

Edward B. Rust, Jr.  
September 6, 2006

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IN THE DISTRICT COURT OF GRADY COUNTY

STATE OF OKLAHOMA

DAVID L. WATKINS, JR., and )  
BRIDGET WATKINS, individually )  
and as representatives of a )  
class of similarly situated )  
individuals, )  
 )  
Plaintiffs, )  
 )  
vs. ) CASE NUMBER  
 ) CJ-2000-303  
 )  
 )  
STATE FARM FIRE & CASUALTY )  
COMPANY, and DANNY WALKER, )  
and other similarly situated )  
agents of State Farm Fire & )  
Casualty Company, )  
 )  
Defendants. )

\* \* \* \* \*

VIDEOTAPED DEPOSITION OF EDWARD B. RUST, JR.

TAKEN ON BEHALF OF THE PLAINTIFFS

ON SEPTEMBER 6, 2006

IN BLOOMINGTON, ILLINOIS

\* \* \* \* \*

REPORTED BY: MELINDA R. NIEVEZ, CSR, RPR

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1 APPEARANCES:

2 MR. JEFF D. MARR, Attorney at Law, LAW  
3 OFFICE OF JEFF D. MARR, 4301 S.W. 3rd, Oklahoma  
4 City, Oklahoma 73108, appearing on behalf of the  
5 Plaintiffs.

6 MR. JOHN WIGGINS, Attorney at Law, of the  
7 firm, WIGGINS, SEWELL & OGLETREE, 3100 Oklahoma  
8 Tower, 210 Park Avenue, Oklahoma City, Oklahoma  
9 73102, appearing on behalf of the Plaintiffs.

10 MR. ANTON J. RUPERT and MR. RUSTIN J.  
11 STRUBHAR, Attorneys at Law, of the firm, CROWE &  
12 DUNLEVY, 1800 Mid-America Tower, 20 North Broadway,  
13 Oklahoma City, Oklahoma 73102-8273, appearing on  
14 behalf of the Defendants.

15 MR. STUART D. KENNEY, Attorney at Law,  
16 STATE FARM INSURANCE COMPANIES, One State Farm  
17 Plaza, Bloomington, Illinois 61710, appearing on  
18 behalf of the Defendants.

19 ALSO PRESENT: Ms. Kelsey Moore, Legal Assistant,  
20 Law office of Jeff D. Marr

21 VIDEOGRAPHER: Mr. Jon Womastek, Courtroom Video

22 \* \* \* \* \*

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S T I P U L A T I O N S

It is hereby stipulated and agreed by and between the parties hereto, through their respective attorneys, that the videotaped deposition of EDWARD B. RUST, JR., may be taken on behalf of the Plaintiffs, on this, the 6th day of September, 2006, in the City of Bloomington, State of Illinois, before Melinda R. Nieves, Certified Shorthand Reporter within and for the State of Oklahoma, pursuant to notice and court order.

It is further stipulated and agreed by and between the parties hereto, through their respective attorneys, that all objections, except as to the form of the question and the responsiveness of the answer, are reserved until the time of the trial, at which time they may be made with the same force and effect as if made at the time of the taking of this deposition.

\* \* \* \* \*

1 (PROCEEDINGS BEGIN AT 1:32 P.M.)

2 WHEREUPON,

3 EDWARD B. RUST, JR.,

4 after having been first duly sworn, deposes and says  
5 in reply to the questions propounded as follows:

6 DIRECT EXAMINATION

7 BY MR. MARR:

8 Q Would you please introduce yourself to the  
9 Court and jury.

10 A Yes. My name is Edward B. Rust, Jr.

11 Q What is your present title with State  
12 Farm, Mr. Rust?

13 A Presently, I am chairman and chief  
14 executive officer for State Farm Mutual Automobile  
15 Insurance Company and chairman and chief executive  
16 officer for most of its affiliates.

17 Q Which affiliates, more specifically?

18 A You would have State Farm Fire and  
19 Casualty. You would have State Farm Life Insurance  
20 Company, State Farm Annuity, State Farm Assurance.  
21 Those would be the principal insurance companies.

22 Q And how long have you held that position?

23 A I've held in State Farm Mutual the  
24 position of chief executive officer since August of  
25 1985.

1 Q Prior to August of '85, what was your  
2 position within the company?

3 A Prior to '85, from -- let's see. It would  
4 be late '83 to August of '80 -- no. Wait a minute.  
5 I was executive vice president of State Farm Mutual  
6 prior to being elected CEO.

7 Q And what periods of time did you serve as  
8 executive vice president?

9 A That's -- that's what was going through my  
10 mind. I believe it would have been late '84. No.  
11 Let me back up. I lose track of time. I believe it  
12 was early '94 [sic], late 1983. You go back those  
13 years, they kind of run together.

14 Q I understand. More or less a couple of  
15 years?

16 A A couple of years. Maybe just shy of a  
17 couple of years.

18 Q And prior to holding the position of  
19 executive vice president, what was your position?

20 A Vice president.

21 Q Of any particular State Farm entity or all  
22 of the same?

23 A I'd have to go back and look exactly. I  
24 don't recall. But it would have been with the  
25 principal State Farm companies.

1 Q Do you have any insurance designations or  
2 anything like that, any particular training in the  
3 field of insurance?

4 A No, I do not.

5 Q Any type of business degree or anything  
6 like that?

7 A My education -- my undergraduate degree  
8 was from Illinois Wesleyan University, and then I  
9 have a juris doctorate from Southern Methodist  
10 University in Dallas, Texas, as well as a master of  
11 business administration from Southern Methodist.

12 Q So you have a law degree?

13 A Correct.

14 Q And an MBA. And both, you said, were from  
15 SMU; is that correct?

16 A Correct. Receiving those in -- really,  
17 time flies -- 1975.

18 Q What currently are your responsibilities  
19 with the company as the CEO?

20 A As CEO I would have overall responsibility  
21 for the strategic direction and management of the  
22 enterprise.

23 Q When you say "strategic direction of the  
24 enterprise," what do you mean?

25 A Well, this would be in outlying -- out --

1 laying out our growth strategy and putting in place  
2 the programs and processes that will allow us to  
3 grow as an organization.

4 Q Give me some examples of some of the  
5 policies that you've put in place for that reason.

6 A Well, you have to realize with an  
7 organization the size of State Farm, I rely on many  
8 people to help develop and implement and carry out  
9 policies focused on growth, customer service, a  
10 variety of things.

11 Things that we have done in recent years  
12 have been -- well, going back, some of the  
13 structural reorganization that we went through a  
14 number of years ago in moving from 28 regions down  
15 to 13 zones; some consolidation of operations around  
16 the country in terms of systems; going from each  
17 operation center having its own system's operation  
18 to basically four principal hubs that handle all of  
19 our data processing; movement from implementation of  
20 a call center operation to make sure the  
21 availability of our people to our customers 24 by 7;  
22 some of the very profound and impactful things that  
23 technology is allowing us to do; you know, looking  
24 at how do we more efficiently, effectively manage  
25 the business to reduce the expense burden that our



1 customers are expected -- built into the cost of the  
2 product, to minimize that so our cost and price of  
3 the product remains reasonable.

4 Q Can you give me some of the names of the  
5 programs that have been implemented under your  
6 tenure as CEO?

7 A Well, a couple I have mentioned. The  
8 customer response center -- we're working right now  
9 on, really, what we call a -- looking at our  
10 presence on the internet and the ability -- customer  
11 access is really what we look at in our availability  
12 24 by 7, in terms of providing service to our  
13 customers. The ability for an individual to go  
14 online and get a quote and buying a policy or call  
15 through their agent's office or call a call center  
16 and receive coverage, either directly there or in an  
17 agent's office the next day or so, depending upon  
18 the preference of the individual -- those are some  
19 of the more recent things.

20 Q Okay. I heard -- and maybe I  
21 misunderstood you. But the only one I've heard you  
22 name is the customer response center.

23 A Customer response, customer access is  
24 another initiative that we have underway, you know,  
25 a variety of programs. In recent years -- in the

1 last couple of years refined pricing over in auto  
2 insurance. That has been well received. And,  
3 frankly, we have been pleased with the growth in  
4 auto policies.

5 Q Any others? The names of any other  
6 programs that have been implemented under your  
7 tenure?

8 A Well, you look over a long period of time.  
9 These are ones that, you know, are currently on my  
10 mind.

11 Q Well, I want to know since the time you  
12 took over your position as CEO, those that you can  
13 recall by name, specifically, as being implemented.

14 A Well, again, the multitude of actions over  
15 20-some years -- I don't have all of that on the top  
16 of my mind.

17 Q Do you have any on the top of your mind?

18 A I just covered a couple of those.

19 Q Besides the customer response center and  
20 customer access, any others?

21 A Well, some of our activities are  
22 recruiting efforts. Some of the things -- we look  
23 at customer access, looking at significant change in  
24 customer demographics.

25 Q I'm talking right now -- I don't mean to

1 interrupt, but maybe I need to make my question  
2 clearer. I'm asking right now for just names of  
3 programs -- specific names of programs that have  
4 been implemented under your tenure as CEO.

5 A Well, these are programs of -- what I'm  
6 talking about right now are ones that are underway  
7 that I am involved in.

8 Q What about State Farm 2000? Have you ever  
9 heard of that program?

10 A Yes. State Farm -- State -- yes.

11 Q Let me ask my next question. Is that a  
12 program that was implemented under your tenure as  
13 CEO?

14 A Yes.

15 Q Tell us what State Farm 2000 was and what  
16 it entailed.

17 A Interesting. State Farm 2000 would have  
18 been a program that started back in the late '90s.  
19 It was an effort to get the organization thinking  
20 about changes that we needed to undertake to be  
21 successful in -- really, you know, cliché -- but in  
22 the new millennium; looking at the implications of  
23 technology, the globalization of our industry,  
24 things that we need to be doing to change to make  
25 sure that we were responsive to our customers, that

1 we were operating in a way that was competitive,  
2 that we could maintain our growth and a high level  
3 of customer satisfaction.

4 It was interesting. At the time I  
5 remember an article in Automotive News or so where  
6 Alex Troutman, who was at that time head of Ford  
7 Motor -- and they had announced at the same time  
8 Ford 2000. And he characterized it as an effort to  
9 help Ford Motor continue to grow, be prosperous, and  
10 be successful in the new millennium, and they  
11 continue to have their problems.

12 Q Any other aspect of State Farm 2000? Any  
13 other program that grew out of State Farm 2000 that  
14 is somehow related --

15 A Well, there were a lot of initiatives  
16 under the umbrella of State Farm 2000. Some -- you  
17 know, my -- my effort was more to get the  
18 organization thinking about what we needed to be  
19 doing, about the implications of what technology was  
20 starting to do on the business.

21 Again, you think back where the internet  
22 was -- '95, '96, '97 -- in its infancy, and no  
23 one -- or very few people had any clue as to the  
24 impact that the internet, cellular activity, a host  
25 of things was going to have on the business

1 landscape. And we needed to be creating an  
2 environment where we were better understanding those  
3 dynamics and the impact implications they were going  
4 to have on our business.

5 Q What about any type of focus or program  
6 that was directed toward indemnity payout? Is there  
7 any program like that?

8 A Not that I would have been directly  
9 involved with.

10 Q That you know about?

11 A There were a number of initiatives  
12 underway looking at the efficiency of our claim  
13 operation. Again, that would come, I'd say, back in  
14 a "riverick" of some of the technology aspects,  
15 things that we can do today because of steps that we  
16 were doing in preparing for the introduction of that  
17 technology -- imaging, networking -- the fact that  
18 technology has allowed us to really streamline our  
19 claim organization to be more efficient and  
20 responsive in handling our -- the claim needs of our  
21 customers, especially in the auto arena.

22 Q Has there ever been a program during your  
23 tenure as CEO for State Farm that focused on  
24 reducing the indemnity payouts to customers?

25 A A focus on indemnity? I believe claims

1 had worked at one time on a couple of programs  
2 with -- called Advancing Claim Excellence, but the  
3 nuts and bolts on those programs I am not close to.

4 Q So you don't know anything, really, about  
5 ACE? Is that what it was referring to?

6 A I believe so. No. With any specificity,  
7 no.

8 Q What about in general terms? Can you tell  
9 me about the ACE program that came about during your  
10 tenure as CEO of State Farm?

11 A I think there were -- you know, looking at  
12 ways of how do we improve service to our customers;  
13 how do we do that in a more efficient way; how do we  
14 make sure that we are getting discounts in buying in  
15 bulk; are we getting appropriate discounts from  
16 vendors; are we responding quickly, promptly to  
17 inquiries -- a variety of things that impact over on  
18 the expense side of adjusting losses.

19 Q And what was the desired financial impact  
20 to State Farm of the ACE program?

21 A I would say in looking at it, lessening  
22 the expense burden that ultimately is reflected in  
23 the price of our product and ultimately, you know,  
24 is what the consumer sees in the price of what they  
25 pay for the coverage.

1 Q And when you say "expense burden," what do  
2 you mean?

3 A The expenses of running the operation.

4 Q Such as --

5 A Such as people, such as buildings, such as  
6 technology -- those are key drivers, you know. Some  
7 would be looking at more effective impactful  
8 training, looking at staffing levels, those types of  
9 issues that have an impact on the cost of doing  
10 business.

11 Q What about indemnity payout? Was that  
12 also something that was looked at?

13 A I'm not aware on that. If there are  
14 better ways of evaluating a loss, those probably  
15 were looked at.

16 Q As you sit here today, do you have any  
17 knowledge as to whether or not the ACE program, a  
18 component of it, at least, was designed to reduce  
19 indemnity payouts to policyholders?

20 A No.

21 Q Did the ACE program reduce payouts to --  
22 indemnity payouts to policyholders?

23 A I do not know that.

24 Q Who would be the best person to talk to  
25 about that?

1           A     Likely, someone in our claims operation.

2           Q     Obviously, but I need a name. Can you  
3 give me the name of someone you would go to, Ed  
4 Rust, CEO of State Farm, if you wanted to obtain  
5 that information from within the company?

6           A     I believe in the past at the time it would  
7 have been Frank Haines.

8           Q     And today?

9           A     Susan Hood, who is Frank's successor.

10          Q     What is your understanding of the issues  
11 in the case that you're here on to testify in today?

12          A     This is in the Watkins?

13          Q     Yes, sir.

14          A     It is my understanding it has to do with  
15 the use of engineering firms in the evaluation of  
16 damage to a number of dwellings in the Oklahoma City  
17 area following the 1999 tornado.

18          Q     What is your understanding regarding the  
19 allegations concerning the use of engineering firms?

20          A     It's -- my understanding, from what I have  
21 seen, is that there are allegations that the  
22 opinions of an engineering firm were biased.

23          Q     Which engineering firm?

24          A     I believe the engineering firm was Haag  
25 Engineering. That may not be the exact name, but I



1 believe it is Haag Engineering.

2 Q Have there been other allegations against  
3 State Farm during your tenure as CEO of the company,  
4 that the opinions of the engineering firms which  
5 State Farm was using were biased?

6 A The issue in Watkins is one. The other --  
7 there are questions currently in Mississippi on the  
8 issue of damage following Hurricane Katrina. Was it  
9 wind or water? Wind or storm surge? And a number  
10 of engineering firms have been involved in the  
11 Mississippi Gulf area in evaluating a number of  
12 losses right on the coast.

13 Q So are there similar allegations in  
14 relation to State Farm's handling of Katrina that  
15 State Farm is using the opinions of biased  
16 engineers?

