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10 THE COURT: And we turn to the last subject matter
11 - mandatory meetings.

12 MR. GARNER: Correct.

13 THE COURT: I understand there is one witness on
14 each side.

15 MR. GARNER: Correct.

16 MR. REICHLER: Yes, sir.

17 THE COURT: You may proceed, Mr. Garner.

18 MR. REICHLER: May I just ask a quick question,
19 Your Honor? If Your Honor would give us some indication.
20 Assuming that since there is one minute each -- I'm sorry
21 -- one witness each, that we finish, say, like three
22 o'clock, which may be a reasonable approximation, is it Your
23 Honor's preference that we go directly to closing arguments
24 today? Does Your Honor have a preference for oral over
25 written closing argument? Obviously, we are prepared to do

1 whatever Your Honor wants, just like to have some indication
2 as to whether we should start psyching up for a brief or
3 whatever oral presentation or we should start thinking about
4 something different.

5 THE COURT: I think I would find closing oral
6 arguments beneficial, and I'm prepared to indulge you some
7 time to prepare your closing arguments because I think they
8 will be of some significance.

9 MR. REICHLER: Yes, sir.

10 THE COURT: And hence, I am prepared, unless I
11 hear vigorous exception, --

12 MR. REICHLER: I'm sure you won't, Your Honor.

13 THE COURT: -- to defer closing arguments until
14 another day. Because of scheduling problems, it would be
15 most convenient if I heard the closing arguments on Tuesday,
16 rather than Monday. Would that present a problem for you,
17 Mr. Reichler?

18 MR. REICHLER: We have a rigorous acceptance, Your
19 Honor.

20 THE COURT: Mr. Garner.

21 MR. GARNER: Your Honor, I regret to say that I
22 cannot do it on Tuesday. I'm committed to some urgent
23 family matters on that day.

24 THE COURT: Would Wednesday be --

25 MR. GARNER: Actually, my schedule for that goes

1 Tuesday through Thursday. I'd be available Monday, and I'd
2 be available Friday.

3 THE COURT: Well then, let's hear it on Monday.

4 MR. GARNER: Very well.

5 MR. REICHLER: Would the Court like to fix a time
6 now or should we await word?

7 THE COURT: I'm ready at nine o'clock on Monday.

8 MR. REICHLER: Perfect, Your Honor. We'll be
9 ready too. Thank you, sir.

10 MR. GARNER: Your Honor, how much time should we--

11 THE COURT: Your colleague may have a question.

12 MR. O'CONNOR: Where, Your Honor?

13 THE COURT: In this courtroom.

14 MR. O'CONNOR: Okay.

15 MR. GARNER: And the time for argument for each
16 side?

17 MR. REICHLER: As far as --

18 THE COURT: Let me reflect upon that, and put the
19 question to me again when we conclude the testimony.

20 MR. GARNER: Very well, Your Honor.

21 THE COURT: I did want to hear Mr. Wright, if he
22 is available, on a matter concerning his testimony, but that
23 can wait until we close mandatory meetings.

24 MR. REICHLER: Well, Your Honor, Mr. Wright will
25 be our witness on mandatory meetings. So, if Your Honor

1 wishes to pose the question to him at that time, that might
2 be very convenient.

3 THE COURT: That will be fine.

4 MR. REICHLER: Thank you, sir.

5 MR. GARNER: Plaintiff calls Steven Knapp.

6 THE DEPUTY CLERK: Sir, you're still under oath.

7 THE WITNESS: Thank you.

8 Thereupon,

9 STEVEN KNAPP,

10 having been recalled as a witness on behalf of the
11 Plaintiff, and having been previously sworn by the Deputy
12 Clerk, was examined and testified, as follows:

13

14 DIRECT EXAMINATION

15 BY MR. GARNER:

16 Q. Mr. Knapp, do you know what your contract says
17 about going to meetings?

18 A. Our contract specifically says that I will be
19 invited to attend any meeting.

20 Q. What, if anything, does the contract say about
21 State Farm supervising your daily activities?

22 A. The contract says that I am in complete charge of
23 my daily activities, especially with regard to time, manner
24 and place at which I conduct all aspects of my business.

25 Q. Does your contract say you have to go to meetings?

1 A. No, it does not.

2 Q. Has State Farm, over the past few years, demanded
3 that you go meetings?

4 A. Yes, it has.

5 Q. And did you go to those meetings?

6 A. Yes, I did. I had to under threat of termination.

7 Q. What do you mean threat of termination?

8 A. If I failed to show up at a meeting, I would be
9 terminated.

10 Q. Okay. What took place at these meetings that you
11 went to?

12 A. The meetings started five or six years ago, and
13 they are billed this -- they are called annual compliance
14 meetings.

15 MR. REICHLER: Objection, Your Honor. Oh,
16 withdrawn. Withdrawn.

17 THE COURT: Proceed, Mr. Garner.

18 BY MR. GARNER:

19 Q. What took place at the meetings?

20 A. Topics varied from year to year. Some years there
21 was an emphasis on the subject of ethics. Other years had
22 less of an emphasis on ethics and more of an emphasis on
23 business practices in general.

