

From: John W Hintz
Sent: Wednesday, October 03, 2007 8:01 AM
Subject: A: #07-312 - Select Option for Licensed Staff Agreements by Oct. 31, 2007

Date: October 3, 2007

To: Affected State Farm Agents

From: John Hintz, Agency Vice President

Subject: A: #07-312 - Select Option for Licensed Staff Agreements by Oct. 31, 2007

***** Action Requested *****

SUMMARY

As a result of a recent California Court of Appeals decision, California agents with Agreements prior to the AA97 must select between two options for the Licensed Staff Agreement (LSA) by Oct. 31, 2007. If you do not select Option 1 or Option 2 (described below), current Licensed Staff Agreements will be terminated and your employees will not be authorized to solicit products or bind insurance coverages on our behalf.

DETAIL

Our business has certainly evolved over the years, and we've often come to you to move ahead with us. In the late 1990s, we moved from Clerical Employee or CE Agreements, to a Licensed Staff Agreement. In part, this was an acknowledgement of the level of professional assistance you expect and receive from your staff, and a clear statement of State Farm's expectations of people who advise customers, explain coverages or bind risks. The LSA also supports our desire to ensure that people representing State Farm® are properly licensed and trained.

We listened to concerns many of you expressed and included a prohibition in the LSA against soliciting policyholders assigned to your account for one year after your staff left your employment—a provision nearly identical to the one in your Agent's Agreement. Also included in the Licensed Staff Agreement is your staff's acknowledgement of the trade secret paragraph contained in your Agent's Agreement.

Several years ago, a small group of State Farm agents objected to the Licensed Staff Agreement, and brought suit against the Company. Earlier this year, the California Court of Appeals handed down its decision, which contains two important points:

- State Farm has the authority to put parameters on the activities agents may grant to their staff

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who engage in the binding of insurance coverages on our behalf, as well as requiring appropriate levels for their training.

- In the court's opinion, the trade secret and non-solicitation provisions of the Licensed Staff Agreement are not included in that grant of authority, as those go beyond the independent contractor provisions of the Agent's Agreement.

We are happy the Court of Appeals understood the Company's need for and authority to implement a Licensed Staff Agreement between the agent and those staff members who advise customers and bind the Company. This opinion confirms our longstanding position that we will not knowingly accept business from unlicensed and unauthorized persons. It also serves to reinforce that, as the agent, you must comply with state licensing laws and State Farm's requirement that persons who bind the company must be properly authorized to do so.

Note: If you have licensed staff members who have not executed the Licensed Staff Agreement, please work with your Agency Field Office and Agency/Sales Resources (ASR) to complete the requirements for an LSA. Without an LSA, these staff members are not authorized to solicit products and bind coverages on our behalf.

At the same time, we are disappointed that the California Court of Appeals did not apply the same level of understanding to all provisions of the Licensed Staff Agreement.

ACTION ITEM

In light of the Court's decision, we are writing to provide you with two options regarding your use of Licensed Staff Agreements in your agency.

Option 1:

You may continue with the Licensed Staff Agreements in their current form by acknowledging that you:

- Choose to include paragraphs 4 (trade secret) and 5 (non-solicitation) in the Licensed Staff Agreement, and
- Agree that you do not consider doing so a breach of your Agent's Agreement.

To select Option 1 and remain with your current Licensed Staff Agreements:

1. Click this Licensed Staff Agreement (LSA) - Waiver
2. Select the "Accept" button.
3. Click the "Submit" link at the top of the form.

The agreement will be forwarded to your VPA and AFE for company acceptance.

Option 2:

You and your staff may execute new Licensed Staff Agreements that do not contain paragraphs 4 (trade secret) and 5 (non-solicitation).

To select Option 2 and execute the revised Licensed Staff Agreements:

1. Click this Licensed Staff Agreement (LSA) - Waiver
2. Select the "Decline" button.
3. Click the "Submit" link at the top of the form.

The agreement will be forwarded to the ASR who will assist in executing new licensed staff agreements.

It is imperative that you make a selection by Oct. 31, 2007. **If you do not select Option 1 or Option 2, current Licensed Staff Agreements will be terminated.**

Our goal has always been to provide superior and outstanding service to our customers. You and your staff play a vital role in successfully achieving that goal. We have to continue evolving and adjusting to

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our changing environment, including the legal environment.

Thanks for all you do to provide outstanding customer service. We appreciate your efforts.

FOR MORE INFORMATION

Answers to Frequently Asked Questions are located in the Licensing section of the Agency/Sales Resources site. If you have other questions or need more information, please contact the ASR by e-mail at HOME ASR-Licensing or call 1-877-277-9698 select option 2, then option 4, then option 4.

c: Agency/Sales Resources
Agency Field Executive
Agency Field Consultant

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