

**SPECIMEN MODEL WORDING. THIS FORM PROVIDES NO COVERAGE
UNLESS ADOPTED AND ISSUED BY A LICENSED INSURER.**

BUSINESS INCOME AND EXTRA EXPENSE COVERAGE FORM MENLO REFERENCE FORM

Menlo Form MENLO-CP-02 is an original document authored by Menlo Insurance Services. It corresponds to coverage commonly written on form CP 00 30, which is referenced for identification only.

Various provisions in this form restrict coverage. Read the entire form carefully to determine rights, duties, and what is and is not covered. Throughout this form, the words “you” and “your” refer to the named insured shown in the declarations of the issuing policy, and the words “we”, “us”, and “our” refer to the insurer that adopts and issues this form. Other words and phrases that appear in quotation marks have the meanings given in the Definitions section at the end of this form.

A. Insuring Agreement: Business Income

We will pay the actual “business income” loss you sustain when a necessary “suspension” of your “operations” occurs during the “period of restoration”. A “suspension” triggers this Section A. only if it results from “covered damage” to property at the described premises, and only if the Declarations show a limit for this coverage at the premises where the “covered damage” occurs.

- 1. Trigger conditions.** All of the following must be satisfied before any amount is payable under this Section A.:
 - a. property at the described premises sustains “covered damage”; the damaged property does not need to be property we insure, and it does not need to belong to you, but it must be at the described premises;
 - b. the “covered damage” makes a “suspension” of your “operations” necessary;
 - c. the “suspension” produces an actual loss of “business income”, which you must establish from your records; this coverage is not a valued coverage and does not pay a fixed sum per day; and
 - d. the loss falls within the “period of restoration”.
- 2. Reach of the described premises.** For personal property located in a vehicle or in the open, the described premises extend to

everything within 100 feet of the premises shown in the Declarations.

- 3. Partial occupancy.** If your occupancy covers only part of a building, the described premises consist of:
 - a. the part of the building you rent, lease, or occupy;
 - b. for personal property located in a vehicle or in the open, the zone extending 100 feet out from the building, or 100 feet out from the premises shown in the Declarations, whichever zone reaches farther; and
 - c. every area inside the building, or elsewhere at the described premises, that serves your space or that you use to reach your space.
- 4. Losses at other premises.** Except as Sections D.1. and E. state, damage at premises other than the described premises, including damage at the premises of a supplier, a customer, or a business that attracts customers to you, does not trigger this insurance.

B. Insuring Agreement: Extra Expense

We will pay the necessary “extra expense” you incur during the “period of restoration”. “Extra expense” coverage applies at a described premises only if the Declarations also show “business income” coverage at that premises.

- 1. Expense other than repair or replacement.**
We will pay the “extra expense” you incur,

except the cost of repairing or replacing property, to:

- a. avoid or reduce the “suspension” of your business and keep your “operations” going, whether at the described premises or at a replacement or temporary location, including the cost to relocate to, equip, and operate the replacement or temporary location; or
- b. reduce the “suspension” of your business if you cannot keep your “operations” going at any location.

Amounts payable under this B.1. do not depend on whether the spending reduces the “business income” loss otherwise payable.

- 2. **Expense of repair or replacement.** We will also pay “extra expense” spent on repairing or replacing property, but only in the measure that each amount spent reduces the loss that this insurance would otherwise pay. An expediting charge paid to obtain a critical machine sooner is payable under this B.2. when it saves more in “business income” loss than it costs.
- 3. **Shared limit.** “Extra expense” does not carry a separate limit. It is paid from the same Limit of Insurance as “business income”, as Section G. describes.

C. Coverage Elections

This insurance applies under one or more of the following elections, each only if the Declarations show a Limit of Insurance for it:

- 1. **Business income including “rental value”.** Under this election, every reference to “business income” in this form includes “rental value”.
- 2. **Business income other than “rental value”.** Under this election, “rental value” is not covered.
- 3. **“Rental value” only.** Under this election, every reference to “business income” in this form means “rental value” and nothing else.