24 Q. And are you aware of any other means in which the
25 same information could be provided to agents?

1 A. Yes.

2 Q. What other means are there?

3 A. Oh, the company publishes a monthly magazine,
4 publishes a monthly mini-newspaper. It certainly has the
5 ability to send us information on e-mail and also has an
6 opportunity to set up various types of websites on the State
7 Farm Intranet and then through e-mail instruct us how to
8 locate such a site to obtain the information.

9 Q. Okay. And what is the information security
10 program?

11 A. That program deals primarily with, I believe,
12 federal laws, recent federal laws regarding the maintenance
13 of customer information with regard to privacy and how that
14 information is to be managed.

15 Q. Okay. Is that important information in your view?

16 A. I believe it to be very important. In fact, I
17 believe it to be more important than content of the other
18 compliance meetings.

19 Q. Okay, let me direct you to Plaintiff's Exhibit No.
20 47.

21 A. Okay.

22 Q. What is that?

23 A. Those are few sample pages from what appears to be
24 the first class that we took, first mandatory class.

25 Q. Okay. And these were materials that State Farm

1 gave you at the meeting?

2 A. Yes.

3 Q. Would you turn from the first page to the second
4 page?

5 A. Yes.

6 Q. What does it say there, at the top?

7 A. Under the heading of self-study?

8 Q. Well, what's the first underlined --

9 A. The very first heading is the self-study learning
10 process.

11 THE COURT: Wait a moment, sir. Is this
12 Plaintiff's 47?

13 MR. GARNER: Yes, Your Honor.

14 THE COURT: Oh, I have it. All right, thank you.

15 BY MR. GARNER:

16 Q. And under the heading "Self-study," would you read
17 the first sentence in?

18 A. "This course is intended to be a self-contained,
19 self-study text."

20 Q. Okay. And read the second sentence, please.

21 A. "That is, you should be able to complete the
22 course and pass the test without any additional material."

23 Q. Now, when you have attended the mandatory
24 meetings, where are they usually held?

25 A. They are -- all my meetings were held in the

1 conference room of the agency field office.

2 Q. Does your field office schedule more than one
3 meeting a year?

4 A. It schedules only one meeting per year.

5 Q. And if you can't attend that meeting, are there
6 other meetings you can attend?

7 A. There could be if -- They are held -- spread out
8 throughout the state over a period of about a month, and if
9 my agency field executive happens to schedule her meeting on
10 the last day that the course is being offered, there would
11 be no other classes that I could take that I am aware of.

12 Q. Okay. Are you required to be on time for the
13 meeting?

14 A. Yes. This year we received communication for our
15 agency field executive saying if we were late at all, we
16 would not be allowed to record our attendance on a sign-up
17 sheet --

18 (Court reporter interrupts.)

19 We're required to record our attendance on a
20 sign-up sheet, and we would not be allowed to do that if we
21 were late. We would have to take another class at another
22 location.

23 Q. Okay. And how do you feel about that?

24 A. Well, the fact that I think it's a violation of my
25 agreement to force me to come, I think it would be grossly

1 unfair for an agent with a 25, 30-year career to lose the
2 career simply because they were two minutes late to a
3 meeting.

4 Q. Are there any circumstances in which agents are
5 permitted to skip these annual meetings?

6 A. No.

7 Q. And what do you base that on?

8 A. We've been told that it's mandatory, 100 percent,
9 no excuses.

10 Q. What if an agent is ill?

11 A. There is no alternative for illness. They must
12 attend the meeting, make arrangements to attend the
13 meetings.

14 MR. GARNER: Okay. No further questions.

15 THE COURT: Cross-examination?

16 MR. REICHLER: Thank you, sir.

17

18 CROSS-EXAMINATION

19 BY MR. REICHLER:

20 Q. Good afternoon, Mr. Knapp.

21 A. Mr. Reichler.

22 Q. Getting to be old pals, aren't we?

23 A. Yes, we are.

24 Q. You agree that insurance is a closely regulated
25 business; correct?

1 A. Yes sir.

2 Q. And that State Farm and the agents must deal
3 equitably with policyholders as to rates and claims, be
4 trustworthy in handling money, avoid false advertising and
5 unfair practices and refrain from any action that would
6 result in violation by State Farm or any agent of any
7 applicable law regulation; correct?

8 A. I certainly do.

9 Q. So an agent certainly needs to be aware of the
10 applicable laws and regulations and the applicable ethical
11 standards; correct?

12 A. Certainly.

13 Q. All of the agents need to be aware of any changes
14 in the applicable laws, regulations or standards; correct?

15 A. I think any responsible agent would want to be
16 made aware of any changes in a pertinent law.

17 Q. At the hearing on summary judgment in this case,
18 on May 16th of this year, your counsel and my friend,
19 Mr. Garner, stated to the Court that there are other ways
20 than this meeting, this compliance meeting, that State Farm
21 could give this kind of training. The Court then asked
22 Mr. Garner, quote, what are those other ways. Here's what
23 Mr. Garner said in response.

24 "MR. GARNER: They can give them books to
25 learn ethics.

1 "THE COURT: How do you know that the books
2 are going to be read?

3 "MR. GARNER: They can give them tests.
4 They can give them tapes. They can give them
5 all kinds of things. They can test them."

