ms. Wathne will start with the projections in the 5-Year Plan; those projections go through 2003 and were accepted by defendants as part of the basis for the \$100 million target. Ms. Wathne will then carry those projections forward from 2004 through the end of the License Agreement in 2007. She will explain why these extended projections (2004 through 2007) are consistent with the projections for the earlier years (set forth in the 5-Year Plan) and with her company's proven track record in building its Ralph Lauren-related businesses. Ms. Wathne will then deduct the annual sales realized

under those marks to arrive at 'lost' sales. Finally, she will apply a profit margin to arrive at lost profits. To the extent that defendants disagree with the numbers in the 5-Year Plan (which their own executive collaborated in preparing), or the additional projections through 2007, or the profit margin applied, they will have ample opportunity to present evidence of their own on these issues"

(Aff of Morrison at 8).

In Berge Wathne's affidavit in support of Wathne's present motion, she avers that she was involved in all aspects of Wathne's operations "during its 25-year relationship with Ralph Lauren's companies" (Aff of Berge Wathne at 1). According to Berge Wathne, her "entire testimony will be based on projections for the growth of Ralph Lauren products (Ralph Lauren "Collection" for women's products and "Polo Ralph Lauren" for men's products) set forth in the 5-year Plan prepared in April 1998" (*id.* at 3). Berge Wathne explains, in her affidavit, as she did at her deposition, that the preparation of the 5-year plan "was a joint effort by our Company and defendants. In fact, it was only because we were able to project \$100 million in sales from all licensed products by 2002 that defendants agreed to renew the License Agreement" (Aff of Berge Wathne at 3). She states that she used these projections, extended them through 2007, and subtracted actual sales, in order to testify regarding Wathne's lost profits (*id.*).

In her affidavit, Berge Wathne further avers that, although she testified at her deposition that she did not do the

calculations for Wathne's damages, she was not asked whether she was "capable" of making those calculations. She maintains that, at the time of her deposition, it was her understanding that Newman would testify as to all Wathne's damages (Aff of Berge Wathne at 4).

In support of its motion, Wathne argues that, although Berge Wathne is a lay witness, because the information is in her ordinary knowledge, she should be permitted to testify. Wathne further argues that there is no basis to exclude Berge Wathne's testimony because: (1) Polo was well aware of the damages issue, (2) there was no willful failure to disclose her, and (3) there is no prejudice to the defendants. Wathne cites its supplemental responses to defendants' third set of interrogatories, dated June 28, 2012, to establish that it identified Berge Wathne as an individual with knowledge of damages suffered by Wathne, including its Collection damages, during the course of discovery.

In opposition, Polo argues that, early on, plaintiff recognized the need for an expert to calculate its alleged damages as a result of defendants' alleged breach of the Agreement and, therefore, because Berge Wathne is a lay witness, she cannot testify as to these damages. Polo further argues that Berge Wathne testified that she could not quantify Collection damages. Moreover, Polo argues that Berge Wathne's testimony as to lost profits would be unfair surprise. On this issue, Polo

argues that, even though Berge Wathne was identified as a witness early on, the subject of her testimony, lost profits, was not identified, and, in fact, Wathne identified an expert to testify as to those damages.

Polo cites Berge Wathne's deposition testimony to support the argument that Berge Wathne could not quantify the Collection damages and instead, she identifies Gunther as the person with knowledge of Wathne's damages. Polo cites the following portion of her deposition:

"Q: So to the extent you're seeking recovery for breaches of contract that occurred after 1999 -
A: Yes.
Q: -have you been damaged?
A: Yes, I have.
Q: By how much?
A: My company's calculated to about \$250 million.
Q: And can you tell me the components of that \$250 million worth of damage?
A: I didn't do the calculation.
Q: Who did the calculation?
A: Laura Gunther"

(Steiner Aff, Exhibit C, Wathne Dep at 187-188).

In addition, Polo cites Wathne's earlier interrogatory responses in support of its argument, wherein Wathne repeatedly asserts that an expert witness will testify as to the damages, including lost profits. Wathne does not identify Berge Wathne as an individual with knowledge of Collection damages and Wathne did not move to amend these responses. The responses state, in part:

"Interrogatory No. 8

If Wathne is claiming damages in the form of lost

profits, state with particularity the amount of profits that Wathne claims it would have made on the 'Collection' branded line of handbags produced under the 'Ralph Lauren' Mark from November 23, 1999 to December 31, 2007 had Polo not allegedly usurped the 'Collection' branded line of products.

