

Wathne Imports, Ltd. v PRL USA, Inc.

2008 NY Slip Op 31123(U)

April 11, 2008

Supreme Court, New York County

Docket Number: 0603250/2005

Judge: Charles E. Ramos

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

PRESENT: Ramos

PART 53

Justice

Index Number : 603250/2005

WATHE IMPORTS

vs.

PRL USA

SEQUENCE NUMBER : 011

SUMMARY JUDGMENT

INDEX NO. _____

MOTION DATE _____

MOTION SEQ. NO. _____

MOTION CAL. NO. _____

this motion to/for _____

PAPERS NUMBERED

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

Answering Affidavits — Exhibits _____

Replying Affidavits _____

Cross-Motion: Yes No

Upon the foregoing papers, it is ordered that this motion

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

IS DISPOSED OF
IN ACCORDANCE WITH THE ACCOMPANYING
MEMORANDUM DECISION.

IS DISPOSED OF
IN ACCORDANCE WITH THE ACCOMPANYING
MEMORANDUM DECISION.

FILED

APR 16 2008

COUNTY CLERK

Dated: 4/14/08

CHARLES E. RAMOS J.S.C.

Check one: FINAL DISPOSITION

NON-FINAL DISPOSITION

Check if appropriate: DO NOT POST

REFERENCE

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

-----X
WATHNE IMPORTS, LTD.,

Plaintiff,

-against-

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

Defendants,
-----X

Index No.
603450/05

FILED

APR 16 2008

COUNTY CLERK

Charles Edward Ramos, J.S.C.:

This dispute arises out of a series of agreements, pursuant to which the defendants PRL USA, Inc., The Polo/Lauren Company, L.P., and Polo Ralph Lauren Corporation (together, Polo), exclusively licensed certain Polo-branded trademarks to plaintiff Wathne Imports, Ltd. (Wathne) for the manufacture of luggage, handbags, and backpacks in the United States and Canada (Complaint, ¶ 2).

In motion sequence number 011,¹ Polo moves for summary judgment dismissing the complaint. Wathne cross-moves for partial summary judgment as to liability on its cause of action for breach of contract.

Background

Since the early 1980s, Wathne developed and sold handbags and luggage under a number of nationally recognized brands

¹ Polo moved (014) to quash a subpoena (CPLR 3404) and for a protective order (CPLR 3103 [a]). Additionally, Wathne moved (015) for the issuance of a commission (CPLR 3108, 3111). This court stayed all discovery in the action, and directed that motion sequence numbers 014 and 015 be held in abeyance, pending resolution of this motion (November 1, 2007 Transcript).

bearing trademarks owned by Polo. Throughout this time, the parties shared a lucrative and successful relationship. In January of 1998, the parties' relationship began to sour, when Polo began implementing a company-wide segmented branding strategy.

Under segmentation, Polo repositioned existing brands, from higher-end products, to be sold exclusively at Polo's more expensive retail stores, to the lower-end merchandise, to be sold in department stores. Ultimately, when Polo sought to carry over this strategy into its handbag and luggage business, Wathne was affected (Defendants' Statement of Material Undisputed Facts, ¶¶ 24-28).

By mid-1998, Wathne alleges that its business was suffering severe losses as a result of segmentation, and it leveled allegations of fraud and breach of contract against Polo.

After extended negotiations, Polo agreed to amend and extend the parties' license and design agreements, including exclusive licenses granted to Wathne under various Polo trademarks,² until 2007 (License Agreement).

Concurrently, the parties entered into a design services agreement (Design Agreement) (together with the License Agreement, the Agreements), whereby Polo agreed to furnish to Wathne "design concepts" to enable Wathne to develop the products, in exchange for a design fee.

² The trademarks exclusively licensed to Wathne include "Polo by Ralph Lauren," "Ralph Lauren," "Polo Sport," "Polo Jeans Co." (collectively, Marks) (License Agreement, § 1.6).

Additionally, Polo required Wathne to execute a general release (Release), releasing Polo from liability from certain claims.

Wathne alleges that within months of executing the Agreements, Polo began implementing a scheme to repossess the licenses that it granted to Wathne, in order to divest Wathne of the profitable handbag and luggage business that it had built. As part of this scheme, Polo allegedly intended to depress Wathne's sales and profits in order to permit it to buy-out Wathne's business under a buy-out provision in the License Agreement for no consideration (Complaint, ¶¶ 8, 12; Affidavit of Laura Gunther, ¶ 4). Alleged breaches of the Agreements and the implied covenant of good faith and fair dealing followed, that ultimately led to the commencement of this action (Complaint, ¶ 20).

A. Express Breaches

The License Agreement contains a provision that states that in the event that Polo discontinues a Mark that it licensed to Wathne, Polo was obligated to replace it with a license under another trademark of equivalent value (License Agreement, § 2.6). Polo allegedly discontinued the Polo Jeans Co. and Polo Sport Marks, and failed to replace them with trademarks of equivalent market value (Complaint, ¶ 23; Affidavit of Laura Gunther, ¶¶ 12, 39).

Additionally, Wathne alleges that Polo breached this provision by usurping its exclusive license for the Collection

handbag line (Affidavit of Laura Gunther, ¶¶ 14-15).

Further, Wathne alleges that Polo breached the Design Agreement by failing to provide Wathne with "Design Concepts" for the licensed products (Design Agreement, §§ 1.2, 4.2). Consequently, Wathne alleges that it was forced to hire its own designer to generate the designs, despite continuing to pay Polo's design fee under the agreement.

