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

PRESENT: BERNARD J. FRIED **E-FILE** PART 60
Justice

Sarin, Ajay, et. al.,

PLAINTIFF

- v -

CNA Financial Corp., et. al.

DEFENDANT

INDEX NO. #601453-2007

MOTION DATE

MOTION SEQ. NO. #001

MOTION CAL. NO.

The following papers, numbered 1 to ____ were read on 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

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

SO ORDERED

MOAI

Dated: 9/12/08

HON. 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: IAS PART 60

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AJAY SARIN, ANITA KHANNA, GEETU KHANNA, DYKMAN 116 INC., BROADWAY 5601, INC., FRANKLIN 827, INC., 1508 FLATBUSH SUPER-MARKET, INC., 153-21 JAMAICA SUPERMARKET, INC., 1559 WESTCHESTER SUPERMARKET, INC., 184 DYKMAN SUPERMARKET, INC., BROADWAY 157, INC., CHURCH STREET ENTERPRISES, INC., BROADWAY 5657, INC., NICHOLAS 916, INC., NOSTRAND SUPERMARKET, INC., YONKERS 109, INC., 116TH STREET SUPERMARKET, INC., 1623 FLATBUSH AVE. ENTERPRISES CORP. and 3700 NOSTRAND AVE., INC.,

Plaintiffs,

-against-

CNA FINANCIAL CORPORATION, NATIONAL FIRE INSURANCE COMPANY OF HARTFORD, TRANSCONTINENTAL INSURANCE COMPANY and VALLEY FORGE INSURANCE COMPANY,

Defendants.

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Index No. 601453/07

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FRIED, J.:

Various defendants in a federal action, involving a claim for trademark counterfeiting, have brought this declaratory judgment seeking insurance defense and coverage. The facts averred in the affidavits on the motion for summary judgment in the federal action have been succinctly stated by District Judge Louis L. Stanton, as follows:

[Colgate-Palmolive Company] manufactures and sells several varieties of Colgate toothpaste, which is the most popular brand of toothpaste in the United States, and owns related trade dress and registered trademarks. [Colgate Palmolive Company's] Cavity Protection Great Regular Flavor variety is sold in a rectangular box that prominently displays the word "Colgate" in large white letters against a red background. To the right of the Colgate mark is a large blue oval that incorporates a ribbon swirl design in varying shades of blue. Within the swirl are the words "Cavity Protection" in medium-sized white letters. A small American Dental Association (ADA) symbol appears in the lower left corner. The phrases "Great Regular Flavor," "Fluoride Toothpaste," and "Helps Strengthen Teeth" also appear on the box in small white letters. . . .

In October 2005, acting on a consumer complaint, [Colgate-Palmolive Company's] investigator purchased toothpaste bearing the mark "Colddate," as well as purported Colgate toothpaste from a store in Brooklyn. [Colgate-Palmolive Company] later ascertained that defendant J.M.D. All-Star Import and Export, Inc. had imported the Colddate toothpaste from China, and that it was being sold at several other stores in New York.

The Colddate box is similar to the Colgate box, but differs in the following ways. Instead of the word "Colgate," the word "Colddate" appears in a similar font. Instead of the blue ribbon swirl design with the phrase "Cavity Protection," the Colddate box has a blue globe design depicting a world map over latitudinal and longitudinal lines with the phrase "Cavity Fighter." The Colddate box has a diagonal yellow stripe on the upper left corner with the phrase "with CALCIUM" in small red letters. The phrase "FRESH BREATH-STRONG WHITE TEETH" appears beneath the Colddate mark in small white letters where only the product's weight is printed on the Colgate box. There is no ADA symbol on the Colddate box. The other phrases in small white letters are altered from "Helps Strengthen Teeth" to "Strengthens Teeth" and from "Great Regular Flavor" to "Great Original Taste.". . .

* * *

Printed on the back of the Colddate box is "Yangzhou Lierkang Daily Used

Chemicals Co., Ltd." as well a Chinese mailing address, phone number and email address.