If the Declarations show limits under more than one election, this insurance applies separately under each election. Under elections C.1. and C.3., a “suspension” includes untenability of some or all

of the described premises, and your “operations” include the tenantability of the described premises.

D. Supplemental Coverages

1. Civil authority.

- a. We will pay the actual “business income” loss you sustain, and the necessary “extra expense” you incur, when an action of civil authority prohibits access to the described premises because of “covered damage” to property away from the described premises, but only if:
 - (1) the damaged property lies not more than one mile from the described premises;
 - (2) the civil authority closes the area immediately around the damaged property because of that damage, and the described premises sit inside the closed area; and
 - (3) the civil authority acts in response to dangerous physical conditions arising from the damage or from the continuation of the peril that caused it, or acts to secure itself unimpeded access to the damaged property.
- b. The “business income” component of this supplemental coverage begins 72 hours after the first civil authority action that prohibits access and continues for not more than 4 consecutive weeks measured from the date the component began.
- c. The “extra expense” component of this supplemental coverage begins immediately on the first civil authority action that prohibits access and ends on the later of:
 - (1) 4 consecutive weeks measured from the date of that first action; or
 - (2) the date the “business income” component under D.1.b. ends.
- d. No waiting period applies to the “extra expense” component. The 72-hour wait in D.1.b. applies only to the “business income” component.
- e. Illustration: a tornado tears through the block across the street; your building is untouched; the city closes the district for

two weeks because falling glass endangers pedestrians and crews need the streets clear. Your premises sit inside the closed area, and the damaged buildings are within one mile. The income you lose after the first 72 hours of the closure, and the expense you incur from its first hour, are payable under this D.1.

2. Construction at the described premises.

- a. We will pay the actual “business income” loss you sustain, and the necessary “extra expense” you incur, at the described premises when the loss or expense results from “covered damage” to:
 - (1) a new building or structure at the described premises, whether finished or still under construction;
 - (2) an alteration or addition to an existing building or structure at the described premises; or
 - (3) machinery, equipment, supplies, and building materials that sit on the described premises, or within 100 feet of them, if the item is used in the construction, alteration, or addition work or is incidental to occupying the new building.
- b. This supplemental coverage applies at the described premises only. It does not apply at a location covered under Section E.
- c. If the “covered damage” delays the start of your “operations”, the “period of restoration” begins on the date your “operations” would have begun had the damage not occurred, and the 72-hour wait does not run from the date of damage. For example: your projected opening date is July 1; a windstorm strikes on May 1; repairs push the opening to November 1. The “period of restoration” runs from July 1 until the repairs are finished and your “operations” can begin. The policy in force on the date of the windstorm responds even if it expires before July 1.

3. Post-reopening income recovery.

- a. Reopening rarely restores revenue at once. If your actual “business income” loss under

Section A. continues after the “period of restoration” ends, we will pay that continuing loss during the recovery window this D.3. describes, but only if the loss results from “covered damage” at the described premises.

- b. The recovery window begins on the date the damaged property, excluding “finished stock”, has in fact been repaired, rebuilt, or replaced and your “operations” have resumed.
- c. The recovery window ends on the earlier of:
 - (1) the date on which you could, using reasonable speed, restore your “operations” to the income level that would have existed had no damage occurred; or
 - (2) the 60th consecutive day after the date determined under D.3.b., or the greater number of days shown in the Declarations if the extended recovery option in M.4. applies.
- d. Under the elections in C.1. and C.3., the same recovery window applies to “rental value” loss, beginning on the date the damaged property has in fact been repaired, rebuilt, or replaced and tenantability is restored.
- e. We will not pay under this D.3. for “business income” loss attributable to unfavorable business conditions that the peril inflicted on the area surrounding the described premises, as distinct from the lingering effects of your own “suspension”.
- f. Amounts payable under this D.3. are part of, and do not add to, the Limit of Insurance.
- g. Illustration: a fire closes your shop on March 1; a diligent restoration is complete and you reopen on June 1; your revenue does not climb back to its pre-loss level until mid-July. The “period of restoration” pays the loss from March 4 through June 1. This D.3. then pays the continuing shortfall from June 1 until the earlier of the date you could restore pre-loss income levels or 60 days after reopening, unless the Declarations show a greater number of days under M.4.