Wathne alleges that Polo breached its exclusive license by allegedly permitting another manufacturer to produce children's backpacks, and by selling promotional, re-usable totes at the 2006 U.S. Open (Complaint, ¶ 29).

B. Implied Breaches

Wathne alleges that Polo breached the implied covenant of good faith and fair dealing, by suddenly refusing to permit Wathne to sell to international buyers, despite its prior consent (Affidavit of Laura Gunther, ¶¶ 52-53).

Further, Wathne alleges that Polo unreasonably and maliciously exercised its discretion under the Agreements, by retracting its approval of handbags, and by unreasonably refusing to permit Wathne to adequately advertise its products, in order to depress Wathne's sales.

In September of 2005, Wathne instituted this action, asserting six causes of action.

Previously, this Court dismissed five of the six causes of action (Decision, February 17, 2006). The sole remaining claims are for breach of contract and the implied covenant of good faith

and fair dealing.

Discussion

Polo moves for summary judgment, based upon the express terms of the Release, the contractual terms of the Agreements, and the doctrine of waiver.

Wathne cross-moves for partial summary judgment as to liability on its cause of action for breach of contract, based upon Polo's discontinuance of certain Marks and failure to replace them, Polo's violation of Wathne's exclusive license by its sale of children's backpacks and totes at the U.S. Open, and Polo's failure to provide Design Concepts under the Design Agreement. Wathne asserts that the Release does not encompass its claims. Further, Wathne argues that the doctrine of waiver is inapplicable, in light of a provision in the Agreements that prohibit waiver of contractual rights.

Additionally, Wathne contends that disputed issues of fact remain as to Polo's bad faith exercise of its discretion under the Agreements.

I. Release

Although the Release executed by the parties contains preliminary broad language that Wathne releases Polo from "all actions, causes of action, [and] suits" which Wathne "ever had, now have or hereafter can, shall or may have," the phrase appearing immediately thereafter narrows the scope of the Release to apply only to claims that arose prior to the execution of the amended License Agreement. It states,

"the foregoing shall not affect or apply to the Amended and Restated License Agreement, dated November 23, 1999, between the Releasee [Polo] and Releasor [Wathne], or any rights, obligations, etc. arising thereunder with respect thereto from and after the date of this Release."

Under New York law, releases are strictly interpreted, in accordance with contract principles (*Wells v Shearson Lehman/American Express, Inc.*, 72 NY2d 11, 19 [1988], *rearg denied* 72 NY2d 953 [1988]). Further, where the language of the release states that it is to be limited to particular claims only, the instrument will be operative as to those matters alone, and will not release other claims (*Morales v Solomon Mgt. Co.*, 38 AD3d 381, 382 [1st Dept 2007]).

The recitation of an exception to the subject matters covered by the Release can only be construed as the parties' intent to limit the scope of the Release solely to those claims that arose prior to November 23, 1999, the date that the Agreements were executed. Therefore, insofar as Wathne's claims are based upon allegations of breach of the Agreements themselves, they are not within the scope of the Release.

Polo attempts to demonstrate that Wathne's claim relating to the discontinuation of the Marks are rooted in events that occurred before November 29, 1999, when the License Agreement was executed. However, Polo's assertion contradicts the plain language of the Release itself. The Release explicitly states that it "shall not affect or apply to ... [the] License Agreement ... or any rights, obligations, etc. arising thereunder" (Release).

Polo additionally points to the testimony of witnesses, statements contained in business strategy plans, and internal memoranda from both parties, that purportedly demonstrate that, prior to the execution of the License Agreement and Release, the parties projected declining sales of Polo Jeans Co. products, the discontinuation of Polo Sport, and the intended substitution of that Mark with the "Ralph" trademark.

However, irrespective of the substance of the parties' extended negotiations that occurred on the eve of the execution of the Release and License Agreement, the court is bound to interpret and apply the terms of the unambiguous writings, that neither party disputes govern their relationship (*W.W.W. Assocs., Inc. v Giancontieri*, 77 NY2d 157, 162 [1990]).

Because the Release unequivocally states that it does not "affect or apply to the Amended and Restated License Agreement ... or any rights, obligations, etc. arising thereunder" (Release), the License Agreement clearly states that the license extended to Wathne includes Polo Sport, Polo Jeans Co., and Ralph Lauren Marks, the Court concludes that the parties did not intend the Release to apply to Wathne's claims challenging Polo's discontinuation of the Marks and failure to replace them. Therefore, the claim is not barred.

II. Condition Precedent

The parties dispute whether the Marks were discontinued, and the extent of Polo's obligations under the License Agreement.

The License Agreement states that,

"If in connection with the development of Lisensor's [Polo] program in the Territory, Licensor determines that the use by Licensee [Wathne] of any or all of the trademarks should be discontinued upon reasonable written notice to Licensee, this license under the Trademarks [Marks] shall be converted to a license under other 'Ralph Lauren trademark(s) or label(s) having substantially equivalent market value" (License Agreement, § 2.6).

According to Polo, the provision creates an express condition precedent to its obligation to convert and replace Marks, namely, Polo's written notice of discontinuation (Defendants' Memo. in Opp., 8). Polo argues that because it never provided written notice to Wathne that any of the Marks at issue were discontinued, Wathne was free to develop products bearing the Marks, and Polo was under no corresponding duty to replace them.