17 A I'm not sure if similar allegations -- I  
18 think the issue is on the use of engineering firms  
19 and the accuracy of their opinions.

20 Q Is Haag one of the engineering firms that  
21 their objectivity has been questioned in conjunction  
22 with Katrina?

23 A I don't know specific questions on Haag in  
24 the Gulf Coast. I know they are one of a number of  
25 firms that have been used in the Gulf Coast.

1 Q Why?

2 A Would -- would you explain why?

3 Q Yeah. Why? Why is State Farm still using  
4 Haag? Why did they use Haag in Katrina in the Gulf  
5 Coast following the hurricanes?

6 A It is my understanding that the use of  
7 Haag was prior to the rendering of the decision in  
8 the Watkins case.

9 Q My question is, why are they still using  
10 them? Why is State Farm still using Haag in  
11 Katrina?

12 A Because, to my knowledge, there was not an  
13 issue surrounding Haag up until the decision action  
14 there in Oklahoma City.

15 Q When you say "not an issue surrounding  
16 Haag," what do you mean?

17 A I'm not aware of a credibility issue or  
18 evidence that the work that Haag had done was  
19 inappropriate or the opinions expressed as being not  
20 based on fact. I don't know.

21 Q So prior to the Watkins case and the  
22 jury's findings in the Watkins case regarding State  
23 Farm's use of Haag, you're unaware of any challenge  
24 concerning Haag's objectivity and State Farm's use  
25 of them; is that correct?

1           A       There may have been a decision in Texas a  
2 number of years ago, but I am not familiar with the  
3 specifics of that case.

4           Q       Okay. Well, you brought it up. What is  
5 your understanding of this case in Texas a number of  
6 years ago?

7           A       There apparently had been a question on  
8 the -- whether or not there was a bias in Haag's  
9 opinion that they had rendered. And I have no  
10 further information in terms of, you know, what  
11 transpired after that decision, what might have gone  
12 on at Haag, what kind of review. I do not know  
13 that.

14          Q       Okay. And if there -- so there was a  
15 question of Haag's objectivity in State Farm's use  
16 of Haag prior to the Oklahoma tornado of 1999?

17          A       There may have been the one in Texas, but  
18 I am aware of none other.

19          Q       Okay.

20          A       And what Haag may have done following the  
21 Texas decision in terms of correcting any issues, I  
22 do not know.

23          Q       Okay. Do you think it was appropriate for  
24 State Farm, in light of this case that you  
25 referenced in Texas before our May 1999 tornado --

1 for State Farm to have continued to use them in our  
2 catastrophe?

3 A I don't believe I have the information to  
4 make that determination.

5 Q Okay. Was there anyone that prohibited  
6 you, as the CEO, from obtaining any information that  
7 you had wanted?

8 A There's no prohibition. Again, our people  
9 in claims, anything -- an issue that may be raised,  
10 they are fully -- have the authority and the  
11 responsibility to review, investigate, and make any  
12 adjustments that might be appropriate. I do not  
13 need to initiate that.

14 Q Okay. And if they failed to do that,  
15 whose responsibility is it? Yours?

16 A Well, ultimately, you can make that  
17 argument. I would be looking at my senior claims  
18 leadership.

19 Q Well, I don't want to have to make the  
20 argument. I want to ask you. Do you assume  
21 ultimate responsibility in the event that that's not  
22 done?

23 A Ultimate responsibility comes with the  
24 role as chief executive officer.

25 Q Have you gone back -- since the subsequent

1 use of Haag in Katrina, have you now gone back and  
2 investigated this matter thoroughly from the -- all  
3 the way back from the case in Texas involving State  
4 Farm's use of Haag and its current use of Haag in  
5 the Gulf?

6 A Following the decision in Watkins, when I  
7 got back in the office a review was already  
8 underway.

9 Q What do you mean, a review was already  
10 underway?

11 A In looking at the serious allegations  
12 coming out of the Watkins decision, our claims  
13 leadership had already instituted a review of the  
14 relationship with Haag, and that is ongoing.

15 Q Okay. And tell me about when you -- give  
16 me a time line, if you will, from the time of the  
17 Watkins verdict against State Farm -- what -- when  
18 did you first learn that there was some type of  
19 investigation?

20 A I don't recall the exact time in the  
21 discussion. The decision in Watkins came down on  
22 what day?

23 Q May 25.

24 A What day of the week? Do you recall?

25 Q I think it was a Thursday night.

1           A       Thursday night. I'm trying to recall. I  
2 think by early the next week that the review was  
3 well underway.

4           Q       Tell me what your knowledge is of the  
5 review that was well underway.

6           A       Essentially what I have told you. They  
7 are in the process of reviewing the relationship  
8 with Haag, reviewing the findings coming out in  
9 Watkins, and I have not seen an interim or a final  
10 report from them yet.

11          Q       Who is "them"?

12          A       It would be, again, our claims leadership,  
13 Susan Hood and her team.

14          Q       So is that the only -- what, did you have  
15 a conversation with someone? Who informed you that  
16 there was an investigation underway roughly the week  
17 following the Watkins verdict, wherein the  
18 relationship was being reviewed with Haag?

19          A       I don't recall who specifically had  
20 informed me. But it is quite common and expected if  
21 anything -- if we find a potential problem or a  
22 problem, that we are on it, you know. It's not  
23 something that I have -- people are sitting around  
24 waiting for me to say, Start the work.

25          Q       Well, why wasn't that done after the Texas

1 case?

2 A I'm not aware of whether a review was or  
3 was not started at that time.

4 Q Do you think one should have been?

5 A I -- I -- I just -- yes.

6 Q Why?

7 A Well, again, a question being raised about  
8 a vendor that we used -- we need to thoroughly  
9 review and investigate those allegations.

10 Q State Farm -- questions have been raised  
11 regarding vendors that State Farm has used in the  
12 past, true?

13 A Yes.

14 Q And, more specifically, problems that  
15 arose from the medical utilization review. Do you  
16 recall those?

17 A Yes.

18 Q What action did State Farm take there to  
19 investigate that and address the problem?

20 A A very substantive, exhaustive review, is  
21 my recollection, of all of the claim files that were  
22 involved where there may have been a third-party  
23 review. And, you know, that was done under the  
24 purview of our general counsel.

25 Q Did State Farm continue to use that

1 particular vendor?

2 A I don't believe so, but I don't recall  
3 exactly.

4 Q Does State Farm plan to continue using  
5 Haag?

6 A At this juncture I believe there's a  
7 moratorium on any use of Haag.

8 Q And is this -- the moratorium that came  
9 down -- from any decision involving the Chairman's  
10 Council?

11 A Not that I'm aware of. I believe Susan  
12 Hood on her own initiative did that early -- a  
13 couple of days after the decision in Watkins.

14 Q Okay. Let's talk about the Chairman's  
15 Council. Is there something that exists called the  
16 Chairman's Council?

17 A Yes, there is.

18 Q Would you tell the jury what this is?

19 A Essentially, with an organization the size  
20 of State Farm, I delegate to a number of people  
21 various responsibilities across the organization.  
22 In the Chairman's Council at the moment -- what,  
23 12 -- 12, 13 members that, you know, would run  
24 across the gamut from chief operating officer to  
25 chief legal officer, investments, you know, HR



1 issues, administrative services, agency marketing,  
2 advertising. It's basically a means of how do you  
3 manage a very large organization and delegate the  
4 responsibility and the authority for that  
5 management.

6 Q Who are the members of the Chairman's  
7 Council?

8 A You have on my senior team Vince Trosino,  
9 who is a vice chairman. You have Jim Rutrough, who  
10 is vice chairman and chief administrative officer.  
11 You have Mike Davidson, who is vice chairman and  
12 chief agency officer, marketing. Michael Tipsword,  
13 who's a vice chairman and chief financial officer.  
14 You have Willie Brown, who is an executive vice  
15 president. Brian Boyden, who's an executive vice  
16 president.

17 I'll go around. Bill King, another  
18 executive vice president. Ken Bruner, who's an  
19 executive vice president and general counsel. Jack  
20 North, who's a senior executive vice president. Deb  
21 Traskell, who is a senior vice president. And Susan  
22 Waring who is our chief administrative officer over  
23 in our -- with our life affiliates. And I go  
24 around -- I think I have touched everybody.

25 Q How often does the Chairman's Council

1 meet?

2 A Usually, the entire group every --  
3 quarterly.

4 Q Are there meetings where only a portion of  
5 the Chairman's Council meets?

6 A Yes. You know, depending -- we meet  
7 maybe -- for sure, if schedules permit, once every  
8 couple of weeks.

9 Q And what prompts such a meeting once every  
10 couple of weeks?

11 A Just, again, the need to communicate with  
12 the travel schedules that we all have and all of the  
13 activity and, again, the size of the organization,  
14 the complexity. That's what, you know, prompts the  
15 meeting.

16 Q Are the meetings recorded?

17 A No.

18 Q Why not?

19 A Many are informal. It may be in the  
20 hallway. We just -- I'm not aware of anybody. We  
21 rarely record normal staff meetings.

22 Q Did you consider this to be a staff  
23 meeting?

24 A Yes.

25 Q Does the same hold true for the quarterly

1 meetings where everyone --

2 A Yes.

3 Q -- is present?

4 A Yes.

5 Q Certainly, you keep records of the  
6 quarterly meetings where the entire Chairman's  
7 Council is present?

8 A We have an agenda, but minutes in that,  
9 no.

10 Q Why not?

11 A Never felt a need to.

12 Q Has that ever been an issue in past  
13 litigation?

14 A Not that I'm aware of.

15 Q You said there are agendas. Are those  
16 written?

17 A Sometimes. It's usually a generic -- you  
18 know, it may be a talent review. It may be an  
19 update on our -- I mentioned earlier some of the  
20 work in CRC; that's customer response center -- some  
21 of our customer access activity. It's basically,  
22 you know, update on some project, but agendas are  
23 not always used.

24 Q Are there any written agendas that are  
25 available should I choose to request them in the

1 lawsuit?

2 A I'm not sure what might be available.

3 Q Could you think of any reason why they  
4 wouldn't be available?

5 A Just that, in my mind, the significance  
6 would -- I see little -- no significance. It is  
7 mainly just a -- short, from a time standpoint.

8 Q Does the agenda talk about the topics to  
9 be discussed during the meetings of the Chairman's  
10 Council?

11 A As I said, it may be -- you may have  
12 something on an update on a marketing initiative or,  
13 you know, something like that, but not any  
14 specificity.

15 Q So it may have some -- the general topic,  
16 but not --

17 A If anything, it would be a very general  
18 topic.

19 Q Is litigation ever discussed during the  
20 Chairman's Council meetings?

21 A No. Not -- not to my recollection.

22 Q And since there are no minutes kept or  
23 records kept of these meetings, there's no way for  
24 you to go back and look at anything to refresh your  
25 recollection; is that correct?

1           A       That -- that would be correct.

2           Q       Do you think that's a good policy, not to  
3 keep minutes of these meetings?

4           A       I'm not sure of the relevance of having  
5 minutes. It's mainly an effort to make sure that --  
6 that we have the coordination and understanding from  
7 a marketing standpoint of what we're doing over in  
8 pricing, what we're doing in advertising, support  
9 staffing issues. It's really a -- so folks are  
10 updated on the activity in the organization that  
11 they may not be directly involved with but may have  
12 an impact on them.

13          Q       Wouldn't you agree that it would be  
14 important for purposes of seeing what action was  
15 taken and what matters were discussed during these  
16 Chairman Council meetings?

17          A       In my experience over the years, no.

18          Q       Okay. Do you believe that it's important  
19 for a corporation to have a thorough and adequate  
20 memory?

21          A       On many issues, yes.

22          Q       Just not on these particular issues of the  
23 Chairman's Council, correct?

24          A       Well, no. It's just -- it's a matter of  
25 what you are discussing. These are really more

1 efforts that if I need to -- if we've got a staffing  
2 issue or looking at something. It's so people -- as  
3 you delegate the responsibility, as you look at the  
4 Chairman's Council, each of the people who have  
5 their area of responsibility, you know, they become  
6 much more immersed in that narrow area, and it's an  
7 opportunity so they understand what the implications  
8 are of a project that may be going on.

9 A question -- a good example would be one  
10 of the big issues tends to be systems hours, in  
11 terms of how much time is available in developing  
12 the necessary, appropriate software systems for  
13 support, be it in claims, be it in an agent's  
14 office, be it elsewhere in the organization. And  
15 you have finite hours each year that can -- that are  
16 committed to systems development.

17 And part of that back-and-forth discussion  
18 is setting priorities in terms of, I have a need to  
19 do this, but in -- look at the total scheme of the  
20 organization. It is not a high enough priority to  
21 put the resources on that software development. So  
22 it's that kind of give-and-take discussion.

23 Q Are the individuals that comprise the  
24 Chairman's Council -- are they top-level executives  
25 within the State Farm organization?

1           A     Absolutely.

2           Q     But it's your position that minutes,  
3 records should not be kept of these meetings wherein  
4 these top executives within the State Farm  
5 organization meet quarterly; is that correct?

6           A     Correct.

7           Q     Okay. Has the Watkins lawsuit, the  
8 Watkins verdict ever been discussed, either in whole  
9 or in part, within the Chairman's Council?

10          A     I wouldn't -- not within the entire  
11 Chairman's Council.

12          Q     What about during these one -- these  
13 meetings that occur once every couple of weeks with  
14 a portion of the Chairman's Council, has the Watkins  
15 verdict been discussed?

16          A     Much of the discussion on Watkins that I  
17 have had have been with my general counsel.

18          Q     And who is that?

19          A     Ken Bruner.

20          Q     Is Mr. Bruner -- is it Mister --

21          A     Yes.

22          Q     -- a member of the Chairman's Council?

23          A     Yes.

24          Q     And why is Mr. Bruner a member of the  
25 Chairman's Council?

1           A       He's a member of my senior management  
2 team.

3           Q       So why is general counsel a member of the  
4 Chairman's Council?

5           A       Because he's a member of my senior team.

6           Q       What function does he serve -- what does  
7 he bring to the table as far as the Chairman's  
8 Council is concerned?

9           A       Being a lawyer, being general counsel, he  
10 is there to discuss legal issues, regulatory issues,  
11 legislative issues.

12          Q       And are legal issues discussed during the  
13 Chairman's Council meetings?

14          A       There may be times, mainly, that more  
15 discussion would be over in regulatory issues or  
16 legislative issues in some states.

17          Q       Have there been times when nonregulatory  
18 issues or legislative issues in other states have  
19 been discussed?

20          A       Would you repeat the question?

21          Q       It probably wasn't a great question. Have  
22 there been times when there have been other legal  
23 matters, other than regulatory or legislative,  
24 discussed during the Chairman Council?

25          A       There may be updates on litigation,



1 pending cases, concluded cases.

2 Q Do you think the policyholders have a  
3 right to know what transpires during these Chairman  
4 Council meetings?

5 A I'm not -- I think much of it would -- to  
6 the average person would be somewhat boring. They  
7 are operational issues that you look at at a very  
8 high level. If I go back and looking at -- be it a  
9 marketing campaign, be it systems directions, be it  
10 things that we are doing in customer access, a whole  
11 variety of things that -- you know, I think it is in  
12 the management of the overall enterprise.

13 Q Your position notwithstanding that they  
14 would find it boring, do you believe that the  
15 policyholders have a right to know what transpires  
16 and the direction that may be taken from these  
17 Chairman Council meetings?