4. Interruption of computer operations.

- a. Subject to F.7., we will pay the actual “business income” loss you sustain, and the necessary “extra expense” you incur, when your “operations” suffer a “suspension” because an interruption in computer operations follows the destruction or corruption of “electronic data” by a peril this D.4. covers.
- b. The perils this D.4. covers are:
 - (1) if the special-form perils document applies to this coverage, the “specified perils” and collapse as that perils document sets collapse out;
 - (2) if the broad-form perils document applies, the perils it insures, including collapse as it sets collapse out; and
 - (3) destructive code, a virus, or a similar instruction that enters, or executes on, a computer system, including its “electronic data”, or a network connected to the system, if the instruction is designed to harm the system, destroy any part of it, or disrupt its normal operation.
- c. Despite D.4.b.(3), this supplemental coverage does not apply to an interruption connected with manipulation of a computer system, or of its “electronic data”, by:
 - (1) any of your employees, including a temporary or leased employee; or
 - (2) an entity retained by you, or for you, to inspect, install, maintain, repair, or replace the system.
- d. A peril added to this insurance by endorsement to the perils document does not apply to this supplemental coverage.
- e. The most we will pay under this D.4. is \$2,500, or the higher amount shown in the Declarations, for everything payable under this D.4. in any one policy year, however many interruptions occur and however many premises, locations, or computer systems are involved. If the first interruption does not exhaust that amount, the balance remains available for later interruptions in the same policy year. A balance left over

when a policy year closes does not carry forward or enlarge the amount available in the following year. If an interruption begins in one policy year and continues into, or produces loss in, a later policy year, all resulting loss and expense are deemed sustained in the policy year in which the interruption began.

- f. This supplemental coverage does not apply to loss sustained, or expense incurred, after the “period of restoration” ends, even if the amount in D.4.e. is not exhausted.
- g. The amount payable under this D.4. is in addition to the Limit of Insurance.

E. Coverage Extension: Newly Acquired Locations

- 1. This extension applies only if the Declarations show a coinsurance percentage of 50% or more for “business income”. It applies even if you do not comply with the insurance-to-value condition in Section L., and that condition does not apply to this extension.
- 2. You may extend the insurance under Sections A. and B. to apply to loss and expense at a location you acquire during the policy period, other than a location at a fair or an exhibition. All other terms of this form apply to the extended coverage.
- 3. The most we will pay under this extension is \$100,000 at each acquired location, or the higher amount shown in the Declarations. Amounts payable under this extension do not draw on the Limit of Insurance; they are paid over and above it.
- 4. This extension stops covering an acquired location on the earliest of the following dates:
 - a. the date this policy expires;
 - b. the date 30 days after you acquire the location or begin construction on the property; or
 - c. the date you report values for the location to us.
- 5. We will charge additional premium on the values you report, computed from the date you acquire the location.

6. This extension covers only locations that you, the named insured shown in the Declarations, acquire. A location acquired by a different legal entity, including one you own or form, is not covered under this extension.

F. Exclusions and Limitations

The exclusions in the perils document shown in the Declarations for this coverage apply to this insurance. The following further provisions also apply.

1. **Finished stock.** This insurance does not apply to loss that results from damage to or destruction of “finished stock”, or from the time needed to reproduce “finished stock”. This F.1. does not apply to “extra expense”. Goods you finished before the damage are property, not income; their value belongs to property insurance and its valuation provisions, not to this coverage.
2. **Antennas.** This insurance does not apply to loss that results from physical damage to, or physical loss of, a radio or television antenna, including a satellite dish, or its lead-in wiring, mast, or tower.
3. **Interference at the site.** This insurance does not apply to any increase of loss that results from interference by strikers, or by other persons, with rebuilding, repairing, or replacing property or with resuming your “operations”.
4. **License, lease, or contract.** This insurance does not apply to any increase of loss that results from the suspension, lapse, or cancellation of a license, lease, or contract. But when the suspension, lapse, or cancellation flows directly from the “suspension” of your “operations”, we will pay the resulting loss during the “period of restoration” and during the recovery window that D.3. and M.4. provide.
5. **Extra expense after the window.** This insurance does not apply to “extra expense” that results from the suspension, lapse, or cancellation of a license, lease, or contract, for any time after the “period of restoration” ends.
6. **Consequential loss.** This insurance does not apply to any other consequential loss.
7. **Electronic data limitation.**

