United States Court of Appeals for the Fifth Circuit

No. 25-60653

United States Court of Appeals
Fifth Circuit
FILED
September 8, 2026
Lyle W. Cayce
Clerk

COASTAL DUST CONTROL, INCORPORATED, *doing business as* SANICO, L.L.C.,

Plaintiff—Appellant,

versus

STATE FARM FIRE AND CASUALTY COMPANY,

Defendant—Appellee.

Appeal from the United States District Court
for the Southern District of Mississippi
USDC No. 1:24-CV-5

Before SMITH, HAYNES, and ENGELHARDT, *Circuit Judges*.

PER CURIAM:[*]

Following a fire in Sanico's industrial laundry facility, State Farm paid on a business income coverage policy. Sanico incurred "extra expenses" to keep operating, but State Farm limited coverage to the income that would have been lost from a complete shutdown.

Disputing this interpretation of the policy, Sanico alleged that State

[*] This opinion is not designated for publication. *See* 5TH CIR. R. 47.5.

Farm had underpaid and brought claims for breach of contract, negligence, and bad faith. The district court dismissed all but the bad faith claim, and a jury found State Farm non-liable thereon. The district court dismissed all claims with prejudice.

This appeal concerns only the summary judgment dismissing the breach of contract claim under the "Loss of Income and Extra Expense" endorsement. This is purely a question of law on the interpretation of the punctuation, format, or structure of a body of text. We approve the district court's reasoning and affirm.

I.

On March 13, 2023, a commercial fire destroyed Coastal Dust Control, d/b/a Sanico's industrial laundry facility in Long Beach, Mississippi, used for laundering commercial items such as linens and floor mats for hospitality companies. Sanico's owner Johnny Sandras had insured the property and business under two policies issued by State Farm.

On March 14, State Farm immediately opened a "building claim" and "business claim" under the two respective policies. On April 18, State Farm paid out the building claim limit less the applicable deductible. But following the fire, and to keep the business alive, Sanico began trucking its linens to a facility in Cottondale, Alabama, as well as subcontracting with other companies to meet its customers' laundry demands.

Relevant to this appeal, Sanico's business policy included an endorsement titled "Loss of Income and Extra Expense." The policy provides coverage for necessary "extra expenses" incurred during the "period of restoration" that would not have been incurred "if there been no accidental direct physical loss to property . . . ." The endorsement defines "Extra Expense" as covering three categories of expense followed by certain *limiting* language, the interpretation of which is the subject of this dispute. The precise lan-

guage reads as follows:

> DEFINITIONS
> 1. "Extra Expense" means expense incurred:
> a. To avoid or minimize the "suspension" of business and to continue "operations":
> (1) At the described premises; or
> (2) At replacement premises or at temporary locations, including relocation expenses, and costs to equip and operate the replacement or temporary locations;
> b. To minimize the "suspension" of business if you cannot continue "operations"; or
> c. To:
> (1) Repair or replace any property; or
> (2) Research, replace or restore the lost information on damaged "valuable papers and records" to the extent it reduces the amount of loss that otherwise would have been payable under this coverage or "Loss Of Income" coverage.

State Farm made several payments for business interruption, paying out at least $267,253 by May 19, 2023.

Yet on May 24, 2023, State Farm received a letter from Sanico's adjuster disputing State Farm's calculation of the extra expenses. He asked for an explanation of why "the payment for the expenses is limited to the lessor [*sic*] of the loss of income at full suspension of operations or the extra expense."

State Farm's representative responded by pointing to the policy's language defining "extra expense" as being recoverable "to the extent it reduces the amount of loss that otherwise would have been payable under this coverage or 'Loss of Income' coverage." The representative explained, "Extra Expenses are reimbursable up to the amount they reduce the amount otherwise payable under this coverage, which is a full shutdown calculation."

