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By Certified Mail and Email

December 10, 2016

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Re: Dispute Notice

Dear Messrs. Amos and Amos II, Dear Ms. Tillman,

We write in reference to our letter to Ms. Coppedge of September 23, 2016, concerning a dispute between our client Martin Conroy and Aflac.

In the course of our pre-action investigation of Mr. Conroy’s allegations, we have been approached by other former and current Aflac associates, and have now been retained by Gerard McCarthy, Louis Varela, Debbie Cort, Anibal Alcantara Jr., Frederick Baker, and Julio Leaty. We are also in discussions with other Aflac associates seeking legal representation with respect to their claims against Aflac.

Let us begin by briefly introducing our current clients.

Mr. Conroy was a District Coordinator for AFLAC for 9 years until 2016, having been honored as a President’s Club coordinator for 4 of those years, and having received numerous state and national awards and recognitions during his successful career at Aflac. At the end of 2015, Mr. Conroy reported a massive fraud committed by a New York Regional Sales Coordinator Rick Peterson directly to Mr. Amos, Aflac’s CEO, and Thomas L. McDaniel, Jr., Aflac’s Chief Compliance Officer, among others. Mr. Daniel then assigned Ken Dowless, Director of Aflac Trust, to oversee the matter; Mr. Dowless in turn appointed Bill Capps of Aflac Trust to investigate Mr. Conroy’s allegations that Aflac had been knowingly issuing policies to the New

York City employees not qualified for such policies in violation of the state insurance regulations (“Fraudulent Underwriting”). Notwithstanding the fact that Mr. Capps’ subsequent investigation confirmed Mr. Conroy’s allegations, Aflac then embarked on a campaign of naked retaliation against Mr. Conroy: his key assets -- accounts and agreed commissions on those accounts -- were progressively taken away from him; he was denied a brokerage contract; Aflac’s licensing team in Albany was specifically instructed not to communicate with Mr. Conroy; and he was finally denied access to his office at the Aflac office at 14 Wall Street (“Whistleblower Retaliation”). The Company also ignored Mr. Capps’ recommendations that the Company self-report these confirmed violations to the New York Department of Banking and Insurance and to New York City; none of the culprits have been demoted, terminated, or otherwise held responsible; indeed, the only person whom Aflac punished was Mr. Conroy, the whistleblower himself.

Mr. Conroy also witnessed firsthand a number of other improper or fraudulent practices discussed below, including fraudulent recruiting of new associates (the “Fraudulent Recruiting”); the manipulation of the “average producers” metrics; the conversion of preexisting individual policies into nearly identical new group policies (the “Individual-to-Group Conversion”); and the rampant manipulation of commissions through the use of the “situational” or “sit” codes (the “Cheat Codes Scheme”). Indeed, as far back as in 2010, Mr. Conroy forewarned Aflac’s President Mr. Amos II that the “average weekly producers” number is easily manipulated and should not be made part of the coordinators’ bonus, but was rebuffed.

Mr. McCarthy joined Aflac in 2001 after 27 years of police service for the City of Jersey City, where he served as the Director of the Police Department. Mr. McCarthy held numerous management positions, including those of a District Sales Coordinator and a Regional Sales Coordinator; produced over \$25 million in premiums for the Company; and have won nearly every award achievable on a state and national levels during his successful career with Aflac. In 2016, Mr. McCarthy suffered a severe loss of income and financial injury in connection with the improper conversion of several of his large accounts (the “Individual-to-Group Conversion”). Even though Mr. McCarthy reported these improper practices to Aflac’s CEO Mr. Amos and to Aflac Trust, none of his issues were resolved, nor did Aflac offer to compensate him for his losses.

Mr. Varela joined Aflac 2.5 years ago and is still actively producing for the Company. Mr. Varela suffered financially when a number of his accounts were improperly converted and taken away from him by his Aflac supervisors. Mr. Varela also directly witnessed a number of fraudulent or improper practices being widely utilized at the Company, including Express Enrollment through the SNG system, whereby Aflac fraudulently enrolled its existing policyholders in additional insurance policies without their knowledge, authorization or consent (the “SNG Fraud”); and the “bundling” or “tying” of policies, *i.e.*, requiring a policyholder to purchase a second policy in order to benefit from the one policy that they intended to purchase, in violation of state insurance law (*e.g.*, the “Mommy Packages,” and the “Aflac Triple Play” below). According to Mr. Varela, the SNG fraud is widespread and has been reported to Aflac Trust, again with no consequences for anyone except for the whistleblowers.

Ms. Cort joined Aflac in May 2015 and left in October 2016. Ms. Cort was working at a law firm immediately prior to joining Aflac but was fraudulently induced into leaving her employment and becoming an associate with Aflac by the Company’s recruiter (two times convicted felon), who used a knowingly false “Aflac 10-Year Income Example” as a means of recruiting hundreds of new associates every year, most of whom would then quit before the year

end. Furthermore, during Ms. Cort's stay at Aflac, the Company would purposely send her and other attractive young female associates to the New York City fire departments and other male-dominated environments around the city to sell Aflac insurance, where they would be solicited by employees to perform various favors of explicit sexual nature, making Ms. Cort extremely uncomfortable in her work.

Mr. Alcantara, Jr., an electric engineer by profession with a 16-year corporate experience, joined Aflac in March 2012 in reliance on the Company's representations made in the course of the Fraudulent Recruiting, and left in April 2013, when he realized that the Company's representations regarding income and commissions were false. After his departure, Aflac has been sending him bills to claw back whatever commission he earned on the policies that were later cancelled (according to Aflac, with no way for Mr. Alcantara to verify those claims).