- a. Except as D.4. provides, this insurance does not apply to loss or expense that results when “electronic data” is destroyed, corrupted, or otherwise harmed.
- b. This F.7. does not apply if the affected “electronic data” consists only of data embedded in equipment that runs or controls the building’s elevators, lighting, heating, ventilation, air conditioning, or security functions. Loss and expense within this F.7.b. are payable under Sections A. and B. without regard to the amount in D.4.e.

G. Limit of Insurance

1. The most we will pay for the total of all “business income” loss and “extra expense” in any one occurrence is the Limit of Insurance that the Declarations show for the described premises. The full Limit of Insurance is available for each separate occurrence.
2. Amounts payable under D.1. (civil authority), D.2. (construction at the described premises), D.3. (post-reopening income recovery), and Section B. (“extra expense”) are part of, and do not increase, the Limit of Insurance.
3. Amounts payable under D.4. (interruption of computer operations) and Section E. (newly acquired locations) are in addition to the Limit of Insurance, up to the amounts those provisions state.
4. Expenses you incur to protect property from further harm, as I.4. requires, are considered in settling the claim but do not increase the Limit of Insurance.

H. Waiting Period and End of the “Period of Restoration”

1. **Time deductible.** For “business income”, the “period of restoration” begins 72 hours after the time of the “covered damage”. Those 72 hours operate as a time deductible: an interruption that ends within them produces no payment, and every longer interruption absorbs its first 72 hours of income loss before payment begins. For “extra expense”, the “period of restoration” begins immediately at the time of the “covered damage”, with no waiting period.

- 2. End of the window.** The “period of restoration” ends on the earlier of:
- a. the date by which the property at the described premises could be repaired, rebuilt, or replaced, if the work proceeds with reasonable speed and uses materials and workmanship of comparable quality; or
 - b. the date your business resumes at a new permanent location.

The date under H.2.a. is measured by a hypothetically diligent restoration, not by the pace of your actual contractor. If your restoration runs past the date a diligent restoration would have finished, the loss sustained after that date is not payable, except as D.3. and M.4. provide. A gap can therefore open between the end of payments and the actual completion of repairs whenever the actual work takes longer than a diligent restoration should. Engaging restoration professionals early, and documenting every cause of delay you did not control, protects the H.2.a. measurement.

- 3. Time the window excludes.** The “period of restoration” excludes any added time required because of the enforcement of, or compliance with, an ordinance or law that:
- a. regulates the construction, use, or repair of property, or requires the demolition of property; or
 - b. requires anyone to test for, monitor, remove, clean up, contain, treat, neutralize, or detoxify “pollutants”, or to assess their effects or respond to them in any way.
- 4. Policy expiration.** The expiration date of this policy does not cut the “period of restoration” short. The policy in force on the date of the “covered damage” responds for the entire “period of restoration”, even if that period runs past the expiration date.

I. Duties After Loss or Damage

You must see that all of the following duties are performed after loss or damage. If any duty is not performed, and the failure prejudices our handling of the claim, we may deny or reduce payment to the extent of the prejudice.