(Colgate-Palmolive Company v J.M.D. All Star Import & Export, Inc., et al., 486 F Supp 2d 286, 288 [SD NY 2007] No. 06 CV 2857 [the Colgate Action].)

The instant declaratory judgment action was commenced by the various discount retail stores, commonly referred to as "dollar stores" accused of selling the "sham" Colgate toothpastes and their principals, all of whom are named as defendants in the Colgate Action, against their insurers, seeking insurance defense and coverage in the Colgate Action.[1]

Plaintiffs move, pursuant to CPLR 3212, for an order granting summary judgment in their favor: (1) declaring that defendants CNA Financial Corporation (CNA Financial), National Fire Insurance Company of Hartford (National), Transcontinental Insurance Company (Transcontinental) and Valley Forge Insurance Company (Valley Forge) are obligated under the applicable commercial insurance policies to defend and indemnify plaintiffs in the Colgate Action; (2) ordering defendants to reimburse plaintiffs for all costs to date including attorneys' fees incurred in connection with plaintiffs' defense of the Colgate Action; (3) ordering defendants to defend plaintiffs in the Colgate Action or to pay for all of plaintiffs' defense costs, including attorneys' fees; (4) ordering defendants to indemnify plaintiffs in connection with any determination of liability and/or settlement

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[1] A separate, but related, declaratory judgment action is pending before me concerning insurance coverage in the Colgate Action as between the alleged importer/distributor of the toothpaste, J.M.D. All-Star Import and Export, Inc. (JMD All-Star) and its principal, Ajay Sarin and their insurer, Seneca Insurance Company, entitled Seneca Ins. Co. v J.M.D All-Star Import Export, Inc. et al., Index No. 602536/06) (the Seneca Action).

in the Colgate Action; and (3) awarding plaintiffs' costs of this action, including reasonable attorneys' fees.

CNA Financial, National, Transcontinental and Valley Forge oppose the motion and cross-move for an order granting summary judgment: (a) dismissing the complaint as against CNA Financial on the ground that CNA Financial did not issue any insurance policies to any of the plaintiffs herein, and is therefore not a proper party to this action; (b) declaring that defendants have no duty to defend or indemnify plaintiffs in the Colgate Action; and (c) declaring that plaintiffs are not entitled to recover their attorneys' fees.

That aspect of defendants' cross motion which seeks summary judgment dismissing the complaint as against CNA Financial is granted without opposition. Defendants' cross motion is denied in all other respects. Plaintiffs' motion is granted to the extent that it is ordered that the remaining defendants, National, Transcontinental and Valley Forge are obligated to provide a defense for plaintiffs in the Colgate Action.

The corporate plaintiffs are 16 "dollar stores." These stores are each owned by the individual plaintiffs, Sarin, his wife, Anita Khanna and/or her sister, Geetu Kanna. National, Transcontinental and Valley Forge (collectively, the CNA insurers) are property and casualty insurance underwriting companies. They are wholly owned by CNA Financial.

National, Transcontinental, and Valley Forge issued various primary business liability policies to the 16 stores, and umbrella coverage to three of the stores, each for a one-year period between 2005 and 2007 (CNA Policies). CNA Financial did not issue any insurance policies to any of the plaintiffs herein.

All parties agree that the CNA Policies contain only slight variations, and therefore refer to the relevant provisions in one sample policy as applicable to all of the CNA Policies. In pertinent part, they provide:

> A. COVERAGES
>
> 1. Business Liability
>
> a. We [CNA] will pay those sums that the insured becomes legally obligated to pay as damages because of "bodily injury," "property damage," "personal injury" or "advertising injury" to which this insurance applies. We will have the right and duty to defend any "suit" seeking those damages . . ."
>
> B. This insurance applies:
>
> * * *
>
> (b) "Advertising injury" caused by an offense committed in the course of advertising your goods, products or services;
> but only if the offense was committed in the "coverage territory" during the policy period.