18 A I'm -- possible but, you know, I don't  
19 know.

20 Q Do you think that the policyholders that  
21 I'm here on behalf of today have a right to know  
22 what litigation has been reviewed, what  
23 recommendations have been made, and what has been  
24 discussed during the Chairman Council meeting?

25 A Again, I think -- and point some of

1 that -- the point is -- is privileged.

2 Q And by what privilege?

3 A Well, I think, again, through general  
4 counsel and, you know, the legal thought strategy  
5 that is being considered.

6 Q These Chairman Council meetings, they're  
7 something that State Farm does on a routine basis in  
8 the normal course and -- normal course of its  
9 business, correct?

10 A Normal -- it depends on scheduling and who  
11 is in town, but yes. We try to meet quarterly.

12 Q It's not something that State Farm just  
13 does on special occasions. I mean, the meeting of  
14 the Chairman's Council -- at least the entire  
15 Chairman's Council happens quarterly, correct?

16 A On a rotational basis we try to, yes.

17 Q Well, is there an agenda that I could look  
18 at that would confirm when the Chairman's Council  
19 meets?

20 A I'm not sure what's available, you know.  
21 I see basically on my calendar, and I know when we  
22 have a meeting. And there may be some material that  
23 is handed out, an update on -- as I say, a marketing  
24 campaign or something that would be advanced, but  
25 not anything in great detail.

1 Q Well, who owns State Farm?

2 A State Farm, being a mutual organization,  
3 is essentially owned by the collective policyholder  
4 group.

5 Q Are these the same policyholders that  
6 you're claiming a privilege against, that you  
7 shouldn't have to produce certain things or reveal  
8 certain things that are discussed during these  
9 meetings?

10 A Well, again, I'm not an expert in the  
11 area, but I think as you find -- even if I'm a  
12 shareholder in a publicly traded company, there are  
13 things that are not -- you know, I do not have  
14 access to.

15 Q So is that a yes? You are claiming a  
16 privilege against these policyholders obtaining this  
17 type of information?

18 A No. You're -- I don't have the -- the  
19 exact answer to.

20 Q You brought up the privilege, that this  
21 information would be privileged and not subject to  
22 disclosure, correct?

23 A Well, there are discussions with general  
24 counsel or with outside counsel that would be  
25 privileged.

1 Q Okay. And why would it be privileged  
2 regarding the policyholders, who own the company?

3 A Well, because part -- on the clients that  
4 you represent, there may be conflicting interests  
5 with other customers, you know. Part of the  
6 balancing that we go through -- have to go through  
7 as an insurance company, any company, is making sure  
8 the adjustments of losses are fair, are balanced --  
9 because overpayment/underpayment is not  
10 appropriate -- helpful for our customers. And  
11 overpayment, you're basically putting an added  
12 expense or cost on other policyholders. It is a  
13 balance.

14 Q And whenever there have been findings of  
15 bad faith, do you believe then that the  
16 policyholders are entitled to receive full  
17 disclosure from the Chairman's Council?

18 A Again, issues, be it bad faith or as we  
19 mentioned in the case at hand, we do a thorough  
20 investigation.

21 Q Are these policyholders -- once there is a  
22 finding of bad faith, are they entitled to full  
23 disclosure from the Chairman's Council?

24 MR. RUPERT: Excuse me. I'm going to  
25 object. It's calling for a legal conclusion.

1 Answer if you can.

2 Q (BY MR. MARR) Go ahead. You're a lawyer,  
3 correct?

4 A I'm not a practicing lawyer. I'm Watkins'  
5 lawyer, but I'm not a practicing lawyer.

6 Q Go ahead and answer my question.

7 A Again, I'm not sure. My point is I would  
8 say no.

9 MR. MARR: This would be a good spot for a  
10 break.

11 MR. RUPERT: Sure.

12 (A break was taken from 9:48 a.m. to  
13 9:58 a.m.)

14 Q (BY MR. MARR) Mr. Rust, we're back on the  
15 record after a short break. Are you ready to  
16 continue?

17 A Yes, sir.

18 Q Earlier you mentioned there is now a  
19 moratorium, I think was the word that you used, on  
20 State Farm's use of Haag; is that correct?

21 A That is my understanding.

22 Q And how was this moratorium communicated?

23 A I learned about it -- I don't know if  
24 Susan Hood told me or what, but I know about the  
25 moratorium. How it was communicated, I do not know.

1 Q Was it communicated nationwide?

2 A That, I do not know.

3 Q Why don't you?

4 A The review and the involvement -- Susan is  
5 in control and has responsibility for that, and I'm  
6 relying on her.

7 Q Did the Chairman's Council have any input  
8 one way or another on the moratorium?

9 A I believe that was undertaken by Susan's  
10 own initiative, and I totally concur with her.

11 Q My question was, did the Chairman's  
12 Council have any input one way or another on the  
13 moratorium?

14 A Not to my knowledge.

15 Q Has the Watkins lawsuit and subsequent  
16 verdict ever been discussed within the Chairman's  
17 Council, either in whole or in part?

18 A Within a Chairman's Council meeting, no.

19 Q What about within part of a Chairman's  
20 Council meeting? You said sometimes --

21 A I have had several discussions with Ken  
22 Bruner.

23 Q Since the verdict?

24 A Yes.

25 Q What has State Farm's position been

1 publicly since the verdict regarding the Watkins  
2 verdict?

3 A I'm not sure publicly what you mean by  
4 that. We have responded, my understanding, to  
5 questions that, you know, have come from the media  
6 and others and --

7 Q Well, the reason I ask is I haven't  
8 seen -- before hearing your testimony today, I  
9 haven't seen any quote from any State Farm  
10 individual, either in print or on the news, of any  
11 such moratorium on the use of Haag. Why is that?

12 A That, I do not know.

13 Q That's something that -- was this just  
14 initiated?

15 A What --

16 Q The moratorium.

17 A The moratorium? Not to my knowledge. I  
18 think, as I mentioned earlier, I believe it was a  
19 couple of days after the decision was rendered in  
20 Watkins.

21 Q Has State Farm made the authorities who  
22 are conducting investigations in Mississippi aware  
23 of their moratorium on the use of Haag?

24 A I'm not aware of what may have been  
25 communicated there.

1 Q Why not?

2 A That would be, again, in Susan Hood's  
3 area. I'm not sure what has been communicated.

4 Q I mean, do you have any involvement or  
5 input into the allegations and the investigation  
6 that's currently being conducted regarding the use  
7 of engineers in Mississippi?

8 A At a very high level. But, you know, I  
9 rely on the work of my general counsel, and I know  
10 he is working with claims leadership, with Susan and  
11 her team, and people in the Gulf Coast.

12 Q Do you find it coincidental the Watkins  
13 verdict and the jury's findings regarding State  
14 Farm's use of biased engineers and the allegations  
15 being levied against State Farm in Mississippi are  
16 for the same thing?

17 A I find it very troublesome, and that is  
18 why the investigation -- or the work that I know  
19 Susan and her team have undertaken, why that is  
20 occurring.

21 Q Do you find it coincidental?

22 A I find it troublesome.

23 Q Do you believe it to be representative of  
24 a pattern?

25 A No, I don't. But I do find it



1       troublesome.  If there is an issue with Haag  
2       Engineering, we need to get to the bottom of it.

3               Q       So what personally have you done to ensure  
4       that State Farm is getting to the bottom of it?

5               A       Susan has my full support on whatever  
6       effort she deems necessary to complete her review  
7       and investigation.

8               Q       No.  I'm asking what you, Ed Rust,  
9       chairman of the board of State Farm, have done to  
10      get to the bottom of it?

11              A       I have empowered my people, as I just  
12      said, with Susan Hood, with my general counsel, Ken  
13      Bruner in reviewing these allegations, reviewing the  
14      activity in the Gulf Coast, and getting to the  
15      bottom of -- of the allegation.

16              Q       So other than delegating an assignment,  
17      that's the extent of your involvement in getting to  
18      the bottom of it?

19              A       Sir, again, I have very good people I work  
20      with, and I have asked them.  They are far more  
21      knowledgeable in the day-to-day activity to do the  
22      review and take the necessary steps, whatever, to  
23      correct any shortcomings.

24              Q       Did you not understand my question?

25              A       I understand your question --

1 Q Well, please answer my question.

2 A -- and I responded to it.

3 Q My question was, is that the extent of  
4 your involvement, delegating Susan Hood, that she do  
5 an investigation?

6 A And I have numerous conversations with my  
7 general counsel about the activity going on.

8 Q Well, what have you done to monitor  
9 Ms. Hood's purported investigation of this Haag  
10 matter and State Farm's use of biased engineers?

11 A Again, I know she is actively involved in  
12 this and working with our general counsel, and I  
13 keep close ties with my general counsel in terms of  
14 that activity, and I'm very encouraging to them.  
15 What support they need, if they need resources,  
16 whatever, I am there to help them.

17 Q Okay. Have they requested any resources  
18 to conduct this investigation?

19 MR. RUPERT: Just a second. You can ask  
20 about Susan but not about Mr. Bruner. I'm going to  
21 instruct you not to answer about conversations with  
22 your general counsel. Do you follow me?

23 MR. MARR: I think it's all fair game. I  
24 mean, it is in-house counsel, and it's the normal  
25 course of investigation he said was being done,

1 so --

2 MR. RUPERT: Do you understand my  
3 direction?

4 THE WITNESS: Yes.

5 MR. RUPERT: Okay. Go ahead.

6 THE WITNESS: Would you repeat the  
7 question?

8 Q (BY MR. MARR) Let me ask it this way.  
9 Have you reviewed one sheet of paper regarding any  
10 investigation into the use of biased engineers?

11 A I'm not sure what you mean, one sheet of  
12 paper. I am aware of the allegations and the  
13 discussion.

14 Q Okay. I'll hand you a sheet of paper.  
15 That's what I mean. Have you seen one page -- one  
16 single page of documentary evidence regarding any  
17 investigation of State Farm getting to the bottom,  
18 as you put it?

19 A My knowledge, what I have seen, I believe,  
20 predominantly is -- well, I have not seen any paper,  
21 but I've had numerous discussions with my general  
22 counsel.

23 Q So where could I go to obtain any  
24 confirmation, any documentation, any documentary  
25 evidence that there is such an investigation going

1 on?

2 A Well, I think part of that -- you have the  
3 opportunity tomorrow with Susan Hood, who basically  
4 is deeply involved with that investigation.

5 Q I'm asking you, Ed Rust.

6 A And I just told you. Check with Susan  
7 Hood.

8 Q You can't point me to any documentary  
9 evidence regarding any investigation that State Farm  
10 is conducting; is that correct?

11 A Again, back on comment by counsel here,  
12 discussions I have had with my own general counsel  
13 and --

14 MR. RUPERT: Just a second. I want you to  
15 leave out discussions with your own general counsel  
16 and answer based on other people.

17 Q (BY MR. MARR) I mean, you understand,  
18 Mr. Rust, and tell me if you would agree -- and  
19 maybe you wouldn't. Do you think the policyholders  
20 back in Oklahoma have a right to know whether or not  
21 State Farm is investigating the allegations and the  
22 findings of its use of biased engineers?

23 A And as I have said, Susan Hood is doing  
24 that investigation as we speak.

25 Q My question was, do you believe these

1 policyholders have a right to know that information?  
2 Yes or no.

3 A You know, the -- I have no problem with  
4 them knowing that an investigation is underway.

5 Q Do you believe that the policyholders have  
6 a right to see any documentary evidence regarding  
7 any such investigation conducted by State Farm? Yes  
8 or no.

9 A No.

10 Q Why not? Is it privileged?

11 A I believe so.

12 Q So the only -- you've seen nothing in  
13 writing indicating that there is any moratorium on  
14 State Farm's use of Haag Engineering; is that  
15 correct?

16 A I have seen nothing in writing. My  
17 comment is based upon input from Susan Hood. I  
18 believe that's who I heard it from, but I don't  
19 recall specifically.

20 Q You're aware, are you not, that Susan Hood  
21 is noticed to give her deposition here tomorrow?

22 A Yes.

23 Q As the chairman of the board of State  
24 Farm, will you instruct Ms. Hood to bring with her  
25 to her deposition any documentary evidence that she

1 has confirming that there's been any investigation  
2 into State Farm's use of Haag and any moratorium  
3 placed on its services?

4 MR. RUPERT: Excuse me. If you want to  
5 make a document request, you make it to me and not  
6 to him.

7 I'll instruct you not to answer that  
8 question.

9 Q (BY MR. MARR) Go ahead.

10 A I'll defer to counsel.

11 Q So you won't give that instruction to  
12 Ms. Hood?

13 A Again, I'll defer to counsel in terms of  
14 what is appropriate.

15 Q Do you think it would be appropriate for  
16 the chairman of the board on behalf of the  
17 policyholders to make this information public, make  
18 it known?

19 A Again, the review is underway. As I have  
20 said earlier, there is a moratorium on the use of  
21 Haag, and the review is underway.

22 Q Why -- has there been any press release by  
23 State Farm from its public affairs department or any  
24 other department stating that there is a moratorium  
25 placed on the use of Haag Engineering?

1           A       Not that I'm aware of.

2           Q       Isn't that something that you want the  
3 general public to know?

4           A       I think -- I'm intrigued, somewhat. The  
5 use of engineering reports is quite nominal in terms  
6 of 14, 15 million claims that we would handle a  
7 year.

8           Q       Why do you find that intriguing?

9           A       Well, I just think -- what, you look at --  
10 was it -- it was 73 policyholders that have issues  
11 there post the Oklahoma tornado, you know. I think  
12 in the total scheme of things, engineering reports  
13 come in at -- in, you know, maybe -- I don't know.  
14 I don't have an exact knowledge of information, but  
15 very rarely are they used in the total scheme of the  
16 claim-handling activity. As I said, you know, we'll  
17 handle in a normal year somewhere around 14 to 14  
18 and a half million claims.

19          Q       So is it your position that State Farm has  
20 relied upon the engineering reports to deny just a  
21 handful of claims in the Gulf Coast states?

22          A       We really don't -- it's my understanding  
23 that engineering firms are not used to deny claims,  
24 that ultimately the decision to what is paid on a  
25 claim, pursuant to the contract that is in force, is

1 ultimately determined, finalized by our claim  
2 representative. The few times that an engineering  
3 firm is used is where there is a question of  
4 causation or extent of damage, that there is a  
5 feeling by the claim representative that they do not  
6 have the necessary insights to make a determination  
7 on the exact amount of loss.

8 Q Okay. So is it your position, then, that  
9 claims were not denied based on engineering opinions  
10 of Haag and others in the Gulf Coast states?

11 A It is my recollection -- I'm not  
12 aware of -- excuse me. You added something at the  
13 last of your question?

14 MR. MARR: Melinda, could you read it  
15 back.

16 (The reporter read back.)

17 THE REPORTER: "So is it your position,  
18 then, that claims were not denied based on  
19 engineering opinions of Haag and others in the Gulf  
20 Coast states?"

21 Q (BY MR. MARR) And I'll clarify by "other  
22 engineering firms."

23 A You know, looking at the Gulf Coast is a,  
24 you know, tragic event in what people have gone  
25 through in dealing with the unprecedented damage



1 that was wrought by Katrina. You know, engineers  
2 are, I believe, still sorting through all of the  
3 data, getting current, more complete data in terms  
4 of understanding just what occurred along the  
5 Mississippi Gulf Coast.