- 1. You must report to the police any event that may involve a violation of law.
- 2. You must give us prompt notice of the “covered damage”, including a description of the property involved.
- 3. As soon as possible, you must tell us how, when, and where the “covered damage” happened.
- 4. You must do everything reasonable to shield the property from additional harm, and you must keep a record of your expenses for that protection so we can consider them in settling the claim. We will not pay for later loss or damage from a peril this insurance does not cover. If it is feasible, you must set the damaged items apart, arranged as well as conditions allow, so we can examine them.
- 5. As often as we reasonably require, you must:
 - a. permit us to inspect the property and the loss;
 - b. permit us to examine your books and records and to make copies of them;
 - c. permit us to take samples of both damaged and undamaged property so we can inspect, test, and analyze them; and
 - d. give us the information and documentation we request.
- 6. You must send us a signed, sworn proof of loss containing the information we request, not later than 60 days after our request. We will supply the necessary forms.
- 7. You must cooperate with us while we investigate and settle the claim.
- 8. If you intend to continue your business, you must resume all or part of your “operations” as quickly as you reasonably can. Section K.3. states the consequence of not doing so.
- 9. We may examine any insured under oath, at reasonable times and apart from every other insured, on any subject connected with this insurance or the claim, including the insured’s books and records. The answers given must be signed.

J. Appraisal

1. If you and we cannot agree on the net income and operating expense figures, or on the amount of loss, either party may make a written demand for an appraisal of the loss.
2. After a demand, each party must choose a competent, impartial appraiser, and the two appraisers then choose an umpire. If the appraisers cannot agree on an umpire within 15 days, either party may ask a judge of a court having jurisdiction to name the umpire.
3. The appraisers must state the net income and operating expense figures, and the amount of loss, separately. If the appraisers do not agree, they must submit the points of difference to the umpire, and agreement between any two of the three fixes the amount of loss.
4. Each party pays its own appraiser. The parties bear the other expenses of the appraisal, and the compensation of the umpire, equally.
5. If we submit to an appraisal, we retain every right to deny the claim. An appraisal fixes the amount of loss; it does not decide coverage.

K. Loss Determination and Loss Payment

1. **Determining the “business income” loss.** We determine the amount of “business income” loss from:
 - a. the net income your business produced before the “covered damage” occurred;
 - b. the probable net income of the business had no damage occurred, but excluding any net income that would probably have been earned from an increase in business volume caused by favorable conditions the peril created for you, such as customers displaced from damaged competitors; a windfall the disaster would have handed you does not inflate the claim;
 - c. the operating expenses, including payroll, that are necessary for you to restore the standard of service that existed immediately before the damage; and
 - d. other relevant sources of information, including your financial records and accounting procedures, your bills, invoices, and other vouchers, and your deeds, liens, and contracts.

For a manufacturing business, net income is measured from the net sales value of the production that the “suspension” prevented.

2. **Determining the “extra expense” amount.** We determine the amount of “extra expense” from:

- a. every expense above the normal operating expenses you would have incurred during the “period of restoration” had no damage occurred, reduced by:
 - (1) the salvage value that remains, once your “operations” resume, in any property you acquired for temporary use while the “period of restoration” ran; and
 - (2) any “extra expense” that other insurance pays, except insurance written on the same plan and terms as this insurance, in which case we pay our proportionate share; and
- b. the necessary spending that lowers the “business income” loss that would otherwise have been sustained, which is payable as “extra expense” under B.2.

3. **Resumption of “operations”.** We will reduce the amount payable as follows:

- a. we will reduce the “business income” loss, exclusive of “extra expense”, in the measure that you can resume your “operations”, in whole or in part, whether with damaged property, undamaged property, merchandise, or stock, and whether at the described premises or anywhere else;
- b. we will reduce the “extra expense” loss in the measure that you can return your “operations” to normal and end the “extra expense”; and
- c. if you do not resume your “operations”, or do not resume them as quickly as you reasonably could, we will base payment on how long a reasonably prompt resumption would have taken.

You are not obligated to resume your “operations” in order to collect the actual loss you sustain, but the loss is always measured

against a business that mitigates. A leisurely recovery is partly self-insured.

4. **Other insurance.** If other insurance covering the same loss is written on the same plan and terms as this insurance, we will pay only our share of the covered loss, which is the ratio of this policy's Limit of Insurance to the combined limits of all such insurance. If other insurance covering the same loss is written on any other basis, we will pay only the amount of the covered loss that exceeds the amount due from that other insurance, and not more than the Limit of Insurance.
5. **Loss payment.** We will pay the covered loss not later than 30 days after we receive the sworn proof of loss, if you have complied with all terms of this insurance and:
 - a. we have reached agreement with you on the amount of loss; or
 - b. an appraisal award has been made under Section J.