6 My question to you, Mr. Knapp, is whether you
7 agree with Mr. Garner's statement.

8 A. I have no disagreement with a qualification.

9 Q. I'm sorry.

10 A. I have no disagreement if I'm allowed to provide a
11 qualification.

12 Q. You certainly are. Is this a qualification or an
13 explanation? Okay, go ahead. Go ahead.

14 A. I leave it to you.

15 Q. You'll have no problem with me. Go ahead.

16 A. Mr. Garner's statement is accurate - any type of
17 information could be delivered by book and a test could be
18 provided. If the implication is attending the class is a
19 higher measure of understanding the material, that would be
20 inaccurate.

21 Q. I had no such implication. I was just asking you
22 if you agree with his statement that they can test them, and
23 you said you agree?

24 A. Certainly.

25 Q. Now, where could State Farm test the agents? In

1 their offices or in State Farm's offices?

2 A. Over the Internet. We have had courses before,
3 where we have a test provided to us over the Internet.

4 Q. I see. So State Farm could make you take a test
5 on ethics and compliance, as long as they made you take the
6 test while you were in your office?

7 A. I'm not going to concede the make part. I think
8 that --

9 Q. Well, State Farm can test you, and that's okay,
10 and you would have to take the test but as long as you did
11 it in your office, it would be okay?

12 A. I believe your previous question was: Is it
13 possible to deliver information and is it possible to take a
14 test?

15 Q. No, no, that was not my question. My question
16 was, picking up on your counsel's statement with which you
17 agreed, I asked you where. You agreed with the statement
18 they, which of course refers to State Farm, can test them,
19 which refers to the agents, and I asked you where. Where
20 can they test them?

21 MR. GARNER: Objection. It's been asked and
22 answered. He said they could test them over the Internet.

23 THE COURT: Yes, he did.

24 MR. REICHLER: He did say that, and I said, so
25 that's okay, as long as it's over the Internet, presumably,

1 where you would be either in your home or your office when
2 you took the test. Correct?

3 A. Certainly.

4 Q. And how would they, State Farm, know if you passed
5 the test?

6 A. Well, they would know all the time. If I took
7 their examination over the Internet and I take the test, a
8 copy of the results of that test gets forwarded to State
9 Farm. That is precisely the way the licensed staff
10 employees tests are administered.

11 Q. So you have no objection with that? You have no
12 problem with that?

13 A. I am concerned about your question. I have no
14 objection with the process? No, I have no objection with
15 the process.

16 Q. That is the question.

17 THE COURT: Do you have any objection to
18 personally being tested?

19 THE WITNESS: I have no objection to personally
20 being tested because if the subject matter is important
21 enough and --

22 THE COURT: Who is to decide that, sir?

23 THE WITNESS: Well, that would be another issue,
24 who gets to decide the importance. As a responsible, mature
25 adult, I would think -- and the owner of my own business, I

1 think I should have some input on trying to decide whether
2 it's important or not. I don't think State Farm has the
3 authority to tell me, as an independent contractor, that a
4 certain amount of material is deemed to be important enough
5 that they can control the process.

6 MR. REICHLER: But you said -- I'm sorry, Your
7 Honor. I don't want to interrupt Your Honor.

8 THE COURT: You wouldn't consider it to be
9 professionally demeaning, having 20 to 30 years in the
10 service, to be subjected to a test?

11 THE WITNESS: I am reluctant -- my hesitancy is
12 over the situation, Your Honor. I am aware that we live in
13 a complex world in which laws change, everything changes,
14 and I, as a responsible business owner, I do my very best to
15 keep up with that. I think I try to read things and test
16 myself over my own knowledge.

17 Every year I have to file a tax return which
18 requires me to keep up with current changes in tax laws, in
19 conjunction with the advice that I get from my tax
20 accountant, so I think that I can -- if State Farm wants to
21 send me some information and point out that they think this
22 is very important, then as a responsible business owner, I
23 am going to take that under due consideration and I will go
24 out of my way to review the material and do my very best to
25 learn it, but I have to draw the line when State Farm says

1 that this is important and we are going to device a test and
2 we are going to make you take it to our satisfaction. I
3 think that crosses the line as to what I'm provided for with
4 my independent contractor agreement.

5 MR. REICHLER:

6 Q. So then, you are in disagreement with what
7 Mr. Garner said. Mr. Garner said they can test them, and --

8 THE COURT: I think he's answered the question,
9 Mr. Reichler.

10 MR. REICHLER: Thank you.

11 What if you don't -- well, I don't want to say
12 you, because I know you, Mr. Knapp, and you would certainly
13 pass any test on ethics, so let's take some hypothetical
14 agent. What if Agent X took the test, Agent X was tested
15 and failed? Now, you said that State Farm would know the
16 results; right? So if Agent X failed the test, State Farm
17 would know that?

18 A. State Farm would know the results, but I feel you
19 are confusing the issue. Whether State Farm has the right
20 to implement the test and determine whether he passed or
21 failed it, I don't know if it's under State Farm's purview
22 under the agreement.

23 Q. So, State Farm doesn't have the right to determine
24 whether the agent passed or failed the test; is that --

25 Q. I think State Farm has the right to administer the

1 test.

2 (Court reporter interrupts.)

3 MR. REICHLER: I'm sorry. Well, my question was:
4 So State Farm doesn't have the right to determine whether
5 the agent passes or fails the test, and you said something
6 about administering the test, Mr. Knapp. I didn't --

7 A. I don't think State Farm has the right to dictate
8 to me which test I should take.

9 Q. So then, can you -- I'm sorry, Mr. Knapp, I don't
10 think you answered my question. My question was: So State
11 Farm, according to you, doesn't have the right to determine
12 whether you passed or failed the test? Is that your
13 testimony?

