

**No. 21-1660**

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IN THE UNITED STATES COURT OF APPEALS  
FOR THE SEVENTH CIRCUIT

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ZAJAS, INC., d/b/a AVISTON FAMILY RESTAURANT,  
Individually and on Behalf of All Others Similarly Situated,

*Plaintiff-Appellant,*

v.

BADGER MUTUAL INSURANCE COMPANY,

*Defendant-Appellee.*

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On Appeal from the United States District Court  
for the Southern District of Illinois,  
Case No. 3:20-cv-1055-DWD  
Hon. David W. Duggan, District Court Judge

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**BRIEF OF THE RESTAURANT LAW CENTER  
AND ILLINOIS RESTAURANT ASSOCIATION, AS *AMICI CURIAE*  
IN SUPPORT OF PLAINTIFF-APPELLANT AND REVERSAL**

---

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**APPEARANCE & CIRCUIT RULE 26.1 DISCLOSURE STATEMENT**Appellate Court No: 21-1660Short Caption: Zajas, Inc. v. Badger Mutual Insurance Company

To enable the judges to determine whether recusal is necessary or appropriate, an attorney for a non-governmental party, amicus curiae, intervener or a private attorney representing a government party, must furnish a disclosure statement providing the following information in compliance with Circuit Rule 26.1 and Fed. R. App. P. 26.1.

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**[X] PLEASE CHECK HERE IF ANY INFORMATION ON THIS FORM IS NEW OR REVISED AND INDICATE WHICH INFORMATION IS NEW OR REVISED.**

- (1) The full name of every party that the attorney represents in the case (if the party is a corporation, you must provide the corporate disclosure information required by Fed. R. App. P 26.1 by completing item #3):

Restaurant Law Center and Illinois Restaurant Association as Amici Curiae

- (2) The names of all law firms whose partners or associates have appeared for the party in the case (including proceedings in the district court or before an administrative agency) or are expected to appear for the party in this court:

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- (3) If the party or amicus is a corporation:

i) Identify all its parent corporations, if any; and

None

ii) List any publicly held company that owns 10% or more of the party's or amicus' stock:

None

- (4) Provide information required by FRAP 26.1(b) – Organizational Victims in Criminal Cases:

N/A

- (5) Provide Debtor information required by FRAP 26.1 (c) 1 & 2:

N/A

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N/A

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N/A

Attorney's Signature: /s/ David M. Kroeger Date: June 11, 2021

Attorney's Printed Name: David M. Kroeger

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N/A

Attorney's Signature: /s/ Michael F. Linden

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N/A

Attorney's Signature: /s/ Angelo I. Amador

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**TABLE OF CONTENTS**

APPEARANCE & CIRCUIT RULE 26.1 DISCLOSURE STATEMENTS.....	i
TABLE OF AUTHORITIES.....	vii
STATEMENT OF INTEREST.....	1
SUMMARY OF ARGUMENT .....	3
ARGUMENT .....	7
I.    Restaurants Are Critical To Illinois’s Economy And Culture, And Sought Insurance Coverage To Help Survive Unprecedented Hardship. ....	7
A.    The Restaurant Industry, Which Drives Billions In Revenue And Employs Millions, Is Working Hard To Stay Afloat. ....	7
B.    Insurers Have Wrongfully Denied Restaurants Business Interruption Coverage Under “All Risk” Insurance Policies. ....	9
II.   This Is An Important Case Of First Impression Where The Court Applies <i>De Novo</i> Review.....	12
III.  Policy Language, Interpretation Principles, And Precedent Support Finding Shutdown Orders Caused Physical Loss Or Damage.....	17
A.    Policy Language And Policy-Interpretation Principles Support Reversal. ....	17
B.    Recent and Longstanding Precedent Supports Reversal. ....	21
CONCLUSION .....	26

## TABLE OF AUTHORITIES

	Page(s)
<b>Cases</b>	
<i>10E, LLC v. Travelers Indem. Co.</i> , 2020 WL 5359653 (C.D. Cal. Sept. 2, 2020).....	15
<i>Abrams v. State Farm Fire &amp; Cas. Co.</i> , 306 Ill. App. 3d 545 (1st Dist. 1999) .....	17
<i>AnchorBank, FSB v. Hofer</i> , 649 F.3d 610 (7th Cir. 2011) .....	13
<i>Atl. Mut. Ins. Co. v. Am. Acad. of Orthopaedic Surgeons</i> , 315 Ill. App. 3d 552 (1st Dist. 2000) .....	19
<i>Best Rest Motel, Inc. v. Sequoia Ins. Co.</i> , 2020 WL 7229856 (Cal. Super. Ct. Sept. 30, 2020) .....	14
<i>Blue Springs Dental Care, LLC v. Owners Ins. Co.</i> , 488 F. Supp. 3d 867 (W.D. Mo. 2020) .....	14
<i>Cajun Conti LLC v. Certain Underwriters at Lloyd’s, London</i> , 2020 WL 6993790 (La. Civ. Dist. Ct. Nov. 4, 2020) .....	14
<i>Cherokee Nation v. Lexington Ins. Co.</i> , 2021 WL 506271 (Okla. Dist. Ct. Jan. 28, 2021).....	14, 19
<i>Derek Scott Williams PLLC v. Cincinnati Ins. Co.</i> , 2021 WL 767617 (N.D. Ill. Feb. 28, 2021) .....	14, 22
<i>Diesel Barbershop, LLC v. State Farm Lloyds</i> , 479 F. Supp. 3d 353 (W.D. Tex. 2020) .....	15
<i>Dino Palmieri Salons, Inc. v. State Auto. Mut. Ins. Co.</i> , 2020 WL 7258114 (Ohio Ct. C.P. Nov. 17, 2020).....	14
<i>Dundee Mut. Ins. Co. v. Marifjeren</i> , 587 N.W.2d 191 (N.D. 1998) .....	25
<i>Elegant Massage, LLC v. State Farm Mut. Auto. Ins. Co.</i> , 2020 WL 7249624 (E.D. Va. Dec. 9, 2020) .....	14, 23
<i>Gillen v. State Farm Mut. Auto. Ins. Co.</i> , 215 Ill. 2d 381 (2005) .....	17