On or about April 12, 2006, Colgate-Palmolive Company (Colgate) commenced the Colgate Action against, among others, JMD All-Star and Sarin, alleging that said parties infringed Colgate's trademarks and trade dress of its toothpaste products, and committed unfair competition and violated New York business laws. In the amended complaint, filed on or about July 10, 2006 (the Colgate Complaint), Colgate asserted claims against the 16 "dollar stores," alleging that, "since at least as early as February 2003, the Defendants [in the Colgate Action] imported, distributed, promoted, sold and/or offered for sale counterfeit COLGATE and/or COLDDATE products" (Colgate Complaint, ¶ 64). It asserts causes of action against the plaintiffs herein based on, among other things: (a) federal trademark counterfeiting and infringement; (b) federal trade dress infringement; (c)

federal false designation of origin, unfair competition and passing off; (d) federal dilution; (e) New York state common-law trademark infringement; (f) New York state common law trade dress infringement; (g) New York state dilution; and (h) deceptive trade practices. The Colgate Complaint further alleges that Sarin, Anita Khanna and Geetu Khanna are officers, directors, partners, shareholders or agents of each of the 16 stores, and that JMD All-Star and/or Sarin are alter egos of each of the 16 stores. Plaintiffs have denied all of Colgate's claims in the Colgate Action.

On May 4, 2007, Judge Stanton, in an opinion and order, granted partial summary judgment dismissing Colgate's claim for trademark counterfeiting (486 F Supp 2d 286, supra). Colgate then interposed a Second Amended Complaint in the Colgate Action.[2]

Plaintiffs contend that the various claims asserted against them in the Colgate Action fall squarely within the "advertising injuries" coverage of the CNA Policies. As such, on or about May 25, 2006 and May 31, 2006, plaintiffs gave notice to the insurance brokers on the CNA Policies of the Colgate Action.

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I asked counsel to review and compare the second amended complaint to the Colgate Complaint in order to determine whether they were substantially the same with respect to the allegations and claims asserted against the defendants (plaintiffs herein). Counsel reported that the second amended complaint adds a count for trademark infringement specifically limited to the vendor defendants based on their allegedly unlawful importation of gray market goods, the removal of trademark counterfeiting allegations specific to the importation and sale of Colddate brand toothpaste (to conform with Judge Stanton's decision that Colddate is not a counterfeit of Colgate), and the conversion of counts with respect to Colddate into claims for false designation of origin in violation of section 43(a) of the Lanham Act, but represented that the two complaints are sufficiently similar such that I should proceed with this motion (Letters dated: May 8, 2008, counsel for Defendant, and May 9, 2008, counsel for Plaintiff.)

By letters, all dated August 11, 2006, the CNA insurers informed plaintiffs that coverage in the Colgate Action, including defense therein, was denied to plaintiffs. Defendants take the position, both in the declination letter, and in this action, that no coverage exists under the terms of the CNA Policies and/or that certain exclusions are applicable and bar coverage.

In the complaint, verified on May 1, 2007, plaintiffs seek a judgment: (a) declaring that the CNA Policies afford coverage to plaintiffs in connection with the Colgate Action; (b) declaring that defendants have a duty under the CNA Policies to defend plaintiffs in the Colgate Action; (c) declaring that defendants are obligated to indemnify plaintiffs for any money judgment awarded or settlements in the Colgate Action; (d) ordering defendants to defend plaintiffs in the Colgate Action and to pay for all defense costs, including attorneys' fees; (e) awarding against defendants all sums incurred/paid by plaintiffs for all costs, including attorneys' fees, in the defense of the Colgate Action, together with interest thereon; and (f) awarding plaintiffs the costs and attorneys' fees for this action.

Defendants, in their answer, dated July 2, 2007, generally deny plaintiffs' claims and assert 18 affirmative defenses. They deny any obligation to defend or indemnify plaintiffs in the Colgate Action, claiming that the Colgate Complaint does not allege a covered "advertising injury" as defined in the CNA Policies, the Colgate Complaint does not seek insurable damages, the conduct alleged in the Colgate Complaint falls within an exclusion from coverage for acts done by the insured with knowledge of its falsity or with knowledge that it would violate the rights of others and/or is barred by the exclusion for

advertising injury arising out of oral or written publication of material whose first publication took place before the beginning of the policy period.

