UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF CALIFORNIA

Diversified Restaurant Group, LLC v. Houston Casualty Company

Case No. 25-cv-02344-EMC (N.D. Cal. July 31, 2025) · No. 25-cv-02344-EMC · Decided July 31, 2025

SUMMARY

The United States District Court for the Northern District of California granted Pennsylvania Manufacturers Indemnity Company and Manufacturer’s Alliance Insurance Company’s Rule 12(b)(6) motion to dismiss claims arising from alleged failures to defend and indemnify restaurant operators in an underlying sexual-harassment action. The court held that the employment-related-practices exclusion barred coverage under the general liability policy for the underlying claims, including negligence, sexual assault, and false-imprisonment theories. Houston Casualty Company had not moved to dismiss.

CASE DETAILS

COURT	United States District Court for the Northern District of California
WRITING FOR THE COURT	Edward M. Chen
JURISDICTION	United States District Court for the Northern District of California
DECIDED	July 31, 2025
DOCKET	25-cv-02344-EMC
DISPOSITION	dismissed
PROCEDURAL POSTURE	Plaintiffs brought an insurance-coverage action seeking defense and indemnity for an underlying sexual-harassment and employment-related lawsuit. Defendants Pennsylvania Manufacturers Indemnity Company and Manufacturer's Alliance Insurance Company moved under Federal Rule of Civil Procedure 12(b)(6) to dismiss the claims against them. The court granted the motion and dismissed those defendants.
STANDARD OF REVIEW	On a Rule 12(b)(6) motion, the court accepts well-pleaded factual allegations as true and construes the pleadings in the light most favorable to the nonmoving party, but conclusory allegations and mere recitations of elements are insufficient. A complaint must contain sufficient factual matter to state a facially plausible claim for relief.

PRECEDENTIAL VALUE	Unpublished federal district court order; persuasive but not binding outside the case.
PARTIES	Diversified Restaurant Group, LLC, Golden Gate Bell, LLC v. Houston Casualty Company, Pennsylvania Manufacturers Indemnity Company, Manufacturer's Alliance Insurance Company

TOPICS

insurance coverage · duty to defend · duty to indemnify · insurance bad faith · motions to dismiss

PRACTICE AREAS

insurance coverage · insurance bad faith · duty to defend · duty to indemnify · contracts

QUESTIONS PRESENTED

1. Whether the employment-related-practices exclusion in PMIC's policy barred any potential duty to defend or indemnify the insureds for the underlying employment-related claims, including potential claims for sexual assault, false imprisonment, and negligence.
2. Whether PMIC's employer-liability exclusion independently barred coverage for the underlying employee's alleged bodily injuries.
3. Whether MAIC's C.7 exclusion barred coverage for the underlying claims, including potential sexual-assault claims, because the damages arose from employment-related personnel practices, acts, or omissions.
4. Whether the insureds stated claims for breach of contract, breach of the implied covenant of good faith and fair dealing, or declaratory relief against PMIC and MAIC.

HOLDINGS

1. The employment-related-practices exclusion barred coverage for all claims in the underlying action because the alleged conduct arose out of the employment relationship and employment-related practices, policies, acts, or omissions.
2. Potential claims for sexual assault and false imprisonment were also subject to PMIC's employment-related-practices exclusion because they were closely intertwined with workplace harassment and arose from the employment relationship.
3. PMIC's employer-liability exclusion independently barred Coverage A coverage for the underlying employee's bodily injuries.
4. PMIC's Coverage B did not provide an alternative basis for coverage because Coverage B was also subject to the employment-related-practices exclusion.
5. MAIC's C.7 exclusion barred coverage for all claims in the underlying action, including potential sexual-assault claims, because the damages arose out of employment-related personnel practices, policies, acts, or omissions.

6. The insureds failed to state claims for breach of the implied covenant of good faith and fair dealing or insurance bad faith because the exclusions conclusively precluded coverage and the insurers' denial of defense and indemnity was reasonable and legally justified.

