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*The Power of Know*SM

September 7, 2010

Michele Coleman Mayes, Esq.
Allstate Insurance Company
2775 Sanders Road
Northbrook, IL 60062

RE: Cease and Desist Interference with Agency Sales Negotiations

Dear Ms. Mayes:

I am writing on behalf of my client, The National Association of Professional Allstate Agents (NAPAA) to address an issue of ongoing and increasing concern to its members. For some time, NAPAA has been aware of actions by members of Allstate management that interfere with Allstate agents' negotiations with third party buyers for the sale of agents' economic interest in the R3001 Exclusive Agency Agreement.

It is predictable that Allstate would prefer such sales be on terms as favorable to buyers as possible. The selling agent – notwithstanding what may be many years of profitable service to Allstate – will no longer be generating revenue for Allstate and therefore is not likely to gain Allstate's sympathy or support. The buyer, however, will presumably have more dollars to devote to Allstate marketing if he or she negotiates a lower purchase price. This results in greater sales, higher bonuses for managers, and higher profits for Allstate Insurance Company.

While Allstate management's preference for lower sales prices is understandable, it must be tempered by the independent relationship of its agents and the resulting limits on Allstate's ability to interfere in the business dealings between third parties. That Allstate understands these limits is made clear in the R3001 Agreement and supporting documents. For example, on page 43 of the July 15, 2009 version of the EA Independent Contractor Manual, Allstate states, "It is your responsibility to establish a value and negotiate the sale price for your economic interest in the business included in the transfer." On page 39 of that same document, Allstate stresses, "In sale of agency situations, Allstate is never the buyer or seller. The only times Allstate is involved is to approve the buyer and when you elect to receive the termination payment."

Allstate agents from across the country regularly describe to NAPAA their experience in attempting to sell the economic interest in their Allstate books of business. A clear picture emerges of Allstate managers (or "leaders") improperly inserting themselves in the sale process.

At the outset, some managers inform agents in their markets that the agents must first inform the managers before offering an agency for sale and must inform the Field

Sales Leader (FSL) of any potential buyers, regardless of whether the agent is prepared to submit the potential buyer for Allstate approval. Such conduct has no basis in the R3001 Agreement, and it only seems to encourage improper manipulation of the sales process by Allstate. Evidence of such manipulation is plentiful.

Regularly, agents learn from interested buyers that a member of management has, without the agent's knowledge or permission, reviewed the agent's confidential reports (including the CSRP and TPP reports) with the prospective buyer. Worse, managers frequently suggest a recommended sale price to the buyer based on those reports.

In some regions, managers have at least had the courtesy and good sense to ask the agent's permission to review reports with a prospective buyer. Unfortunately, if the agent refuses, management regularly threatens to withhold approval of the proposed buyer or intimates that it will withhold referrals of other interested buyers.

In one extreme case, a manager turned logic on its ear by claiming that only he – not the agent – could review reports with the buyer since those reports were proprietary to Allstate!

As noted, managers regularly try to impact the sale price itself. In addition to commenting directly on the price, they also deflate it by encouraging buyers to insist on keeping the seller's last month of commissions or agency bonus, or by pushing for non-competition provisions broader than required by the R3001 Agreement. In some cases, managers counsel buyers against signing letters of intent, thereby leaving the selling agent more vulnerable to changing conditions or hardball negotiating tactics. As Allstate ratchets up its forced termination of agents, the pool of selling agents that is left vulnerable to such tactics only grows.

Most reprehensible are those managers who blatantly steal buyers from terminated agents desperate to sell. All too often, NAPAA learns of terminated agents who refer their buyer to management for approval only to find the buyer has been encouraged instead to open a "scratch" agency nearby. The terminated agent is left to accept termination payments that are less than the sale price that had been under negotiation. The new scratch agency then finds itself miraculously seeded with the terminated agent's accounts. In some cases, management promises the scratch agency that the terminated agent's telephone number will be thrown into the bargain.

A California agent relates his experience after his manager met with him privately to provide notice that, absent improved production, he would receive his 120 day termination notice. That same day, as confirmed by another agent, the manager visited several other agents in the area to inform them that the first agent was "on the bubble." Presumably, an agent facing the prospect of termination may deem it prudent to seek to sell. And plainly, area agents will be prospective buyers. Management has no business informing those potential buyers of the vulnerability in a seller's position.

These stories are not new, though they do seem to be growing in frequency. Also not new is management's well-schooled refusal to confirm its conduct in writing. Recently, however, management has become more bold and blatant. In Pennsylvania, agents in the Northeast Region have been invited to Agency Valuation Workshops, complete with a "pre-workshop survey."

In May, a TSL in South Carolina, , sent an ominous email to an agent in his territory who was well along in the process of selling the economic interest in her book of business. Mr. TSL informed her that her "pending sale . . . has been put on hold." While he claimed that he

did not know "all of the details," he did indicate that "one issue I heard that you have an [sic] problem with is the No Piracy clause that [redacted] has asked you to sign. This is my suggestion, and I suggest it to all outside buyers I interview." Mr. [TSL] then proceeded to lecture the agent on the propriety of the "no piracy" clause, stressing that it protects "not only the buyer but also Allstate." In closing his email, he gives lip service to the notion that she is free to agree or not agree to include the clause. Plainly, however, Mr. [TSL] was threatening to have the proposed sale denied if the selling agent did not include contractual terms that he himself felt were in Allstate's best interest. I am including a copy of Mr. [TSL]'s email in its entirety for your review.