Wathne asserts that while Polo did not provide written notice of discontinuation, Polo clearly and unequivocally expressed to Wathne in 2001 that the Polo Jeans Co. and Polo Sport Marks were discontinued, thereby modifying the written notice condition contained in the License Agreement.

Where a party's performance is conditioned upon the happening of a specified event, unless the condition is excused by waiver, forfeiture, modification or otherwise, the contractual obligation to perform does not arise if the event does not occur (*Oppenheimer & Co. v Oppenheim, Appel, Dixon & Co.*, 86 NY2d 685, 690 [1995]). The failure of a condition precedent to occur excuses non-performance by the obligor (*id.*).

The parties employed the unmistakable language of condition in the License Agreement, by stating that, "If ... Licensor

[Polo] determines that ... trademarks should be discontinued upon reasonable written notice to Licensee [Wathne], this license under the Trademarks shall be converted" (see *Oppenheimer & Co.*, 86 NY2d at 691 ["if," "unless," and "until" are terms typically indicative of a condition precedent]).

However, a party cannot insist upon a condition precedent where its non-occurrence has been caused by himself (*A.H.A. General Const., Inc. v New York City Hous. Auth.*, 92 NY2d 20, 31, *rearg denied* 92 NY2d 920 [1998]; *Merzon v Lefkowitz*, 289 AD2d 142, 143 [1st Dept 2001]; *Cross & Cross Properties, Ltd. v Everett Allied Co.*, 886 F 2d 497, 501-03 [2d Cir 1989]). Underpinning this principle is the logic that if one unjustly prevents the occurrence of a condition, such as where the obligor blocks the condition precedent through some act or conduct amounting to a breach of the duty of good faith and fair dealing, the non-occurrence of the condition may be excused, and the conditional promise will be eliminated and rendered absolute (*Cross & Cross Properties, Ltd.*, 886 F 2d at 501-02; *In re Banker's Trust Co.*, 450 F3d 121, 128, footnote 4 [2d Cir 2006]; Restatement [Second] Contracts § 227, Comment b; see also *Greenwood v Koven*, 880 F Supp 186, 199-200 [SD NY 1995]).

The License Agreement permitted Polo to unilaterally determine whether Wathne's use of Marks should be discontinued. However, Polo was bound by the implied covenant of good faith and fair dealing to provide written notice of discontinuation to Wathne, to the extent that Polo, in fact, determined that

Wathne's use of the Marks should be discontinued in the Territory (*Cross & Cross Properties, Ltd.*, 886 F 2d at 501-02). Its failure to fulfill its duty of providing written notice, if its conduct otherwise demonstrates that it discontinued Wathne's use of the Mark, would lead to the readily inferable conclusion that it was attempting to shirk its contractual obligation to replace the discontinued Marks.

Wathne submitted sufficient evidence to raise triable issues of fact as to whether Polo took actions to discontinue Wathne's use of certain Marks, thereby rendering its conditional promise to replace them absolute.

1. Polo Sport

On the one hand, Polo submits evidence, including royalty statements and deposition testimony, suggesting that Wathne continued to sell luggage and handbags bearing the Polo Sport Mark (see e.g. J. Millspaugh Deposition, 77:25, 77:2 [Wathne assistant testified that "you can still order Polo Sport luggage"]; Wathne Royalty Statements, Exhibit 138, annexed to Callagy Aff.).

However, Wathne submits evidence suggesting that Polo took steps to, and actually discontinued, Wathne's use of the Polo Sport Mark. For instance, Wathne submits a letter from its counsel, Gideon Cashman, Esq., dated March 26, 2001, to Polo's in-house counsel, Lee Sporn, Esq., where he complains that Polo has,

"taken steps to discontinue the [Polo Sport] line, and letting it be known that it [Polo Sport] is being phased

out. Starving a line of marketable product is a pretty effective means of discontinuing a line" (Cashman Letter, Exhibit 36, annexed to Chaitman Aff.).

In subsequent deposition testimony, Sporn states that he believes that the Polo Sport Mark was, in fact, discontinued (Deposition of Sporn, 221:11-19, Exhibit 2, annexed to the Chaitman Aff.).

Further, at least five senior Polo executives testified that the Polo Sport brand was discontinued in all areas of production and design (Deposition of R. Lauren, 75:9-13; B. Birritella, 88:10-12; Deposition of R. Farah, 189:6-8; Deposition of Morgan, 32:5-8, 173:21-24, Deposition of Pressman, 124:3-25, Exhibits 19, 25, 32, 36, annexed to Callagy Aff.). Doug Williams, Polo's former Group President, testified that the Polo Sport Mark was discontinued as to handbags (Deposition of Williams, 80:17-25, 81:2-12, Exhibit 45, annexed to Callagy Aff.).

Polo does not dispute that a meeting took place between Wathne's President Gunther and two of Polo's senior officers, Williams and Buffy Birritella, Polo's Executive Vice President of Advertising and Women's Design, where they told her "absolutely" that Wathne needed "to get out of this [Polo Sport] business" (Gunther Deposition, 19:10-24, Exhibit 28, annexed to the Callagy Aff.). Rather, Polo merely disputes the date on which the meeting occurred (Defendants' Response to Wathne's Rule 19-A Statement, ¶ 132).

A trial will determine if Polo's actions were a sufficient discontinuance of the Mark to trigger Wathne's right to a

replacement Mark.