14 A. My contention is State Farm does not have the
15 right to administer a test to me at all.

16 Q. Then you don't agree with the statement -- Well,
17 I'll leave it. So, does it follow from that, that State
18 Farm doesn't have the right to determine whether you passed
19 or failed the test?

20 A. I think that would be an implication. If they
21 don't have the right to administer the test, it would be of
22 no concern as to whether I passed or failed it.

23 Q. So it would be of no concern to State Farm whether
24 you passed or failed the test on ethics or legal or
25 regulatory requirement; is that your testimony?

1 A. Mr. Reichler, I'm troubled with the yes or no
2 part. I'll try to answer yes or no if you'll ask the
3 question again.

4 Q. So it's of no concern to State Farm whether you,
5 as a State Farm agent, passed or failed a test on ethics or
6 legal or regulatory obligations; is that correct? That's
7 your testimony?

8 A. I'm at a loss to see how I answer that yes or no.

9 THE COURT: I think this subject has been well
10 covered.

11 MR. REICHLER: Thank you, sir.

12 Mr. Knapp, I believe you said that as an
13 alternative to attending meetings, that State Farm through
14 e-mail to agents can instruct the agents -- can instruct
15 you how to locate the sites, I guess the Internet sites, to
16 obtain the information that you need on --

17 A. There's an even simpler process than that. If
18 State Farm wants to notify us of pertinent information, they
19 send us an e-mail and put a link directly into the e-mail
20 which takes us to the site, and then it's up to us to decide
21 whether we want to view the information or not.

22 Q. I see. So the agent can decide not to view the
23 information that State Farm provides on ethics, law and --

24 A. That would be the very nature of an independent
25 contractor, of course.

1 MR. REICHLER: I have no further questions, sir.

2 THE COURT: Mr. Garner.

3 MR. GARNER: We don't have any redirect, Your
4 Honor.

5 THE COURT: Thank you, Mr. Knapp.

6 THE WITNESS: Thank you.

7 (Thereupon, the witness stepped down from the
8 witness stand.)

9 THE COURT: Mr. Garner, that's your case on
10 mandatory meetings?

11 MR. GARNER: Yes, Your Honor.

12 THE COURT: Plaintiff having rested, Mr. Reichler,
13 your witness.

14 MR. REICHLER: Thank you very much, Your Honor,
15 and we recall to the stand for the last time Mr. Charles
16 Chuck Wright.

17 THE DEPUTY CLERK: Sir, you're still under oath.

18 THE WITNESS: Thank you.

19 Thereupon,

20 CHARLES WRIGHT,

21 having been recalled as a witness on behalf of the
22 Defendants and having been previously sworn, was examined
23 and testified, as follows:

24 THE DEPUTY CLERK: Sir, you're still under oath.

25 THE WITNESS: Thank you.

1 THE COURT: Yes.

2

3 DIRECT EXAMINATION

4 BY MR. REICHLER:

5 Q. Good afternoon, Mr. Wright.

6 A. Good afternoon.

7 Q. Does State Farm require its agents to attend
8 meetings on compliance with ethical, legal and regulatory
9 obligations?

10 A. Yes.

11 Q. How often are the agents required to attend such a
12 meeting?

13 A. Once a year.

14 Q. How long does the meeting last?

15 A. Generally, about a half day.

16 Q. What if an agent is unable to attend?

17 A. Then we'll work with that agent to reschedule and
18 attend another meeting and another AFO.

19 Q. What if the agent is ill and can't attend?

20 A. Those are extraordinary circumstances, and we deal
21 with them one-on-one, based on a doctor's opinion and other
22 medical evaluation.

23 Q. Are they given an alternative date?

24 A. Yes, they are given an alternative date and given
25 plenty of leeway to recover before they would attend a

1 meeting.

2 Q. When did State Farm first make attendance at the
3 ethical and legal compliance meeting a requirement?

4 A. 1998.

5 Q. What was the background at the time attendance at
6 this meeting was made a requirement?

7 A. Well, at that time the insurance industry and its
8 agents, not just State Farm but all companies and agents
9 from all companies, were under attack. Every three days
10 another lawsuit was being filed against companies or its
11 agents, there were a lot of class action suits being filed,
12 there was a tremendous amount of adverse press going on.
13 The regulators were all upset, and suddenly compliance had
14 become a very, very hot topic in our industry. We felt that
15 we had to take action, in fact we had to take strong action
16 because the integrity of our agents, which after all is all
17 we have to go out and market our product, was under attack
18 and we needed to take strong action.

19 Q. And what action, if any, did you decide to take?

20 A. Well, at that point in time, there was a new
21 certification organization in the industry being formed. It
22 was called IMSA, the Insurance Marketing Standards
23 Association, kind of like a NASDA -- N-A-S-D -- for the
24 insurance industry, and there was the possibility of seeking
25 certification through that industry or through that industry

1 organization and decided to do that.

2 Q. Certification as what?

3 A. Certification of State Farm life insurance as a
4 certified -- we would become a IMSA certified company if we
5 were able to receive their certification.