<i>Goodwill Indus. of Orange Cnty. v. Phila. Indemnity Co.</i> , 2021 WL 476268 (Cal. Super. Ct. Jan. 28, 2021) .....	14
<i>Gregory Packaging, Inc. v. Travelers Prop. Cas. Co. of Am.</i> , 2014 WL 6675934 (D.N.J. Nov. 25, 2014) .....	25
<i>Gulino v. Econ. Fire &amp; Cas. Co.</i> , 2012 IL App (1st) 102429 .....	5, 18
<i>Henderson Rd. Rest. Sys. Inc. v. Zurich Am. Ins. Co.</i> , 2021 WL 168422 (N.D. Ohio Jan, 19, 2021).....	14, 19, 22
<i>Hill and Stout PLLC v. Mut. of Enumclaw Ins. Co.</i> , 2020 WL 6784271 (Wash. Super. Ct. Nov. 13, 2020).....	14
<i>Hughes v. Potomac Ins. Co. of District of Columbia</i> , 199 Cal. App. 2d 239 (1962) .....	24, 25
<i>JGB Vegas Retail Lessee, LLC v. Starr Surplus Lines Ins. Co.</i> , 2020 WL 7190023 (Nev. Dist. Ct. Nov. 30, 2020) .....	14
<i>Johansing Family Enters. LLC v. Cincinnati Specialty Underwriters Ins. Co.</i> , 2021 WL 145416 (Ohio Ct. C.P. Jan. 8, 2021).....	14
<i>Johnston Jewelers, Inc. v. Jewelers Mut. Ins. Co., S.I.</i> , 2020 WL 6556842 (Fla. Cir. Ct. Sept. 22, 2020).....	14
<i>K.C. Hopps, Ltd. v. Cincinnati Ins. Co.</i> , 2020 WL 6483108 (W.D. Mo. Aug. 12, 2020) .....	14
<i>Kenneth Seifert d/b/a The Hair Place v. IMT Ins. Co.</i> , 2021 WL 2228158 (D. Minn. June 2, 2021) .....	14, 15, 19, 23
<i>Legacy Sports Barbershop LLC v. Continental Cas. Co.</i> , 2021 WL 2206161 (N.D. Ill. June 1, 2021) .....	14, 15, 22
<i>LMP Servs., Inc. v. City of Chicago</i> , 2019 IL 123123.....	8
<i>Lombardi's, Inc. v. Indem. Ins. Co. of N. Am.</i> , No. DC-20-05751-A (Tex. Dist. Ct. Oct. 15, 2020) .....	14
<i>Lyerla v. AMCO Ins. Co.</i> , 536 F.3d 684 (7th Cir. 2008) .....	13
<i>Macmiles, LLC v. Erie Ins. Exchange</i> , No. GD-20-7753 (Pa. Ct. C.P. May 25, 2021).....	14

<i>McKinley Dev. Leasing v. Westfield Ins. Co.</i> , 2021 WL 506266 (Ohio Ct. C.P. Feb. 9, 2021).....	14
<i>Murray v. State Farm Fire &amp; Cas. Co.</i> , 203 W.Va. 477 (1998).....	25
<i>N. Ins. Co. of N.Y. v. Aardvark Assocs., Inc.</i> , 942 F.2d 189 (3d Cir. 1991) .....	16
<i>Nat’l Union Fire Ins. Co. of Pittsburgh, Pa. v. Glenview Park Dist.</i> , 158 Ill. 2d 116 (1994) .....	17
<i>New Castle Cnty. v. Hartford Accident &amp; Indem. Co.</i> , 933 F.2d 1162 (3d Cir. 1991).....	16
<i>North State Deli, LLC v. The Cincinnati Ins. Co.</i> , 2020 WL 6281507 (N.C. Super. Ct. Oct. 9, 2020).....	14, 19, 23
<i>Oneida Tribe of Indians of Wis. v. State of Wis.</i> , 951 F.2d 757 (7th Cir. 1991) .....	13
<i>Optical Servs. USA/JCI v. Franklin Mut. Ins. Co.</i> , 2020 WL 5806576 (N.J. Super. Ct. Law Div. Aug. 13, 2020) .....	14
<i>Oregon Shakespeare Festival Ass’n v. Great Am. Ins. Co.</i> , 2016 WL 3267247 (D. Ore. June 7, 2016).....	26
<i>Outboard Marine Corp. v. Liberty Mut. Ins. Co.</i> , 154 Ill. 2d 90 (1992) .....	18
<i>Perry Street Brewing Co., LLC v. Mut. of Enumclaw Ins.</i> , 2020 WL 7258116 (Wash. Super. Ct. Nov. 23, 2020).....	14, 24
<i>Phusion Projects, Inc. v. Selective Ins. Co.</i> , 2015 IL App (1st) 150172 .....	17
<i>Queens Tower Rest. Inc. v. Cincinnati Fin. Corp.</i> , 2021 WL 456378 (Ohio Ct. C.P. Jan. 7, 2021).....	14
<i>Scott Craven DDS v. Cameron Mut. Ins. Co.</i> , 2021 WL 1115247 (Mo. Cir. Ct. Mar. 9, 2021).....	14
<i>Sentinel Mgt. Co. v. New Hampshire Ins. Co.</i> , 563 N.W.2d 296 (Minn. Ct. App. 1997) .....	26
<i>In re Society Insurance Co.</i> , 2021 WL 679109 (N.D. Ill. Feb. 22, 2021) .....	12, 14, 19, 21, 22

<i>Studio 417, Inc. v. Cincinnati Ins. Co.</i> , 478 F. Supp. 3d 794 (W.D. Mo. 2020) .....	14, 19, 24
<i>Taps &amp; Bourbon on Terrace, LLC v. Underwriters at Lloyds London</i> , 2020 WL 6380449 (Pa. Ct. C.P. Oct. 26, 2020) .....	14
<i>Timothy A. Ungarean, Dmd D/B/A Smile Savers Dentistry, PC v. CNA</i> , No. GD-20-00654 (Pa. Ct. C.P. Mar. 22, 2021) .....	14
<i>Travelers Ins. Co., v. Eljer Mfg., Inc.</i> , 197 Ill. 2d 278 (2001) .....	5, 18, 21
<i>Trujillo v. Rockledge Furniture LLC</i> , 926 F.3d 395 (7th Cir. 2019) .....	13
<i>Urogynecology Specialist of Fla. LLC v. Sentinel Ins. Co.</i> , 489 F. Supp. 3d 1297 (M.D. Fla. 2020) .....	14, 19
<i>West Bend Mut. Ins. Co. v. Krishna Schaumburg Tan, Inc.</i> , 2021 IL 125978 .....	18, 19

#### **Other Authorities**

9 Couch on Ins. § 127:11 (2020) .....	16
Americas Soc’y et al., <i>Bringing Vitality to Main Street: How Immigrant Small Businesses Help Local Economies Grow</i> (Jan. 2015) .....	8
Eric Amel et al., <i>Independent Restaurants Are a Nexus of Small Businesses in the United States and Drive Billions of Dollars of Economic Activity That Is at Risk of Being Lost Due to the COVID- 19 Pandemic</i> (June 10, 2020) .....	7
Fed. R. App. P. 29 .....	1
Heather Lalley, <i>Report: Up To 85% of Independent Restaurants Could Close Due To Pandemic</i> , Rest. Bus. (June 11, 2020) .....	9
Merriam-Webster Dictionary, <a href="https://www.merriam-webster.com/dictionary/loss">https://www.merriam- webster.com/dictionary/loss</a> .....	19
Merriam-Webster Dictionary, <a href="https://www.merriam-webster.com/dictionary/physical">https://www.merriam- webster.com/dictionary/physical</a> .....	19
Nat’l Restaurant Ass’n, <i>Factbook: 2020 State of the Restaurant Industry</i> (Feb. 2020) .....	7, 8

Nat'l Restaurant Ass'n, <i>Forty states and DC lost restaurant jobs in January</i> (Mar. 15, 2021) .....	9
Nat'l Restaurant Ass'n, <i>Illinois Restaurant Industry at a Glance</i> (2019) .....	7
Nat'l Restaurant Ass'n, <i>National Restaurant Association Statement on Congressional Recess Without Recovery Deal</i> (Oct. 27, 2020) .....	9
Nat'l Restaurant Ass'n, <i>Restaurant Industry in Free Fall; 10,000 Close in Three Months</i> (Dec. 7, 2020).....	9
Nat'l Restaurant Ass'n, <i>Restaurant sales pulled back from a healthy January</i> (Mar. 16, 2021) .....	8
Penn Law, <i>Covid Coverage Litigation Tracker</i> .....	13
Press Release, <i>APCIA Releases New Business Interruption Analysis</i> (Apr. 7, 2020) .....	12

**STATEMENT OF INTEREST<sup>1</sup>**

*Amicus* Restaurant Law Center is a public policy organization affiliated with the National Restaurant Association, the world's largest foodservice trade association. The industry is comprised of over one million establishments that represent a broad and diverse group of owners and operators—from large national outfits, to small family-run neighborhood restaurants, and everything in between. The industry employs over 15 million people and is the nation's second-largest private-sector employer. Through regular participation in *amicus* briefs, the Restaurant Law Center provides courts with the industry's perspective on legal issues in cases that may have industry-wide implications.