It is well settled that an insurer's obligation to defend is determined by a review of the allegations of the complaint against the insured without regard to the merits of the claims, and that an insurer's duty to furnish a defense is broader than its obligation to indemnify (see Seaboard Sur. Co. v Gillette Co., 64 NY2d 304, 310-311 [1984]). Thus:

> The duty to defend insureds - - long recognized as broader than that to indemnify - - is derived from the allegations of the complaint and the terms of the policy. If the complaint contains any facts or allegations which bring the claim even potentially within the protection purchased, the insurer is obligated to defend (Ruder & Finn v Seaboard Sur. Co., 52 NY2d 663, 669-670 [1981]).

(Technicon Electronics Corp. v American Home Assur. Co., 74 NY2d 66, 73 [1989]; see also A. Meyers & Sons Corp. v Zurich American Ins. Group, 74 NY2d 298, 302 [1989] ["(i)f the facts alleged raise a reasonable possibility that the insured may be held liable for some act or omission covered by the policy, then the insurer must defend"]; Federal Ins. Co. v Kozlowski, 18 AD3d 33, 41 [1st Dept 2005] ["(t)he ultimate validity of the underlying complaint's allegations is irrelevant"].) In New York, insurers claiming an exception or exclusion to coverage bear a heavy burden to demonstrate the applicability of the exclusion or exception to coverage in the particular case (Seaboard Sur. Co., 64 NY2d 304, supra). Thus:

> [W]henever an insurer wishes to exclude certain coverage from its policy obligations, it must do so "in clear and unmistakable" language (Kratzenstein v Western Assur. Co., 116 NY 54, 59 [1889]; see, also, Hartol Prods. Corp. v Prudential Ins. Co., 290 NY 44, 49-50 [1943]). Any such exclusions or exceptions from policy coverage must be specific and clear in order to be enforced. They are not to be extended by interpretation or

> implication, but are to be accorded a strict and narrow construction (Taylor v United States Cas. Co., 269 NY 360, 363 [1936]; Griffey v New York Cent. Ins. Co., 100 NY 417, 421[1885]; Rann v Home Ins. Co., 59 NY 387, 389 [1874]; see, also, Wagman v American Fid. & Cas. Co., 304 NY 490 [1952]). Indeed, before an insurance company is permitted to avoid policy coverage, it must satisfy the burden which it bears of establishing that the exclusions or exemptions apply in the particular case (Neuwirth v Blue Cross & Blue Shield, 62 NY2d 718 [1984]; Prashker v United States Guar. Co., 1 NY2d 584, 592 [1956]; Slocovich v Orient Mut. Ins. Co., 108 NY 56, 66 [1888]), and that they are subject to no other reasonable interpretation (cf. International Paper Co. v Continental Cas. Co., supra, at 325; Hoffman v Aetna Fire Ins. Co., 32 NY 405, 413-415 [1865]).

(Id. at 311.).

Nevertheless, an insurer may be relieved of its duty to defend if it can establish, as a matter of law, that there is no possible factual or legal basis upon which it might eventually be obligated to indemnify its insured, or by proving that the allegations fall within a policy exclusion (Frontier Insulation Contractors, Inc. v Merchants Mut. Ins. Co, 91 NY2d 169 [1997]; see also Kozlowski, 18 AD3d at 41-42 ["(t)he obligation to defend is readily understood and its requirement is clear -- the insurer must afford a defense to the insured for covered as well as noncovered claims if the latter are intertwined with covered claims"]; Trustees of Princeton Univ. v National Union Fire Ins. Co. of Pittsburgh, Pa., 15 Misc 3d 1118[A], 2007 NY Slip Op 50753[U] [Supreme Court, NY County 2007, Freedman, J.], affd 52 AD3d 247 [1st Dept 2008]).