6 Q. And what would be the significance to State Farm
7 of having IMSA's certification?

8 A. Well, it would provide us with sort of a good
9 housekeeping seal of approval, if you will, in the insurance
10 industry. It would be a strong measure of our being a
11 compliant company.

12 Q. And did State Farm seek IMSA certification at that
13 time?

14 A. Yes, we did.

15 Q. And how did you go about doing that or what did
16 you do?

17 A. Well, IMSA didn't give you a list of things that
18 you had to do. They simply gave you a broad outline of the
19 kind of things that needed to be addressed, and you had to
20 go about deciding on your own what you were going to do, and
21 they made it very clear that they didn't want you coming
22 back and forth with them asking questions as to whether or
23 not a particular thing would be approved on a piecemeal
24 basis. You had to submit your whole plan, and then they
25 would tell you whether or not they were going to approve

1 you.

2 Q. And did your plan, or did State Farm's plan that
3 it submit to do IMSA, bear any relation to the topic we are
4 discussing today?

5 A. Yes, it did. We debated long and hard the subject
6 of compliance. We knew we needed to make a strong
7 statement, as I said, with our agents, and for that reason
8 and also because we felt that it would provide us with a
9 strong line of defense, in the event that there were other
10 class action suits, would provide us a defense against a
11 pattern and practice type of suit indicating that we were
12 lax in the area of compliance, we decided that we would ask
13 our agents to attend an annual compliance meeting and that
14 we would certify to IMSA that 100 percent of our agents
15 completed the ethical compliance training.

16 Q. I believe you said the first of these meetings was
17 in 1998?

18 A. Yes.

19 Q. What happens at the meeting?

20 A. What happens at the meeting?

21 Q. Yes, what happens at the meeting?

22 A. Well, we try to make the meeting timely.

23 MR. GARNER: Excuse me. Forgive me for the
24 belated objection, but I object. I'd like a foundation laid
25 that he knows what happens.

1 THE COURT: Speak up, sir.

2 MR. GARNER: I would like a foundation laid that
3 he knows what happened at the meeting.

4 MR. REICHLER: I'm happy to provide that.

5 THE COURT: All right.

6 BY MR. REICHLER:

7 Q. Mr. Wright, what was your position at the time
8 this meeting was first set up?

9 A. I was chief agency officer.

10 Q. And did you participate in the decision to -- that
11 these meetings should be a requirement?

12 A. Yes, I did.

13 Q. And did you have any role in determining, either
14 in general or specific terms, what the contents of the
15 meeting would be? And please tell us what role you had, if
16 you had one.

17 A. I didn't decide on specific content nor did I
18 decide on the exact format of the meeting, but the agency
19 compliance officer, who was at that time Ralph Boldt, talked
20 with me about what was planned for the compliance meeting
21 and we talked generally about how the meeting would be
22 structured.

23 Q. So within the confines of the knowledge that you
24 have about the meetings, what happened at the meetings?

25 A. Well, my instructions to Ralph were to make sure

1 that we provided for a stimulating meeting, that we weren't
2 just there using the agents time. And further, I told him
3 that since we were asking agents to attend the meeting, that
4 it should be as much as possible interactive with a lot of
5 opportunity for agents to discuss issues and items and talk
6 with each other.

7 Q. Did you already -- What do you mean by
8 interactive?

9 A. That agents would have the benefit of sharing with
10 each other their views on the particular topics discussed,
11 so that an agent might learn from his or her fellow agents
12 what the other agents' view was on a particular topic. And
13 I might say that we did this because we found, and still
14 find in our compliance meetings, that two or three agents
15 getting together and being asked the same question on ethics
16 will have a different view of what the answer might be. So
17 the discussion is very healthy.

18 Q. Would you please turn to Defendants' Exhibit 39?
19 Again, that's in the white binder. Defendants' 39.

20 A. Yes, I have it here.

21 THE COURT: Indulge me, please, (Pause.) Proceed.

22 BY MR. REICHLER:

23 Q. Do you have it in front of you, Mr. Wright?

24 A. Yes, I do.

25 Q. Can you tell the Court what it is?

1 A. It's the outline for the 2004 annual compliance
2 meeting.

3 Q. And this was prior to your retiring?

4 A. That's correct.

5 Q. And what does it tell us? Without -- I don't
6 want you to read through the whole document. We want to be
7 brief. We're trying to be as efficient as we can but at the
8 same time present your testimony. What does this show us
9 about the content of the compliance meeting?

10 A. I think it demonstrates that we are putting on a
11 very timely meeting; that we are doing it in a fashion which
12 makes good use of the agents' time; and further, it
13 demonstrates by the very nature of the topics discussed and
14 the manner in which each agent can give himself or herself
15 an individual score on these items that they gain the
16 benefit of being together with other agents and discussing
17 these topics. It also demonstrates, I think, that the
18 subject matter is very timely. We haven't been discussing
19 in these seven years exactly the same topics.

20 Q. What are the -- what are some of the topics that
21 are discussed at these meetings?

22 A. Well, to begin with, we spend a lot of time
23 discussing issues relating to signatures and agents and
24 staff members signing for someone else their name. We also
25 spent time on the whole matter of assumed consent. Of late

1 we've talked more about issues like money laundering, we've
2 talked about identity theft, and we've talked about issues
3 relating to privacy.

4 Q. Instead of requiring agents to attend a meeting,
5 why couldn't State Farm just send them the course materials
6 and let them go through the materials on their own?