6 You know, people who live there clearly  
7 understand. And some of the reports early after the  
8 storm is that people understand the biggest threat  
9 living along the Mississippi Coast and into  
10 New Orleans is storm surge, Gulf water driven by the  
11 hurricane, and that is what we are dealing with.

12 And, you know, I believe a few weeks ago  
13 in a nationwide decision there was a question about  
14 the engineering report. I do not know who the  
15 engineer -- the firm was, but the judge there found  
16 that, contrary to the allegations, 98 percent of the  
17 damage to the home was caused by water, storm surge,  
18 and storm surge flooding is not a covered peril  
19 under the homeowner's policy. He looked at -- they  
20 had testimony from the engineering firm, and he  
21 found them to be credible.

22 Q Is that a case that you followed closely?

23 A I think most people did, because it was  
24 the first one to be tried on the issue of wind/water  
25 and dealing with the, you know, heart-wrenching

1 position that people who live right on the water  
2 have found themselves in.

3 Q Let me ask you this. Do you think that  
4 State Farm treated the policyholders -- the  
5 Watkinses and these other class members that I'm  
6 here on behalf of -- fairly and in good faith?

7 A If you asked me several months ago, I  
8 would say yes. In light of the findings -- I am  
9 concerned about the findings of the jury, and that  
10 is what, you know, has prompted the review by Susan  
11 and others in her claim leadership in reviewing the  
12 relationship with Haag and whether or not there, you  
13 know, was indeed a problem.

14 Q And back to my question. Do you think  
15 that State Farm treated the Watkinses and these  
16 other class members fairly and in good faith?

17 A It is my understanding that there were  
18 some structural damage issues that the engineering  
19 firm was called in to evaluate. But there were  
20 claim payments made to the Watkinses and others,  
21 based upon damage to their home, that the claim  
22 representative felt was directly attributable to the  
23 tornado.

24 Q Is it your position as chairman of the  
25 board of State Farm that the Watkinses and the other

1 class members were treated fairly and in good faith  
2 by State Farm, following the May 3, 1999, tornado?  
3 Yes or no.

4 A I would say up until a decision -- based  
5 upon what I knew, I would say yes. But following  
6 that, I am concerned about is there a problem with  
7 Haag Engineering. And, as I've said, we are in the  
8 process of reviewing that.

9 Q So are you telling me indirectly that you  
10 just don't know now?

11 A I'm telling you there -- an issue has been  
12 raised. I find the findings of the jury most  
13 troublesome. And we are in the process of going  
14 back and reviewing our relationship with Haag  
15 Engineering and making a determination of -- you  
16 know, based upon those findings, what we should do  
17 going forward with it.

18 Q I'm talking about the policyholders right  
19 now. I'm not talking about State Farm's financial  
20 and business relationship with Haag Engineering.  
21 I'm talking about the policyholders, okay?

22 A I understand.

23 Q All right. So --

24 A And that is ultimately my concern also, is  
25 that we want to be fair with our customers. After

1 all, the success of this organization is driven by  
2 our ability to retain current customers and to  
3 attract new customers. The last thing we want to do  
4 is be unfair with our customers.

5 Q This isn't the first time a jury has found  
6 that State Farm treated its customers unfairly and  
7 acted in bad faith, is it?

8 A No.

9 Q And there have been findings that State  
10 Farm has destroyed documents so as to avoid  
11 detection in bad faith lawsuits, has there not?

12 A I don't know about that. Destruction  
13 of -- the inappropriate destruction of documents is  
14 clearly against company policy.

15 Q In light of what you said, that now you  
16 are concerned that -- and correct me if I'm wrong --  
17 that these policyholders and the Watkinses may not  
18 have been treated fairly and in good faith, now do  
19 you concede that's a possibility?

20 A Based upon the findings of the jury, yes.  
21 And that is what prompted the review in going back  
22 and looking at the relationship, be it with Haag,  
23 looking at the files --

24 Q Why was that review not conducted after  
25 the lawsuit was filed in 2000?

1           A       It is -- the review, in going through --  
2           again, based upon what we knew at the time, did not  
3           see a need for such a review. And I believe there  
4           was another decision by a Court there in Oklahoma in  
5           reviewing very much the same issues that found there  
6           was not a bias on behalf of Haag.

7           Q       So it's not until after the jury verdict  
8           that State Farm felt that it might need to take a  
9           look at its relationship and use of Haag; is that  
10          correct?

11          A       You would have to talk to Susan  
12          specifically. As I look with what, you know, has  
13          been conveyed to me with the Watkins trial is that  
14          all of a sudden now we have a conflicting opinion.  
15          We have, on one hand, a court decision earlier --  
16          what was it? Early 2000, 2001? I do not recall.  
17          You know, a finding that the use of Haag was not  
18          biased.

19          Q       Was that -- was it your understanding that  
20          was a jury finding?

21          A       I don't recall. I think it was a trial  
22          before the judge, but I'm not sure.

23          Q       Were you aware that there was evidence  
24          withheld by State Farm in that case?

25          A       I'm not aware of anything like that.

1 Q Okay.

2 A But basically, you know, all of a sudden  
3 you come up with the Watkins decision, which is  
4 180 degrees from the earlier one. We have a  
5 conflict in interpretation, and that, in my opinion,  
6 is what prompted Susan to initiate the review of the  
7 handling of those claims and our relationship with  
8 Haag Engineering.

9 Q And the Watkins verdict was consistent  
10 with the previous verdict down in Texas regarding  
11 State Farm's use of Haag Engineering, correct?

12 A I don't know enough about the Texas case  
13 to make that determination.

14 Q So you only know about the Oklahoma cases.  
15 You don't have enough information about the prior  
16 Texas finding?

17 A Correct.

18 Q What about E.A. Renfroe? Has State Farm  
19 also placed a moratorium on the use of E.A. Renfroe?

20 A I'm not sure specifically a moratorium.  
21 But I think the question, as I saw in the Watkins  
22 decision, revolved more around the identification of  
23 Renfroe, whether or not they were independent  
24 adjusters or with State Farm, although they are  
25 hired, retained by State Farm and, you know, act on

1 our behalf.

2 Q So I don't think I -- maybe I wasn't  
3 listening closely, but I don't think you answered my  
4 question about whether or not there's been a  
5 moratorium placed on the use of E.A. Renfroe &  
6 Company in light of the Watkins findings.

7 A I'm not aware of a moratorium but -- as I  
8 thought in answering your question, it's based upon  
9 the Watkins finding. There is a review in terms of  
10 how independents portray themselves on behalf of  
11 State Farm to our customers.

12 Q Are you aware of any settlement  
13 negotiations that have transpired in connection with  
14 the Watkins case?

15 A No, I'm not. No, I do not.

16 Q Would you be surprised to learn that one  
17 of the things the plaintiffs asked for during  
18 settlement negotiations, which is what you  
19 described, is that the identification process and  
20 the training process of independent adjusters is  
21 revamped, so to speak?

22 A I'm not aware of those discussions.

23 Q Do you think that would be something that  
24 you would be in agreement with?

25 MR. RUPERT: I'm sorry. I don't think

1 that's a proper question. I don't think you can ask  
2 him if a proposed settlement term is something he  
3 would agree with. I'll tell you not to answer that,  
4 Mr. Rust.

5 MR. MARR: I think it's very appropriate.  
6 If you're going to instruct him not to answer, and  
7 he's going to take your advice, then we'll just file  
8 a motion to compel.

9 MR. RUPERT: I think you can attack it by  
10 rephrasing it.

11 MR. MARR: I don't think I need to  
12 rephrase it.

13 Do you want me to have -- for purposes of  
14 our record, do you want me to have her read it back?

15 THE WITNESS: Yeah.

16 (The reporter read back.)

17 THE REPORTER: I need to go back two  
18 questions. "QUESTION: Would you be surprised to  
19 learn that one of the things the plaintiffs asked  
20 for during settlement negotiations, which is what  
21 you described, is that the identification process  
22 and the training process of independent adjusters is  
23 revamped, so to speak?

24 "ANSWER: I'm not aware of those  
25 discussions.



1           "QUESTION: Do you think that would be  
2 something that you would be in agreement with?"

3           MR. RUPERT: I don't think you can ask him  
4 that.

5           MR. MARR: I don't think there's anything  
6 objectionable about that.

7           MR. RUPERT: I don't think you can ask him  
8 if he agrees to a settlement term in the middle of a  
9 deposition.

10          MR. MARR: Well, I don't think -- I think  
11 that was the question before that he already  
12 answered.

13          Q       (BY MR. MARR) Let me ask it again.

14          MR. RUPERT: I'm sorry to interrupt. The  
15 question before was would he be surprised if that  
16 was requested, and I think that was a fair question.

17          MR. MARR: Right.

18          Q       (BY MR. MARR) I'll ask it again. Do you  
19 think -- in a different way. Do you think that in  
20 light of the Watkins verdict, the manner in which  
21 independent adjusters are trained and represented by  
22 State Farm in catastrophe situations should be  
23 revamped, modified?

24          MR. RUPERT: Answer.

25          THE WITNESS: I think any kind of

1 training, ongoing activity, always looking for best  
2 practices and improvements -- I would have no  
3 objection to that. I think that is part of what we  
4 try to do.

5 Q (BY MR. MARR) What about -- the second  
6 part of that question was whether or not State Farm  
7 should change the way it represents or holds out  
8 independent adjusters to its policyholders in  
9 catastrophe claims. Do you think that should be  
10 modified? Do you think that should be made known to  
11 your policyholders?

12 A I'm not sure. Again, you know, using an  
13 independent adjuster -- you know, they help us from  
14 when we have staffing needs and large -- you know,  
15 people-intensive activities, like the Oklahoma  
16 tornado or the hurricanes, be it in '04, '05. You  
17 know, they're there on our behalf.

18 Q Do you believe it appropriate for State  
19 Farm to hold these independent adjusters out as  
20 State Farm trained adjusters, employees, if you  
21 will?

22 A You know, technical relations -- they are  
23 employees of the independent adjuster, but we  
24 contract with that independent adjuster to provide  
25 services.

1           Q       I'm not talking about a contractual  
2 relationship. I'm asking you if you think it's  
3 appropriate for State Farm to hold independent  
4 adjusters out as being employees of State Farm.

5           A       I don't -- I don't know the pro or con on  
6 that.

7           Q       You don't have an opinion one way or  
8 another?

9           A       I think our customers -- really, to have  
10 someone there on State Farm's behalf to get the  
11 claim process underway, to help them start getting  
12 things taken care of is what they're interested in.

13          Q       So why not disclose to them -- since  
14 that's their main interest, why not disclose to them  
15 that these individuals are not employees of State  
16 Farm but, in fact, independent adjusters retained to  
17 assist State Farm because of this labor-intensive  
18 catastrophe?

19          A       You know, interesting question. But I  
20 think coming down to the customer -- as long as I've  
21 got somebody there who is here on behalf of State  
22 Farm, who can answer my questions and help me and  
23 get the claim process underway, go for it.

24          Q       So you don't see the need to make that  
25 known?

1           A       I'm not sure what -- what the difference  
2       is.

3           Q       Okay. And if there's no difference, then  
4       can you see any reason why State Farm wouldn't  
5       disclose that? Why would they misrepresent that  
6       relationship?

7           A       I'm not sure it's misrepresenting a  
8       relationship. I think it's a matter of we are  
9       there -- you know, I think it can, frankly, add  
10      confusion in the customer's mind in thinking, Well,  
11      gee, did I have somebody from State Farm come, or  
12      did I have somebody from somewhere else, I'm a State  
13      Farm insured, I really look to State Farm to  
14      being -- coming in and helping me. And having  
15      somebody come in that, Well, I'm not really with  
16      State Farm, I'm with somebody else -- that probably  
17      adds at that point in time after a major disaster  
18      some rather significant confusion.

19                   I think an independent or a State Farm  
20      person coming in -- they're there on behalf of State  
21      Farm to help adjust that loss. I think that, in the  
22      customer's mind, is far more comforting than trying  
23      to sort out, Okay, you're here but you're -- I think  
24      there's confusion.

25           Q       So you don't have a problem with

1 independent adjusters holding themselves out as  
2 State Farm employees --

3 A I'm not sure they hold themselves out as  
4 State Farm employees.

5 Q Let me finish my question, Mr. Rust. For  
6 example, sending a letter out on State Farm  
7 letterhead and representing themselves to be a claim  
8 representative when, in fact, they're an employee of  
9 E.A. Renfroe & Company, do you find that  
10 appropriate?

11 A I find that they are empowered to act on  
12 behalf of State Farm.

13 Q So is that a yes? You find that  
14 appropriate?

15 A I see no problem with it.

16 Q So consequently, as far as you know,  
17 nothing is going to change in that area?

18 A I didn't say that.

19 Q That's what I'm asking.

20 A Well, I would ask Susan. She is the one  
21 who is involved in the review.

22 Q All right. That brings me to my next  
23 question. Who is, if anyone, responsible for  
24 conducting a review or an investigation of State  
25 Farm's relationship with E.A. Renfroe & Company?

1           A       That would be in the purview of Susan  
2 Hood.

3           Q       Is that being done?

4           A       To my knowledge, it is. And I -- she is  
5 in a far better position to respond than I am.

6           Q       Have you seen any documentary evidence put  
7 before you that there is any investigation into  
8 State Farm's relationship with E.A. Renfroe &  
9 Company following the Watkins verdict?

10          A       No. I have not seen anything. But I  
11 believe in conversations with Susan, I am aware of  
12 an investigation.

13          Q       All right. Well, tell me about the  
14 conversations that you had with Susan Hood regarding  
15 this investigation now into the relationship with  
16 E.A. Renfroe & Company.

17          A       By telling you I know there -- and I don't  
18 recall specifics of conversation. But from that  
19 conversation, I have the understanding that a review  
20 is underway.

21          Q       What are the findings of the investigation  
22 or of the review?

23          A       When I told you I know the review is  
24 underway, that is the extent of my knowledge.

25          Q       So both in regard to Haag and in regard to

1 Renfroe, you've seen no documentary evidence to  
2 suggest that there's any investigation, correct?

3 A I've seen no documentary evidence, but I  
4 have no reason to doubt that one is not underway.

5 Q And you have no information regarding any  
6 findings, correct?

7 A Not at this point in time.

8 Q Did you ever review the questions that the  
9 Watkins jury answered?

10 A Yes. I've seen those. Most disturbing.

11 Q I would agree. When did you first review  
12 those findings?

13 A I don't recall exactly. I think it was  
14 sometime not long after the decision was rendered.

15 Q Within the next week?

16 A I don't recall the exact time frame. It  
17 could have been.

18 Q And how did you come to receive the  
19 verdict form?

20 A I don't remember the exact -- how I did.  
21 It may well have come through my general counsel's  
22 office. I don't know.

23 Q All right. What, if any, action did you  
24 take personally following your review of the Watkins  
25 verdict?

1           A     Again, discussions with my general counsel  
2     and his involvement with Susan Hood in starting the  
3     review.

4           Q     Did you have any direct conversations with  
5     Susan Hood? Did you call her into your office  
6     following your review of the Watkins verdicts and  
7     give any direction?

8           A     No. I didn't feel I needed to. I had  
9     great confidence in Susan's initiative and ability,  
10    and, as I mentioned, she had already made a decision  
11    on Haag Engineering.

12          Q     You said that you found the verdict form  
13    disturbing. How did it disturb you?

14          A     From the standpoint of the findings, that  
15    is not the State Farm that I know. That is not the  
16    State Farm we want to be.