"Response to Interrogatory No. 8

...[Wathne] anticipates that the information concerning Wathne's lost profits it would have made on the 'Collection' will be provided by the expert witness whom Wathne will designate following the completion of fact discovery"

(Steiner Aff, Exhibit B. at 7-8).

Polo further argues that, at the January 23, 2013 argument on defendants' motion, plaintiff made the same arguments it makes here. There, Wathne argued that Gunther be allowed to testify as to damages, specifically lost profits, which the Court rejected. Polo additionally argues that Wathne's failure to move to amend its interrogatory responses in a timely manner on alleged Collection damages precludes it from offering Berge Wathne as a damages expert.

Discussion

Courts have permitted the owner or officer of a business to testify as to lost profits (see *Lightning Lube v Witco Corp.*, 4 F3d 1153 [3d Cir 1993]). In *Lightning Lube*, the court held there was no abuse of discretion in permitting the plaintiff's owner to testify as to plaintiff's lost profits based upon his day-to-day knowledge and experience in his business; the court stated that he was "qualified to predict how well Lightning Lube could have

been expected to do" (*id.* at 1174; see also *Securitron Magnalock Corp. v Schnabolk*, 65 F3d 256, 265 [2d Cir 1995] cert denied 516 US 1114 [1996] [plaintiff's president was capable of examining company's sales over period of years, noting slow-down and testifying to estimated losses attributable to defendants' conduct]; see also *Greasy Spoon v Jefferson Towers*, 75 NY2d 792, 795 [1990] [plaintiff's claim for lost profits was not too speculative where plaintiff established it was operating a successful business at a commercially desirable site and plaintiff's witnesses gave evidence, "based upon experience, as to the level of profits that could reasonably be anticipated from addition of sidewalk café"]).

Here, Berge Wathne is an owner and chief executive of Wathne and, according to her testimony, she was involved in the day-to-day activities of the company. She has extensively testified as to her involvement in negotiations and meetings with Polo. According to her affidavit in support of Wathne's motion, Berge Wathne avers that she was "involved in all aspects of [Wathne's] operations, particularly those aspects relating to marketing, sales, growth projections, business plans and customer relations" (Aff of Berge Wathne at 1-2). Thus, despite the fact that Wathne originally chose an expert to testify as to the Collection damages, Wathne is qualified to testify as to these damages.

Moreover, Bere Wathne is not a surprise witness, and thus,

it is unlikely to cause prejudice to Polo to permit her to testify as to the Collection damages. Discovery in this action was conducted over many years, and Polo ample opportunity to depose her. It is evident from the chronology of this matter that Wathne did not act willfully or in bad faith in failing to earlier identify Wathne as a damages witness (see *Martin v Triborough Bridge & Tunnel Auth.*, 73 AD3d 481 [1st Dept 2010][delay in producing expert witness not willful]).

Although she did testify at her deposition that she was not aware of the breakdown of the \$250,000,000 in damages sought by Wathne in this action, Berge Wathne did not testify that she is not capable of calculating her company's damages. On the contrary, she testified that she was involved in the preparation of the 5-year plan (Aff of Morrison, Exhibit C at 125). Further, she testified that she was aware of and concerned, at the time, that her company was not meeting the goals of the 5-year plan (*id.* at 126).

Finally, Berge Wathne is presently supplementing her testimony with an affidavit that offers the basis of her testimony and how it arises from her work at Wathne, and Polo will be granted the opportunity to depose her prior to trial. In her affidavit, Berge Wathne avers that her testimony will be based on projections set forth in the 5-year plan and that "unlike Polo Sport damages - which require a comparison to a

comparable mark or product line in order to determine a projected growth rate - the Ralph Lauren [Collection line] damages require no such comparison" (Aff of Berge Wathne at 3). She further avers that the growth projections for the Ralph Lauren trademark "are literally shown in the 5-year Plan" and that she need only add an extension of those projections through 2007 and a deduction for the actual sales to calculate lost sales (Aff of Berge Wathne at 3).

Therefore, Wathne is permitted to produce Berge Wathne to testify at trial on the Collection damages, so long as Polo will be afforded the opportunity to depose her as to those damages prior to that time.

Accordingly, it is

ORDERED that the Wathne Imports, Ltd.'s motion seeking the right to present damages testimony through its owner and chief executive Berge Wathne is granted; and it is further

ORDERED that within twenty days from service of a copy of this order with notice of entry, Wathne must make Berge Wathne available for a deposition; and it is further

ORDERED that counsel shall appear in Room 238, at 60 Centre Street, on April 8, 2013 at 10:30AM.

Dated: March 27, 2013

FILED
MAR 28 2013
NEW YORK
COUNTY CLERK'S OFFICE
U.S.C.

CHARLES E. RAMOS