*Amicus* Illinois Restaurant Association (“IRA”) is a non-profit trade organization founded over one hundred years ago to promote, educate, and improve the restaurant industry in Illinois. Headquartered in Chicago, the Association has nearly 8,000 members statewide—including restaurant operators, food service professionals, suppliers, and related industry professionals—and represents the Illinois restaurant industry that includes more than 25,000 owners and operators, and has employed nearly 600,000 workers across the state. The Association supports the restaurant industry by promoting local tourism, providing food service education and training

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<sup>1</sup> All parties consent to the filing of this brief. No party's counsel authored this brief in whole or in part, and no money intended to fund preparing or submitting this brief was contributed by a party or party's counsel or anyone other than amici, its members, or its counsel. See Fed. R. App. P. 29.

programs, providing analysis on topics of the day, providing networking opportunities, hosting culinary events, and advocating for members' interests.

*Amici* and their members have a significant interest in the issues in this case. Many in the restaurant industry have sought business interruption coverage under “all risk” commercial insurance policies for the physical loss or damage they suffered as a direct result of unprecedented state and local shutdown orders. Those restaurants have been unreasonably and categorically denied coverage because they supposedly have not incurred physical loss or damage even though their properties have been rendered non-functional, detrimentally altered, and physically impaired as a result of the orders.

Whether Plaintiff-Appellant Zajas, Inc. has stated a claim depends on the specific factual allegations in its pleadings. Still, *amici* and their members have a strong interest in highlighting why issues in this appeal are important to the restaurant industry.<sup>2</sup> Roughly half of the state courts to decide these issues—which arise under state law, not federal common law—have found policyholders stated a claim or were entitled to summary judgment. Accordingly, *amici* also have a strong interest in emphasizing that, depending on a complaint's specific allegations, restaurants may be entitled to coverage for shutdown orders that caused direct physical loss or damage to property.

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<sup>2</sup> *Amici* previously submitted a brief in another appeal pending before this Court where they have a strong interest because the case raises similar issues under Illinois law, and where the district court similarly erred in dismissing business interruption claims. See *TJBC Inc. v. The Cincinnati Ins. Co.*, No. 21-1203 (7th Cir. Apr. 5, 2021) (in turn noting other pending appeals before this Court).

## SUMMARY OF ARGUMENT

*Amici* write to provide this Court—which is among the first appellate courts to address these issues—with additional context about this case, practical perspectives on potential outcomes, and to emphasize how restaurant and foodservice companies have suffered physical loss or damage as a result of state and local shutdown orders.

I. The restaurant industry is a significant sector of the Illinois economy and a major driver of economic activity across the country. The industry creates employment and entrepreneurship opportunities, including for women, minorities, and immigrants. It supports local businesses, draws tourists, produces significant tax revenue, and is an integral part of the cultural fabric in Illinois and beyond.

For years, restaurants in Illinois and elsewhere have paid substantial premiums for business interruption coverage under “all risk” commercial property insurance policies. These policies cover any and all risks, even unforeseen and unprecedented ones, unless specifically excluded. Restaurants bought this insurance believing it would cover income lost as a result of physical “loss or damage” to their property, as they understood those plain, ordinary, everyday words to mean.

Yet when officials issued shutdown orders that caused precisely what these restaurant owners believed to be physical “loss or damage” to property—by detrimentally altering physical property, imposing physical changes, and materially impairing physical spaces that rendered property nonfunctional for

its intended purposes—insurers denied coverage without legitimate justification. Facing catastrophic losses, thousands of restaurants have already closed and countless more will be forced to close—*permanently*. Restaurants have turned to the courts to obtain the coverage they are entitled to receive.

**II.** These are issues of first impression arising in an unprecedented context. This Court applies *de novo* review, considering the state-law issues independently and without according the decision below any deference. That is especially appropriate here. The district court committed some of the same interpretive and analytical errors as the cases it relied on and failed to construe the policy's terms according to the natural meaning a reasonable policyholder would ascribe to them.

By contrast, many other trial courts across the country have found in well-reasoned decisions that a plaintiff stated a claim for business interruption coverage by alleging it suffered physical loss or damage as a result of shutdown orders. Indeed, roughly half of state courts to decide these state-law questions have found policyholders stated a claim or were entitled to summary judgment. That strongly supports the conclusion that the district court misapplied state law and wrongly dismissed Zajas's claims.

Recent decisions also reinforce that a complaint's allegations and applicable substantive state law—not the current scorecard of non-binding district court decisions—are what really matter in determining whether a plaintiff has stated a claim. Consistent with those important principles, this Court should make clear that a restaurant may state a claim by alleging that it suffered



physical loss or damage when shutdown orders dispossessed the restaurant of its tangible physical space by mandating real, material, detrimental physical alterations to the premises. As courts have done in other hotly contested insurance coverage cases, this Court should review the allegations of the complaint and the policy language, apply basic principles of policy interpretation, and resolve this case based on the unprecedented factual circumstances under which it arises.

**III.** This Court should reverse the district court's decision. Bedrock canons of insurance policy interpretation require that undefined terms be given their "plain and ordinary" meaning. *Gulino v. Econ. Fire & Cas. Co.*, 2012 IL App (1st) 102429, ¶ 18. A court should not inject extrinsic terms or conditions into the policy. If a provision is susceptible to more than one reasonable interpretation, it is ambiguous and should be construed in accordance with a policyholder's reasonable expectations of coverage. A phrase's "plain and ordinary meaning" is "that meaning which the particular language conveys to the popular mind, to most people, to the average, ordinary, normal [person], to a reasonable [person], to persons with usual and ordinary understanding, to a business [person], or to a lay[person]." *Travelers Ins. Co., v. Eljer Mfg., Inc.*, 197 Ill. 2d 278, 301 (2001). "Plain and ordinary" terms require no judicial redefinition: they should be construed according to what a reasonable consumer would expect.

Zajas's policy provides that Badger "will pay for the actual loss of Business Income" resulting from "direct physical loss of or damage to property" at the

insured premises. (Dkt. 1 Ex. 1 at 3.)<sup>3</sup> Zajas has alleged as a matter of fact that it “suffered tremendous financial losses” as a result of “the precautionary measures taken by the Illinois government to prevent the spread of COVID-19[.]” (*Id.* at 6.) Many other courts have found allegations that shutdown-order-mandated physical alterations and impairments to property qualify as direct physical loss or damage for purposes of stating a claim. Those rulings are consistent with longstanding precedent holding that a property may suffer physical loss or damage when rendered nonfunctional for its intended purpose or when its appearance or form is altered.

