



**BLOGS**  
Insurance

## Federal Court in Colorado Rules Franchisor Is Not Entitled to Insurance-Paid Defense of Lawsuit Brought by Franchisees

The United States District Court for the District of Colorado has granted an insurer's motion for summary judgment, holding that it had no duty to defend its insured, Carpet World, in an underlying lawsuit brought by a group of Carpet World's current and former franchisees. *AMCO Ins. Co. v. Carpet Direct Corp.*, 2016 WL 284827 (D. Colo. Jan. 22, 2016). The franchisees alleged that while they were initially promised they would "become independent business owners, with rights of ownership" in the Carpet World businesses in which they were investing, they subsequently learned that they were merely employees of the organization. Among other things, the franchisees asserted claims under the Michigan Franchise Investment Law and sought the return of their capital contributions and compensation in the form of lost wages.

Finding that Carpet World's general liability insurance policy did not cover the type of losses the franchisees were claiming, the court granted the insurer's motion for summary judgment and held that it had no duty to provide defense counsel for Carpet World in the underlying lawsuit. Carpet World had argued that the underlying lawsuit fell within the policy's coverage of "property damage," but the court rejected that argument on the grounds that the franchisees were not asserting claims for injury to tangible property. The court also dismissed Carpet World's theory that coverage was available under the policy's "personal and advertising injury" provision because the franchisees were not alleging that they were divested of a right in real property.

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