17          Q     Well, isn't that the State Farm that the  
18    Campbell jury found?

19          A     There were those allegations, yes.

20          Q     Those were findings by the jury, were they  
21    not?

22          A     Yes, they were.

23          Q     I mean, did you ever read the opinion -- I  
24    assume someone that has a law degree, such as  
25    yourself -- you read the opinion after the Campbell



1 case came back from the U.S. Supreme Court, did you  
2 not?

3 A I have. And Campbell is -- I did not have  
4 all the specifics. But, you know, as a case that  
5 goes back, what, to the early 1980s, our customer,  
6 policyholder throughout his life, claimed he had --  
7 did not cause the accident --

8 Q Let me --

9 A Yeah. I know. But I'm just --

10 Q I'm not asking for specifics about the  
11 case.

12 A Okay.

13 Q Do you recall that the findings, where I  
14 think State Farm's conduct was characterized as  
15 being toxic -- do you recall that language?

16 A Specific, no.

17 Q And you say that that was back in the  
18 '90s, correct?

19 A Well, the original claim -- the accident  
20 was in the early '80s, I believe.

21 Q I'm talking about the opinion.

22 A I don't remember the exact time frame.

23 Q Now, here again, in 2006 we have a finding  
24 from a jury where they concluded that after hearing  
25 all of the evidence, that State Farm acted not only

1       recklessly but maliciously, correct?

2           A       I believe you're reading from it. I  
3 believe that is close.

4           Q       I'll mark it as Plaintiffs' Exhibit 1, the  
5 class verdict form, and ask you if that's the  
6 verdict form that you were provided.

7           A       Yeah. It's not the exact one. But no. I  
8 haven't seen this.

9           Q       Why don't you read the findings for our  
10 jury?

11          A       Okay. The first one is marked, "We do  
12 find, by clear and convincing evidence, that  
13 Defendant State Farm recklessly disregarded its duty  
14 to deal fairly and act in good faith with class  
15 members in the use of Haag Engineering Company."

16                   Second finding, "We do find, by clear and  
17 convincing evidence, that Defendant State Farm  
18 intentionally and with malice breached its duty to  
19 defend fairly and act in good faith with class  
20 members in its use of Haag Engineering."

21          Q       Now, let me interrupt you for just a  
22 minute.

23          A       Yes.

24          Q       In Campbell there was a memo communicated  
25 to all State Farm personnel, was there not?

1 A I --

2 Q Regarding the Campbell verdict?

3 A There may well have been. I do not  
4 recall.

5 Q By Frank Haines?

6 A That is possible. I do not recall.

7 Q Do you have the ability to send out  
8 nationwide to all State Farm personnel any message  
9 that you chose to regarding this particular portion  
10 of the verdict?

11 A I'm not sure I understand your question.

12 Q Does State Farm have the means  
13 electronically to communicate any message that you  
14 so desire to its personnel nationwide following your  
15 receipt of this verdict form?

16 A It's possible.

17 Q It's possible?

18 A Yes.

19 Q I mean, you don't know for certain whether  
20 or not you can do it?

21 A Oh, no. I meant it's possible to do it,  
22 yes.

23 Q Okay. And did you do that?

24 A On the specific, no.

25 Q Did you do it in regard to any aspect of

1 the Watkins verdict?

2 A Again, on the Watkins, as this -- we're  
3 reviewing the circumstances --

4 Q Did you send out anything? Did you cause  
5 anything to be communicated to State Farm employees  
6 regarding the Watkins verdict?

7 A Not that I recall. And that was  
8 basically -- as I had said earlier, all of a sudden  
9 we have a decision 180 degrees from an earlier  
10 Oklahoma decision on what I considered -- I believe  
11 are centrally the same issues, and that raised the  
12 question of how do we reconcile the two of these.

13 Q Okay. Go ahead and read No. 3. These are  
14 findings regarding E.A. Renfroe.

15 A "We do find, by clear and convincing  
16 evidence, that Defendant State Farm recklessly  
17 disregarded its duty to deal fairly and act in good  
18 faith with class members in its use of independent  
19 adjusters from E.A. Renfroe Company." And the final  
20 finding was, "We do find, by clear and convincing  
21 evidence, that the Defendant State Farm  
22 intentionally and with malice breached its duty to  
23 deal fairly and act in good faith with class members  
24 in its use of independent adjusters from E.A.  
25 Renfroe."

1           Q     Is State Farm still continuing to use the  
2 services of E.A. Renfroe?

3           A     That, I am not sure. I do know that Susan  
4 is reviewing and may have already taken steps with  
5 the use of independent adjusters.

6           Q     When did you know that you were going to  
7 have to give your deposition here today?

8           A     I don't know. I remember there was a  
9 request or something had come in, looking at these  
10 two -- or looking at this morning, and my assistant  
11 had noted that I was scheduled for meetings  
12 yesterday afternoon and this morning out of town,  
13 that I wouldn't be available, and had listed some  
14 other dates that would be available.

15          Q     So there were other dates that you were  
16 available that were made known to your counsel?

17          A     To my knowledge.

18          Q     And when did you make these dates -- these  
19 dates where you were available known to your  
20 attorneys?

21          A     I was not involved in that. That would  
22 have been a discussion with my assistant.

23          Q     Okay. So it wasn't something that you --  
24 you didn't make yourself available for any  
25 particular dates. This is something that your

1 assistant did?

2 A No. I think my assistant looked at my  
3 calendar, aware as this was coming up, that -- you  
4 know, for my calendar, you know, late this afternoon  
5 or tomorrow was fine.

6 Q Why is it you didn't want to give your  
7 deposition?

8 A It wasn't a matter of giving it. It's  
9 whether or not, from my perspective, in looking at  
10 the availability. As noted, the meeting that was  
11 scheduled for this morning is one that has been  
12 around for some time.

13 Q Well, didn't you execute an affidavit  
14 trying to -- in support of State Farm's motion for  
15 protective order, to avoid your having to give your  
16 deposition?

17 A Again, coming down on some of the, you  
18 know, relevancy in terms of -- I am not involved  
19 at --

20 Q I'm just asking you right now, Mr. Rust,  
21 did you execute an affidavit to try to avoid a  
22 deposition?

23 A I believe I did.

24 Q Is there any particular reason that you  
25 didn't feel the need, given the gravity of this case

1 and everything that's going on in the Gulf Coast  
2 regarding engineering, to come here today and to  
3 offer testimony regarding this issue?

4 A My reaction, there are people far closer  
5 to the issues than I am.

6 Q But you hold ultimate responsibility and  
7 ultimate decision-making authority for State Farm,  
8 do you not?

9 A Yes.

10 Q And if you chose to do so, you have the  
11 ability to enact any change in policy or procedure  
12 that you would like within the company, correct?

13 A Within reason.

14 Q Including the use or nonuse of Haag  
15 Engineering, E.A. Renfroe & Company, or any other  
16 particular vendor, true?

17 A And that review is already underway.

18 Q But you do have that ability, true?

19 A I could.

20 Q Do you have with any objection -- so let  
21 me back up a minute. You didn't really have or you  
22 did have an objection to coming here and giving your  
23 deposition today?

24 A My objection on today is I had a meeting  
25 at --

1           Q       So scheduling conflicts notwithstanding,  
2 you would be more than willing to come here today  
3 and give your deposition?

4           A       You know --

5           Q       I want to know why I had to get a court  
6 order to get you here today. Can you tell me that?

7           A       Well, because we were trying to work  
8 around schedule.

9           Q       Okay. So it was purely scheduling?

10          A       You know, I was not -- it's a matter of,  
11 you know, the information that I may or may not  
12 have. I rely on other people who are in a much  
13 better position to respond to questions than I would  
14 be.

15          Q       Okay. Well, I want to know. Are you  
16 telling me that your only problem with giving your  
17 deposition was a scheduling conflict, and without a  
18 scheduling conflict, you would have been happy to  
19 give your deposition without me -- without me being  
20 required to get a court order to compel you here  
21 today?

22          A       Well, I think the issue had been around  
23 timing and the forcefulness of going for whatever  
24 the date is today.

25          Q       So is that a yes? I mean, barring a



1 scheduling conflict, you have no problem giving your  
2 deposition following a verdict such as the Watkins?

3 A Well, I think you come into the potential  
4 frequency and what I may or may -- may -- may be  
5 able to provide. I think -- you know, if you have  
6 my declaration that I filed, I would be glad to  
7 review that, but I think that stated my thinking.

8 Q Right now I'm just trying to get an answer  
9 from you of whether or not, without having a  
10 scheduling conflict -- assuming you didn't have a  
11 scheduling conflict --

12 A And those can be significant issues,  
13 looking at the schedule.

14 Q -- then you would be more than willing to  
15 come here and give your testimony in this case; is  
16 that correct? And if it's not, just tell me.

17 A I'm not sure what I can add other than,  
18 you know, the questions that you have asked and the  
19 involvement of other people in the organization and  
20 addressing the issues that you have raised.

21 Q Do you believe that -- do you understand  
22 why the policyholders, class members would want to  
23 hear what the chairman of the board of State Farm  
24 has to say regarding this verdict and the way their  
25 case was handled in their use of Haag Engineering?

1           A     Well, I think, you know, as we have  
2 explained and I think as you would find with others,  
3 what they have said and what we talked about with  
4 Susan and what she has done with Haag, the  
5 discussion surrounding Renfroe, it is being  
6 addressed.

7           Q     Well, you've already told me that you're  
8 aware of no findings, and you've seen no documentary  
9 evidence?

10          A     Yet.

11          Q     But my question was, do you understand why  
12 these policyholders would want to hear from the  
13 chairman of the board of State Farm, the head of the  
14 company of which they own, regarding the Watkins  
15 verdict and what State Farm is doing about it?

16          A     And I think we have provided that.

17          Q     You understand why they would want that?

18          A     Yes.

19          Q     Do you think that's reasonable for them to  
20 want that?

21          A     I think you can argue on the  
22 reasonableness.

23          Q     Do you think they're entitled to it?  
24 They're owners of the mutual company. Do you think  
25 the policyholders are entitled to have Ed Rust sit

1 in that chair and answer questions regarding what  
2 their company is doing about the use of engineers  
3 and independent adjusters following the Watkins  
4 verdict?

5 A And I think what we do with the  
6 engineering firms, as I mentioned with Haag, is  
7 under review in making a determination of what is  
8 appropriate going forward. But, as I said, until  
9 the Watkins decision --

10 Q My question is -- that's not my question.

11 A But --

12 Q My question is, do you think they're  
13 entitled to have you sit in that chair and ask you  
14 questions about those things?

15 A I think if they'd like to ask questions or  
16 people on the other side -- by that, I mean other  
17 customers -- in looking at, you know, what is  
18 covered under the contract and implications of  
19 expansion of coverage under the contract and what it  
20 means to -- premium cost to them, there is a balance  
21 in that.

22 Q I mean, you don't have any objection, I  
23 would imagine, as a fiduciary, a chairman of the  
24 company -- you don't have any objection to coming to  
25 Oklahoma and testifying before these policyholders

1 and these other folks, do you?

2 A The issue is a matter of time and the  
3 fact that --

4 Q If we could accommodate your schedule, do  
5 you have a problem doing that?

6 A Trying to accommodate a schedule is very  
7 difficult. And I look at -- if you take 79 or 73  
8 customers --

9 Q If we gave you plenty of advance notice as  
10 to when we want you there so that your schedule  
11 could be arranged and we could accommodate you, do  
12 you have any objection to coming to Oklahoma and  
13 testifying before these policyholders about what  
14 State Farm has done or not done?

15 A You know, again, subject to the schedule  
16 and -- which, as I said, is going to be a big issue.

17 Q I said if we accommodate your schedule, is  
18 that something you would be willing to do?

19 A I'm not sure when you say "accommodating  
20 the schedule." Because if you look at my schedule,  
21 I'm typically out about 130 nights a year.

22 Q Well, let's just say that we can  
23 accommodate your schedule.

24 A Okay.

25 Q If we can accommodate your schedule, will

1 you come to Oklahoma and testify and answer  
2 questions before these policyholders and the jury?

3 MR. RUPERT: Let me interrupt. I don't  
4 think it's a proper question.

5 MR. MARR: Well, I know you don't. And  
6 Stuart Kenney is trying to send you note after note  
7 to get you to object and not allow Mr. Rust to  
8 answer this question. But I think it's a perfectly  
9 valid question and one in which I and the class  
10 members and the policyholders all across the country  
11 are entitled to an answer to, and I don't see a  
12 basis for you instructing him not to answer, if  
13 that's what you intend on doing.

14 MR. RUPERT: Then that's what I intend on  
15 doing.

16 MR. MARR: Okay. And your basis is --

17 MR. RUPERT: You're asking him to make a  
18 legal decision --

19 MR. MARR: I know what I'm asking.

20 MR. RUPERT: -- about whether he's going  
21 to appear or not, and I don't think you're entitled  
22 to do it.

23 MR. MARR: I'm asking him to make a  
24 decision whether, as chairman of the board of this  
25 company, who has a fiduciary relationship with these

1 policyholders if he will come to testify, assuming  
2 his schedule is accommodated. That's a very simple  
3 and valid question. There's nothing legal about it.

4 MR. RUPERT: I think it is legal. It's up  
5 to the corporation that is a party --

6 MR. MARR: The corporation is owned by the  
7 policyholders, as Mr. Rust has already testified to.

8 MR. RUPERT: Yes. And that corporation  
9 has a decision-making process that the policyholders  
10 have a voice in, and it will make its decision on  
11 whether it will ask him to come or not, and I don't  
12 know how you get to invade it.

13 MR. MARR: I disagree. I'd like an answer  
14 to my question. We would all like an answer.

15 THE WITNESS: I think it -- looking at  
16 this -- again, the issue with the findings of the  
17 jury -- you know, there are issues that -- I have  
18 not seen anything that will likely end up on appeal  
19 and a determination whether or not -- what was  
20 presented and what the determination was.

21 Q (BY MR. MARR) Okay. So now there's going  
22 to be an appeal?

23 A I don't know that.

24 Q Well, why the appeal? What if all of the  
25 findings of a jury are confirmed by State Farm's

1 internal, supposed, investigation? Then what are  
2 you going to do?

3 A Well, if there are issues in going back  
4 and finding something, we will rectify that on a  
5 claim-by-claim basis.

6 Q What do you mean?

7 A Just what I said. If there is additional  
8 information that we did not have at the time the  
9 decision was made, we're willing to review that and  
10 make adjustments if necessary.

11 Q At the time what decision was made?

12 A At the time of final decision on a claim  
13 payment, if more information becomes available,  
14 accurate information or something that was not  
15 known.

16 Q What information is going to now be  
17 available to State Farm that wasn't available to  
18 State Farm at the time the lawsuit was filed?

19 A I don't know on that. That may well be  
20 part of -- you know, what would turn up in  
21 individual reviews or something in looking at the  
22 Haag report. I'm not aware of anything in the  
23 decision that, from an engineering standpoint,  
24 disagreed with the protocol that Haag followed, I  
25 believe. I have not read the transcript of the

1 trial.

2 Q Well, I mean --

3 A I go back to the earlier court decision  
4 and looked at Haag and said there was not a bias.

5 Q How much do you know about that? You're  
6 talking about the motion for summary judgment in the  
7 Cramer case, are you not?