The district court, without engaging in meaningful analysis, reached a different conclusion because plaintiff had not alleged a “tangible damage to insured property . . . tied to an alteration in appearance at the covered premises.” (Dkt. 26 at 5.) But those added words appear nowhere in the policy and reasonable consumers would not expect a policy that covers “loss of or damage” to property to include such a requirement. Moreover, reasonable consumers reasonably expect a policy that covers “loss of or damage” to property would include protection if the property’s function was forcibly altered by a state or local shutdown order. And many courts have found that restaurants and others adequately alleged that shutdown orders caused physical loss or damage by requiring physical alteration of a policyholder’s property. The district court thus erred by reading the policy to preclude coverage and by dismissing Zajas’s claim.

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<sup>3</sup> Citations to “Dkt. \_\_\_” refer to the district court record below.

## ARGUMENT

### **I. Restaurants Are Critical To Illinois's Economy And Culture, And Sought Insurance Coverage To Help Survive Unprecedented Hardship.**

#### **A. The Restaurant Industry, Which Drives Billions In Revenue And Employs Millions, Is Working Hard To Stay Afloat.**

The restaurant and foodservice industry is the lifeblood of Illinois's economy. In 2019, the industry accounted for an estimated \$32 billion in sales across 25,851 locations in Illinois. It employed nearly 600,000 people in 2020, a number that is expected to grow nearly 7% over the next decade.<sup>4</sup>

Consumer spending at restaurants has a multiplier effect too. Every dollar spent at table-service restaurants—the businesses most threatened by the state and local shutdown orders—returns roughly two dollars to the state's economy, not to mention the positive impact on the state's tax revenue.<sup>5</sup> A single restaurant contributes to the livelihood of dozens of employees, suppliers, purveyors, and related businesses.<sup>6</sup> That is certainly the case in Illinois, where ample and diverse dining opportunities drives tourism across the state.

Restaurants are also cultural centers, creating unique neighborhood identities and driving commercial revitalization.<sup>7</sup> Restaurants “bring stability to

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<sup>4</sup> Nat'l Restaurant Ass'n, *Factbook: 2020 State of the Restaurant Industry* 7 (2020) (“*Factbook*”).

<sup>5</sup> Nat'l Restaurant Ass'n, *Illinois Restaurant Industry at a Glance* (2019), <https://restaurant.org/downloads/pdfs/state-statistics/illinois.pdf>.

<sup>6</sup> Eric Amel et al., *Independent Restaurants Are a Nexus of Small Businesses in the United States and Drive Billions of Dollars of Economic Activity That Is at Risk of Being Lost Due to the COVID-19 Pandemic* (June 10, 2020), [https://media-cdn.getbento.com/accounts/cf190ba55959ba5052ae23ba6d98e6de/media/EmH1JsVMRNylmKAeF2FJ\\_Report.pdf](https://media-cdn.getbento.com/accounts/cf190ba55959ba5052ae23ba6d98e6de/media/EmH1JsVMRNylmKAeF2FJ_Report.pdf).

<sup>7</sup> *Id.* at 13.

the neighborhoods in which they are located” and they “pay property taxes and have a vested interest in seeing that their neighborhoods continue to grow and thrive so that their own businesses will flourish.” *LMP Servs., Inc. v. City of Chicago*, 2019 IL 123123, ¶ 18. That is true of the many small (often family-owned) restaurants that make up the vast majority of the industry. They are “a vibrant part of the community and bring a long-term sense of cohesiveness and identity to the area.” *Id.*

The restaurant industry remains a shining example of upward mobility. Eight in ten restaurant owners say their first industry job was an entry-level position. Even more restaurant managers say the same.<sup>8</sup> Restaurants also provide opportunities for historically disadvantaged communities. More women and minorities are managers in the restaurant industry than in any other industry,<sup>9</sup> and restaurants provide immigrants with opportunities to work and own their own businesses.<sup>10</sup>

The past successes of the industry are neither self-sustaining nor guaranteed. In the past year, nationwide restaurant and foodservice sales were “down \$270 billion from expected levels”<sup>11</sup> and industry employment has

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<sup>8</sup> *Factbook*, *supra* note 4.

<sup>9</sup> *Id.*

<sup>10</sup> Americas Soc’y et al., *Bringing Vitality to Main Street: How Immigrant Small Businesses Help Local Economies Grow* (Jan. 2015).

<sup>11</sup> Nat’l Restaurant Ass’n, *Restaurant sales pulled back from a healthy January* (Mar. 16, 2021), <https://restaurant.org/articles/news/restaurant-sales-pulled-back-from-january>.

decreased in every state and the District of Columbia.<sup>12</sup> As of late 2020, more than 110,000 establishments—on average in business over sixteen years—were closed permanently or long-term.<sup>13</sup>

Illinois restaurants have not been spared. As of January, restaurant employment in Illinois was down significantly,<sup>14</sup> and the numbers for independent restaurants are even starker.<sup>15</sup> These closures can devastate neighborhoods as the harm from closures reverberates, impacting other local businesses and industries. “Virtually every kind of restaurant is suffering: the corner diner, the independents, the individual owners of full-service restaurant chains.”<sup>16</sup>

**B. Insurers Have Wrongfully Denied Restaurants Business Interruption Coverage Under “All Risk” Insurance Policies.**

Faced with unprecedented losses caused by orders forcing restaurants to severely alter and restrict their physical premises, restaurants throughout Illinois and across the country turned to their insurers for coverage under “all

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<sup>12</sup> Nat’l Restaurant Ass’n, *Forty states and DC lost restaurant jobs in January* (Mar. 15, 2021), <https://restaurant.org/articles/news/forty-states-and-dc-lost-jobs-in-january>.

<sup>13</sup> Nat’l Restaurant Ass’n, *Restaurant Industry in Free Fall; 10,000 Close in Three Months* (Dec. 7, 2020), <https://www.restaurant.org/news/pressroom/press-releases/restaurant-industry-in-free-fall-10000-close-in>.

<sup>14</sup> Nat’l Restaurant Ass’n, *supra* note 12.

<sup>15</sup> Heather Lalley, *Report: Up To 85% of Independent Restaurants Could Close Due To Pandemic*, Rest. Bus. (June 11, 2020).

<sup>16</sup> Nat’l Restaurant Ass’n, *National Restaurant Association Statement on Congressional Recess Without Recovery Deal* (Oct. 27, 2020), <https://restaurant.org/news/pressroom/press-releases/association-statement-on-congressional-recess-with>.

risk” property insurance policies that included protection for business interruption.

“All risk” property policies insure against losses from unexpected and unprecedented circumstances, and provide coverage for risks of any kind or description, unless specifically excluded. “Business interruption” insurance provides coverage—often up to a year or more—to replace business income lost as a result of a covered cause of loss. Under industry-standard “all risk” policies procured by many restaurants, business interruption coverage is triggered when a policyholder suffers direct “loss or damage” to its premises. These policies provide businesses with comfort knowing they have coverage for even unforeseeable or unlikely risks that may physically impair or alter their property.

Due to the breadth of coverage, restaurants paid substantial premiums for “all risk” policies with business interruption coverage. In doing so, restaurants reasonably understood, expected, and believed their policies would cover business income losses from any and all non-excluded risks. Those risks, in the eyes of a reasonable policyholder, include shutdown orders causing direct physical “loss or damage,” as policyholders understood those words to mean.