This pattern of interference by Allstate management with the prospective business relations of independent Allstate agents is unacceptable. On behalf of its agent members across the country, NAPAA demands that such interference cease immediately and that Allstate take all necessary measures to assure that its employees understand the limits of their authority. Management must cease and desist from efforts to influence the sale process or price as between potential buyers and sellers of Allstate agencies. To be clear, neither NAPAA nor its members will be appeased by a status quo in which managers continue to insert themselves in the process but avoid written communication that confirms their conduct. Failure by Allstate to address this issue squarely and meaningfully will force NAPAA to pursue any and all possible recourse on behalf of agents who have been injured financially as a result of management interference.

Very truly yours,



Dirk A. Beamer

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Enclosures

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Allstate

Brian M. Pozzi
Senior Attorney
Protection LAS

September 22, 2010

DIRK A BEAMER, ESQUIRE
Wright Penning & Beamer
27555 Executive Drive – Ste 165
Farmington Hills, MI 48331

Dear Mr. Beamer:

I am in receipt of your letter of September 7, 2010 to Michele Coleman Mayes in which you make broad allegations of pervasive misconduct by Allstate sales leaders related to the sales of economic interests in Allstate agencies. You characterize the conduct as interfering with prospective business relations of Allstate agents. In all but one instance, however, your letter does not provide the identity of any sales leader or agent allegedly involved in the activity. Further your letter generally does not specify the region in which the conduct allegedly occurred.

While the Company has no reason to believe that any Allstate sales leader has acted improperly, we would appreciate it if you would provide more detail in regard to your allegations, including the names of the persons involved, the dates on which the interactions occurred, and any written communications that support your allegations. The Company cannot reasonably evaluate your contentions without additional information that would allow us to understand the context in which the conduct about which you complain occurred.

With regard to the one instance in which you identify a sales leader by name, we do not believe the email from TSL that you have forwarded supports your assertion that the sales leader threatened to have a proposed sale denied if the buyer and settler did not include particular terms in their contract. In fact, the words in the email, and our understanding of this situation, is to the contrary. If you have additional information that would provide more detail on the communications involving Mr. TSL to which you refer, kindly forward it to my attention.

Sincerely,

Brian M. Pozzi



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November 3, 2010

Brian M. Pozzi, Esq.
Allstate Insurance Company
2775 Sanders Road
Northbrook, IL 60062

Dear Mr. Pozzi:

Thank you for your correspondence of September 22, 2010 in response to my earlier communication. The issues I raised in that communication are of extreme importance to the Allstate agency force. If Allstate can be prevailed upon to make a serious effort to understand and address the problem, it will be doing a great service for both the agency force and for the organization itself. I must say, however, that I am not overly optimistic given your dismissive review of Mr. Uschelbec's email. Notwithstanding the fact that Allstate has its own contractual prohibition against non-competition in the R3001 Agreement, Mr. Uschelbec inserted himself in negotiations between the Buyer and Seller over that issue. Moreover, he made clear that his interest in the issue was, at least in part, to enhance Allstate's protections against competition beyond what the R3001 Agreement provides.

In your letter, you describe my allegations as "broad" and complain that I have not specified a region. The breath of the allegations stems from the breath of the conduct, which, as far as my client and I can tell, knows no regional boundaries.

In most instances, my client is unable to provide you the level of specificity you request for two reasons. First and foremost, as I have experienced and witnessed repeatedly in my twelve year association with the National Association of Professional Allstate Agents ("NAPAA"), the great majority of agents fear that Allstate will retaliate if they complain publicly or directly to Allstate about perceived inequities in Allstate's business operations. While Allstate may dispute whether this is justified, certainly Allstate knows quite well that the fear is real. I believe most experts would suggest that fear is less than the optimal business motivator, but I leave that to Allstate to determine whether this is true in its business model.

Second, my client did not set out to investigate or track a problem. Accordingly, as agents brought forward their concerns and described their situations, my client was not necessarily equipped at the moment to record all specifics. Please understand,

however, that my client would not have troubled to bring this to Allstate's attention had complaints and concerns of the type I raised in my letter not become pervasive.

The latest variation on this general theme, which has been described to me personally by at least five different agents from across the country – including an agent in the metropolitan Chicago area most recently – involves pressure to approve a potential buyer's purchase offer in a matter of a few days or a few hours in order to ensure that the proposed buyer is enrolled in Allstate's training at a regularly scheduled date and sufficiently early to assume the agency without an interruption in service. In the most recent situation described to me, the selling agent had been terminated and provided 90 days' notice of his opportunity to sell. This transpired on or about October 1, 2010. Although the agent had until the end of December to complete his sale, and although there were multiple parties interested in his agency, local management expressly favored an outside buyer who had not completed Allstate training. Management insisted that a written letter of intent had to be entered with this buyer in a matter of days so that the buyer could enroll in the training. The selling agent thus gave up any real opportunity to negotiate with other buyers or to negotiate more favorable terms with management's preferred buyer.