2. Polo Jeans Co.

Disputed issues of fact additionally remain as to whether Polo discontinued Wathne's use of the Polo Jeans Co. Mark, and if so, when such discontinuation occurred.

Wathne alleges that Polo indicated its intention to discontinue the Polo Jeans Co. Mark in 2003 (Wathne's Rule 19-A Statement, ¶ 146). Several Polo senior executives testified that Polo Jeans Co. Mark was discontinued domestically, but could not be certain of the time frame (Deposition of R. Lauren, 75:7-8; Deposition of J. Morgan, 65:21-24, Exhibits 32, 36 annexed to the Callagy Aff.).

Polo concedes that the Mark for Polo Jeans Co. for apparel was discontinued in January of 2006 (see e.g Morgan Deposition, 65:16-25). Notwithstanding the discontinuation of the brand as to the domestic apparel line, Polo contends that Wathne was free to continue developing a Polo Jeans Co. line for handbags and luggage.

It remains unclear if this contention is in contradiction of the intent of the License Agreement. Section 1.6 of the agreement restricts Wathne's sale of handbags bearing the Polo Jeans Co. Mark to "classification areas within department stores ... for apparel bearing the Polo Jeans Co. mark." If Polo discontinued the Polo Jeans Co. Mark for apparel, Wathne and Polo disagree if Wathne would be permitted under the License Agreement to sell handbags bearing that Mark (License Agreement, § 1.6).

This Court is unable to determine if the classification area must sell Polo Jeans apparel or if the description is merely generic. That will determine if Polo's discontinuation of the Polo Jeans Co. Line domestically effectively precluded Wathne's use of the Polo Jeans Co. Mark for handbags.

Additionally, Polo points to testimony from Wathne's Account Executive for international sales, who testified that Wathne continues to sell handbags bearing the Polo Jeans Co. Mark internationally (Palushevic Deposition, 184:14-21). However, the License Agreement obligates Polo to replace Marks that were discontinued within the "Territory," defined as the U.S. and Canada (License Agreement, § 1.5).

For these reasons, triable issues of fact remain as to whether Polo took actions to discontinue the Polo Sport and Polo Jeans Co. Marks, and when Polo's obligation to replace the Marks arose³ (see *Helena v 300 Park Ave., LLC*, 306 AD2d 170, 171 [1st Dept 2003]).

3. Collection⁴

³ The court is unable to evaluate Wathne's contention that the "Ralph" mark, a new brand launched by Polo in 2000 and not covered by the License Agreement, does not qualify as an adequate replacement mark, in addition to the assertion that fairness dictates that Polo had an obligation to grant to Wathne the Chaps and Rugby trademarks, as replacement marks (Gunther Affidavit, ¶¶ 45, 47). In light of remaining issues of fact, any determination as to whether Polo adequately discharged its contractual obligation to provide Wathne with replacement marks, is premature.

⁴ The License Agreement granted to Wathne the exclusive use of the Ralph Lauren Mark (License Agreement, § 1.6). The Ralph Lauren Mark is comprised of two lines, Ralph Lauren Collection (Collection), and Ralph Lauren Blue Label (Blue Label).

With respect to Polo's alleged discontinuation of Wathne's use of the Collection line, a different fact pattern emerges.

In 2000, Polo indicated that it wished to take back the Collection line⁵ (Wathne's Rule 19-A Statement, ¶ 186). At that time, Wathne responded that it would entertain the proposal only if Polo granted Wathne the license for small leather goods in exchange (*id.*). Polo never granted to Wathne the license for small leather goods (Wathne's Rule 19-A Statement, ¶ 188). The parties dispute the circumstances under which Polo eventually assumed control of the Collection handbag line.

Wathne alleges that Polo gradually usurped Collection. By 2005, Polo had allegedly reduced Wathne's involvement in the Collection line to that of a non-compensated freight forwarder, a role that Wathne relinquished entirely that year (Gunther Affidavit, ¶¶ 28-31).

Polo admits that it re-assumed the Collection line for handbags. Polo contends that the evidentiary record indisputably demonstrates that Wathne voluntarily waived its right to the line, as of the Spring 2005 season, when Wathne decided that it no longer wished to bear the high production costs and low profitability associated with producing a luxury line (Defendants' Rule 19-A Statement, ¶¶ 189-222; Appendix A, annexed

⁵ As part of segmentation, Collection was moved to Polo's highest price point, making Collection its most expensive and luxurious label, and the Blue label was re-positioned just below (Defendants' Rule 19-A Statement, ¶ 71). Further, Polo directed that Collection and Blue Label products could only be sold at its own retail stores (*id.*, ¶ 72).

to Defendants' Memo. of Law).

Wathne counters that any purported waiver of its contractual rights is ineffective, in light of the merger and no oral modification clauses contained in the License Agreement. Consequently, Wathne asserts that Polo's usurpation of the Collection line obligated it to provide a replacement mark.

Generally, a clause prohibiting oral modification will be afforded great deference (*Tierney v Capricorn Investors, L.P.*, 189 AD2d 629, 703 [1st Dept], lv denied 81 NY2d 710 [1993]; *Healy v Williams*, 30 AD3d 466, 467-68 [2d Dept 2006]). However, even a clause prohibiting oral modifications may itself be waived by the parties, where their words or conduct demonstrates an indisputable departure from the terms of the written agreement (*Madison Ave. Leasehold, LLC v Madison Bentley Assocs.*, 30 AD3d 1, 5-6 [1st Dept], *affd* 8 NY3d 59 [2006], *rearg denied* 8 NY3d 867 [2007]).

