

Continental Cas. Co. v KB Ins. Co., Ltd.

2019 NY Slip Op 31513(U)

May 29, 2019

Supreme Court, New York County

Docket Number: 652103/2018

Judge: Melissa A. Crane

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SUPREME COURT OF THE STATE OF NEW YORK
NEW YORK COUNTY - - PART 15

CONTINENTAL CASUALTY COMPANY,

Plaintiff,

Index No.: 652103/2018
Motion Sequence No.: 001

- against -

DECISION/ORDER

KB INSURANCE CO., LTD. d/b/a KOOKMIN
BEST INSURANCE COMPANY (US BRANCH)
f/k/a LEADING INSURANCE GROUP
INSURANCE CO., LTD.,

Defendant.

CRANE, J.S.C.:

In this declaratory judgment action, plaintiff Continental Casualty Company (Continental) moves for summary judgment declaring that defendant KB Insurance Company, Ltd. d/b/a Kookmin Best Insurance Company (US Branch) f/k/a Leading Insurance Group Insurance Co., Ltd. (KBIC) must reimburse Continental for the money Continental has spent providing a defense in a Lanham Act case, and that KBIC must share future litigation costs in that action. KBIC opposes the motion. For the reasons below, the court grants the motion.

Continental issued a general liability insurance policy to Value Wholesale, Inc. (Value) that was in effect between from February 3, 2013 until February 3, 2014 (NYSCEF Doc. No. 9 [complaint], ¶ 4). In addition, KBIC issued a commercial general liability policy to Value which was renewed and in effect during the relevant period. The KBIC policy agreed to “pay those sums that the insured becomes legally obligated to pay as damages because of ‘personal and advertising injury’ to which this insurance applies” (NYSCEF Doc. No. 9 at 141 [Commercial General

Liability Coverage Form, Coverage B Personal and Advertising Injury Liability (KBIC Policy) § 1 (a)]. The policy also provided that coverage did not apply if Value acted “with the knowledge that the act would violate the rights of another and would inflict ‘personal and advertising injury’” or published material “with knowledge of its falsity” (*id.* at 142 [KBIC Policy §§ 2 (a), (b)]).

On November 20, 2015, Abbott Laboratories, Abbott Diabetes Care, Inc., and Abbott Diabetes Care Sales (collectively, Abbott) commenced *Abbott Laboratories v Adelpia Supply USA* (15-CV-5826 [SDNY] [“the underlying action”]) against Value and numerous other defendants (*id.*, ¶¶ 14-16). The second amended complaint in the underlying action alleges that Abbott sells and holds the patents for FreeStyle and FreeStyle Lite blood glucose test strips for people with diabetes. It further alleges that the defendants bought and/or distributed versions of the test strips which the defendants imported from other countries, that are not approved for sale in the United States (NYSCEF Doc. No. 11, ¶¶ 2-4). Defendants then used the approved FreeStyle product boxes for insurance purposes, sold the less costly imported products in their stead, and reaped the profits. The action asserts “trademark and trade dress infringement, fraud, racketeering, unfair competition, and other illegal and wrongful acts” (*id.*, ¶ 1). Value is one of the “Distributor Defendants” (*id.*, ¶ 52). The underlying complaint states that another defendant, Tri-State, purchased the unapproved test strips from Value, among others, and sold them to several distributors including Value (*id.*, ¶ 421). Further, it states that Value purchased the unapproved strips from several defendants and sold them to a number of other defendants (*see id.*, ¶¶ 422, 425, 426, 429, 430, 439, 443).

Value tendered the complaint in the underlying action to KBIC. KBIC denied coverage, arguing that 1) the lawsuit did not involve a personal and advertising injury because there was an insufficient causal nexus between Value’s alleged advertising and Abbott’s injuries, and 2) the

exclusions for knowing acts and knowing publication of false material applied (NYSCEF Doc. No. 9 at 184-91, 196-99 [April 8, 2015 and April 18, 2015 denial of coverage letters]). Next, in September 2016, Value tendered the complaint in the underlying action to Continental. In October 2016 Continental agreed to defend Value because the underlying complaint contained allegations that “potentially fall within the scope of coverage” (NYSCEF Doc. No. 20). Meanwhile, Value had commenced a coverage action against KBIC in federal court in May 2016, it discontinued that action without prejudice after Continental agreed to defend (NYSCEF Doc. No. 9, ¶¶ 20-24). KBIC has refused to share in the costs of defending the underlying action (*id.*, ¶ 25). Thus, Continental commenced this lawsuit.