The physical design of a restaurant is an essential element of its success. In a business known for tight margins, restaurant owners and operators thoughtfully utilize their physical space to maintain the level of revenue necessary to support their staff and other operational costs. Table service restaurants, for example, were not designed to operate as a hub for take-out or delivery. They have far larger dining areas than a take-out only operation, and

most have proportionally smaller kitchens than a restaurant designed only to produce food. Those dining areas are built out, often at significant expense, to create the kind of warm, inviting ambience that draws guests in. Restaurant dining is an experience, not just a financial transaction. The physical space and layout play a crucial role in that experience.

Insurers know this. They price and charge premiums based on the policyholder's properties operating in a fully functional manner—whether as restaurants, bars, venues, or another type of food service business—and based on the available square footage at the outset of the policy period. Insurers also account for the prospect of having to pay claims for lost business at levels commensurate with the policyholder being a fully operational business. Business interruption coverage thus insures against the risk that a business-owner's property will not be able to function as intended.

That kind of interruption is precisely what happened when shutdown orders required restaurants to make physical, detrimental alterations that materially impaired the functionality of their premises. In barring or limiting on-premises dining, those orders caused the loss of millions of square feet of vital physical space. The orders dispossessed restaurants of their tangible spaces and forced very real, material detrimental physical changes and alterations to their premises. Dining rooms closed or limited. Areas blocked off. Seating areas eliminated. Barriers erected and dividers installed. Layouts altered. Fixtures and furniture removed. Self-service stations gone. Spaces shuttered. Floors marked. Plexiglass mounted. These are but a few of the

physical manifestations of the direct physical loss and damage that restaurants have suffered.

Yet insurance carriers have refused coverage and issued blanket denials without just cause. Those denials are frequently rapid, featuring boilerplate language asserting that coverage is excluded because the restaurant supposedly has not satisfied the industry-standard “loss or damage” requirement. Those denials followed telegraphed statements by insurers and trade groups,<sup>17</sup> and were frequently issued without meaningful (if any) investigation.

Restaurants in Illinois and across the country have challenged these wrongful denials. Without judicial relief, many restaurants will be out of business entirely, many restaurant-industry employees will remain out of work, and many residents will be robbed of the neighborhood places and spaces they treasure.

## **II. This Is An Important Case Of First Impression Where The Court Applies *De Novo* Review.**

This Court should closely scrutinize the policy language, apply well-established principles of policy interpretation, and resolve this case of first

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<sup>17</sup> For example, Society Insurance all but denied coverage “preemptively and *en masse*” through a memo to “agency partners” on March 16, 2020—before most businesses had even submitted claims but after many states limited operations of certain businesses—“observing that ‘a quarantine of any size,’ or ‘a widespread governmental imposed shutdown’ would ‘likely not trigger the additional coverage.’” *In re Society Insurance Co.*, MDL 2964, 2021 WL 679109, at \*4 (N.D. Ill. Feb. 22, 2021). In early April, the American Property Casualty Insurance Association similarly opined, without reference to any policy language, that “[p]andemic outbreaks are uninsured because they are uninsurable.” Press Release, *APCIA Releases New Business Interruption Analysis* (Apr. 7, 2020), <https://insurancenewsnet.com/oarticle/american-property-casualty-insurance-association-releases-new-business-interruption-analysis>.



impression based on the unprecedented circumstances under which it arises. That is particularly so in light of other pending cases involving claims by restaurants, for three reasons.

*First*, “[t]he construction of an insurance policy is a question of law” subject to *de novo* review. *Lyerla v. AMCO Ins. Co.*, 536 F.3d 684, 687 (7th Cir. 2008). This Court thus interprets the policy “without deference to the district court.” *Trujillo v. Rockledge Furniture LLC*, 926 F.3d 395, 397 (7th Cir. 2019). Indeed, because “de novo review is compelled, no form of appellate deference is acceptable.” *Oneida Tribe of Indians of Wis. v. State of Wis.*, 951 F.2d 757, 760 (7th Cir. 1991) (citation omitted). Reviewing the complaint “in the light most favorable to the plaintiff, taking as true all well-pleaded factual allegations and making all possible inferences from the allegations in the plaintiff’s favor,” the “issue is not whether a plaintiff will ultimately prevail but whether the [plaintiff] is entitled to offer evidence to support the claims.” *AnchorBank, FSB v. Hofer*, 649 F.3d 610, 614 (7th Cir. 2011).

*Second*, this Court’s review comes at a time when shutdown-related business interruption litigation is in its early stages. More than 1,400 lawsuits have been filed, but only a small fraction have been decided so far. See Penn Law, *Covid Coverage Litigation Tracker*, <https://cclt.law.upenn.edu/cclt-case-list>.

Among the trial-level decisions to date in state courts—where the judiciary is well-versed at applying the state law that governs insurance policies—roughly half have found a plaintiff stated a claim for business interruption coverage or

granted summary judgment to the plaintiff on that claim.<sup>18</sup> Many federal district courts, applying state substantive law as required and predicting how state courts would apply state law, have reached the same conclusion.<sup>19</sup>

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<sup>18</sup> See, e.g., *Cherokee Nation v. Lexington Ins. Co.*, 2021 WL 506271 (Okla. Dist. Ct. Jan. 28, 2021); *North State Deli, LLC v. The Cincinnati Ins. Co.*, 2020 WL 6281507 (N.C. Super. Ct. Oct. 9, 2020); *McKinley Dev. Leasing v. Westfield Ins. Co.*, 2021 WL 506266 (Ohio Ct. C.P. Feb. 9, 2021); *Timothy A. Ungarean, Dmd D/B/A Smile Savers Dentistry, PC v. CNA*, No. GD-20-00654 (Pa. Ct. C.P. Mar. 22, 2021); *Order, Macmiles, LLC v. Erie Ins. Exchange*, No. GD-20-7753 (Pa. Ct. C.P. May 25, 2021); *Scott Craven DDS v. Cameron Mut. Ins. Co.*, 2021 WL 1115247 (Mo. Cir. Ct. Mar. 9, 2021); *Johansing Family Enters. LLC v. Cincinnati Specialty Underwriters Ins. Co.*, 2021 WL 145416 (Ohio Ct. C.P. Jan. 8, 2021); *Queens Tower Rest. Inc. v. Cincinnati Fin. Corp.*, 2021 WL 456378, at \*1 (Ohio Ct. C.P. Jan. 7, 2021); *Goodwill Indus. of Orange Cnty. v. Phila. Indemnity Co.*, 2021 WL 476268 (Cal. Super. Ct. Jan. 28, 2021); *Best Rest Motel, Inc. v. Sequoia Ins. Co.*, 2020 WL 7229856 (Cal. Super. Ct. Sept. 30, 2020); *Optical Servs. USA/JCI v. Franklin Mut. Ins. Co.*, 2020 WL 5806576 (N.J. Super. Ct. Law Div. Aug. 13, 2020); *Taps & Bourbon on Terrace, LLC v. Underwriters at Lloyds London*, 2020 WL 6380449 (Pa. Ct. C.P. Oct. 26, 2020); *Perry Street Brewing Co., LLC v. Mut. of Enumclaw Ins.*, 2020 WL 7258116 (Wash. Super. Ct. Nov. 23, 2020); *Hill and Stout PLLC v. Mut. of Enumclaw Ins. Co.*, 2020 WL 6784271 (Wash. Super. Ct. Nov. 13, 2020); *JGB Vegas Retail Lessee, LLC v. Starr Surplus Lines Ins. Co.*, 2020 WL 7190023 (Nev. Dist. Ct. Nov. 30, 2020); *Dino Palmieri Salons, Inc. v. State Auto. Mut. Ins. Co.*, 2020 WL 7258114 (Ohio Ct. C.P. Nov. 17, 2020); *Johnston Jewelers, Inc. v. Jewelers Mut. Ins. Co., S.I.*, 2020 WL 6556842 (Fla. Cir. Ct. Sept. 22, 2020); *Cajun Conti LLC v. Certain Underwriters at Lloyd's, London*, 2020 WL 6993790 (La. Civ. Dist. Ct. Nov. 4, 2020); *Order, Lombardi's, Inc. v. Indem. Ins. Co. of N. Am.*, No. DC-20-05751-A (Tex. Dist. Ct. Oct. 15, 2020).