7 A. Well, that was actually an option that was
8 discussed before we decided to go with the meeting concept,
9 but we decided that for purposes of providing both our
10 certification to -- our proposal for certification to IMSA
11 and also to lay down the strong tracks that we were talking
12 about to avoid a pattern or practice suit, that we couldn't
13 monitor what went on if we simply sent out the materials to
14 someone and asked them to self-study. We really didn't know
15 whether or not people would do that. And beyond that, we
16 felt that we were really trying to communicate something
17 important to our agents, something important to them,
18 something important to the company, and that the best
19 possible way to do that was to ask them all to attend a
20 meeting.

21 Q. On what basis does State Farm believe that it has
22 the right to require agents to attend the meetings?

23 A. Well, we believe that our contract certainly
24 embodies our right to do that.

25 Q. And can you show us where in the contract you feel

1 it does?

2 A. Can you tell me which tab the contract is?

3 Q. The three forms of contracts are located
4 respectively at Plaintiff's 1, 2 and 3. That's in the black
5 binder, trial exhibits.

6 A. Yes. If you look at paragraph 1 in the AA 3
7 agreement, paragraph 1 has words to this effect. "It is to
8 our mutual interest to satisfactorily serve the insurance
9 public, to comply with all applicable laws," and then it
10 goes on, and the end of that sentence, "in order to assure
11 the necessary financial strength to protect policyholders'
12 interest." In addition to that, in paragraph A under
13 Section 1 on that same page, that paragraph has words to
14 this effect. "Agents will avoid conflicts of interest and
15 cooperate with each other or cooperate with and advance the
16 interests of the companies, the agents and the
17 policyholder." We believe, Mr. Reichler, that that's very
18 strong language.

19 THE COURT: That's 1A?

20 THE WITNESS: 1A, yes, sir. That that's strong
21 language that certainly gives us the right to ask the agents
22 to attend one meeting a year for the very important purposes
23 that I've outlined.

24 BY MR. REICHLER:

25 Q. How long has it been since any agent failed to

1 attend the annual ethical and legal compliance meeting?

2 A. For the past seven years, we've had 100 percent
3 attendance.

4 MR. REICHLER: Thank you, Mr. Wright. I have no
5 further questions.

6 MR. GARNER: How many --

7 THE COURT: Mr. Garner.

8 MR. GARNER: I'm sorry.

9 THE COURT: Go ahead.

10

11 CROSS-EXAMINATION

12 BY MR. GARNER:

13 Q. Mr. Wright, how many agents were terminated for
14 not attending ethics meetings?

15 A. I'm not sure, Mr. Garner, of the exact number. I
16 think there were four or five agents in California, and
17 there was one agent in Mountain States.

18 Q. That was seven or eight years ago, huh?

19 A. I believe it was after or during the course of
20 that first meeting in 1998.

21 Q. You testified on direct -- I got it down as best
22 I can -- describing, I think, this year's meeting, "We also
23 spend time on signatures, and we spend time --"

24 A. I know I didn't say that, sir.

25 Q. Well, what I heard was that --

1 A. I said we had spent time on the issue of
2 signatures in the past that -- I was trying to describe that
3 there were different issues that we have covered over these
4 seven years.

5 Q. And was that time that you spent in the meeting?

6 A. Time that the instructors spent in the meeting.

7 Q. Sir, please answer the question. Was that time
8 that you, Charles Chuck Wright, spent in the meeting?

9 A. I spent time with the agents in many of those
10 meetings by providing a video introduction to the meeting.

11 Q. Mr. Wright, --

12 THE COURT: What about personal attendance, sir?

13 THE WITNESS: No, sir. I did not attend those
14 meetings. May I?

15 THE COURT: Yes.

16 THE WITNESS: And my reason for nonattendance at
17 those meetings was that if I had attended those meetings,
18 then I would have become the issue in those meetings rather
19 than the subject at hand. As a registered representative, I
20 did attend an annual compliance meeting, along with other
21 members of the boards of State Farm mutual fund, so I had my
22 turn in the barrel as well.

23 BY MR. GARNER:

24 Q. So the record is clear, though, you never attended
25 the annual compliance meetings for agents either -- any

1 annual compliance meeting for agents in person as either an
2 instructor, an observer or, if you will, a student?

3 A. No.

4 Q. You've never been inside one of those meetings?

5 A. Well, Mr. Garner, I -- you are making it sound
6 like I was trying to avoid something.

7 THE COURT: He is just asking you a question, sir.

8 BY MR. GARNER:

9 Q. You have never been inside one of those meetings?

10 THE COURT: He's answered the question,
11 Mr. Garner.

12 MR. GARNER: I'm sorry, I didn't hear.

13 Mr. Wright, what is State Farm Live?

14 A. State Farm Live?

15 Q. State Farm Live.

16 A. I'm not familiar with that term.

17 Q. You have never heard of State Farm live? Do you
18 know of a publication called State Farm Times?

19 A. Yes, I do.

20 Q. What is State Farm Times?

21 A. State Farm Times is a newspaper that goes out to
22 all of our associates.

23 Q. And do you get it?

24 A. I get a whole lot of periodicals. Yes, I get it.

25 Q. And do you read it?

1 A. Sometimes I have time to read it, sometimes I
2 don't have time to read it.

3 MR. GARNER: I'd like to proffer to the witness a
4 copy of State Farm Times.

5 THE COURT: Do you propose to have that as an
6 exhibit?

7 MR. GARNER: Well, first I'd like to see if the
8 witness is familiar with it and can refresh his recollection
9 with an article in here.