Continental asserts that KBIC has a duty to defend under KBIC’s policy (*see id.* at 137 *et seq.* [KBIC policy]). First, Continental states the KBIC policy covers personal and advertising injury “caused by an offense arising out of [Value’s] business” (*id.* at 141). The definitions section of the KBIC policy states that personal and advertising includes “infring[ments] upon another’s copyright, trade dress or slogan in your ‘advertisement’” (*id.* at 150). Advertisement, in turn, is defined as “a notice that is broadcast or published to the general public or specific market segments . . . for the purpose of attracting customers or supporters”, including “material placed on the internet or similar electronic means of communication” (*id.* at 148). The exclusion of personal and advertising injury that arises from “the infringement of copyright, patent, trademark, trade secret or other intellectual property rights . . . [does] not include the use of another’s advertising idea in your ‘advertisement’” and “does not apply to infringement, in your ‘advertisement’, of copyright, trade dress or slogan” (*id.* at 142 [internal quotations in original]). Additionally, in discovery in the underlying action, Abbott alleges that its damages arise, in part, from the “ill-gotten profits” stemming from Value’s purported “importation, purchase, marketing, advertisement, distribution,

sale, offer for sale, and/or use in commerce in the United States of diverted international Free Style test strips” (NYSCEF Doc. No. 9 at 206 [Abbott’s Initial Disclosures at 4, III]). Thus, Continental argues, KBIC has a duty to defend (NYSCEF Doc. No. 8, ¶ 23 [citing *Greater New York Mutual v Leading Ins. Serv.* (2017 NY Slip Op 32242 [U], *5 (Sup Ct, NY County 2017))].

Second, Continental contends that the knowing violation exclusions do not apply, because not all causes of action in the underlying complaint require intent (*see PG Ins. Co. v S.A. Day Mfg. Co.*, 251 AD2d 1065, 166 [4th Dept 1998] [*PG Ins.*]). In support, Continental cites a similar Wisconsin court decision (*West Bend Mut. Ins. Co. v Ixthus Med. Supply Inc.*, 381 Wis 2d 472, 915 NW 2d 456 [Ct Appeals 2018] [*West Bend*], *affd*, 385 Wis 2d 580 [Sup Ct 2019]). In *West Bend*, coverage was available “because the underlying complaint “alleges that Abbott suffered an advertising injury caused by an offense arising out of Ixthus’s business” (*id.* at *3). In addition, the court found “that Ixthus engaged in advertising activity” because, *inter alia*, the packaging of the test strips “is an advertisement” in itself (*id.*). The court also determined that the complaint sufficiently alleged a causal connection between Abbott’s alleged injuries and the advertising activity. Finally, the court held that the knowing violation exclusion did not defeat West Bend’s duty to defend, because “an insurer has a duty to defend if the policyholder still could be liable without a showing of intentional conduct” (*id.* at *4).

In opposition, KBIC argues that Abbott’s alleged injuries “arise wholly from Value’s participation in a complex and fraudulent conspiracy to divert medical products . . . to the United States” and have no “causal relationship to Value’s advertising activity” (NYSCEF Doc. No. 16, ¶ 3). KBIC also argues that the underlying complaint does not contend there is a causal connection between Value’s advertising activities and Abbott’s injuries, but simply notes that Value advertises the test strips, and this causes consumer confusion and the possibility of misuse (NYSCEF Doc.

No. 16, ¶ 10 [relying on NYSCEF Doc. No. 11, ¶¶ 385-86]). KBIC asserts that none of the underlying complaint's 13 "causes of action allege that Value infringed on Abbott's protected trademarks or trade dress in an advertisement or that Abbott sustained an injury arising out of Value's advertising activities" (NYSCEF Doc. No. 16, ¶ 11).

KBIC cites *A. Meyers & Sons Corp. v Zurich Am. Ins. Group* (74 NY2d 298, 303 [1989] [*Meyers*]) that found the alleged advertising injury had to "both arise out of an offense occurring in the course of the insured's 'advertising activities' and constitute one of the enumerated offenses." In addition, it relies on two copyright infringement actions, *Quitman Mfg. Co. v Northbrook Natl. Ins. Co.* (266 AD2d 105, 105 [1st Dept 1999]) and *Axelrod v Magna Carta Cos.* (17 Misc 3d 1127 [A], 2007 NY Slip Op 52165 [U] [Sup Ct, NY County 2007] [*Quitman*], *modified in part on other grounds*, 63 AD3d 444 [1st Dept 2009]), that found the duty to defend did not exist where the complaints alleged that the plaintiff's manufacture and sale of goods infringed on a copyright. KBIC states that paragraphs 1, 629, and 632 of the underlying complaint prove that Abbott alleges injuries arise entirely from the importation and distribution of the unapproved test strips (NYSCEF Doc. No. 16, ¶ 14).