<sup>19</sup> See, e.g., *Kenneth Seifert d/b/a The Hair Place v. IMT Ins. Co.*, 2021 WL 2228158 (D. Minn. June 2, 2021); *Legacy Sports Barbershop LLC v. Continental Cas. Co.*, 2021 WL 2206161 (N.D. Ill. June 1, 2021); *In re Society*, 2021 WL 679109; *Derek Scott Williams PLLC v. Cincinnati Ins. Co.*, 2021 WL 767617 (N.D. Ill. Feb. 28, 2021); *K.C. Hopps, Ltd. v. Cincinnati Ins. Co.*, 2020 WL 6483108 (W.D. Mo. Aug. 12, 2020); *Studio 417, Inc. v. Cincinnati Ins. Co.*, 478 F. Supp. 3d 794 (W.D. Mo. 2020); *Henderson Rd. Rest. Sys. Inc. v. Zurich Am. Ins. Co.*, 2021 WL 168422 (N.D. Ohio Jan. 19, 2021); *Elegant Massage, LLC v. State Farm Mut. Auto. Ins. Co.*, 2020 WL 7249624 (E.D. Va. Dec. 9, 2020); *Urogynecology Specialist of Fla. LLC v. Sentinel Ins. Co.*, 489 F. Supp. 3d 1297 (M.D. Fla. 2020); *Blue Springs Dental Care, LLC v. Owners Ins. Co.*, 488 F. Supp. 3d 867 (W.D. Mo. 2020).

While other decisions have favored insurers, many turn on the specific facts or business circumstances alleged. Others fail to apply the reasonable-interpretation rule and other basic policy interpretation principles—including by redefining the policy based on extrinsic case law or arcane publications that ordinary people would never consult.

Most troubling, many decisions may be the result of a reflexive, self-fulfilling feedback loop in which federal district courts appear to effectively treat other federal district courts as establishing a sort of federal common law on business interruption insurance. For example, early yet unremarkable decisions have been cited dozens of times by other courts, even though the decisions are not particularly detailed or persuasive, did not arise after an amended complaint, and have not been subject to appellate review. *See, e.g., 10E, LLC v. Travelers Indem. Co.*, 2020 WL 5359653 (C.D. Cal. Sept. 2, 2020), *appeal pending* No. 20-56206 (9th Cir); *Diesel Barbershop, LLC v. State Farm Lloyds*, 479 F. Supp. 3d 353 (W.D. Tex. 2020). In this diversity case where state substantive law controls, the federal courts must apply the law as it would be interpreted by the state's highest court.

Rather than tally decisions by other courts in other cases, each court must focus on a complaint's allegations, liberally construed in plaintiff's favor, and determine whether those specific allegations satisfy the applicable standard. *See Seifert*, 2021 WL 2228158, at \*3 (denying motion to dismiss amended complaint that adequately alleged shutdown orders caused physical loss, after granting motion to dismiss initial complaint); *Legacy Sports*, 2021 WL 2206161, at \*2-3

(denying motion to dismiss and distinguishing allegations from those in other cases where the same judge had granted motions to dismiss).

*Third*, history shows that early decisions on issues of first impression are often viewed differently after appellate courts have the opportunity to weigh in. That has been true in insurance coverage cases involving the interpretation of industry-standard policy language. For example, “the meaning of the standard pollution exclusion clause’s exception for discharges that are ‘sudden and accidental’ ... precipitated ‘a legal war ... in state and federal courts from Maine to California.’” *N. Ins. Co. of N.Y. v. Aardvark Assocs., Inc.*, 942 F.2d 189, 191 (3d Cir. 1991). Eventually, courts viewed the split in authority as “at least suggesting that the term ‘sudden’ is susceptible of more than one reasonable definition.” *New Castle Cnty. v. Hartford Accident & Indem. Co.*, 933 F.2d 1162, 1196 (3d Cir. 1991). Many courts eventually coalesced around a meaning that permitted policyholders to recover in many situations. *See* 9 Couch on Ins. § 127:11 (2020).

This Court faces a similar task in interpreting the meaning of the industry-standard physical loss or damage requirement. The current disagreement among trial courts about whether plaintiffs have stated a claim—and the fact that roughly half of state courts have concluded that plaintiffs have—reinforces that this Court is on solid ground in reversing the decision below. This Court should conclude that the plain meaning of the undefined, disjunctive terms physical “loss or damage”—as a normal layperson would understand them—applies to cover losses allegedly caused by shutdown orders that imposed material physical alterations on restaurants.

### **III. Policy Language, Interpretation Principles, And Precedent Support Finding Shutdown Orders Caused Physical Loss Or Damage.**

As a result of a series of state and local shutdown orders issued in Illinois, Zajas's property was physically altered, materially impaired, and no longer functional as a restaurant. (See Dkt. 1 Ex. 1 at 2, 4.) Badger, like other insurers, has insisted that the shutdown orders that impaired policyholders' property have not caused physical "loss of or damage" to property. Badger, like other insurers, further contends that only events like hurricanes and fires trigger business interruption coverage. But that position is inconsistent with the policy's language, foundational policy-interpretation principles, and both recent and historical precedent. The district court was therefore wrong to dismiss the complaint.

#### **A. Policy Language And Policy-Interpretation Principles Support Reversal.**

Under Illinois law, policy provisions and exclusions are "to be construed liberally in favor of the insured and 'most strongly against the insurer.'" *Nat'l Union Fire Ins. Co. of Pittsburgh, Pa. v. Glenview Park Dist.*, 158 Ill. 2d 116, 122 (1994) (citation omitted); see *Phusion Projects, Inc. v. Selective Ins. Co.*, 2015 IL App (1st) 150172, ¶¶ 38-40. "[A] policy provision that purports to exclude or limit coverage will be read narrowly and will be applied only where its terms are clear, definite, and specific." *Gillen v. State Farm Mut. Auto. Ins. Co.*, 215 Ill. 2d 381, 393 (2005).

"[I]f a provision of the insurance policy can reasonably be said to be ambiguous, that provision will be construed in favor of the insured." *Abrams v.*

*State Farm Fire & Cas. Co.*, 306 Ill. App. 3d 545, 549 (1st Dist. 1999). A provision of an insurance policy is “ambiguous” if “the words ... are susceptible to more than one reasonable interpretation.” *Outboard Marine Corp. v. Liberty Mut. Ins. Co.*, 154 Ill. 2d 90, 108 (1992).