Upon review of the Colgate Complaint, and the relevant case law, it is clear that the Colgate Complaint indeed alleges "advertising injury" (see Cosser v One Beacon Ins. Group, 15 AD3d 871 [4th Dept 2005]; T Juniors, Inc. v Utica Mut. Ins. Co., Sup Ct, NY County, April 1, 2005, Fried, J., Index No. 601965/04). Defendants' reliance upon A.

Meyers & Sons Corp. v Zurich Am. Ins. Group, 74 NY2d 298, supra, is misplaced as the complaint at issue there alleged only "the unlawful manufacture, importation, and sale" but not advertising "of patented plastic fasteners infringing upon the complainant's patents."[3]

In Cosser, plaintiffs were sued in federal court by L. & J. G. Stickley, Inc. (Stickley) for copying, manufacturing and marketing an exclusive "Stickley" formula for furniture polish. In the federal action, Stickley alleged causes of action for, inter alia, false advertising, false designation of origin under the Lanham Act (15 USC § 1125 [a]), false advertising, unfair competition, and misappropriation of trade secrets. Plaintiffs brought an action in state court seeking a judgment declaring that, pursuant to the terms of two commercial general liability insurance policies issued by defendant to plaintiffs, defendant has a duty to defend and indemnify plaintiffs in the federal action. The plaintiffs in Cosser, as here, moved for partial summary judgment seeking a declaration that their insurer had a duty to defend them in the federal action and must contribute to plaintiffs' defense costs. The insurer likewise cross-moved for summary judgment on its claim that no coverage existed under the policies in question. The insurer, in Cosser, asserted the very same arguments as the insurers assert here - that the underlying complaint does not allege an "advertising injury," and that, in any event, the claims in the underlying complaint are excluded because plaintiffs' alleged wrongful conduct was knowing and intentional.

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Furthermore, defendants' claim that plaintiffs did not engage in advertising activity is contradicted by the evidence. In this regard, plaintiffs have proffered evidence showing that they advertised the products they sell by (a) putting up window displays showing the products in the stores' windows for customers to see from the street, and (b) distributing hand flyers to customers showing product pictures.

Although the trial court agreed with the insurer, and declared that there was no coverage under the subject policies, on appeal, the Fourth Department reversed, holding that the trial court erred in concluding that the allegations in the federal complaint did not trigger possible coverage for advertising injury. The Fourth Department stated:

> In granting defendant's cross motion, the court agreed with defendant that the causes of action in the federal complaint did not trigger possible coverage for advertising injury. That was error. We note at the outset that the court erred in agreeing with defendant that the complaint in the federal action fails to allege an advertising injury covered by the terms of the policies at issue. The complaint therein alleges the misuse or infringement of Stickley's trademark (see Allou Health & Beauty Care v Aetna Cas. & Sur. Co., 269 AD2d 478, 479-480 [2nd Dept 2000]) or "trade dress" within the terms of the policies at issue (see American Mfrs. Mut. Ins. Co. v Quality King Distribs., 287 AD2d 527, 529 [2nd Dept 2001]; see also Maritime Fish Prods. v World-Wide Fish Prods., 100 AD2d 81, 86-87 [1st Dept 1984]).

(Id. at 873.)

As discussed in greater detail below, the Fourth Department further held that the trial court incorrectly determined that the claims in the federal action were excluded from coverage (id.). Accordingly, the Fourth Department, in Cosser, held that the plaintiffs were entitled to judgment declaring that the insurer owed a duty to defend plaintiffs in the federal action, and to contribute to the defense costs incurred to date in the federal action. The same result would follow here.

Defendants argue that, even if the allegations against plaintiffs in the Colgate Complaint are otherwise covered, certain exclusions of coverage are applicable, including exclusions for (1) "advertising injury" arising out of oral or written publication of material, if done by or at the direction of the insured with knowledge of its falsity; (2) "advertising

injury" arising out of oral or written publication of material whose first publication took place before the beginning of the policy period; and (3) "advertising injury" arising out of the willful violation of a penal statute or ordinance committed with the consent of the insured.