Alternatively, KBIC argues, even if the court concludes that a causal connection exists, the Knowing Acts Exclusion and the Knowing Publication of False Material Exclusion bar coverage. KBIC points to the Lanham Act claim in the underlying complaint, that alleges Value and the other defendants acted "deliberately and willfully, with knowledge of Abbot's exclusive rights and goodwill in the FreeStyle Marks and FreeStyle Trade Dress, . . . with knowledge of the infringing nature of the marks, . . . [and] with bad faith and the intent to cause confusion, or to cause mistake and/or to deceive" (*id.*, ¶ 9 [quoting NYSCEF Doc. No. 11, ¶ 568]). KBIC argues New York case law compels a finding that these exclusions apply even if the statutes on which a plaintiff relies –

such as, in this case, the Lanham Act – does not require a showing of intent (*id.*, ¶ 17 [citing *Atl. Mut. Ins. Co. v Terk Tech. Corp.*, 309 AD2d 22, 32 (1st Dept 2003) (*Terk*) (where defendant approached a manufacturer to create a knockoff and subsequently marketed the knockoff as an original, it was impossible for Terk’s actions to be unknowing or unintentional); *A.J. Sheepskin & Leather Co., Inc. v Colonia Ins. Co.*, 273 AD2d 107 (1st Dept 2000) (*Sheepskin*)]). As such, KBIC states, *West Bend*, upon which Continental relies, stands in stark contrast to the New York law.

In reply, Continental points to *Bridge Metal Indus., L.L.C. v Travelers Indem. Co.* (812 F Supp 2d 527, 534 [2011] [*Bridge Metal*], *aff’d* 559 Fed Appx 15 [2d Cir 2014]), that found the duty to defend exists if any of the complaint’s allegations, even groundless ones, fall within the policy’s scope (citing, inter alia, *Terk*, 309 AD2d at 28; *Seaboard Sur. Co. v Gillette Co.*, 64 NY2d 304, 310 [1984] [*Seaboard*]). Moreover, Continental asserts that KBIC ignored aspects of the underlying complaint relating to trade dress infringements, that Continental states trigger KBIC’s duty to defend. Continental quotes paragraph 15 of the complaint, that alleges Value infringed upon the advertising injury offense of trade dress, and that Value marketed and advertised the test strips (NYSCEF Doc. No. 18, ¶ 7 [citing NYSCEF Doc. No. 11, ¶ 15 (“the advertisement and sales of diverted . . . test strips cause great damage to Abbott and the goodwill of Abbott’s valuable trademarks”)]). It argues that KBIC’s reliance on *Terk* and *Sheepskin* is misplaced because, in those cases, the courts in the underlying actions had already concluded the insured parties acted deliberately. Continental stresses that, even if some of the alleged acts fall within the knowing acts exclusion, as long as one claim does not require intent, the duty to defend exists (NYSCEF Doc. No. 18, ¶ 17).

Analysis

“On a summary judgment motion in a case involving an insurance contract or policy, [t]he evidence will be construed in the light most favorable to the one moved against” (*City of New York v Wausau Underwriters Ins. Co.*, 145 AD3d 614, 617 [1st Dept 2016] [*Wausau*] [citation and internal quotation marks omitted]). As Continental states, the duty to defend is broader than the duty to indemnify, and courts construe the duty liberally (*Fieldston Prop. Owners Assn., Inc. v Hermitage Ins. Co., Inc.*, 16 NY3d 257, 264 [2011] [*Fieldson*]). The duty exists even if there are facts to “indicate that the claim may be meritless or not covered” (*Automobile Ins. Co. of Hartford v Cook*, 7 NY3d 131, 137 [2006] [citations and internal quotation marks omitted]; *see also BP A.C. Corp. v One Beacon Ins. Group*, 8 NY3d 708, 714 [2007] [stating that the complaint’s merits “are irrelevant”]). A plaintiff may establish the right to summary judgment if the complaint “suggest[s] a reasonable possibility of coverage” (*Wausau*, 145 AD3d at 617 [quoting *DMP Contr. Corp. v Essex Ins. Co.*, 76 AD3d 844, 845 (1st Dept 2010)]). The duty is not absolute, however.