Nonetheless, waiver should not be lightly presumed, and must be based upon a clear manifestation of intent to relinquish a contractual right (*Fundamental Portfolio Advisors, Inc. v Tocqueville Asset Mgt., L.P.*, 7 NY3d 96, 104 [2006]). It can be accomplished by the express agreement of the parties, by conduct or by a failure to act, that evinces an intent not to claim the known right (*id.*).

Wathne's former president, Gunther, testified that Wathne "bitterly objected" to Polo's attempts to assume the Collection line, and claims that she was effectively forced to agree to

Polo's takeover (Deposition of Gunther, 247:13-16, Exhibit 28, annexed to the Callagy Aff.), after Polo bypassed Wathne from the development process altogether, by working directly with the designers, and factories (*id.*, 248:16-25, 249:2-15). At that point, Wathne states that it was "not willing to act as a freight forwarder," and that it relinquished the line altogether (Wathne's Rule 19-A Statement, ¶ 232; Deposition of Caine, 52:10-22, Exhibit 21, annexed to the Callagy Aff.).

Despite early objections from Wathne, the evidentiary record demonstrates that for some time, Wathne was aware of, and even facilitated, Polo's increased role in Collection.

For instance, on January 23, 2002, Gunther sent a memo to its Italian agent in connection with unplaced orders of Collection handbags for the Fall 2002 season, stating,

"If you wish to arrange an agreement with Ms. Pressman [Polo employee] to oversee this additional production, Wathne would not be involved. For your information, Wathne will sell the line and pass orders to Ms. Pressman" (Defendants' Rule 19-A Statement, ¶ 200).

In February of 2002, Wathne employee Kimberly Hoffman wrote to Polo in reference to Collection samples, stating, "going forward you [Polo] guys are handling this anyway" (Exhibit 77, annexed to Callagy Aff.).

The record contains correspondence between Wathne employees indicating that as early as Fall of 2002, Wathne was only handling invoicing and shipment in connection with Collection (Exhibits 78-79, 84, 98, annexed to the Callagy Aff.). On March 9, 2004, Gunther wrote an e-mail to a Polo employee, addressing

complaints regarding Wathne's late shipment of handbags. She states,

"I made a deal with your company [Polo] that I would get out of the loop with respect to Collection. We finance it and distribute it but that is all" (Exhibit 103, annexed to the Callagy Aff.).

Moreover, the record demonstrates that Wathne eventually agreed to relinquish its role in Collection altogether. Wathne employee, Kim Rossi, sent an e-mail to Wathne's Italian agent on February 25, 2005, and copied to Gunther, confirming that Polo, not Wathne, was handling all aspects of the Collection handbag line (Exhibit 81, annexed to the Chaitman Aff.). Hoffman later testified that Polo and Wathne agreed that Wathne would no longer partake in Collection development (Deposition of Hoffman, 165:15-23).

Based upon the extensive evidentiary record, the court determines that there is sufficient evidence from which a clear manifestation of intent by Wathne to relinquish its exclusive contractual right to development of the Collection line can be inferred.

This waiver is established by Wathne's consent to activity that technically constituted a breach of the License Agreement (*Fundamental Portfolio Advisors, Inc.*, 7 NY3d at 105). While Wathne initially protested Polo's suggestion that it relinquish Collection, Wathne did not act to enforce its right to exclusive development of the line, by acquiescing, and facilitating, Polo's sole development of the line, by, inter alia, "acting as a freight forwarder" for over three years, and ultimately, by

relinquishing it altogether (*id.*; *General Motors Acceptance Corp. v Clifton-Fine Cent. School Dist.*, 85 NY2d 232, 236 [1995] ["Waiver may be established by affirmative conduct or by failure to act so as to evince an intent not to claim a purported advantage"]).

In any event, Wathne does not dispute that it continued to produce handbags bearing the Ralph Lauren Mark, under the Blue Label line, until at least October of 2006 (Wathne's Response to Defendants' Rule 19-A Statement, ¶¶ 191, 196, 197). Thus, Polo's obligation to replace the Mark did not arise by its re-assumption of the Collection line, irrespective of whether Wathne voluntarily waived its right to exclusive production (see License Agreement, § 2.6).

III. Remaining Breaches

1. Children's Backpacks

Polo additionally moves for summary judgment of Wathne's breach of contract cause of action arising out of Polo's alleged violation of Wathne's exclusive license to produce children's backpacks. Polo concedes that it permitted a third party to design and manufacture children's backpacks beginning in 2003 (Affidavit of Faust, ¶¶ 9, 14; Affidavit of Middleman, ¶¶ 9-10, 14, 16, Exhibits 80, 82, annexed to Aff. of Chaitman). However, Polo contends that there is unrefuted evidence that Wathne knowingly waived its contractual right to produce the backpacks from 2003 to 2005, in writing and by its conduct.

Wathne cross-moves for summary judgment as to liability, on

the ground that it is undisputed that Polo violated its exclusive right to produce children's backpacks by soliciting its childrenswear licensee, S. Schwab Co. (Schwab) to manufacture children's backpacks on Polo's behalf, in 2003. Wathne denies that it waived its right to manufacture and sell the backpacks.

Indisputably, the License Agreement grants Wathne the exclusive right to manufacture and sell children's backpacks (License Agreement, Schedule A).