10 THE COURT: Very well.

11 MR. GARNER: And I'm turning it to page 6. If
12 Your Honor would like to see a copy of what I'm --

13 THE COURT: Yes.

14 MR. GARNER: Mr. Reichler is going to stand with
15 me because I only have three copies of this.

16 MR. REICHLER: And I haven't seen this before,
17 Your Honor.

18 THE COURT: Very well.

19 BY MR. GARNER:

20 Q. I have turned it to an article that says "State
21 Farm Live bringing the classroom to you."

22 A. Mr. Garner, I don't get this publication now. I
23 am retired. June 2005.

24 Q. Have you had at least a chance to glance at this
25 article?

1 A. No. I've never seen it before. It's dated June
2 2005. I retired December 31, 2004.

3 Q. Fine. Could you glance at the article I pointed
4 out about State Farm Live?

5 A. That, by the way, was probably the reason I wasn't
6 familiar with the term. Okay, you want me to read this?

7 MR. REICHLER: Is there a question?

8 MR. GARNER: I'm asking the witness to spend
9 enough time reading it, so that he sees what it's about, and
10 my question is whether it refreshes his recollection as to
11 what State Farm Live is.

12 MR. REICHLER: Your Honor, I object. I mean, the
13 witness has said he's never seen this, he's never read it
14 before, he's never heard of State Farm Live.

15 THE COURT: This is cross-examination. I'll give
16 Mr. Garner some leeway in this regard.

17 THE WITNESS: Well, Mr. Garner, do you want me to
18 take time to read it?

19 THE COURT: Apparently he does.

20 THE WITNESS: Okay.

21 (Pause.)

22 THE COURT: How much of this do you --

23 MR. GARNER: I think that -- I'm sure the witness
24 has read enough at this juncture.

25 Does this refresh your recollection in any respect

1 as to what State Farm Live is?

2 A. Not really. It's very possible, Mr. Garner, that
3 this technology is something that's been introduced since I
4 retired.

5 Q. You are a board member, are you not?

6 A. Yes, I am.

7 Q. And you haven't heard anything at the board about
8 offering instruction over the Internet to agents?

9 A. Of the thousands of things going on in State Farm,
10 this hasn't reached the board. I'm sorry.

11 Q. Okay. So you don't know anything about this?

12 A. No.

13 MR. GARNER: No further questions.

14 THE COURT: Mr. Reichler.

15 MR. REICHLER: We certainly have no redirect, Your
16 Honor, and nor do we have any other witnesses to call.

17 THE COURT: Very well. Then that concludes the
18 testimony on mandatory meetings.

19 Mr. Wright, I've been given leave by the lawyers
20 to go back to the subject of select agents, and I'm
21 referencing your testimony on cross-examination of
22 Mr. Garner, and I trust that you recall you were asked
23 whether certain things were a bonus.

24 MR. REICHLER: I'm sorry, Your Honor, we didn't
25 hear you over here. I apologize.

1 THE COURT: I said the witness was asked by
2 Mr. Garner whether cooperative advertising was a bonus, and
3 the witness replied yes, and he was asked whether brokering
4 with Phoenix and Iowa was a bonus, and he said it wasn't a
5 bonus in his view. And he was asked whether block
6 assignments and Internet leads were bonuses, and he said not
7 a bonus but a benefit. Do you remember that, sir?

8 THE WITNESS: Yeah, I do, Your Honor.

9 THE COURT: Are you able to show us in the
10 contract where State Farm is able to confer benefits --
11 You've pointed out two points in the contract, two
12 paragraphs in the contract giving State Farm the right to
13 confer bonuses of various sorts. My question is: Are you
14 able to point to anything in the contract that grants a
15 right to confer benefits?

16 THE WITNESS: Well, Your Honor, if you think about
17 it, block assignments would be under the same category as
18 would assignments of any kind, and they are not mentioned in
19 the contract specifically either. We take the view that
20 because the contract does not speak of them specifically,
21 that in not giving them to nonselect agents, we're not
22 taking anything away from those agents.

23 THE COURT: Apparently State Farm further takes
24 the view that benefits can be provided selectively to some,
25 rather than others, as an incentive.

1 THE WITNESS: Well, Your Honor, if we have an
2 incentive that's there and people know that in order to
3 receive that benefit, or to receive that reward, that they
4 have to meet the objectives, meet the standards for that
5 award, we're not discriminating against that agent. And
6 when you look at -- when you look at the qualifications for
7 the select agent and see that 76 percent of agents are
8 qualifying for this award and, indeed, a higher percentage
9 are qualifying for individual requirements within that award
10 -- well over 90 percent of our agents today have the
11 customer response center, over 90 percent of our agents have
12 licensed staff -- we are not talking about something that's
13 onerous for agents to comply with or to meet. It's well
14 within the reach of agents.

15 Further, Your Honor, if we're in the process of
16 referring or if we are in the process of assigning a policy,
17 it's certainly in our best interest and the customer's best
18 interest to make that referral or to assign that business to
19 someone who is going to provide the best possible service in
20 that instance. And our view, as we have tried to establish
21 through our testimony here, is that the select agent
22 provides the standard for that kind of selection.