“An insurer may obtain a declaration absolving it of its duty to defend . . . when a comparison of the policy and the underlying complaint on its face shows that, as a matter of law, there is no possible factual or legal basis on which the insurer might eventually be held to be obligated to indemnify the insured under any provision of the insurance policy”

(*Greenwich Ins. Co. v City of New York*, 122 AD3d 470, 471 [1st Dept 2014] [citations and internal quotation marks omitted]).

Continental has the burden of showing that KBIC has a duty to defend (*see Tribeca Broadway Assoc., LLC v Mount Vernon Fire Ins. Co.*, 5 AD3d 198, 200 [1st Dept 2004]), and has satisfied this burden. Here, the policy concededly covers advertising injuries (NYSCEF Doc. No. 9 at 141 [KBIC Policy, § 1 (a)]). The underlying complaint asserts that, “[u]sing Abbott’s trademarks and trade dress, Defendants *advertise* to consumers and the marketplace their ability

and willingness to sell FreeStyle test strips. These advertisements are made through websites, emails, facsimiles, point-of-sale displays, and other media” (NYSCEF Doc. No. 11, ¶ 385 [emphasis supplied]). Thus, the underlying complaint explicitly alleges that, as part of the defendants’ scheme, the defendants widely advertised the unapproved products and sold them to the public as if they were the approved test strips. Because “misappropriation of advertising ideas or style of doing business encompasses the wrongful taking of the manner by which another advertises its goods or services, including the misuse of another’s trademark” (*Allou Health & Beauty Care, Inc. v Aetna Cas. And Sur. Co.*, 269 AD2d 478, 480 [2d Dept 2000] [citations and internal quotation marks omitted]), the complaint states a valid advertising injury. As Continental also shows, Abbott’s discovery responses reiterated that Abbott’s damages stemmed in part from advertising (NYSCEF Doc. No. 9 at 206 [Abbott’s Initial Disclosures at 4, III]). Further, in granting a preliminary injunction in the underlying action, the United States District Court for the Eastern District of New York stated that Abbott’s claim was that “the differences between international and domestic FreeStyle test strips are material and *the gray marketing of those strips* interferes with Abbott’s quality-control measures” (*Abbott Labs. v Adelpia Supply USA*, 2016 WL 871354, * 2, 2016 US Dist LEXIS 57291, *8 [ED NY, April 29, 2016, No. 15-CV-5826 (CBA) (MDG) [emphasis supplied]]¹.

At oral argument, KBIC’s counsel argued that the word “advertising” only appears in the complaint three times because its gravamen relates to the scanning of the approved strips and the dissemination of the unapproved strips in their place. Ergo, the advertising by itself was not the cause of the injury (Tr. at 9, lines 7-20; at 10, lines 2-6 [Nov 29, 2018]). The duty to defend exists even if only one of the claims arises from a covered event (*Fieldston*, 16 NY3d at 265-66; *see CGS*

¹ The court noted that it had reached this conclusion in two earlier motions for injunctive relief.

Inds., Inc. v Charter Oak Fire Ins. Co., 720 F3d 71, 83 [2d Cir 2013]), and even if the advertising claim ultimately is dismissed in the underlying action for the reason KBIC sets forth. Unlike the complaint in *Meyers* (74 NY2d at 303), that only claimed harm due to the importing of the goods in question, the complaint in the underlying action, asserts that the packaging and advertising of the unapproved strips contributed to Abbott's injuries.

As Continental has made out a prima facie case that the underlying complaint seeks relief based on advertising injuries, the burden shifts to KDIC to establish that one of the exclusions apply. To make this showing, KDIC

“bears the heavy burden of demonstrating that the allegations of the complaint cast the pleadings wholly within that exclusion, that the exclusion is subject to no other reasonable interpretation, and that there is no possible factual or legal basis upon which the insurer may eventually be held obligated to indemnify the insured under any policy provision”

(*City of New York v Certain Underwriters at Lloyd's of London, England*, 15 AD3d 228, 230-31 [1st Dept 2005] [citation and internal quotation marks omitted]). KBIC has not satisfied its heavy burden. The underlying complaint alleges that all the defendants participated in a deliberate scheme to substitute unapproved test strips in place of the approved strips. However, Abbott can establish Value's liability even “without a finding that [Value] knew that [its] conduct would violate [Abbott's] rights and inflict the advertising injury at issue” (see *Bridge Metal*, 812 F Supp 2d at 545 [applying New York law]).