KEY QUOTATIONS

> *"The duty to defend exists if there is any potential for coverage under the policy, while the duty to indemnify exists only if the insured's conduct is actually covered."* (at 13)

> *"Therefore, the ERP Exclusion bars coverage for the Underlying Action's claims against the Insureds for all counts because the Underlying Action's claims arose out of employment."* (at 15)

> *""Arising out of" "does not import any particular standard of causation or theory of liability into an insurance policy. Rather, it broadly links a factual situation with the event creating liability and connotes only a minimal causal connection or incidental relationship.""* (at 17)

> *"The potential claims for false imprisonment and sexual assault are therefore closely intertwined with the workplace harassment claim."* (at 19)

> *"Accordingly, the claims for breach of implied contract and claim for breach of the implied covenant cannot proceed against MAIC or PMIC."* (at 21)

FACTUAL BACKGROUND

Diversified Restaurant Group and Golden Gate Bell operated restaurants and obtained general-liability insurance from PMIC, workers' compensation and employer's-liability insurance from MAIC, and employment-practices-liability insurance from HCC. A former employee sued the insureds over alleged workplace sexual harassment and assault by a managerial employee, asserting claims including negligence, sexual harassment, discrimination, retaliation, constructive discharge, wrongful termination, and failure to pay wages. PMIC initially provided a defense but later denied continued defense and indemnity based on employment-related and employer-liability exclusions; MAIC denied coverage based on its C.7 exclusion.

PROCEDURAL HISTORY

Plaintiffs filed suit in California state court on January 22, 2025, and defendants removed the action to the Northern District of California in March 2025. PMIC and MAIC moved to dismiss the first amended complaint for failure to state a claim. The court granted the motion, dismissed PMIC and MAIC, and left the claims against nonmoving defendant Houston Casualty Company unaffected.

DISPOSITION

dismissed

CASES CITED

- Ashcroft v. Iqbal, 556 U.S. 662 (2009)
- Bell Atlantic Corp. v. Twombly, 550 U.S. 544 (2007)

- Levitt v. Yelp! Inc., 765 F.3d 1123, 1135 (9th Cir. 2014)
- Manzarek v. St. Paul Fire & Marine Insurance Co., 519 F.3d 1025, 1031 (9th Cir. 2008)
- Eclectic Properties East, LLC v. Marcus & Millichap Co., 751 F.3d 990, 996 (9th Cir. 2014)
- Montrose Chemical Corp. v. Superior Court, 6 Cal. 4th 287, 295 (1993)
- Hartford Casualty Insurance Co. v. Swift Distribution, Inc., 59 Cal. 4th 277, 286-88, 295 (2014)
- MacKinnon v. Truck Insurance Exchange, 31 Cal. 4th 635, 647 (2003)
- Another Planet Entertainment, LLC v. Vigilant Insurance Co., 15 Cal. 5th 1106, 1135 (2024)
- Waller v. Truck Insurance Exchange, 11 Cal. 4th 1, 18-19 (1995)
- Jon Davler, Inc. v. Arch Insurance Co., 229 Cal. App. 4th 1025, 1033-35, 1038, 178 Cal. Rptr. 3d 502 (2014)
- Michaelian v. State Compensation Insurance Fund, 50 Cal. App. 4th 1093, 1106 (1996)
- Guillon v. AMCO Insurance Co., No. 20-CV-07926-CRB, 2021 WL 254264 (N.D. Cal. Jan. 26, 2021), aff'd, No. 21-15297, 2021 WL 6102174 (9th Cir. Dec. 22, 2021)
- Holly D. v. California Institute of Technology, 339 F.3d 1158, 1176-79 (9th Cir. 2003)
- Perkins v. Maryland Casualty Co., 388 F. App'x 641, 643 (9th Cir. 2010)
- State Farm Mutual Automobile Insurance Co. v. Partridge, 10 Cal. 3d 94 (1973)
- Frank & Freedus v. Allstate Insurance Co., 45 Cal. App. 4th 461, 471 (1996)
- Feldman v. Allstate Insurance Co., 322 F.3d 660, 669-70 (9th Cir. 2003)
- Rice Enterprises, LLC, 705 F. Supp. 3d 460, 469-70 (W.D. Pa. 2023), aff'd, No. 24-1880 (3d Cir. Apr. 30, 2025)