The evidentiary record before the Court demonstrates that in November of 2002, Susan Faust, Polo's Senior Director for Children's Business and Product Development, communicated to Gunther, that Polo wished to begin selling children's backpacks, and requested that Wathne "pass" on manufacturing children's backpacks for the upcoming season (Affidavit of Faust, Exhibit 80, annexed to Aff. of Chaitman, ¶¶ 5-16).

Faust then followed up with a letter on November 15, 2002 to Gunther, and states,

"Please let this letter serve as confirmation that Wathne has decided to waive their rights on the development and production of several children's bags which include a messenger bag and backpacks for the Fall '03 season" (Exhibit 83, annexed to the Affirmation of Callagy).

Faust sent an identical letter to Gunther on June 3, 2003, applicable to the Spring 2004 season (Exhibit 89, annexed to the Aff. of Callagy).

Subsequently, Faust wrote an e-mail to Gunther on August 11, 2004, "confirming ... in writing that Wathne is not interested in producing children's backpacks." She stated,

"I thought it would be best to confirm to you in writing that Wathne is not interested in producing children's backpacks. If you could please confirm your acknowledgment" (Exhibit 105, annexed to the Callagy Aff.).

Gunther responded to the e-mail by stating,

"I never wish to pass on an opportunity to produce product. In the past, the quantity has been so small that together we agreed it did not make financial sense for Wathne to do the development/production. I would like to discuss the sales opportunity before agreeing to pass" (*id.*).

Shortly thereafter, Gunther writes back to Faust stating that,

"Based on our conversation this morning. I agree with you that the opportunity does not make sense for Wathne to develop and produce the backpacks for the Fall of 2005" (*id.*).

Wathne contends that the subject matter of these letters and e-mails was a limited quantity of expensive children's items that Wathne determined would have resulted in financial loss if produced. Thus, Wathne disputes that the waiver, if any, established in these communications was intended to apply to its entire exclusive license to manufacture children's backpacks, rather than a limited number of specialty, high-end children's items that Polo wished to produce to enhance its line (Wathne's Response to Defendants' Rule 19-A Statement, ¶¶ 226-230, 233, 237; Wathne's Rule 19-A Counter-Statement, ¶¶ 247, 260; Reply Affidavit of Gunther, annexed to Chaitman Aff., Volume 6, exhibit 70, ¶¶ 4-16).

In opposition to this motion, Gunther alleges that Faust deliberately lied to her about Polo's intentions, by misrepresenting that Polo only desired to provide a small number of high end children's items, whereas its true intention was to

produce profitable children's backpacks (*id.*).

Notwithstanding the allegations of perjury, Wathne does not dispute receiving the Faust letters, or Gunther's participation in the August 11 e-mail chain (Wathne's Response to Defendants' Rule 19-A Statement, ¶¶ 229, 233-34, 240-41, 243). Neither does Wathne contend that it ever objected to the contents of Faust's communications, or otherwise, clarified the scope of the quantity or price of the backpacks at issue (Wathne's Response to Defendants' Rule 19-A Statement, ¶ 237).

Based upon the evidentiary record, the Court determines as a matter of law, that for a period of time, the parties' waived enforcement of Wathne's exclusive license for children's backpacks. This waiver is established by Wathne's consent to activity that technically constituted a breach of the License Agreement, e.g., Wathne's allowance that a third-party produce certain children's backpacks, for the Fall 2003, Spring 2004, and Fall 2005 season, by not objecting to, and "confirming" in writing Wathne's assent.

Contrary to Wathne's assertion that any waiver would be ineffective absent a writing signed by itself, waivers need not be in writing to be enforceable, but can be established by affirmative or passive conduct, including the failure to assert a known right (*Fundamental Portfolio Advisors, Inc.*, 7 NY3d at 104; *General Motors Acceptance Corp. v Clifton-Fine Cent. School Dist.*, 85 NY2d 232, 236 [1995]; *Jumax Assocs. v 350 Cabrini Owners Corp.*, 46 AD3d 407, 408-09 [1st Dept 2007]).

Notwithstanding clear evidence of Wathne's intent to waive its right to exclusive development of children's backpacks, triable issues remain as to the scope of that waiver, that must be resolved before it can be determined whether Wathne fully or only partially waived its rights under the License Agreement with respect to children's backpacks (*Fundamental Portfolio Advisors, Inc.*, 7 NY3d at 104).

Accordingly, Polo's motion for summary judgment, and Wathne's cross-motion for summary judgment as to liability, on the issue of Wathne's waiver of its contractual right to exclusive sales of children's backpacks, are denied.

2. Design Agreement

Polo moves for summary judgment dismissing Wathne's cause of action for breach of contract based upon Polo's alleged failure to provide Design Concepts under the Design Agreement. Polo contends that it fulfilled its obligation under the Design Agreement to provide Design Concepts, by preparing "rig rooms"⁶ for the benefit of its licensees, including Wathne.

Wathne argues that Polo's contractual duty to provide Design Concepts obligated it to provide actual handbag designs, including the preparation of a "spec package,"⁷ for Wathne's use

⁶ The rig room is a room prepared by Polo that was intended to provide inspiration, exemplary apparel, and themes and colors for the upcoming season (Defendant's Rule 19-A Statement, ¶ 131).

⁷ A spec package is a loose leaf binder that contains the actual design sketches of a handbag, including technical and hardware drawings, fabric swatches, material, and color schemes.