After both sides agreed to hire a forensic accountant, that accountant

reported, "[w]e calculate the loss avoided through August 2023 at $906,941," meaning the income that Sanico would have lost had it ceased operations completely after the fire. State Farm promptly paid that amount on September 27, 2023.[1]

* * * * *

Nevertheless, on January 11, 2024, Sanico sued, asserting, as relevant to this appeal, breach of contract. On May 2, 2025, Sanico filed a motion for partial summary judgment contending that all the expenses it had incurred after the fire fell under subpart a. of the extra expense definition and that the "to the extent" limiter did not apply to such. State Farm cross-moved for partial summary judgment, arguing that the "to the extent" qualifier covered all three subparts of the extra expense definition.

On September 5, 2025, the district court entered its memorandum opinion and order granting summary judgment to State Farm, finding that the "to the extent" qualifier applied to all parts of the extra expense definition. This appeal followed.

II.

The only issue on appeal is whether the district court correctly interpreted the Loss of Income and Extra Expense endorsement and therefore correctly granted partial summary judgment to State Farm on the breach of contract claim where State Farm had otherwise paid all amounts owed. The answer is yes.

State Farm posits that while Sanico did not sustain a loss of income following the fire, it did incur extra expenses to continue operations. State

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[1] In the end, State Farm actually slightly overpaid as a result of the accountant's later downward adjustment of the award of extra expenses.

Farm insists that the endorsement caps the recoverable extra expenses at the amount of income Sanico would have lost in a full shutdown. State Farm points to the indentation separating the "to the extent" qualifier from subpart c. and aligning it instead with the lead sentence. State Farm posits that this separation indicates that the qualifier applies to all three subparts and distinguishes this structure from another phrase within the same insurance contract containing unindented text in a subsection separated from the preceding section by a period, which State Farm takes to indicate a local limit.

The district court, consistent with this view, applied the "Scope-of-Subparts" canon, whereby "material contained in unindented text relates to all the following or preceding indented subparts."[2] Sanico counters that the "to the extent" qualifier applies only to subpart c. of the "Extra Expense" definition. Sanico insists that the lack of a comma separating the phrase from subpart c. indicates that it is limited to c., and it asks us to disregard the indentations as "override[n]" and "not controlling," resorting to the canon of punctuation refining meaning. Sanico optimistically muses that it did not incur subpart c. expenses and that those are not applicable here such that Sanico can recover unlimited expenses under subpart a.

Sanico elaborates on this punctuation argument by first noting that the use of semicolons and the word "or" separating the three subparts of the definition indicates there are three disjunctive definitions of "extra expense." Sanico then reasons that "there is no period, comma, semicolon [or] other disconnector between subpart c. and the modifier, indicating that it is a singular, isolated sentence that contains the modifier."

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[2] Citing ANTONIN SCALIA & BRYAN A. GARNER, READING LAW: THE INTERPRETATION OF LEGAL TEXTS 156 (2012)); *accord Krishna v. Life Ins. Co. of N. Am.*, No. 22-20516, 2023 WL 4676822, at *6 (5th Cir. 2023) (unpublished).

Sanico next contends that the "last antecedent" doctrine is implicated. That canon says that related and qualifying clauses are *generally* applied to the words or phrases immediately preceding and do not extend to more remote ones. Because—according to Sanico—there is no comma or other separator before the qualifier, the qualifier should apply to only the last antecedent, which is subpart c.

