
Agents Helping Agents - A Members-Only Communication from the National Association of State Farm Agents, Inc.

Final Order Issued in NASFA vs. State Farm Lawsuit

Judge Leonard Braman issued his final order in the NASFA vs State Farm lawsuit January 26. We have reproduced that order on the second page of this fax and posted it at www.nasfa.com. Here is a summary of what it means.

- 1. Partner Agent Program.** The only element of the Partner Agent Program that Judge Braman declared to be legal is State Farm's maintenance of a database containing the names, addresses and phone numbers of agents who are registered to sell securities. Judge Braman refers to this database as the Registered Representative Referral Database (3RD). State Farm will be permitted to use this database to refer any inquiries regarding the availability of securities that it may receive directly from a potential customer (such as by phone or Internet) to a registered agent.

The following elements of the Partner Program were declared illegal infringements on the AA3/4 and AA97 Agent's Agreements:

1. Any requirement that non-registered agents name a partner.
 2. Any attempt by the company to appoint a partner for a non-registered agent.
 3. Any attempt to contact the policyholders of a non-registered agent and ask those clients to contact a specifically-named registered agent.
- 2. Select Agent Program.** The aspect of the Select Agent Program that mandates non-registered agents to refer business to registered agents violates the Agent's Agreement and the implied covenant of good faith and fair dealing.
 - 3. Writing Restrictions.** State Farm did not violate the Agent's Agreements when it imposed writing restrictions in 2001.
 - 4. Brokering.** In a very limited order, Judge Braman declared that State Farm's refusal to grant permission to broker products by two individual agents did not violate the Agent's Agreements. Such a narrow ruling suggests that should there be future requests involving different types of brokering requests that incorporate other parameters, those requests could be honored.
 - 5. Mandatory Meetings.** In another very limited ruling, Judge Braman indicated that mandatory attendance at an annual meeting that deals only with the subject of ethical compliance does not violate the Agent's Agreements.

The winter issue of *The Mirror* will contain a complete analysis of the implications of the Judge Braman's decision and final order. It will be mailed to all State Farm agents shortly. *The Mirror* will also detail NASFA's recent decision to pursue legal declarations that the independent businesses owned by State Farm agents are franchises as defined by the laws of many states. Thus, agents are entitled to the protection provided by those laws.

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SUPERIOR COURT OF THE DISTRICT OF COLUMBIA - CIVIL DIVISION

NATIONAL ASSOCIATION OF	:	Civil Action. 2CA004089
STATE FARM ATGENTS, INC.	:	
Plaintiff,	:	
	:	Calendar 7
V.	:	
	:	
STATE FARM MUTUAL AUTOMOBILE	:	
INSURANCE COMPANY, et al.	:	
Defendants.	:	

DECLARATORY JUDGMENT

This matter came for trial before the court without a jury, and the issues having been tried and Findings of Facts and Conclusions of Law having been rendered on December 16, 2005, to the effect that plaintiff, National Association of State Farm Agents, Inc., is entitled to declaratory relief,

It is ADJUDGED, ORDERED AND DECREED as follows:

- 1, (a) The Agent's Agreements entered into by and between the defendants, State Farm Mutual Automobile Insurance Company and its affiliated codefendants ("State Farm") and State Farm Agents conferred upon the agents the right to decline involvement in the sale of mutual funds securities, including the referral of customers by agents unregistered to sell securities so registered.
- (b) State Farm's Partner Agent Program ("PAP") and its constituent parts violated the terms of the Agent's Agreements as well as the implied covenant of good faith and fair dealing.
- (c) State Farm's amendment of PAP by its Registered Representative Referral Database ("3RD"), where implemented, cured the infirmities of PAP and so does not violate either the Agent's Agreements or the implied covenant.
- (d) Where, however, the 3RD amendment has not been implemented, PAP as amended by 3RD remains tainted by PAP's multiple violations.
2. The "referral" criterion of State Farm's Select Agent Program violates both the terms of the Agent's Agreements and the implied covenant of good faith and fair dealing.
3. State Farm's restrictions of new business submitted by agents beginning in late 2001 and now discontinued in all jurisdictions except Texas, Louisiana and Florida did not violate the Agent's Agreements or the implied covenant of good faith and fair dealing.
4. State Farm's refusals to grant the requests submitted by David Swift (in November 2002) and Clifford Mueller (in October 2002) to broker business for other insurers were not violative of the Agent's Agreements or the implied covenant of good faith and fair dealing.
5. State Farm's requirement that all agents attend a meeting dealing with matters of ethical compliance once a year did not violate the Agent's Agreements or the implied covenant of fair dealing.

Dated 1/24/06

Senior Judge Leonard Braman