As stated previously, in New York, insurers claiming an exclusion to coverage bear a heavy burden to demonstrate the applicability of the exclusion in the particular case (Seaboard Surety Co., 64 NY2d 304, supra). Cosser (15 AD3d 871, supra), is instructive on this issue as well. There, the Fourth Department rejected the insurers' "exclusion" claim, stating:

> Defendant's further contention that the claims in the underlying action are excluded from coverage because plaintiffs' alleged wrongful conduct was knowing and intentional also is without merit (see PG Ins. Co. of N.Y. v S.A. Day Mfg. Co., 251 AD2d 1065 4th Dept 1998]). As in this case, PG Ins. Co. involved causes of action in a federal complaint for false advertising and deceptive business practices in violation of the Lanham Act and General Business Law §§ 349 and 350, as well as the identical liability form at issue in this case. Here, as in PG Ins. Co., we conclude that defendant has a duty to defend plaintiffs in the underlying federal action because there is "a 'reasonable possibility that the insured[s] may be held liable for some act or omission covered by the policy'" (Fitzpatrick v American Honda Motor Co., 78 NY2d 61, 70 [1991]). Plaintiffs "may be liable to [Stickley] pursuant to the Lanham Act and the General Business Law in the underlying action without a showing of intentional or knowing conduct on [their] part. . . . Thus, because at least some of the causes of action in the complaint in the federal action "arguably arise from covered events, [defendant] is required to defend the entire action" (Frontier Insulation Contrs. v Merchants Mut. Ins. Co., 91 NY2d 169, 175 [1997]; see Town of Massena v Healthcare Underwriters Mut. Ins. Co., 98 NY2d 435, 443-444 [2002]).

(Id. at 873-874.)

Defendants have not met the burden the law imposes upon them in order to

exclude coverage. Here, as in Cosser, plaintiffs may be found liable in the Colgate Action without a showing of intentional or knowing conduct on their part. Thus, since at least some of the claims in the Colgate Complaint arguably arise from covered events, defendants are required to defend the entire action (id.; see also T Juniors, Inc., supra).

The cases relied upon by defendants do not apply. Those cases involve counterfeiting (see e.g. Atlantic Mut. Ins. Co. v Terk Technologies Corp., 309 AD2d 22 [1st Dept 2003] [the intentional production and marketing of counterfeit products fall within the "knowledge of falsity" exclusion in the policy]; see also A.J. Sheepskin and Leather Co., Inc. v Colonia Ins. Co., 273 AD2d 107 [1st Dept 2000]). Here, by contrast, Judge Stanton, in the Colgate Action, dismissed the counterfeiting claim in the Colgate Complaint.

Accordingly, it is:

ORDERED that the motion by plaintiffs for summary judgment is granted to the extent that it is ADJUDGED and DECLARED that defendants National Fire Insurance Company of Hartford, Transcontinental Insurance Company and Valley Forge Insurance Company are obligated under the applicable commercial insurance policies to defend plaintiffs in the underlying action pending in the United States District Court for the Southern District of New York, entitled Colgate-Palmolive Company v J.M.D. All Star Import & Export, Inc., et al., No. 06 CV 2857 and are ordered to reimburse plaintiffs for all costs to date, including attorneys' fees, incurred in connection with plaintiffs' defense of the Colgate Action; and it is further

ORDERED that the cross motion by CNA Financial Corporation, National Fire Insurance Company of Hartford, Transcontinental Insurance Company and Valley

Forge Insurance Company for summary judgment is granted only to the extent that the complaint is dismissed as against CNA Financial Corporation, and the cross motion is in all other respects denied; and it is further

ORDERED that a conference will be held on October 21, 2008 at 3:30 p.m., in Part 60.

Dated: 9/12/08

ENTER:

J.S.C.

HON. BERNARD J. FRIED