8 A I know a Cramer case, and what I have said  
9 is basically what I know.

10 Q Okay. So you don't know anything about  
11 the Cramer case? Did you know that the jury had the  
12 opportunity to hear about the Cramer case?

13 A I'm not aware of that.

14 Q Okay. Do you know what documents were  
15 produced or withheld by State Farm in the Cramer  
16 case?

17 A What I told you -- what I know about the  
18 Cramer case is --

19 Q What if you learned that this prior  
20 summary judgment that you're somehow basing your  
21 opinion on was based on -- wrongfully on State Farm  
22 withholding documents that should have been  
23 produced?

24 A I'm not aware of any withholding of  
25 documents.



1 Q Well, how would you react if we proved  
2 that to you, that State Farm withheld documents that  
3 should have been produced in discovery? What would  
4 you do?

5 A Would review the situation. If we have to  
6 make a change, we will.

7 Q What would you do to the person or persons  
8 responsible for withholding documents that should  
9 have been produced in litigation?

10 A Well, that would be speculation. I would  
11 need to see just what occurred.

12 Q Well, it's happened before with State  
13 Farm, hasn't it?

14 A Not to my knowledge.

15 Q So to your knowledge, State Farm has never  
16 been sanctioned or found by a Court to have  
17 improperly withheld relevant discovery documents; is  
18 that correct?

19 A I can't be that broad.

20 Q Well, let me ask it this way.

21 A I don't have specific --

22 Q Do you have any recollection of ever  
23 taking any action against anyone either associated  
24 with State Farm, employed by State Farm concerning  
25 the wrongful withholding of documents in litigation?

1           A       Wrongful withholding of documents is  
2           contrary to company policy. I am not aware of  
3           specific instances or disciplinary actions that  
4           might have occurred.

5           Q       You can't recall taking any action against  
6           anyone ever for that type of thing; is that correct?

7           A       Personally, no.

8           Q       Well, do you know of anybody under your  
9           control at State Farm that has taken any action  
10          against anyone within the company for withholding  
11          documents in discovery?

12          A       I do not know.

13          Q       You can't think of anyone?

14          A       No.

15          Q       You can't name me one person that's ever  
16          been disciplined, to your knowledge, for withholding  
17          documents from discovery?

18          A       I am not aware of anyone.

19          Q       Have you seen the multitude of orders  
20          against State Farm in some cases, where State Farm  
21          has been sanctioned hundreds of thousands of dollars  
22          for withholding documents in litigation?

23          A       No.

24          Q       You're unaware of that?

25          A       I have no recollection.

1 Q Are you saying, then, that it never  
2 happened, or you just don't remember if it did?

3 A I'm not aware of any.

4 Q So barring -- if I had not had -- if these  
5 plaintiffs and these class members had not obtained  
6 a court order compelling you to be here today, would  
7 you be here today?

8 A No.

9 Q How is your office made aware of a verdict  
10 such as the Watkins verdict?

11 A I was aware of it through conversations  
12 with my general counsel.

13 Q All right. Well, what mechanism does  
14 State Farm use to track these types of bad faith or  
15 fraud verdicts levied against it?

16 A That would be through our corporate law  
17 department.

18 Q Well, I'm asking what mechanism State Farm  
19 has in place maybe to ensure that you, chairman of  
20 the board, are made aware of bad faith or fraud  
21 verdicts against the company?

22 A Those would be through discussions with my  
23 general counsel.

24 Q Is there any -- anything that we could  
25 look to to see what it is that you're advised of?

1 Is it something you get by memo? Is it something  
2 you get a list of? I think you referenced in your  
3 affidavit that there are virtually thousands of  
4 lawsuits against State Farm annually, so --

5 A When you deal with 16, 15 million claims a  
6 year.

7 Q I understand that. But my question is, is  
8 there anything routinely in writing wherein you're  
9 made aware of bad faith verdicts against the  
10 company?

11 A These would be in discussions and maybe a  
12 note from my general counsel.

13 Q Is that consistent with the way it usually  
14 works, a note from general counsel? Is there any  
15 type of tracking? Anything like a litigation  
16 report, a verdict report? Any type of thing like  
17 that that you receive, being the chairman of the  
18 board, on a routine basis so that you unequivocally  
19 would be aware of a verdict and are in the position,  
20 through the Chairman's Council or whatever, to take  
21 action?

22 A You know, I am made aware of both, if  
23 there is an adverse decision as well as an  
24 affirmative or favorable decision.

25 Q Are you always made aware in writing?

1           A       No, not necessarily.

2           Q       If one wanted to find a list of all  
3 verdicts -- bad faith, fraud verdicts -- against  
4 State Farm, what would be requested and from whom  
5 would it be requested?

6           A       Well, again, that's going to be through  
7 general counsel.

8           Q       Who?

9           A       Ken Bruner, as we had talked before.

10          Q       How long has Mr. Bruner been general  
11 counsel?

12          A       Oh, seven, eight years.

13          Q       So Mr. Bruner would be able to identify  
14 all of the other bad faith or fraud verdicts against  
15 State Farm?

16          A       Those actions would be under his purview,  
17 so he would have knowledge of them.

18          Q       Well, does State Farm track -- do they  
19 keep a record of those?

20          A       Again, that gets into the functioning of  
21 the law department and the lawyers that Mr. Bruner  
22 supervises.

23          Q       All right. Well, I'm asking you, as  
24 chairman of the board and chief executive officer,  
25 have you ever asked for such a list so that you

1 could see these types of verdicts and what these  
2 findings are across the country?

3 A I see periodic reports, as I believe I  
4 mentioned earlier, with, you know, adverse decisions  
5 but, equally, favorable decisions.

6 Q And what are those reports called?

7 A I don't recall of a special heading or  
8 anything on a report.

9 Q Does State Farm maintain a list of those  
10 verdicts?

11 A I'm not aware of maintaining a list. They  
12 may well.

13 Q Do they have the ability to pull up that  
14 information?

15 A That, I don't know. I wouldn't be  
16 surprised if they could, but I do not know that  
17 specifically.

18 Q Whenever the Watkins verdict came down,  
19 did you request that type of thing, any verdicts  
20 that had been made against State Farm either  
21 involving Haag, Renfroe, independent adjusters, or  
22 the use of engineers?

23 A Would you repeat the question? I'm sorry.

24 Q Did you ever make such requests?

25 A Specifically after Watkins?

1 Q Yes.

2 A No.

3 Q What about after the Watkins lawsuit was  
4 filed?

5 A No.

6 Q And then subsequently after the verdict --  
7 that's what we were speaking of -- no requests then,  
8 true?

9 A A specific request on that, no.

10 Q What about any type of request after the  
11 grand jury investigation in Mississippi?

12 A I'm not sure what your question is.

13 Q Prior lawsuits or verdicts against State  
14 Farm for biased engineers or the use of engineers or  
15 the use of independent adjusters.

16 A That is part of the review that Susan Hood  
17 has underway.

18 Q Who is responsible for turning over  
19 documents to the grand jury -- to the grand jury in  
20 Mississippi?

21 MR. RUPERT: I'm sorry. Let's take a  
22 break for a second here.

23 MR. MARR: Well, I'd like to get an answer  
24 before we take a break.

25 MR. RUPERT: Do not answer that question,

1 sir.

2 MR. MARR: You're instructing him not to  
3 answer?

4 MR. RUPERT: Well, let's do this. Have  
5 you had any contact with a grand jury?

6 THE WITNESS: No, I have not.

7 MR. RUPERT: Has a grand jury or a  
8 representative --

9 MR. MARR: Do you want --

10 MR. RUPERT: -- of any state or federal --

11 MR. MARR: Do you want me to turn over and  
12 let you do cross now? Why don't you let me finish  
13 my question?

14 MR. RUPERT: Just for a minute. Just for  
15 a minute.

16 MR. MARR: That's not the way it works,  
17 Tony.

18 MR. RUPERT: Well, I'm trying to decide  
19 whether or not I'm going to instruct him not to  
20 answer.

21 MR. MARR: You already have, and let's let  
22 it go at that. If that's what you want to do, stand  
23 on it and let me move on.

24 MR. RUPERT: I'm trying to decide. Have  
25 you had any contact with any federal or state



1 authority regarding this investigation that --

2 THE WITNESS: No, I have not.

3 MR. RUPERT: Then I instruct you not to  
4 answer.

5 Q (BY MR. MARR) All right. Who is  
6 responsible for turning over documents pursuant to  
7 the grand jury subpoena?

8 MR. RUPERT: I'm sorry. Do you have any  
9 knowledge about anything that he's asking about  
10 other than that would come through lawyers?

11 THE WITNESS: No, I don't.

12 MR. RUPERT: Then don't answer.

13 Q (BY MR. MARR) And you're the -- what is  
14 your title again?

15 A I'm chairman of the board.

16 Q Is it a secret as to who is responsible  
17 for turning over documents regarding the grand jury  
18 investigation in Mississippi for the use of biased  
19 engineers?

20 MR. RUPERT: I'm sorry. You're invading  
21 the attorney-client privilege.

22 MR. MARR: I don't think there is --

23 MR. RUPERT: Don't answer.

24 MR. MARR: -- an attorney-client  
25 privilege.

1 Q (BY MR. MARR) Go ahead.

2 MR. RUPERT: Don't answer.

3 THE WITNESS: Under the advice of counsel,  
4 I will not answer.

5 Q (BY MR. MARR) Okay. Are you aware of the  
6 individuals that have been subpoenaed to testify  
7 before the grand jury regarding the use of biased  
8 engineers in conjunction with Katrina?

9 MR. RUPERT: Do you have any knowledge  
10 other than what you've been handed through your  
11 lawyers?

12 THE WITNESS: No.

13 MR. RUPERT: Do not answer.  
14 Attorney-client privilege.

15 Q (BY MR. MARR) Do you know Lecky King?

16 A No.

17 Q Never heard of her?

18 A I've heard of her.

19 Q Do you have any knowledge as to whether or  
20 not she was subpoenaed to testify before a grand  
21 jury?

22 MR. RUPERT: Other than what you learned  
23 through your lawyers, do you have any such  
24 knowledge?

25 THE WITNESS: No.

1 MR. RUPERT: Do not answer.

2 MR. MARR: My question wasn't qualified.

3 MR. RUPERT: Yeah. I qualified it for  
4 you.

5 MR. MARR: That's not the way it works.  
6 You want to instruct him not to answer, go ahead.  
7 Certify the questions.

8 Now do you want your break?

9 MR. RUPERT: Yeah.

10 MR. MARR: All right.

11 (A break was taken from 11:00 a.m. to  
12 11:08 a.m.)

13 Q (BY MR. MARR) All right. Mr. Rust, we're  
14 back on the record after a break.

15 In regard to Exhibit 1 that you have  
16 before you, I want to take a minute and ask you a  
17 question in regard to each one of these findings.

18 A Okay.

19 Q No. 1, the jury found that, "We do find,  
20 by clear and convincing evidence, that the Defendant  
21 State Farm recklessly disregarded its duty to deal  
22 fairly and act in good faith with the class members  
23 in its use of Haag Engineering Company." Do you  
24 agree with that or disagree with that finding?

25 A I think the finding speaks for itself. As

1 I had said earlier, based upon prior decisions, this  
2 was quite contrary to our impression of Haag  
3 Engineering.

4 Q I'm just asking if you agree with it or if  
5 you disagree with it. It's a simple question.

6 A Prior to this, I would disagree. But with  
7 the jury finding, we take it seriously, and that's  
8 why we have instituted a review.

9 Q Do you agree with the jury finding that by  
10 clear and convincing evidence, Defendant State Farm  
11 recklessly disregarded its duty to deal fairly and  
12 act in good faith with class members in its use of  
13 Haag Engineering Company? Yes or no.

14 A I'm not sure I can answer it yes or no.  
15 As I said, based upon -- obviously, based upon what  
16 the jury saw, this is what they concluded. We're in  
17 the process of reviewing that relationship with Haag  
18 Engineering.

19 Q So you can neither agree or disagree at  
20 present?

21 A I'm not disagreeing with what the jury  
22 found. What I'm saying is whether or not all of the  
23 information was available, and that's why we  
24 instituted the review.

25 Q So you may agree with this finding,

1 depending on their review; is that right?

2 A Well, this is obviously what the jury  
3 found.

4 Q Right.

5 A And, you know, I find it very troublesome.

6 Q Right.

7 A And that is why we have a review underway  
8 in looking at that relationship with Haag.

9 Q But as you sit here today, you're not in a  
10 position -- three months after the verdict, you're  
11 not in the position to say whether you agree or  
12 disagree with this finding; is that correct?

13 A At this point all I can agree to is that  
14 there was a -- from what we saw prior to the trial,  
15 a relationship with Haag that was not biased. They  
16 felt that there was a bias.

17 Q That's not true, Mr. Rust. What about the  
18 Nicolau opinion in Texas, where the jury found that  
19 State Farm used Haag and that Haag was biased?  
20 State Farm knew that, correct?

21 A And that was how many years prior to this?

22 Q Is that correct?

23 A I do not know the specifics on the case  
24 you referenced.

25 Q So you don't know the specifics of the

1 Texas case, where the jury found that State Farm  
2 acted in bad faith in its use of Haag Engineering;  
3 is that correct?

4 A I do not know the specifics, nor do I know  
5 what may or may not have occurred at Haag in  
6 intervening years or what steps we took.

7 Q What time line does Susan Hood have? I  
8 mean, when is this supposed to -- this review, this  
9 moratorium, when is this whole investigation that  
10 supposedly is going on scheduled to be concluded?

11 A I have not talked to Susan specifically on  
12 that.

13 Q So it's just indefinite?

14 A I wouldn't say indefinite, but I do not  
15 have an end date.

16 Q Well, as the CEO, when do you expect a  
17 report or an interim report on this investigation?

18 A In due time, but I --

19 Q I mean, three months. Don't you think  
20 that the policyholders are entitled to a decision?  
21 Three months, isn't that adequate time?

22 A You'd have to check with Susan on that.  
23 I'm not --

24 Q Because you don't know?

25 A Pardon?

1 Q You don't know?

2 A That's what I've said.

3 Q Okay.

4 A I do not --

5 Q All right.

6 A -- have a date.

7 Q Okay. Do you have the ability to  
8 establish a mandate, a definitive date by which she  
9 will have a report on your desk regarding her  
10 findings?

11 A I think it is more appropriate to have a  
12 time that is thorough and complete as opposed to  
13 some artificial date.

14 Q Okay. So is that a no? I mean, could you  
15 do that if you wanted?

16 A With the caveat I just said. I can set a  
17 date, but it may be an incomplete report.

18 Q Can you tell me why this type of  
19 investigation wasn't done after the findings in the  
20 Nicolau case down in Texas, where State Farm was  
21 found to be in bad faith for using Haag Engineering,  
22 when it knew what Haag's report was going to be?

23 A I can't say that a report wasn't -- review  
24 wasn't done. I'm not -- I do not know.

25 Q Okay. So if there wasn't one done, you

1 think there should have been one?

2 A Not knowing the circumstances around that,  
3 I can't make that determination.

4 Q How many times does something have to  
5 happen at State Farm before you request that an  
6 investigation be conducted?

7 A It's not a matter of me requiring the  
8 investigation, as I think we have said earlier.  
9 Susan Hood on her own started the investigation  
10 following the rendering of the verdict in Watkins  
11 here.

12 Q So that's something she did. You didn't  
13 even suggest it to her?

14 A I did not have to talk to her. She is  
15 very competent and capable in her own respect.

16 Q So you had no input? You did not suggest  
17 that that was -- that was not something that you  
18 initiated. That was something that Susan Hood did.  
19 Is that what you're telling me?