Because no one can know exactly what the business would have earned during the "suspension", the figures in K.1. rest on records and reasonable projection. Filing a complete proof of loss early, supported by financial statements, invoices, and contracts, shortens the path to agreement and payment.

L. Insurance-to-Value Condition

This condition, commonly called coinsurance, applies to "business income" only when the Declarations show a coinsurance percentage for it. It does not apply to "extra expense", and it does not apply to the extension in Section E. Available percentages run from 50% to 125%.

1. **The required amount.** We will not pay the full amount of a "business income" loss whenever the Limit of Insurance is less than the product of:
 - a. the coinsurance percentage shown in the Declarations; and
 - b. the sum of the net income, meaning pre-tax net profit or net loss, and all operating expenses, including payroll, that your "operations" at the described premises would have generated during the 12 months

after the inception date of this policy or its most recent anniversary date, whichever is later, had no damage occurred.

Because the required amount rests on a forward 12-month projection, growth during the policy year raises the required amount. You must increase the Limit of Insurance as soon as growth in net income or operating expenses becomes apparent, or a loss late in the year may be penalized under L.3.

2. **Deductible expenses.** In computing the operating expenses used in L.1.b., you may deduct the following expenses, to the extent they apply to your business:
 - a. prepaid outgoing freight;
 - b. returns and allowances;
 - c. discounts;
 - d. bad debts;
 - e. collection expenses;
 - f. the consumed cost of raw stock and factory supplies, together with their transportation charges;
 - g. the cost of merchandise sold, together with its transportation charges;
 - h. the consumed cost of other supplies, together with their transportation charges; and
 - i. the cost of services purchased from persons other than your employees for resale, if the purchase does not continue under contract.
3. **The penalty computation.** If the Limit of Insurance is less than the required amount, we will determine the most we will pay in these steps:
 - a. multiply the 12-month net income and operating expense figure in L.1.b. by the coinsurance percentage;
 - b. divide the Limit of Insurance carried at the described premises by the step a. result; and
 - c. multiply the total amount of the loss by the step b. result.

We pay the smaller of the step c. amount and the Limit of Insurance. You bear the remainder

or look to other insurance for it.

- 4. **Worked example: underinsured.** Your 12-month net income plus operating expenses is \$400,000; the coinsurance percentage is 50%; the Limit of Insurance is \$150,000; the loss is \$80,000. Step a.: \$400,000 times 50% is \$200,000. Step b.: \$150,000 divided by \$200,000 is 0.75. Step c.: \$80,000 times 0.75 is \$60,000. We pay not more than \$60,000, and the remaining \$20,000 is not covered.
- 5. **Worked example: adequately insured.** The same figures apply, except the Limit of Insurance is \$200,000. The required amount is \$400,000 times 50%, which is \$200,000. The Limit of Insurance equals the required amount, so no penalty applies, and we pay the full \$80,000 loss, up to the Limit of Insurance.
- 6. **Selecting the percentage.** Selection is distinct from application. A practical method: estimate the longest realistic “suspension” in months; multiply the 12-month projection by that number of months divided by 12 to size the Limit of Insurance; divide that limit by the projection; and round down to the nearest available percentage. On an \$800,000 projection with a nine-month worst case, the indicated limit is \$600,000, the ratio is 75%, and the fitting selection is 70%. Amounts for “extra expense” and for any extended recovery days elected under M.4. are then added to the limit, not to the percentage.

M. Optional Provisions

Each of the following options applies only if the Declarations show it as applicable, and each applies separately to each item it is shown for. Options M.1., M.2., and M.3. each suspend or replace the insurance-to-value condition in Section L.