(November 1, 2008 Transcript, 56). According to Wathne, the parties' intent that the term Design Concepts be interpreted to include spec packages is demonstrated by their prior course of conduct, and the industry-wide norm. Consequently, Wathne argues that the Design Agreement was breached when Polo announced in 2001 that it would no longer provide Wathne with spec packages and would be preparing a rig room only.

Alternatively, Wathne argues that the term Design Concepts is ambiguous under the Agreements.

Where an agreement defines a term, that definition should be used (see e.g. *Unimax Corp. v Lumbermens Mut. Cas. Co.*, 908 F Supp 148, 153 [SD NY 1995]). The parties expressly defined the term Design Concepts as "a program of suggested, broad design themes and concepts with respect to the design of the Licensed Products" (Design Agreement, § 1.6).⁸ This definition unambiguously demonstrates that Polo had no obligation to provide actual designs of the Licensed Products, by the explicit limitation in the definition upon services that Polo was obliged to perform to the provision of "broad design themes and concepts with respect to the design" of handbags (emphasis added) (*id.*). The provision of "broad design themes" is a far cry from the preparation of actual designs, including spec packages. Thus, to

⁸ The License Agreement, executed concurrently with the Design Agreement, states, "Licensee [Wathne] acknowledges that it has entered into a design services agreement ("Design Agreement") ... with Polo Ralph Lauren Company (...), which provides for the furnishing to Licensee by the Design Company [Polo] of design concepts and other professional services" (License Agreement, § 3.1).

infer upon Polo a duty to design, where the writing itself is silent, would be to impermissibly re-write the agreement under the guise of contract interpretation (*Reiss v Financial Performance Corp.*, 97 NY2d 195, 199-200 [2001]).

Moreover, the Design Agreement grants to Polo broad discretion with which it may present the Design Concepts to Wathne, further undercutting any assertion that it was obliged to design the handbags and to prepare spec packages. The Design Agreement states that Design Concepts,

"shall be embodied in verbal and/or written descriptions of design themes and concepts ... as the Design Company [Polo] deems appropriate" (Design Agreement, § 1.2).

In addition to granting Polo the authority to elect the means by which it presented the Design Concepts, the provision grants Polo "full discretion" to determine the "manner" in which it presents the Design Concepts to Wathne. It states,

"The Design Company shall have full discretion with respect to the manner in which the Design Concepts shall be formulated and presented by the Design Company to the Company." (Design Agreement, § 1.2).

In other words, Polo reserved full discretion to decide the mode of both the formulation and presentation of the Design Concepts to Wathne. Polo elected to discharge its obligation to provide Design Concepts by the preparation of a rig room, an election that it was contractually authorized to make.

In any event, Wathne has not demonstrated, or even alleged, that Polo did not honestly believe that the preparation of a rig room was sufficient to discharge its contractual obligation (*Greenwood*, 880 F Supp at 199 [where an agreement authorizes a

party to exercise discretion in its sole judgment, a subjective standard applies to the exercise of that parties' discretion])).

Moreover, because no ambiguity exists in the language of the Design Agreement, the Court will not consider extrinsic evidence in the form of the parties' past course of performance or industry-wide norms (*Varsity Transit, Inc. v Board of Educ. of City of New York*, 300 AD2d 38, 40 [2002]; *Slatt v Slatt*, 64 NY2d 966, 967, rearg denied 65 NY2d 966 [1985]).

For these reasons, Wathne failed to raise a triable issue that Polo breached the Design Agreement. Therefore, Polo's motion for summary judgment on this issue is granted, and Wathne's cross-motion for summary judgment as to liability is denied.

3. Polo's Sale of Plastic Totes at the U.S. Open

Polo moves for summary judgment on this claim, arguing that complimentary plastic disposable packaging used by Polo to package items sold at its temporary U.S. Open Tennis Shop in August-September 2006 is not a "Licensed Product" under the License Agreement.

Wathne argues that Polo "sold" the re-usable plastic totes, and distributed them as promotional items, a category covered by its exclusive license (Complaint, ¶ 29).

First, Wathne fails to identify any language in the License Agreement that limits Polo's right to use the Marks in a promotional manner. Moreover, Schedule A to the License Agreement defines the products covered by Wathne's exclusive

license; it is silent as to packaging or promotional items, either re-usable or disposable.

In any event, Wathne does not submit any evidence tending to raise an issue of fact that Polo actually sold these plastic totes, rather than distributing them at no cost to package other sold products. Accordingly, because Wathne failed to raise an issue of fact that its license was violated in connection with Polo's distribution of totes at the U.S. Open, Polo's motion for summary judgment as to this claim is granted, and Wathne's cross-motion for summary judgment as to liability is denied.

IV. Implied Covenant of Good Faith and Fair Dealing

Polo moves for summary judgment dismissing Wathne's claims based upon the implied covenant of good faith and fair dealing, on the ground that Wathne fails to raise an issue of fact that it exercised any of its contractual rights in bad faith.

Wathne alleges that Polo breached the covenant of good faith and fair dealing in numerous ways. For instance, Wathne alleges that Polo unreasonably restricted Wathne's international sales. Additionally, Wathne alleges that Polo refused to allow Wathne to advertise handbags in order to maximize its sales, and that Polo maliciously retracted approval of handbags at the last minute. With respect to the Ralph Lauren Blue Label, Wathne alleges that Polo impermissibly restricted the avenues of distribution by restricting products produced under this line to Polo's own retail stores. All of these actions were allegedly undertaken by Polo for the purpose of depressing Wathne's sales, to permit it

to buy-out Wathne's business for no consideration.