20 A Absolutely. With the organization the  
21 size of State Farm, I don't have to be involved, nor  
22 can I be involved in every absolute decision.

23 Q But you knew about the verdict when it  
24 came out. Right?

25 A Yes.



1           Q       And there was nothing that prevented you  
2 as CEO from issuing a directive that, We need to  
3 investigate this relationship with Haag and with  
4 Renfroe and see if these juries' findings are  
5 accurate, true? You could have done it if you  
6 wanted to?

7           A       Could have done it, but it was already  
8 underway.

9           Q       Let's go to the next one, finding No. 2.  
10 "We do find, by clear and convincing evidence, that  
11 Defendant State Farm intentionally and with malice  
12 breached its duty to deal fairly and act in good  
13 faith with class members in its use of Haag  
14 Engineering Company." Do you agree with that  
15 finding or disagree with it?

16          A       As I said with the earlier one, this is  
17 what the jury concluded. My feeling, "intentionally  
18 and with malice" is totally contrary to what I  
19 believe the State Farm organization is all about.

20          Q       Has State Farm found to have acted  
21 intentionally and with malice toward its  
22 policyholders in previous litigation?

23          A       There may have been some findings that I  
24 did not know of specific. But I've got to tell you,  
25 an organization like State Farm that has a strong

1 desire to grow, which we are, if we're not taking  
2 care of our customers or creating, you know --

3 Q Is this where you're going to give me the  
4 "We wouldn't be the biggest if we weren't" --

5 A No.

6 Q -- "doing right"?

7 A No.

8 Q This isn't it?

9 A But I would tell you why. Retention is a  
10 key issue that we deal with.

11 Q Okay.

12 A In fact, if you just look, J.D. Power came  
13 out just last week, and, you know, we're among the  
14 largest of the national companies in terms of  
15 customer satisfaction.

16 Q What about the 20/20 story?

17 A Which part of the 20/20 story?

18 Q Did you see the 20/20 story on Katrina?

19 A I saw that and found it most disturbing.

20 Q What did you do about that, other than  
21 find it disturbing?

22 A Well, part of the issue on the 20/20  
23 is what -- what they didn't say.

24 Q No. I'm talking about what they did say,  
25 the fact that you have an independent adjusting firm

1 who -- by the way, do you know who that independent  
2 adjuster was employed by?

3 A No.

4 Q E.A. Renfroe & Company.

5 A There are several --

6 Q Those are the findings that the jury  
7 levied in the Watson -- excuse me -- the Watkins  
8 case, correct? That's the independent adjusting  
9 firm?

10 A Yes, it is.

11 Q That's the same independent adjusting firm  
12 that was in the 20/20 story regarding engineering  
13 reports?

14 A Two of their former employees.

15 Q Right. Did you know that your lawyers  
16 listed these employees -- these E.A. Renfroe  
17 employees as witnesses in this case?

18 A I'm not aware of that.

19 Q Do you know Kerry Rigsby?

20 A No, I do not.

21 Q Do you recall that she was one of the  
22 individuals that turned in State Farm -- turned  
23 in her -- downloaded, I think, 17,000 pages of  
24 documents and reported this indiscretion happening  
25 with engineering firms?

1           A       I saw what was on 20/20.

2           Q       Okay. And you were unaware that she was  
3 listed as a witness by these lawyers over here in  
4 this case?

5           A       No, I was not aware of that.

6           Q       Would you be surprised to learn that she  
7 has the same opinion in regard to State Farm's use  
8 of structural engineers in our case as that which  
9 she made on 20/20?

10          A       I'm not aware of that.

11          Q       Would that concern you?

12          A       Again, if there is an issue with -- with  
13 the engineering firm, as we have talked before  
14 specifically here with Haag, we are reviewing that.

15          Q       Okay. Well, we've got one of your lawyers  
16 over here shaking his head that Ms. Rigsby isn't  
17 listed as a witness. I'm going to hand you a copy  
18 of the pretrial conference order in this case.

19          A       Okay.

20          Q       Attach it as Plaintiffs' Exhibit 2 to your  
21 deposition. And I would direct your attention to  
22 page 107, Witness No. 246, and tell me if you see  
23 the name Kerry Rigsby there.

24          A       I do.

25          Q       Were you aware that the Rigsby sisters

1 adjusted the claims in our catastrophe following the  
2 May 3 tornados in 1999?

3 A No.

4 Q Did State Farm handle -- does State Farm  
5 handle all catastrophes, from a claims perspective,  
6 in the same manner?

7 A It would depend upon the nature of the  
8 catastrophe. I'm not sure I can make that broad a  
9 statement.

10 Q That's something that would be better  
11 directed toward Ms. Hood?

12 A I would say yes.

13 Q Let's get back to the verdict and the  
14 class questions. Paragraph No. 3, the jury found,  
15 "We do find, by clear and convincing evidence, that  
16 Defendant State Farm recklessly disregarded its duty  
17 to deal fairly and act in good faith with class  
18 members in its use of independent adjusters from  
19 E.A. Renfroe & Company." Are you in a position to  
20 say whether you agree or disagree with that finding?

21 A I would -- as I -- on the -- earlier, too,  
22 you know, obviously this is what the jury found, and  
23 we are reviewing that relationship with Renfroe.

24 Q Okay. And if you'll look on Plaintiffs'  
25 Exhibit 2, the witness, Ms. Rigsby, that was listed

1 by State Farm --

2 A What page was that?

3 Q I believe it was 147, yeah.

4 A Okay. 107?

5 Q 107. She's employed by E.A. Renfroe; is  
6 that correct?

7 A Correct.

8 Q Take a look at paragraph No. 4. Jury  
9 found, "We do find, by clear and convincing  
10 evidence, that Defendant State Farm intentionally  
11 and with malice breached its duty to deal fairly and  
12 act in good faith with class members in its use of  
13 independent adjusters from E.A. Renfroe." Do you  
14 agree or disagree with that finding, or is your  
15 position the same?

16 A It would be the same.

17 Q Okay. What meetings have you attended  
18 regarding any investigation following the Watkins  
19 verdict? And, more specifically, concerning the  
20 findings of this jury.

21 A Frankly, following the rendering of the  
22 decision in this case, the only -- the discussions  
23 that come to mind would be with my general counsel.

24 Q Well, how many -- so your --

25 A I don't know.

1 Q So your meetings with your general  
2 counsel. Is that Mr. Bruner?

3 A Yes.

4 Q Okay. How many meetings?

5 A Again, I don't know that number. I'm not  
6 aware of, you know, specific meetings set to talk  
7 about Watkins.

8 Q Okay. How has the verdict affected State  
9 Farm's policies and procedures regarding independent  
10 adjusters or engineers?

11 A That would be part of Susan's review and  
12 recommendations.

13 Q Which, as of this date, you have no idea  
14 when that will be completed?

15 A As I said, no. There's not a date, that  
16 I'm aware of.

17 Q Has State Farm's use of E.A. Renfroe &  
18 Company been curtailed in any way following the  
19 Watkins verdict?

20 A I'm not aware of curtailment or changes,  
21 other than I know that relationship is under review.

22 Q So as far as you know, State Farm is using  
23 the services of E.A. Renfroe to the same extent it  
24 was prior to that verdict?

25 A Possible. I don't know one way or the

1 other.

2 Q But now as to Haag Engineering, is it your  
3 position that State Farm has discontinued its use of  
4 Haag Engineering following that verdict?

5 A It's my understanding there's been a  
6 moratorium put on the use of Haag Engineering.

7 Q Okay. Why just a moratorium? Why isn't  
8 it just a flat-out, We're going to discontinue the  
9 use of Haag Engineering?

10 A Well, it's a review of the allegations and  
11 the relationship, and it may well be a flat-out, but  
12 that's a moratorium. Basically, we are not doing  
13 any additional business now, pending the review, and  
14 I'm not trying to prejudge where that review will  
15 go.

16 Q And when you say any business at State  
17 Farm, is there currently a moratorium on State  
18 Farm's payment of any moneys to Haag Engineering?

19 A I don't know.

20 Q Why not?

21 A I'm not sure what your question is,  
22 payment of moneys --

23 Q Payment of moneys. Because, as you know,  
24 State Farm uses Haag Engineering for reasons other  
25 than just inspecting policyholders' losses, correct?



1           A       I'm not aware of the extent of Haag's  
2 relationship. Again, that is part of something that  
3 Susan would be reviewing.

4           Q       You're not aware of the extent of State  
5 Farm's relationship with Haag Engineering?

6           A       Not specifically, no.

7           Q       Generally? Do you at least have a vague  
8 idea of the extent of that relationship and how long  
9 it's been in existence?

10          A       The extent and length -- I think we've  
11 worked with them for a good number of years, but the  
12 exact, no, I do not have that information.

13          Q       Do you have any idea as to the extent and  
14 the involvement of Haag in State Farm's  
15 organization?

16          A       No.

17          Q       Are you aware that State Farm uses Haag  
18 philosophies and Haag's ideas, Haag's findings in  
19 its training of claims personnel?

20          A       I'm not aware of that.

21          Q       Has that been -- has a moratorium been  
22 placed on the use of those materials and the  
23 training of claims personnel, pending the findings  
24 of Ms. Hood?

25          A       It may have. I do not know.

1           Q       Well, that's what I'm trying to get at.  
2       You said moratorium. I'm wanting to know whether  
3       the moratorium just applies to State Farm hiring  
4       Haag to go out and take a look at its policyholders'  
5       losses, or I want to know if it applies across the  
6       board to any training materials provided by Haag,  
7       any seminars put on by Haag. Is it across the  
8       board?

9           A       I do not know the answer to that question.

10          Q       Okay. So when you say a moratorium, you  
11       don't know the extent of the moratorium, whether  
12       it's limited or whether it's total, correct?

13          A       It is my understanding, the way it was  
14       presented, a moratorium on the further use of Haag.  
15       Susan is --

16          Q       Further use of Haag in what context?

17          A       Just what I told you. That was that we  
18       have put a moratorium on the use of Haag. I don't  
19       have an answer to your question, other than what I  
20       have said.

21          Q       Do you think that your claims school  
22       should continue to use Haag materials in the  
23       training of its adjusters until such time that  
24       Ms. Hood has completed her review or evaluation?

25          A       And that may well be part of Susan's

1 review.

2 Q Well, we would hope so, but my question  
3 was a different question. My question was, do you  
4 think that a hold should be -- that that material  
5 should be withdrawn and not utilized in the training  
6 of claim personnel until such time that these  
7 findings, this investigation is completed?

8 A Not knowing what that information or use  
9 may be, I'm not sure I can answer that.

10 Q You would agree if Haag -- if those  
11 findings are inaccurate -- excuse me. If those  
12 findings are accurate -- the jury's findings are  
13 accurate regarding the use of Haag, State Farm  
14 certainly should not continue to use Haag's  
15 materials and opinions in the training of claims  
16 personnel. Would you agree with that?

17 A And that may well be the outcome of the  
18 review.

19 Q Well, I'm asking you if you would agree  
20 with that.

21 A Again, I'm not in a position with the  
22 knowledge of the extent and details. If that is the  
23 recommendation, I'm supportive of it.

24 Q Do you have to be to answer that question?  
25 I mean, If Haag is found out to be biased in State

1 Farm's favor, as the jury determined in the Watkins  
2 case, and their opinions slanted toward State Farm,  
3 as the jury concluded in the Nicolau and the Watkins  
4 case, don't you think it would be totally  
5 inappropriate to then turn around and use their  
6 materials and opinions to train your claim personnel  
7 that you're going to send out to adjust  
8 policyholders' claims in catastrophes?

9 A Again, as the review of that holds up,  
10 that is what -- you know, we will make those  
11 changes.

12 Q Well, I'm asking you whether or not you  
13 think it would be appropriate to continue to use  
14 their materials or not, and I want a yes-or-no  
15 answer. Can you give it to me?

16 A If -- if -- if -- no. The question is  
17 not -- it sounds that simple, but it is not. Based  
18 upon a review of the relationship with Haag and  
19 their professional opinion, if we have to cease  
20 doing business with them, we will. But I'm not in a  
21 position to make that determination right at the  
22 moment.

23 Q I'm asking you now if you decide to cease  
24 doing business with them, how are you going to  
25 handle the training aspect of it, since you use

1 their materials to train your claim personnel?

2 A And if we cease using Haag Engineering,  
3 that would -- I assume would be in the claims arena  
4 also.

5 Q So are you going to -- how are you going  
6 to deprogram all of your claim personnel to, for  
7 lack of a better word, unlearn what they've already  
8 learned from Haag's philosophies and materials?

9 A Again, if that -- if found on -- to be  
10 appropriate, then appropriate training will be held  
11 to correct any misunderstanding.

12 Q Have you suggested any of that type of  
13 activity since the verdict?

14 A I don't need to suggest it. That would be  
15 part of Susan's review, and I'm -- you know, I'm  
16 waiting for her conclusion.

17 Q That's the type of thing that was done  
18 following the Campbell verdict, wasn't it?

19 A I believe so.

20 Q There were, I think, seminars or classes  
21 taught on -- the handling of first-party claims was  
22 one of the things that was done, true?

23 A I don't know the specifics, but I know  
24 there were changes implemented.

25 Q Okay. Do you think that that might be

1 something that should be considered, given all the  
2 problems that State Farm is having with  
3 catastrophes, the handling of catastrophes and the  
4 allegations that are arising therefrom?

5 A Well, I would disagree with all the  
6 problems. If you come through, we have concluded  
7 well over -- close to 300,000 claims coming out of  
8 the catastrophes this past year.

9 Q And I'm just asking you if you think it  
10 would be a good idea now to have a seminar or some  
11 type of refresher course on handling first-party  
12 claims and catastrophes. And if you don't, you can  
13 just tell me. I understand that you've paid a lot  
14 of claims, but we're not here today because of what  
15 you've paid. We're here today because of what State  
16 Farm didn't pay. You understand that?

17 A I understand that.

18 Q Okay. So my question is, don't you think  
19 that it would be a good idea, as was the case  
20 following the Campbell verdict, that State Farm  
21 maybe consider a refresher course or some type of  
22 additional training on the handling of first-party  
23 claims in catastrophe losses. And if you don't  
24 agree, just tell me.

25 A If additional training is appropriate, we

1 will do it.

2 Q Do you think it's warranted in light of  
3 the allegations that -- the findings of the Watkins  
4 jury and the allegations and the grand jury  
5 investigation in connection with Katrina?

6 A It may be, and that's part of Susan's  
7 review.

8 Q But that's not anything that you've  
9 initiated or looked into?

10 A I have not needed to. Susan is very much  
11 involved with that.

12 Q All right. What about the Chairman's  
13 Council? Has it been discussed within the  
14 Chairman's Council?

15 A Not that I'm aware of.

16 Q So what is State Farm doing differently  
17 now after the Watkins verdict than before?

18 A Well, as we have said, there's a  
19 moratorium on the use of Haag Engineering.

20 Q And that's to the extent you don't know,  
21 right?

22 A Well, there's a moratorium. And then  
23 Susan is in a much better position to respond than I  
24 am. And also there's a review of the use of  
25 independent adjusters and how they are identified.

1           Q     Is there a moratorium on the use of  
2     Renfroe as well?

3           A     I'm not aware of that.

4           Q     Okay. So you know of a moratorium,  
5     although you've seen no documentary evidence to  
6     support it, correct?