Moreover, the cases KBIC relies upon are distinguishable. *Quitman* and *Axelrod* both found that the duty to defend did not exist. However, the complaints in those cases alleged only that the plaintiff's manufacture and sale of goods infringed on a copyright, not that the plaintiff engaged in advertising through which the plaintiff incurred damages. As such, the exclusion does not apply. KBIC's reliance on *Terk* and *Sheepskin* for a contrary conclusion is misplaced. In both

cases, the underlying lawsuits already had found that the defendants were culpable of knowing misconduct. In *Terk*, for example, there was only one defendant, and the defendant had “approached a local manufacturer to produce a cheaper, low-quality knock-off” of the bag in question (309 AD2d at 32). Significantly also, in the underlying action in that case, the federal court already had found that the defendant “willfully, knowingly, surreptitiously and fraudulently passed off counterfeit goods” (*id.* at 25). In *Sheepskin*, as well, only one entity sought coverage. There had been “an express finding, after a full evidentiary hearing . . . that, in accordance with the allegations of the complaint, [the insured] was a serial infringer that had deliberately sought to confuse the public” though its sale of “nearly identical” products (*Sheepskin*, 273 AD2d at 108 [internal quotation marks omitted]). In *Abbott*, on the other hand, there are over 300 named defendants that allegedly participated in the scheme. KBIC points to no court determinations or other bases for concluding that Value, in particular, as one of the 300, acted knowingly and fraudulently. Further, though the *Abbott* complaint refers to the defendants collectively in discussing the purported fraud, it is possible that some of the 300 defendants acted unknowingly in a scheme others orchestrated.

Neither the parties nor the court has found a controlling First Department case with parallel facts. However, the Fourth Department has addressed the issue. In *Cosser v One Beacon Ins. Group* (15 AD3d 871, 873 [4th Dept 2005]), the plaintiffs sought a declaration that the defendant insurer owed them a defense in a Lanham Act action. The Court concluded that a duty existed because the plaintiffs “may be liable . . . in the underlying action without a showing of intentional or knowing conduct on [their] part” (citing *PG Ins.*, 251 AD2d at 1066).² A few decisions from

² In *Sheepskin*, the First Department distinguished *PG* as one of the “exceptional . . . cases in which a duty to defend . . . may exist, notwithstanding a complaint whose allegations fall entirely within

justices in this county have utilized similar reasoning to rule that the insurer had a duty to defend (see, e.g., *The Andy Warhol Found. For Visual Arts, Inc. v Phila. Indem. Ins. Co.*, 37 Misc 3d 1229 [A], 2012 NY Slip Op 52228 [U], *6 [Sup Ct, NY County 2012] [Sherwood, J.]; *Sarin v CAN Fin. Corp.*, 21 Misc 3d 1101 [A], 2008 NY Slip Op 51909 [U] [Sup Ct, NY County 2008] [Fried, J.]).³

The duty to defend exists whenever “the complaint alleges *any facts or grounds* which bring the action within the protection purchased” (*Seaboard*, 64 NY2d at 310 [emphasis supplied]; see *Wausau*, 145 AD3d at 617 [“the suggestion of a reasonable possibility of coverage” is sufficient]). Therefore, and for the reasons above, it is

ORDERED that the motion for summary judgment on the first and second causes of action, for breach of contract and declaratory judgment is granted; and it is further

ADJUDGED and DECLARED ordered that plaintiff’s motion for summary judgement is granted, and it is further

ADJUDGED and DECLARED that KBIC has a duty to share in the defense of Value in *Abbott Laboratories v Adelpia Supply USA* (15-CV-5826 [SDNY]); and it is further

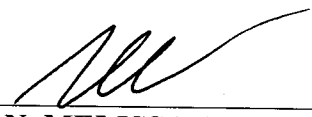
an exclusion” (*Sheepskin*, 273 AD2d at 107). In *Terk*, the Court mentions *PG* and adopts the holding in *Sheepskin*, but without drawing this distinction.

³ The court has considered KBIC’s argument that Continental must show that it has not provided its defense as “a voluntary payment made with full knowledge of the facts” that it does not owe such coverage (*Gimbel Bros. v Brook Shopping Ctrs.* 118 AD2d 532, 535 [2d Dept 1986]), and it rejects this position without discussion.

ORDERED that that portion of Continental's action that seeks the recovery of fees for half of its prior costs is severed and the issue of the amount plaintiff may recover against the defendant is set for an inquest on October 2, 2019 at 9:30 a.m. is further

Dated: 5-29-2019

ENTER:



HON. MELISSA A. CRANE, J.S.C.

HON. MELISSA A. CRANE
J.S.C.