23 THE COURT: Thank you, Mr. Wright. Counsel?

24 MR. REICHLER: No questions, Your Honor.

25 MR. GARNER: Nothing.

1 THE COURT: That concludes the testimony, and we
2 are considering the closing arguments and the time
3 allotments.

4 (Thereupon, the witness stepped down from the
5 witness stand.)

6 MR. REICHLER: May I make a suggestion, Your
7 Honor, or --

8 THE COURT: Yes.

9 MR. REICHLER: I don't think we need to -- as far
10 as we are concerned, we don't need to know. I mean it's up
11 to Your Honor, however long or short. We have -- I'm not
12 suggesting it should take all day. We have all day. We
13 will be prepared to address any subject for any length of
14 time, and it's entirely up to Your Honor.

15 THE COURT: I think the lawyers do better with
16 time limits.

17 (General laughter.)

18 MR. REICHLER: And page limits. I've learned that
19 and many other things in this courtroom, Your Honor.

20 THE COURT: And I'll certainly take into
21 consideration the time consumed when the Court butts into an
22 argument, but I think that ten minutes per subject matter is
23 ample. Do you have any views on sequence? Do you wish to
24 take the same sequence that we pursued in taking testimony
25 or do you want to go back to the sequence that we used in

1 briefing?

2 MR. REICHLER: I'm perfectly happy to do it either
3 way. It may make sense just to continue with the sequencing
4 that we have now. I suppose that would be my preference.
5 But if Your Honor prefers the way we did it in briefing,
6 that's perfectly all right with us.

7 THE COURT: It seems to me that the partnership
8 agent program and the select agent program, while not joined
9 at the hip, I think that they are interconnected, just as I
10 think that restrictions on selling and brokerage are
11 related. So, unless there is cogent reasons to the
12 contrary, let's do the partnership agent program, the select
13 agent program, limitations, restrictions on sales, brokering
14 and mandatory meetings.

15 MR. REICHLER: That's fine, Your Honor.

16 THE COURT: Mr. Garner, how does that suit you?

17 MR. GARNER: That's perfectly fine with us. And,
18 Your Honor, would we do this like a mini-closing on one
19 subject and then --

20 THE COURT: We'll go through the --

21 MR. GARNER: -- I would give one, Mr. Reichler,
22 and then I would get my rebuttal?

23 THE COURT: Yes, the same way that we presented
24 testimony.

25 MR. GARNER: Okay. That's terrific.

1 MR. REICHLER: May I ask a question for
2 clarification and which has perhaps a small plea in it as
3 well? May we assume that when Your Honor mentioned ten
4 minutes, it was ten minutes each per subject --

5 THE COURT: Yes.

6 MR. REICHLER: -- as opposed to -- Thank you.

7 THE COURT: We'll also have to set a briefing
8 schedule; that is, with a proposed findings and conclusions
9 of law, and the briefs will be -- can be submitted
10 concurrently with page restrictions.

11 MR. REICHLER: We assumed that, Your Honor.

12 THE COURT: Before the Court adjourns, I want to
13 express my gratitude not only to the attorneys but to the
14 witnesses who have participated in a rather unorthodox mode
15 of litigating; and it's required your attendance over
16 multiple days, but I think that it's being, at least insofar
17 as the Court is concerned, it's been very helpful to me in
18 better understanding, indeed comprehending what this case is
19 about and what each of the subjects represent. If there's
20 nothing further, --

21 MR. GARNER: Your Honor, if I may?

22 THE COURT: Yes, Mr. Garner.

23 MR. GARNER: I'm sure Mr. Reichler will join me,
24 and on behalf of my co-counsel and Mr. Reichler and our
25 client, we want to thank you for the attention and just

1 extraordinary effort that Your Honor has made. It is a
2 privilege to appear before Your Honor. We thank you for
3 this effort. I must say that I feel that I am a better
4 lawyer for having been here, and I thank you.

5 THE COURT: I appreciate your generosity,
6 Mr. Garner.

7 MR. REICHLER: And we would be very happy to enter
8 into a stipulation to that effect, Your Honor. It's
9 unanimous.

10 THE COURT: I think the case has been well
11 litigated. I think that our witnesses have been not only
12 good, substantive witnesses, but I've enjoyed their
13 personalities and the carriage of each.

14 MR. REICHLER: Thank you.

15 THE COURT: Court stands adjourned.

16 THE DEPUTY CLERK: All rise.

17 (Proceedings adjourned. 3:08 p.m.)

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CERTIFICATION OF REPORTER

I, MARIA M. ALLISON, an Official Court Reporter for the Superior Court of the District of Columbia, do hereby certify that I reported, by machine shorthand, in my official capacity, the proceedings had and testimony adduced upon the trial in the case of NATIONAL ASSOCIATION OF STATE FARM AGENTS, INC. vs. STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY, et al, Civil Action No. 4089-02, in said court on the 29th day of July, 2005.

I further certify that the foregoing 57 pages constitute the official transcript of said proceedings, as taken from my machine shorthand notes, together with the back-up tape of said proceedings.

In witness whereof, I have hereto subscribed my name, this the 1st day of August, 2005.

MARIA M. ALLISON, R.P.R.
Official Court Reporter