1. Capped recovery period.

- a. If the Declarations show this option, Section L. does not apply.
- b. The most we will pay for “business income” loss and “extra expense” combined is the smaller of:
 - (1) the Limit of Insurance; or

- (2) the loss sustained, plus the expense incurred, during the first 120 days of the “period of restoration”.

- c. This option changes only how long we pay. Loss sustained and expense incurred after the 120th day are not payable. Illustration: with a \$200,000 Limit of Insurance, a business loses \$90,000 of income and incurs \$35,000 of expense in the first 120 days, then loses another \$25,000 of income and \$15,000 of expense while construction continues. We pay \$125,000; the \$40,000 sustained after day 120 is not covered.

2. Monthly cap.

- a. If the Declarations show this option with a fraction, Section L. does not apply.
- b. The most we will pay for “business income” loss in each consecutive 30-day period measured from the start of each “period of restoration” is the Limit of Insurance multiplied by the fraction shown in the Declarations. The available fractions are 1/3, 1/4, and 1/6. The 30-day periods are consecutive periods, not calendar months.
- c. The cap applies to “business income” loss only. “Extra expense” incurred in the same 30-day period is payable in addition to the capped “business income” amount, subject to the Limit of Insurance.
- d. The cap does not limit how long we pay. Payments continue for the entire “period of restoration”, and through any recovery window under D.3., until the Limit of Insurance is exhausted.
- e. Illustration: the Limit of Insurance is \$120,000 and the fraction is 1/4, so the cap for each 30-day period is \$30,000 of “business income” loss. The business loses \$40,000 in days one through 30, \$20,000 in days 31 through 60, and \$30,000 in days 61 through 90. We pay \$30,000, then \$20,000, then \$30,000, a total of \$80,000. The first period’s unpaid \$10,000 could have been covered by a higher Limit of Insurance or by electing the 1/3 fraction, which would have set the cap at \$40,000 without changing the limit.

f. Illustration with “extra expense”: the same \$120,000 limit and 1/4 fraction apply. In days one through 30 the business loses \$40,000 of income and incurs \$10,000 of expense; we pay \$40,000, which is the \$30,000 capped income amount plus the full \$10,000 of expense. In days 31 through 60 it loses \$20,000 and incurs \$5,000; we pay \$25,000 in full because the income loss sits under the cap. Payments then continue period by period until, in the fifth 30-day period, the running total reaches the \$120,000 Limit of Insurance and payments stop. The cap never stopped the payments; only exhausting the limit did. A seasonal business should test the fraction against its peak 30 days, not its average.

3. Agreed amount.

- a. To activate this option:
 - (1) you must submit a “worksheet” showing the financial data of your “operations” for the 12 months before the date of the “worksheet” and your estimates for the 12 months immediately following the effective date of this option; and
 - (2) the Declarations must show this option as applicable and must show an agreed value at least equal to the product of the coinsurance percentage shown in the Declarations and the estimated 12-month net income and operating expenses reported on the “worksheet”.
- b. While this option is in effect, Section L. is suspended. The suspension lasts until the earlier of:
 - (1) the date 12 months past the option’s effective date; or
 - (2) the expiration date of this policy.
- c. Section L. is automatically reinstated if you do not submit a new “worksheet” and a new agreed value not later than 12 months after the option takes effect, or if you request a change in the Limit of Insurance for “business income”.

d. When the “business income” Limit of Insurance falls below the agreed value, we will pay not more than the amount of the loss multiplied by the Limit of Insurance and divided by the agreed value. Illustration: the Limit of Insurance is \$100,000, the agreed value is \$200,000, and the loss is \$80,000. The ratio is 0.50, so we pay \$40,000 and the remaining \$40,000 is not covered.