When construing an insurance policy, a court gives undefined terms their “plain and ordinary” meaning. *Gulino*, 2012 IL App (1st) 102429, ¶ 18. A phrase’s “plain and ordinary meaning” is “that meaning which the particular language conveys to the popular mind, to most people, to the average, ordinary, normal [person], to a reasonable [person], to persons with usual and ordinary understanding, to a business [person], or to a lay[person],” *Travelers Ins. Co.*, 197 Ill. 2d at 301 (citation omitted). Such a meaning “can be derived from a dictionary.” *Gulino*, 2012 IL App (1st) 102429, ¶ 18. “[I]f a term has multiple dictionary definitions, it is ambiguous.” *West Bend Mut. Ins. Co. v. Krishna Schaumburg Tan, Inc.*, 2021 IL 125978, ¶ 43. Definitions should not be derived from arcane legal sources or other materials that “most people” would not consult.

Here, the plain language of the policy supports finding coverage for loss or damage caused by shutdown orders that physically impaired property. Badger agreed to pay for “direct physical loss” and “loss or damage” to property. “The disjunctive ‘or’ in that phrase means that ‘physical loss’ must cover something different from ‘physical damage.’” As many courts have recently held in the business interruption context—including in this Circuit and applying Illinois

law—to read the policy otherwise would improperly collapse the meaning of “loss” with the meaning of “damage.”<sup>20</sup>

Had Badger wanted “loss” and “damage” to mean the same thing, or to narrow their meaning, it was obligated to do so by defining or limiting those terms: “if [an] insurer relies on an exclusionary provision, it must be ‘clear and free from doubt’ that the policy’s exclusion prevents coverage.” *Atl. Mut. Ins. Co. v. Am. Acad. of Orthopaedic Surgeons*, 315 Ill. App. 3d 552, 560 (1st Dist. 2000). But Badger chose not to do so despite knowing these terms can reasonably be construed (and indeed have been construed by courts) more broadly than the narrow reading Badger favors. Each of those terms must therefore be given its plain and ordinary meaning, consistent with the expectations of a reasonable consumer and construed in favor of coverage.

Merriam-Webster defines physical as “of or relating to material things” that are “perceptible especially through the senses.”<sup>21</sup> Loss is defined as “the act of losing possession,” “deprivation,” and the “failure to gain, win, obtain, or utilize.”<sup>22</sup> Put together, the ordinary meaning of “physical loss” includes when a property can no longer function as intended in the real, material world.

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<sup>20</sup> See, e.g., *Cherokee Nation*, 2021 WL 506271, at \*6-7; *North State Deli*, 2020 WL 6281507, at \*3; *Seifert*, 2021 WL 2228158, at \*3; *In re Society*, 2021 WL 679109, at \*8-10; *Henderson Rd.*, 2021 WL 168422, at \*11-12; *Urogynecology Specialist*, 489 F. Supp. 3d at 1302-03; *Studio 417*, 478 F. Supp. 3d at 800-03.

<sup>21</sup> Merriam-Webster Dictionary, <https://www.merriam-webster.com/dictionary/physical> (last accessed June 10, 2021).

<sup>22</sup> Merriam-Webster Dictionary, <https://www.merriam-webster.com/dictionary/loss> (last accessed June 10, 2021).

For many restaurants, that was exactly what happened when shutdown orders imposed real, detrimental, physical alterations to their spaces—closing or limiting dining rooms, blocking off areas, erecting barriers, and altering layouts, among other direct physical changes. The shutdown orders “deprived” restaurants like Zajas of property in a way that is perceptible through the senses because they no longer possessed the same rights to their property and large swaths of their property was rendered non-functional.

The district court erred in finding otherwise. It read caselaw to require a plaintiff to plead “physical, tangible damage to insured property” or an “alteration in appearance” to state a claim. (Dkt. 26 at 5.) But that requirement does not appear in any relevant portion of the policy. Badger did not define “physical loss” to require “tangible damage” or an “alteration in appearance.” And no reasonable policyholder would have understood “loss,” as distinct from “damage,” to require “tangible damage” or an “alteration in appearance” to the structure of the premises, much less closely read judicial decisions to discern the supposed true meaning of the policy’s language.

Reasonable policyholders would, however, understand that interposing barriers, blocking off physical space, and detrimentally changing property in other material physical ways constitute physical alterations. Therefore, even under the district court’s interpretation of the meaning of the policy language, policyholders like restaurants have suffered physical loss or damage as a result of shutdown orders.



Policyholders should not have to hire lawyers to understand what the word “loss” means. They should not have to guess whether a judge will require a loss to involve something beyond what the policy describes. A policy term means what “the particular language conveys to the popular mind, to most people, to the average, ordinary, normal [person], to a reasonable [person], to persons with usual and ordinary understanding, to a business [person], or to a lay[person].” *Travelers Ins. Co.*, 197 Ill. 2d at 301. Plain and ordinary policy terms require no judicial redefinition or clarification.

The plain language of the policy—in conjunction with settled policy-interpretation principles that honor a reasonable policyholder’s expectations—dictates that Zajas has sufficiently alleged as a matter of fact that the relevant shutdown orders have caused “physical loss” by dispossessing it of its property and rendering that property nonfunctional. Zajas should be able to test whether it can offer evidentiary support to obtain a jury verdict in its favor.

**B. Recent and Longstanding Precedent Supports Reversal.**

In reversing the judgment below, this Court will be squarely within the mainstream of recent coverage decisions in this Circuit and elsewhere that have found restaurants and other businesses adequately alleged that they suffered physical loss or damage as a result of state and local shutdown orders.

Several powerful examples come from the Northern District of Illinois, where district courts denied motions to dismiss and found that plaintiffs “need not plead or show a change to the property’s physical characteristics” where policies cover “loss” in addition to “damage.” *In re Society*, 2021 WL 679109, at

\*8; *Derek Scott Williams PLLC*, 2021 WL 767617, at \*1, \*3-4 (noting broad agreement on the basic principle that “each word [in a contract] has some significance and meaning.”). Two courts further reasoned that a jury could find plaintiffs suffered physical losses because the shutdown orders “impose a physical limit: the restaurants are limited from using much of their physical space.” *Society* at \*8-9; see *Williams* at \*3-4 (finding a reasonable factfinder could determine that “physical loss” includes “a deprivation of the use of ... business premises”).

A third district court concluded that, although “loss of or damage to” property required “physical damage or alteration,” policyholders had satisfied that standard by alleging they were required to “build a new outdoor patio, install social distancing barriers and germ sanitation stations, and remove work stations in order to promote proper social distancing.” *Legacy Sports*, 2021 WL 2206161, at \*2-3. In so finding, and distinguishing its own prior decisions dismissing business interruption claims in other cases, the court made clear that whether a plaintiff has stated a claim turns on the individual allegations in each case.

Another example is *Henderson Road Restaurant Systems, Inc. v. Zurich American Insurance Co.*, 2021 WL 168422 (N.D. Ohio Jan. 19, 2021). Applying policy-interpretation principles like Illinois’s, the district court granted summary judgment for the policyholder and found that shutdown orders caused “physical loss” under the plain language of the policy at issue because “the properties could no longer be used for their intended purposes—as dine-in restaurants.” *Id.*

at \*10. Notably, the court in *Henderson Road* explicitly rejected the contrary conclusions in the cases on which the district court relied heavily in erroneously dismissing Zajas's claims.