Implied in every contract is a covenant of good faith and fair dealing (*511 West 232nd Owners Corp. v Jennifer Realty Co.*, 98 NY2d 144, 153 [2002]). This covenant embraces a pledge that neither party will have the effect of destroying or injuring the right of the other party to receive the benefits of the contract (*id.*). Further, where an agreement contemplates that one party exercise discretion, the covenant includes a promise not to exercise it arbitrarily or irrationally (*Dalton v Educational Testing Serv.*, 87 NY2d 384, 389 [1995]; *Maddaloni Jewelers, Inc. v Rolex Watch U.S.A., Inc.*, 41 AD3d 269, 269 [1st Dept 2007]). Consequently, a party's discretion is not limitless, and he may not exercise it in such a manner as to frustrate the fundamental purpose underlying the agreement (*Power Travel Intl., Inc. v American Airlines, Inc.*, 257 F Supp 2d 701, 706 [SD NY 2003]).

Nonetheless, the duty of good faith and fair dealing is not without its limits; no obligation can be implied that would be inconsistent with the terms of the contractual relationship (*Dalton*, 87 NY2d at 389).

In determining whether a party has breached the covenant of good faith and fair dealing, a court must examine the express language of the agreement, in addition to the parties' course of dealing; consequently, it is a fact-laden inquiry (*Tracetbel Energy Mktg., Inc. v AEP Power Mktg., Inc.*, 487 F 3d 89, 98 [2nd Cir 2007]).

Wathne's cause of action for breach of the implied covenant

of good faith and fair dealing is dismissed. Significantly, Wathne's imagined theory of the true motivation behind Polo's actions, i.e., that Polo was engaged in a scheme to depress Wathne's sales and profits in order to buy-out Wathne's business for no consideration and repossess the licenses (Complaint, ¶¶ 8-8-10, 12), has been discounted by the undisputed facts. On June 6, 2005, Wathne wrote to Polo requesting that Polo exercise the buy-out clause of the License Agreement; Polo elected not to exercise it (Defendants' Rule 19-A Statement, ¶¶ 281-284).

Otherwise, Wathne fails to submit one shred of evidence raising a triable issue of fact that Polo either exercised its discretion under the Agreements in bad faith, arbitrarily or irrationally, or in such a manner as to deprive Wathne of the benefits of its bargain.

Indeed, the Agreements authorized Polo to exercise all of the contractual rights that Wathne alleges was harmful. For instance, the License Agreement expressly grants to Polo the authority to grant Wathne the non-exclusive, albeit temporary right, to sell products outside the defined territory, *subject to* Polo's right to terminate or withhold its consent (emphasis added) (License Agreement, § 1.5).

Likewise, while the License Agreement permitted Wathne to advertise the Licensed Products, it granted Polo the authority to render "all final decisions with respect thereto ... in its sole discretion" (License Agreement, § 4.6; Design Agreement, § 1.7). Similarly, all of Wathne's designs, samples, and prototypes of

Licensed Products were explicitly subject to Polo's final approval, in Polo's "sole discretion" (License Agreement, §§ 3.1, 3.3 [a]; Design Agreement, §§ 1.5, 3.1-3.5).

These provisions manifest the parties' intent that Polo was to be the final arbiter of major decisions vis-a-vis the Licensed Products, based upon its subjective judgment (*Greenwood*, 880 F Supp at 199-200). As in *Greenwood (id.)*, Wathne bargained away important rights when it surrendered the authority to render final decisions as to international sales, advertising, designs and samples of handbags to Polo.

Polo's authority under the Agreements is not limitless, and is bound by the covenant of good faith and fair dealing. Nonetheless, in light of its failure to come forward with evidence, subsequent to extensive discovery, that Polo exercised such rights malevolently, or in a manner that served to deprive Wathne the benefits of the Agreements, Wathne cannot be permitted to imply limitations on Polo's authority to exercise previously bargained-for contractual rights.

Implying such limitations upon Polo's right to exercise its discretion would result in the creation of new duties, inconsistent with the existing terms of the Agreements. This is not the purpose behind the doctrine of the implied covenant of good faith and fair dealing (*see Dalton*, 87 NY2d at 389; *Richbell Info. Servs., Inc. v Jupiter Partners, L.P.*, 309 AD2d 288, 303).

Accordingly, it is

ORDERED that the motion by defendants PRL USA, Inc., The

Polo/Lauren Company, L.P., and Polo Ralph Lauren Corporation is denied, in part, solely with respect to the cause of action for breach of contract arising out of the discontinuation of the Polo Sport and Polo Jeans Co. Marks, and the scope of Wathne's waiver regarding children's backpacks, and is otherwise granted in its entirety; and it is further

ORDERED that the cross-motion by Wathne Imports, Ltd. is denied; and it is further

ORDERED that the parties shall appear for a status conference with the Court for the purposes of discussing the submission of motion sequence numbers 014, and 015, that are currently held in abeyance, on April 28, 2008, at 10:00 AM.

Dated: April 11, 2008

ENTER:



J.S.C.

CHARLES E. RAMOS

FILED
APR 16 2008
COUNTY CLERK'S OFFICE
NEW YORK