- 4. **Extended recovery days.** If the Declarations show a number of days for this option, that number replaces the 60 days in D.3.c.(2). The available numbers of days run in 30-day steps up to 730 days. This option adds time, not money: it does not increase the Limit of Insurance, and the limit must be sized to fund the longer recovery window. Sixty days is rarely enough for a business that lives on habit, reputation, or advance bookings; the number of days elected should reflect how long your customer base would realistically take to return.
- 5. **Reduced waiting period.** If the Declarations show a waiting period of 24 hours for “business income”, that figure replaces the 72 hours in H.1. and in D.1.b. If the Declarations show that no waiting period applies, the “period of restoration” for “business income” begins immediately at the time of the “covered damage”, and the “business income” component under D.1. begins immediately on the first civil authority action. This option matters most to a business that loses heavily by the hour.
- 6. **Increased restoration period for ordinance or law.** If the Declarations show this option, the “period of restoration” includes the added time required to repair or rebuild the property in compliance with the minimum requirements of an ordinance or law, in force when the “covered damage” occurred, that regulates the construction or repair of property or requires its demolition, and H.3.a. does not apply to that extent. This option does not add the time needed to test for, assess, or remediate “pollutants”, and it does not increase the Limit of Insurance.
- 7. **Premium adjustment.** If the Declarations show this option, the premium for “business income” is provisional. You must submit a “worksheet” at

each anniversary reporting actual values for the expired period. We will compute the earned premium on the reported values and refund any provisional premium paid in excess of it. Section L. continues to apply in full while this option is in effect; the option makes a generous Limit of Insurance affordable, and the limit, not this option, is what avoids a penalty under L.3.

N. Definitions

1. "Business income" means the sum of:
 - a. the net income, meaning pre-tax net profit or net loss, that your "operations" would have earned or absorbed had no "covered damage" occurred; for a manufacturing business, net income is measured from the net sales value of the production the "suspension" prevented; and
 - b. your normal operating expenses, including payroll, that continue during the "suspension".
2. "Covered damage" means direct physical loss of property, or direct physical damage to property, caused by a peril insured under the perils document shown in the Declarations for this coverage.
3. "Electronic data" means facts, information, and computer programs that are stored as, created on, sent to, or received from computer software, whether systems software or applications software, on any storage medium used with electronically controlled equipment, such as hard drives, tapes, discs, memory cells, and data processing devices.
4. "Extra expense" means a necessary expense that you incur during the "period of restoration" and that would not exist had no "covered damage" occurred.
5. "Finished stock" means stock you have manufactured, including stock you have manufactured that is held for sale on the premises of a retail outlet insured under this coverage; it does not include stock you have manufactured and hold for sale at any other retail location.
6. "Operations" means the business activities you conduct at the described premises and, under

the elections in C.1. and C.3., the tenantability of the described premises.

7. "Period of restoration" means the period that:
 - a. begins 72 hours after the time of the "covered damage" for "business income" coverage, and immediately at the time of the "covered damage" for "extra expense" coverage; and
 - b. ends on the earlier of the date determined under H.2.a. or the date determined under H.2.b.

The "period of restoration" excludes the added time described in H.3., and the expiration date of this policy does not cut it short, as H.4. states.

8. "Pollutants" means any irritant or contaminant, whether solid, liquid, gaseous, or thermal, including smoke and soot, vapor and fumes, acids and alkalis, chemicals, and waste; waste includes materials held for recycling, reconditioning, or reclamation.
9. "Rental value" means the "business income" composed of:
 - a. the pre-tax net profit or net loss you would have earned or absorbed as rent from tenants occupying the described premises, as furnished and equipped by you, including the fair rental worth of any part of the described premises that you occupy yourself; and
 - b. the normal operating expenses of the described premises that continue, including payroll and the charges that are the legal obligation of your tenants but would otherwise fall to you.
10. "Specified perils" means fire; lightning; windstorm or hail; explosion; riot or civil commotion; smoke; vandalism; aircraft or vehicles; sprinkler leakage; volcanic action; sinkhole collapse; weight of snow, ice, or sleet; falling objects; and water damage.
11. "Suspension" means:
 - a. any slowdown, or the complete cessation, of your business activities; a partial slowdown qualifies, and a total shutdown is not required; or

- b. under the elections in C.1. and C.3., untenantability of some or all of the described premises.

12. "Worksheet" means a business income report, on our form or an equivalent we accept, showing the actual net income and operating expenses of your "operations" for the most recent 12 months and your estimates of them for the 12 months to follow.

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