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In diversity cases, state law governs the interpretation of insurance policies. *RealPage, Inc. v. Nat'l Union Fire Ins. Co.*, 21 F.4th 294, 297 (5th Cir. 2021). Mississippi substantive law applies to this contract. *Miss. Silicon Holdings, LLC v. AXIS Ins. Co.*, 440 F. Supp. 3d 575, 580 n.3 (N.D. Miss. 2020). "The interpretation of an insurance policy is a question of law, not one of fact." *Noxubee Cnty. Sch. Dist. v. United Nat'l Ins. Co.*, 883 So. 2d 1159, 1165 (Miss. 2004) (citation omitted). "In considering an insurance policy, the Court must 'render a fair reading and interpretation of the policy by examining its express language and applying the ordinary and popular meaning to any undefined terms.'" *Parker v. State Farm Fire & Cas. Co.*, No. 22-cv-45, 2023 WL 4425599, at *3 (S.D. Miss. May 22, 2023) (citation omitted). "[I]n interpreting an insurance policy, this Court should look at the policy as a whole, consider all relevant portions together and, whenever possible, give operative effect to every provision in order to reach a reasonable overall result." *J & W Foods Corp. v. State Farm Mut. Auto. Ins. Co.*, 723 So. 2d 550, 552 (Miss. 1998) (citing *Cont'l Cas. Co. v. Hester*, 360 So. 2d 695, 697 (Miss. 1978)).

Mississippi courts apply a "three-tiered approach to contract interpretation." *Tupelo Redev. Agency v. Abernathy*, 913 So. 2d 278, 284 (Miss. 2005) (citation omitted). "First, the 'four corners' test is applied, wherein the reviewing court looks to the language that the parties used in expressing

their agreement." *Id.* "Second, if the court is unable to translate a clear understanding of the parties' intent, the court should apply the discretionary 'canons' of contract construction." *Id.* "Finally, if the contract continues to evade clarity as to the parties' intent, the court should consider extrinsic or parol evidence." *Id.*

Step one is sufficient to resolve the purported ambiguity, which we see as basically unambiguous.[3] To the extent that we need to pass to step two, it is squarely in State Farm's camp.

The "to the extent" qualifier plainly applies to all three sections of the definition, quoted verbatim *supra*. The unindented qualifier modifies each of the subparts, separated by semicolons and the disjunctive "or." The qualifier is demoted to unindented status and therefore is structurally separated from subpart c. And within that qualifier, "to the extent *it* reduces" maps onto the singular word "expense" in the first unindented lead line of the definition. This is the best reading. As the district court stated, other courts have interpreted unindented qualifying, adverbial phrases following a series to apply to all preceding subparts of the series.[4]

The contrary theories advanced by Sanico are unimpressive. Sanico insists that if an insurance policy contains ambiguous or unclear language,

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[3] "Mere disagreement as to the meaning of a policy provision does not render the policy ambiguous." *St. Paul Fire & Marine Ins. Co. v. Renegade Super Grafix, Inc.*, 209 F. Supp. 3d 895, 904 (S.D. Miss. 2016) (internal quotation marks and citation omitted).

[4] *See Castaneda v. Souza*, 810 F.3d 15, 47 (1st Cir. 2015) (observing that the subject statute has a "format that literally and visually sets the four descriptions apart from the adverbial phrase," such that the adverbial phrase qualified the preceding four descriptions); *Miller v. Safeco Title Ins. Co.*, 758 F.2d 364, 368 (9th Cir. 1985) (explaining that a "careful draftsman" intending to make limiting language apply to two subparagraphs would have included the limitation "in an unindented paragraph . . . following the two subparagraphs.").

then "ambiguities must be resolved in favor of the non-drafting party," *Sturkin v. Miss. Ass'n of Supervisors, Inc.*, 315 So. 3d 521, 530 (Miss. Ct. App. 2020) (citation omitted), yet it glosses over the principle that "if a contract is clear and unambiguous, then it must be interpreted as written" and that ambiguities exist only "when a policy can be logically interpreted in two or more ways, where one logical interpretation provides for coverage," but "ambiguities do not exist simply because two parties disagree over the interpretation of a policy." *U.S. Fid. & Guar. Co. v. Martin*, 998 So. 2d 956, 963 (Miss. 2008) (citations omitted). Properly understood, ambiguities require real logical substance, not mere confusion.