Courts around the country have come to similar conclusions. In *Kenneth Seifert d/b/a The Hair Place v. IMT Ins. Co.*, the Chief Judge of the District of Minnesota denied a motion to dismiss and “conclude[d] that a plaintiff would plausibly demonstrate a direct physical loss of property by alleging that shutdown orders forced a business to close because the property was deemed dangerous to use and its owner was thereby deprived of lawfully occupying and controlling the premises to provide services within it.” 2021 WL 2228158, at \*4-5. In *Elegant Massage, LLC v. State Farm Mutual Automobile Insurance Co.*, a district court in Virginia denied an insurer's motion to dismiss, explaining that if the insurer “wanted to limit liability of ‘direct physical loss’ to strictly require structural damage to property, then Defendants, as the drafters of the policy, were required to do so explicitly.” 2020 WL 7249624, at \*6-10.

In *North State Deli, LLC v. The Cincinnati Insurance Co.*, the state court in North Carolina reasoned that “the ordinary meaning of the phrase ‘direct physical loss’ includes the inability to utilize or possess something in the real, material, or bodily world.” 2020 WL 6281507, at \*3. The court concluded that “‘direct physical loss’ describes the scenario” where policyholders “lose the full range of rights and advantages of using or accessing their business property,” which was “precisely the loss caused by” state and local shutdown orders that forbade the policyholders from “putting their property to use for the income-

generating purposes for which the property was insured.” Granting summary judgment to the plaintiff, the court then concluded that “direct physical loss” includes “the loss of use or access to covered property even where that property has not been structurally altered.”

Numerous other courts have ruled against insurers for the same reasons. *See, e.g., Studio 417*, 478 F. Supp. 3d at 801 (holding that “loss” and “damage” must be given separate meanings, and that “even absent a physical alteration, a physical loss may occur when the property is uninhabitable or unusable for its intended purpose”); *Perry Street Brewing*, 2020 WL 7258116, at \*2-3 (finding “direct physical loss” as “an average lay person would understand by [that] phrase” when “property could not physically be used for its intended purpose,” because owner “was deprived from using it”); *see also, e.g., supra* notes 18-19.

The cases favoring policyholders are consistent with longstanding precedent. For example, nearly sixty years ago, a California appellate court considered a case involving a home left “standing on the edge of and partially overhanging a newly formed 30-foot cliff” resulting from a landslide. *Hughes v. Potomac Ins. Co. of District of Columbia*, 199 Cal. App. 2d 239, 243 (1962). The insurer argued the policy only insured the house itself, which had not been damaged. *Id.* at 245-46.

The court rejected that argument, reasoning that it would “render the policy illusory” because the insurer’s position “would be to conclude that a building which has been overturned or which has been placed in such a position as to overhang a steep cliff has not been ‘damaged’ so long as its paint remains

intact and its walls still adhere to one another. Despite the fact that a ‘dwelling building’ might be rendered completely useless to its owners, [the insurer] would deny that any loss or damage had occurred unless some tangible injury to the physical structure itself could be detected. Common sense requires that a policy should not be so interpreted in the absence of a provision specifically limiting coverage in this manner.” *Id.* at 248-49.

Similarly, in *Murray v. State Farm Fire & Cas. Co.*, large boulders had fallen onto two homes, leaving two other plaintiffs’ homes at risk of further rockfalls. 203 W. Va. 477, 492-93 (1998). The insurer argued that the policies “do not cover any losses occasioned by the potential damage that could be caused by future rockfalls.” *Id.* at 492-93. The West Virginia Supreme Court disagreed, reasoning that “[d]irect physical loss’ provisions require only that a covered property be injured, not destroyed.” *Id.* at 493.

The court continued: the insured properties “were homes, buildings normally thought of as a safe place in which to dwell or live,” but until the risk of rockfalls abates, “plaintiffs’ houses could scarcely be considered ‘homes’ in the sense that rational persons would be content to reside there.” *Id.* The Court thus held that “direct physical loss[es]” covered by the policy, “including those rendering the insured property unusable or uninhabitable, may exist in the absence of structural damage to the insured property.” *Id.*<sup>23</sup>

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<sup>23</sup> See also, e.g., *Gregory Packaging, Inc. v. Travelers Prop. Cas. Co. of Am.*, 2014 WL 6675934, at \*5 (D.N.J. Nov. 25, 2014) (“property can sustain physical loss or damage without experiencing structural alteration”); *Dundee Mut. Ins. Co. v. Marifjeren*, 587 N.W.2d 191, 194 (N.D. 1998) (finding coverage because covered

Zajas has alleged that it had to close its restaurant for on-premises dining due to restrictions placed on its business. Focusing exclusively on structural damage ignores the well-reasoned analysis suggesting that a business suffers cognizable physical loss even if it is not physically damaged. Just like a home suffers physical loss when it is uninhabitable, a restaurant suffers physical loss when it becomes non-functional and cannot serve customers as intended.

This Court should conclude that Zajas has stated a claim by alleging the shutdown orders caused “physical loss” of property and rendered the property non-functional for its intended purpose. This Court should also remind district courts to properly apply policy-interpretation principles and to liberally construe a plaintiff’s allegations to find a claim stated when a plaintiff alleges physical loss or damage caused by shutdown orders that imposed material, detrimental, physical alterations to property.

### **CONCLUSION**

The judgment below should be reversed.

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properties “no longer performed the function for which they were designed”); *Oregon Shakespeare Festival Ass’n v. Great Am. Ins. Co.*, 2016 WL 3267247, at \*9 (D. Ore. June 7, 2016) (finding “direct property loss or damage” when property became “uninhabitable and unusable for its intended purpose”); *Sentinel Mgt. Co. v. New Hampshire Ins. Co.*, 563 N.W.2d 296, 300 (Minn. Ct. App. 1997) (finding “direct, physical loss to property under an all-risk insurance policy” when “a building’s function may be seriously impaired or destroyed”).

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Respectfully submitted,

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**CERTIFICATE OF COMPLIANCE WITH FED. R. APP. P. 32(a)(7)**

1. This brief complies with the type-volume limitation of Seventh Circuit Rule 29 because this brief contains 6,86 words, excluding the parts of the brief exempted by Fed. R. App. P. 32(f).

2. This brief complies with the typeface requirements of Fed. R. App. P. 32(a)(5) and Circuit Rule 32 and the type style requirements of Fed. R. App. P. 32(a)(6) because this brief has been prepared in a proportionally spaced typeface using Microsoft Office Word 2016 in 12 point Bookman Old Style font for the main text and footnotes.

Dated: June 11, 2021

/s/ Gabriel K. Gillett  
Gabriel K. Gillett



**CERTIFICATE OF SERVICE**

I, Gabriel K. Gillett, an attorney, hereby certify that on June 11, 2021, I caused the foregoing **Brief of the Restaurant Law Center and Illinois Restaurant Association, as Amici Curiae In Support of Plaintiff-Appellant and Reversal** to be electronically filed with the Clerk of the Court for the United States Court of Appeals for the Seventh Circuit by using the CM/ECF system. I certify that all participants in this case are registered CM/ECF users and that service will be accomplished by the CM/ECF system.

Pursuant to ECF procedure (h)(2) and circuit rule 31(b), and upon notice of this court's acceptance of the electronic brief for filing, I certify that I will cause fifteen copies of the **Brief of the Restaurant Law Center and Illinois Restaurant Association, as Amici Curiae In Support of Plaintiff-Appellant and Reversal** to be transmitted to the court via UPS overnight delivery, delivery fee prepaid within five days of that date.

/s/ Gabriel K. Gillett  
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