I question seriously whether Allstate could not have and would not have accommodated the buying agent's schedule as needed to complete training as soon as possible. Moreover, there are, plainly, situations or times in which there are interruptions between the outgoing agent's provision of services and the incoming agent's resumption of those services. (When Allstate terminates and removes an agent on the spot, for example, there will be a break in service at the agency.) Why then is the seller pressured to complete the deal with the potential buyer solely to have the deal complete before the commencement of the next scheduled agent training?

I do have permission from former agent X in County, Florida to describe his sale experience. Mr. X had negotiated an agreement with an existing agent who was interested in acquiring Mr. X's non-Allstate or "brokered" book of business. The buying agent tendered a check to Mr. X for the agreed price. However, he immediately expressed a desire to back out of the deal, intimating that the check would not clear the bank. Mr. X contacted his Allstate management (Ms.) to see if the buyer could be prevailed upon by Allstate to honor his contractual agreement with Mr. X. Ms. responded that, while the circumstances were unfortunate, she could not become involved because it had no interest in the brokered book of business.

To Mr. X's surprise and apparently to the surprise of the buyer, the buyer's check did in fact clear. Still wishing to get out of the deal, the buyer himself contacted Allstate management in the area. To Mr. X's chagrin, he received a phone call from two of Ms. 's superiors (first a " " then a vice president) in management instructing him (Mr. X) to refund to Mr. Buyer the purchase price Buyer had paid for the brokered book of business. Mr. X explained that he had been told previously that Allstate had no interest and would not be involved in disputes over selling the brokered book of business. He stood firm and refused to undo the sale of the brokered book despite this direct pressure from Allstate management to do so.

Mr. X's original plan had been to sell his entire book of business. However, Ms. had explained that no existing agents would be approved as buyers. Thus, despite the interest

expressed by some agents, Mr. X had resigned himself to the prospect of accepting termination payments from Allstate for the Allstate book of business. However, once Buyer found himself unable to get out of the deal for the purchase of the brokered book of business, Mr. Buyer then approached Allstate directly and sought approval to purchase the Allstate book as well. Management approved Mr. Buyer as a buyer, and Mr. Buyer offered a very low figure (\$20,000) for the Allstate book of business, which represented a modest (\$3,000) improvement over termination payments. Had the book been subject to competitive bidding among other Allstate agents, it reasonably would have sold for \$50,000 to \$55,000. There is no apparent rhyme or reason why Mr. Buyer was approved as a potential purchaser as opposed to other agents in the area who, presumably, would have offered a more competitive price. Mr. X's experience highlights the cavalier fashion in which local management asserts itself into the sale process, greatly compromising a selling agent's bargaining position.

I also received permission from Mr. A of _____, Michigan to describe his experience. Mr. A began advertising his Allstate agency for sale in February of 2008. Several months later, his local manager, FSL, approached him and indicated that he had a pre-approved buyer (Buyer (B)) interested in Mr. A's book of business.

Mr. A and Mr. B negotiated a purchase agreement that called for Mr. B to purchase Mr. A's economic interest for \$100,000. At Mr. FSL's request, the closing was set for December 31, 2008, later than Mr. A preferred. Mr. A provided 90 days' notice of his intent to terminate. Two weeks before the scheduled closing date, Mr. B called Mr. A indicating that he could not find satisfactory financing and would be withdrawing from the purchase agreement. Mr. A inquired whether Mr. B had explored financing with some of the more prominent lenders in sale of book situations, or whether Mr. B had considered a sale financed by Mr. A. Mr. B made clear that his decision was final and that he was not interested in discussing the matter further.

Within ten minutes, Mr. A contacted Mr. FSL only to learn that he, Mr. FSL was just leaving Mr. B's office. Plainly, he had been present with Mr. B during the phone call between Mr. A and Mr. B. Mr. FSL informed Mr. A that his book of business was being transferred to Mr. B and that Mr. B would be taking over operation of Mr. A's agency on January 1, 2009 as planned. The only difference, obviously, was that Mr. B would have the book of business handed to him for free rather than paying Mr. A. Mr. A was left to accept termination payments, resulting in a loss of \$28,000 to him on the transaction. As expected, Mr. B was up and running in Mr. A's agency on January 1, 2009. It is obvious that Mr. FSL had coached Mr. B and had, ultimately, provided him assurances that he could obtain the book of business without completing the previously negotiated asset purchase. This is a familiar story that my client and I have heard repeatedly across the country. How can a selling agent negotiate a fair sale price when management is whispering in the buyer's ear or showing the buyer that, one way or the other, the buyer will end up with the book of business?

Mr. Pozzi, the rumblings from across the country are simply too numerous to be discounted. Please provide assurances that Allstate will double its efforts to educate its field management on its obligation to refrain from interfering with negotiations between buying and selling agents. Thank you for your attention to this very important matter.

Very truly yours,

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