This court has restated the relevant principles of Mississippi insurance law as follows:

> First, where an insurance policy is plain and unambiguous, a court must construe that instrument, like other contracts, exactly as written. Second, it reads the policy as a whole, thereby giving *effect to all provisions*. Third, it must read an insurance policy more strongly against the party drafting the policy and most favorably to the policy holder. Fourth, where it deems the terms of an insurance policy ambiguous or doubtful, it must interpret them most favorably to the insured and against the insurer. Fifth, when an insurance policy is subject to two *equally reasonable* interpretations, a court must adopt the one giving the greater indemnity to the insured. Sixth, where it discerns no practical difficulty in making the language of an insurance policy free from doubt, it must read any doubtful provision against the insurer. Seventh, it must interpret terms of insurance policies, particularly exclusion clauses, favorably to the insured wherever reasonably possible. Finally, although ambiguities of an insurance policy are construed against the insurer, *a court must refrain from altering or changing a policy where terms are unambiguous*, despite resulting hardship on the insured.

Nationwide Mut. Ins. Co. v. Lake Caroline, Inc., 515 F.3d 414, 419 (5th Cir. 2008) (emphases added).

Sanico's approach—attempting to create ambiguity or resolve the issue in its favor on the basis of the canon of punctuation refining meaning—ultimately fails. Sanico's first argument that there is no disconnector between the subpart c. and the qualifier, and that therefore only subpart c. contains the modifier, rather misses the mark. The qualifier is indeed disconnected from subpart c. by a demotion to a separate line of text—which is aligned to the left of the subparts. As the district court put it, "the format sets the lettered subparts apart from the unindented adverbial phrase."

Further, applying the canons Sanico prefers would lead to a nonsensical reading of the policy. Sanico maintains that the qualifier applies to subpart c. but cannot explain why it extends to both c.1. and c.2.—after all, there is a semicolon (a known disjunctive punctuation mark) between the two sub-subclauses. Accordingly, strictly following the last antecedent canon would result in the qualifier's applying only to subpart c.2. Sanico does not argue for such an interpretation, yet its preferred method cannot avoid it. Moreover, Sanico glides past the exceptions built into the authorities it itself cites:

> By what is known as the doctrine of the 'last antecedent,' relative and qualifying words, phrases, and clauses are to be applied to the words or phrases immediately preceding, and are not to be construed as extending to or including others more remote. *But this doctrine has no application where the qualifying word, phrase, or clause is applicable as much to the first in other words as to the last*, and the spirit and purpose of the statute requires the application thereof to all preceding words, clauses or phrases.

Marquette Cement Mfg. Co. v. Fid. & Deposit Co., 158 So. 924, 925 (1935) (citation omitted) (emphasis added).

Where it appeals to Scalia & Garner, Sanico misses the mark: "A pronoun, relative pronoun, or demonstrative adjective *generally* refers to the

nearest *reasonable* antecedent." SCALIA & GARNER, *supra*, at 144 (emphases added). The exception mentioned maps onto cases exactly like this—ones in which a modifying clause clearly attaches *not* to its most recent antecedent, but across the preceding subparts on account of clear structural signals.[5]

Moreover, Sanico's preferred reading doesn't conform to the economic purposes of the contract, since it would create a runaway of unlimited liability for certain categories of expenses. State Farm's position that all categories of "extra expenses" are recoverable only "to the extent" they reduce the insured's loss of income is impressive because insurance policies are not designed to produce moral hazard.[6]

The judgment is AFFIRMED.

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[5] Sanico's reliance on *Midwest Regional Allergy, Asthma, Arthritis & Osteoporosis Ctr. v. Cincinnati Insurance Co.*, 795 F.3d 853 (8th Cir. 2015), is also misplaced where that case addressed a distinct set of punctuative signals, neither involving "or"s nor offset indentations.

[6] This is also why the forensic accountant said that other configurations of extra expense mitigating loss of income policies usually contained direct dollar figures.