7           A     I have no reason to doubt that a review is  
8     well underway and a moratorium is in place on Haag.

9           Q     Well, that wasn't my question. My  
10    question was, you've seen no documentary evidence to  
11    support any type of moratorium concerning Haag,  
12    correct?

13          A     Correct.

14          Q     Do you believe -- or do you agree that you  
15    have a fiduciary relationship with your  
16    policyholders?

17                MR. RUPERT: I want to object as calling  
18    for a legal conclusion. Answer it if you can.

19                THE WITNESS: I'm not sure from a  
20    fiduciary relationship.

21          Q     (BY MR. MARR) You have an MBA and a JD, a  
22    law degree, so you understand what a fiduciary is?

23          A     I understand.

24          Q     Okay.

25          A     But I'm not sure that is necessarily the



1 legal context of what my role is.

2 Q Okay. How would you characterize your  
3 responsibility toward your policyholders?

4 A Well, I have responsibilities, not just to  
5 those that you represent, but to the other 40-some  
6 million across the country.

7 Q I agree.

8 A And --

9 Q I want to know what they are.

10 A Well, if you -- the responsibility is to  
11 run an organization in a fair and equitable way, and  
12 that is what we try to do. And while you disagree  
13 with the observation, but the fact is we continue to  
14 grow, the fact that we continue to have  
15 higher-than-the-average industry retention. We rank  
16 very high on all of the customer surveys.

17 Q I'm asking you for your responsibilities  
18 to the policyholders. I'm not asking what State  
19 Farm does. I'm asking what your responsibility, Ed  
20 Rust, chairman of the board of State Farm  
21 Insurance -- what your responsibilities are directly  
22 to these policyholders, the class members and  
23 everyone nationwide being included.

24 A To manage an organization in a way that it  
25 is financially sound, that we do our best effort in

1 taking care of our customers, and that we continue  
2 to grow.

3 Q You said "in a fair and equitable way."  
4 Do you think that the verdict form before you, the  
5 findings in the Watkins case, are representative of  
6 a company that is handling their business in a fair  
7 and equitable way?

8 A Based upon -- here, as I've said before, I  
9 find the findings very troublesome. They're  
10 contrary to what I believe in and --

11 Q Do you feel -- excuse me. I didn't mean  
12 to interrupt you.

13 A They're contrary to what I believe in and  
14 what I believe this organization is all about and  
15 what we try to do day-in and day-out, and I take  
16 them seriously. And we're in the process of  
17 reviewing them and, if appropriate, making necessary  
18 changes.

19 Q But they are consistent with prior  
20 verdicts against State Farm in the past, are they  
21 not?

22 A There are isolated areas that have found  
23 similar, and we have tried to address those.

24 Q Do you feel, as you sit here today, that  
25 you owe the Watkinses or any of these class members

1 any type of apology?

2 A If we -- in a review, if we come back and  
3 find that we have not been fair with them, then we  
4 want to rectify that.

5 Q I'm asking you --

6 A If an apology is due them for not doing  
7 that or knowing that early enough, our goal is to  
8 rectify if we have done something wrong. That's  
9 what we're trying to do. If an apology, if we have  
10 done something wrong, is appropriate, I have no  
11 problem doing that. In fact, what we try to do  
12 is -- given further additional information, things  
13 that we may not have known, is to rectify something  
14 if it has been incorrectly decided.

15 Q Have you ever issued an apology to any of  
16 your policyholders who were plaintiffs in a lawsuit?

17 A Individually, no.

18 Q I'm not -- I'm not breaking it down  
19 specifically, individually, generally, as a whole,  
20 as a group.

21 A No, not that I recall.

22 Q Did you never think that it was warranted?

23 A I'm not -- I'm not aware of cases --  
24 again, our actions, if we have done something wrong,  
25 is to rectify those.

1           Q       What about the Campbell case, for example?  
2           I think I read in the opinion after the Supreme  
3           Court opinion where they've referenced the fact that  
4           you never even voiced a whisper of an apology. Do  
5           you recall that?

6           A       No, I do not.

7           Q       So as we sit here today, you can recall  
8           not one instance where you have ever issued an  
9           apology to any of your policyholders for the manner  
10          in which they were treated in a lawsuit?

11          A       I'm not -- an apology, no. Rectifying, if  
12          we have done something wrong, correcting that, most  
13          definitely.

14          Q       Okay. And how many lawsuits have resulted  
15          in State Farm rectifying or correcting what they  
16          acknowledge is a wrong?

17          A       I don't have a number. The number of  
18          lawsuits for the size of the organization is --

19          Q       Give me one.

20          A       I think, as you mentioned with Campbell  
21          coming out, changes that were instituted following  
22          that decision, and there are others.

23          Q       Campbell, I have the memo, so I agree that  
24          that was done. Give me another one since the  
25          time -- since the period of the Campbell verdict and

1 the Watkins verdict where State Farm has made any  
2 changes and acknowledged wrongdoing following a  
3 jury's verdict.

4 A Again, following a jury's verdict, there  
5 are also decisions that ultimately are changed on  
6 appeal, so immediate action after a jury's verdict  
7 may or may not be appropriate. But I think if you  
8 come through and look at decisions that have been  
9 concluded, run their course, if we need to make  
10 adjustments, we have.

11 Q Well, I'm asking for the time -- the  
12 period of time from the Campbell verdict until the  
13 Watkins verdict. Give me a lawsuit that has  
14 resulted in State Farm changing anything. And I'll  
15 even narrow it down for you. I'm talking about a  
16 verdict arising in bad faith or fraud.

17 A And with specificity, I do not -- I do not  
18 know.

19 Q Not even one?

20 A Well, I mentioned with Campbell.

21 Q I'm talking about between Campbell and the  
22 Watkins, just one.

23 A Not that I -- no.

24 Q Not one?

25 A There are some, but not that I recall that

1 I can give you chapter and verse on.

2 Q Okay. Let me ask it this way. What is  
3 your internal supposed investigation of the jury's  
4 findings in the Watkins case going to have to  
5 conclude for State Farm to change anything about the  
6 way that it does its business in catastrophes?

7 A If we find that the opinions, the  
8 engineering reports of Haag are not credible, that  
9 they -- you know, we will no longer do business with  
10 them.

11 Q Well, you've got one of those right in  
12 front of you, don't you?

13 A One what?

14 Q A finding that the engineering reports of  
15 Haag were not credible and that State Farm acted  
16 maliciously toward its policyholders for using Haag,  
17 right?

18 A The -- as I read this, it says, "State  
19 Farm recklessly disregarded its duty to deal fairly  
20 and act in good faith with class members in its use  
21 of Haag Engineering."

22 Q Right.

23 A "In its use of Haag." I'm not sure what  
24 we talked about, but specifically what they were  
25 looking at in the way of it gave rise to our use of

1 Haag Engineering. That is what we're reviewing. It  
2 said our use.

3 Q So after this lawsuit, now with a verdict  
4 and after the litigation ongoing for six years, are  
5 you telling me you don't even know that the  
6 allegations included that State Farm used them in  
7 bad faith, knowing that Haag was biased in its  
8 favor?

9 A But that is not what this says.

10 Q I'm asking you. I'm asking you if you  
11 know that.

12 A No. With specificity on that, no, I do  
13 not.

14 Q Okay. So to your knowledge, there is  
15 no -- there was no assertion or allegation or  
16 finding that the engineering reports of Haag were  
17 not credible in the Watkins case. Is that right?

18 A As I've said, coming out of the earlier  
19 decision, be it what -- Cramer or so, there was a  
20 finding by the judge that the use of Haag -- it was  
21 not a biased opinion.

22 Q Let's go back to the Nicolau case in Texas  
23 before our catastrophe, the '99 tornado, the worst  
24 tornado ever recorded on the face of the earth,  
25 where that's exactly what the jury found, that the

1 opinion -- that State Farm hired Haag because they  
2 knew that they were biased toward them. So why on  
3 earth with that did you bring them up here and use  
4 them in the worst tornado ever in the history of the  
5 planet?

6 A Again, I am not familiar with the Texas  
7 case --

8 Q You don't know anything about that case?

9 A -- and what may have gone on at Haag in  
10 the interim. But I do know a judge, in looking at  
11 the facts --

12 Q So you know about one, but you don't know  
13 about the other?

14 MR. RUPERT: Let him finish.

15 Q (BY MR. MARR) Right.

16 MR. RUPERT: Let him finish.

17 Q (BY MR. MARR) Go ahead.

18 A I know a judge looking at the facts has  
19 found that Haag and -- whenever it was, in the --  
20 early 2000 or 2001 -- that there was not an  
21 appearance of bias.

22 Q Okay. And why -- after the lawsuit in  
23 this case and the trial was progressing, why did you  
24 go ahead and send Haag down to Mississippi,  
25 Louisiana, Alabama to look at your policyholders'



1 homes in conjunction with Katrina? Knowing that  
2 their credibility and your use of them was at issue  
3 in the Watkins case, why did you send them down  
4 there?

5 A I was not involved in that decision. But  
6 in looking -- again, I go back -- the decision in  
7 Cramer did not find a bias, and it wasn't until this  
8 decision came down. And when this decision came  
9 down, as I mentioned, within a few days we put a  
10 moratorium on the use of Haag.

11 Q Okay. So if I'm hearing you right, are  
12 you basing the -- you're sending Haag Engineering  
13 down to look at Katrina damage because of the Cramer  
14 case and the summary judgment? Is that the basis  
15 for it?

16 A I was not involved in that decision.

17 Q Okay. So you don't know?

18 A No. I'm not involved in the -- you know,  
19 working with the engineering firm.

20 Q Do you support State Farm's decision to  
21 utilize the services of Haag Engineering in Katrina  
22 cases?

23 A Not having sufficient information until  
24 this came down, I support what we have done in terms  
25 of putting a moratorium on the use.

1           Q       So my question wasn't about the  
2 moratorium. My question was, do you support State  
3 Farm's use of Haag Engineering to inspect  
4 policyholders' damages arising from Katrina in the  
5 Gulf Coast states?

6           A       Based upon what I know now, I'm supportive  
7 of the moratorium and the review. And we, you know,  
8 did not have that knowledge prior to this.

9           Q       I'm asking for a yes or no. Do you  
10 support State Farm's sending Haag down there to look  
11 at policyholders' homes in conjunction with Katrina  
12 claims or not?

13          A       Based upon what was known at the time, I  
14 had no -- would have had no reason to question that.

15          Q       Okay. And if you had it to do over again  
16 today, if Katrina happened tomorrow, would you send  
17 Haag Engineering down to the Gulf Coast states to  
18 look at policyholders' homes from Katrina?

19          A       Based on the moratorium coming out of  
20 this, no.

21          Q       I'm not talking about the moratorium. I'm  
22 talking about what you know today, moratorium  
23 notwithstanding, because we have no documentary  
24 evidence of that. Knowing what you know today,  
25 would you authorize -- if they came to you and said,

1 Mr. Rust, you're the chairman of the board of State  
2 Farm, we want to use the services of Haag  
3 Engineering down in Katrina, what would you say?  
4 Would you authorize it or not?

5 A Based upon what I know here, no.

6 Q Okay. Does State Farm have any type of  
7 reporting system that brings indiscretions to your  
8 attention?

9 A Elaborate. Indiscretions --

10 Q Okay. Like team leaders forcing engineers  
11 to change their reports so as State Farm will be  
12 able to deny a claim, that type of thing.

13 A We have a code of conduct in place. We  
14 have, you know, a compliance hotline that any  
15 associate can call in and anonymously report  
16 concerns that they may have.

17 Q Okay. So State Farm does have a reporting  
18 system that brings indiscretions to its attention?

19 A Yes.

20 Q Were there any such reportings either in  
21 conjunction with our catastrophe in 1999 or the  
22 Katrina or Rita catastrophes?

23 A Not to my knowledge.

24 Q And you receive complaints sometimes,  
25 correspondence from policyholders directed

1 specifically to you, do you not?

2 A My name being on 80-some thousand  
3 policies, yes. If somebody -- I will get letters.

4 Q Okay. Have you ever issued an apology to  
5 any of these policyholders?

6 A These policyholders?

7 Q The policyholders who sent letters  
8 addressed to you complaining about the way their  
9 claim was handled.

10 A I'd have to go back and review. On some  
11 of these if we've had a delay or something, I  
12 would -- yes, I believe I have.

13 Q Okay. And how could we find out that  
14 information, something to support that?

15 A That, I do not know. And the amount of  
16 correspondence that I handle and people -- you know,  
17 if something comes through -- you know, I'm just --  
18 I'm not sure.

19 Q All right.

20 MR. MARR: Mr. Rust, I don't think I  
21 have -- it's noon. I think we can conclude your  
22 deposition, pending a resolution of the matters  
23 which have been certified, and I don't have anything  
24 further for you. Depending on how the Court rules,  
25 we may or may not need to call you back to answer

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1 those questions. Other than that, I don't have  
2 anything further.

3 MR. RUPERT: Okay. We'll read and sign.

4 (DEPOSITION CONCLUDED AT 11:47 A.M.)

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Edward B. Rust, Jr.

September 6, 2006

J U R A T

STATE OF \_\_\_\_\_ )  
 ) SS:  
COUNTY OF \_\_\_\_\_ )

I, EDWARD B. RUST, JR., do hereby state under oath that I have read the above and foregoing videotaped deposition in its entirety and that the same is a full, true and correct transcription of my testimony so given at said time and place, except for the corrections noted.

\_\_\_\_\_  
EDWARD B. RUST, JR.

Subscribed and sworn to before me, the Notary Public in and for the State of \_\_\_\_\_, by said witness, \_\_\_\_\_, on this, the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_  
NOTARY PUBLIC

My Commission Expires: \_\_\_\_\_  
(MRN)

C E R T I F I C A T E

1  
2 STATE OF OKLAHOMA )  
3 ) SS:  
4 COUNTY OF OKLAHOMA )

5 I, MELINDA R. NIEVEZ, Certified Shorthand  
6 Reporter within and for the State of Oklahoma, do  
7 hereby certify that the above-named EDWARD B. RUST,  
8 JR., was by me first duly sworn to testify the  
9 truth, the whole truth, and nothing but the truth,  
10 in the case aforesaid; that the above and foregoing  
11 videotaped deposition was by me taken in shorthand  
12 and thereafter transcribed; that the same was taken  
13 on the 6th day of September, 2006, in the City of  
14 Bloomington, State of Illinois, pursuant to notice  
15 and court order, and under the stipulations  
16 hereinbefore set out; and that I am not an attorney  
17 for nor relative of any of said parties nor  
18 otherwise interested in the event of said action.

19 IN WITNESS WHEREOF, I have hereunto set my  
20 hand and official seal this 11th day of September,  
21 2006.

22  
23 \_\_\_\_\_  
24 MELINDA R. NIEVEZ, CSR, RPR  
25 Oklahoma Certified Shorthand Reporter  
Registered Professional Reporter  
Certificate No. 01539  
Exp. Date: December 31, 2006

Edward B. Rust, Jr.  
September 6, 2006

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1 ERRATA SHEET  
2 VIDEOTAPED DEPOSITION OF EDWARD B. RUST, JR.  
3 REPORTER: MELINDA R. NIEVEZ, CSR, RPR  
4 DATE DEPOSITION TAKEN: SEPTEMBER 6, 2006

5	Page	Line	Correction
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STEVE MEADOR & ASSOCIATES  
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