Mr. Baker was a bond trader for many years before being laid off in late 2014, when he was contacted by Aflac recruiters, invited for an interview – which turned out to be an information session with half a dozen other candidates with similar background – and given the “10-Year Income Example.” Aflac recruiters also promised that Aflac will pay for his training. Mr. Baker soon discovered that Aflac's promises were very far from reality – neither he nor anyone else he met at Aflac ever made the commissions as represented in the “10-Year Income Example,” and it turned out that Aflac would only reimburse new associates for their training only upon their certain income targets, which were also unrealistic. Mr. Baker left the Company in March 2016, have made the least amount of money in his professional career during his 1.5 years at Aflac.

Mr. Leaty joined Aflac in March 2012 after a 30-year career as a Merrill Lynch manager. Aflac aggressively recruited people like him – recently laid off professionals desperate for any job opportunity – with its false promises and the fraudulent “10-Year Income Example.” Mr. Leaty worked very hard at Aflac, making hundreds of cold calls and door-to-door drops without making any money and without getting any support from Aflac (indeed, Aflac even charged Mr. Leaty for the cubicle he used). Despite all his hard work, Mr. Leaty made less than \$10,000 in his seven months at the Company, the least he had ever made in his professional career, and left in disgust and frustration in October 2012. He recalls his short tenure at Aflac as a “purgatory” and “the worst time in his life,” and believes that his Aflac colleagues shared that sentiment. And for the last four years since his departure, Aflac has been sending him monthly bills, claiming that Mr. Leaty owes Aflac money for the policies that got cancelled after his departure, and trying to claw back the commission paid for these policies (with no way for Mr. Leaty to verify those claims).

In sum, our clients range from those who were fraudulently recruited by Aflac to become associates and, like many if not most new recruits, left the Company soon thereafter upon realizing that the recruiting representations were false, such as Messrs. Alcantara Jr., Baker and Leaty and Ms. Cort -- to those who had persevered and risen to the top of Aflac's sales force, only to be defrauded eventually out of their accounts and commissions, like Messrs. Conroy and McCarthy.

Our clients allege consistently, credibly, and with supporting evidence, that Aflac has been engaged in a range of unfair and deceptive business practices. Their allegations reveal a pattern of misconduct that may constitute securities fraud, commercial fraud, consumer fraud, insurance fraud, violations of the Sarbanes-Oxley Act and the Dodd-Frank Act, violations of state insurance

laws and regulations, and other wrongdoings.¹ Aflac has been engaged in these improper practices for its own benefit and that of its top management, to the detriment of its associates, customers, and shareholders.

These violations have been reported to Aflac Trust and in many instances to the executive management, including Mr. Amos himself; however, this up-the-ladder reporting in each instance was met with callous silence at best or, more frequently, with retaliatory actions against the whistleblowers themselves.

These alleged violations fall into the following broad categories:

1. Fraudulent Recruiting. “People want to make money, and when they get into sales, that’s a big driving factor. I mean I don’t think it should be the only thing, but *there is a lot of money to be made at Aflac. I am not shy about it at all because it is a big part of bringing someone onboard.*” So says Aflac’s Market Director for New York Trevor Fennell in a video testimonial published on Aflac.com.

“Recruiting is one of the most important areas of focus for our career sales force. . . . Make no mistake – we will continue to focus on our recruiting, and must show marked improvement longer term, as *this is an important driver of our sales growth,*” as Teresa L. White, President of Aflac U.S., reported to analysts during Aflac’s Financial Analysts Briefing for 2015.

Making “a lot of money” at Aflac is indeed the key part of Aflac’s recruiting pitch for bringing new associates onboard, while the resulting number of “monthly average producers” and “weekly average producers” are Aflac’s key operational metrics that the Company shares with the Company’s shareholders and analysts as an admittedly “important driver of [Aflac’s] sales growth.” In other words, the large-scale recruiting is necessary for Aflac to grow its sales.

Aflac’s recruiting pitch is a sham, however -- “a flat-out lie,” “200% fraudulent,” “a Ponzi scheme,” “completely fraudulent numbers,” in the words of our correspondents -- and Aflac’s key operational metrics based on the number of producers are all inflated as a result of it.

Here is how the Aflac recruiting process works in reality, as conveyed by virtually everyone we have spoken to. Aflac’s recruiters (which include such unscrupulous characters as Jason Pastore, convicted in 2015 for IRS fraud), hired by Aflac’s sales coordinators and being paid \$20 per recruit, search for people who post their resumes on line, contact the most vulnerable segments – kids fresh out of college, unemployed, laid off professionals desperate for work, etc. – tell them that they are being recruited for career opportunities at Aflac, and invite them for Aflac’s information session.

During the information session, Aflac’s representative makes an inspiring presentation for new recruits, shows them a video promising glamorous lifestyle, travel opportunities, etc.,

¹ Other potential wrongdoings also include a misclassification of Aflac associates as independent contractors (1099) rather than employees (W-2). Tellingly, in 2014, Aflac’s associates with the titles of state sales coordinators, state training coordinators and broker development coordinators were changed to the W-2 status with no change in their positions, daily activities, job description, or responsibilities.

emphasizing that Aflac is “one of the most honored companies across the globe, with distinctions including ‘World’s Most Ethical’ and ‘Most Admired Companies’” -- and then hands out to every recruit a sheet of paper called “Aflac 10-Year Income Example.”

This “Aflac 10-Year Income Example” is how Aflac convinces the recruits that “there is a lot of money to be made at Aflac,” which is admittedly “a big part of bringing someone onboard.”



Aflac 10 - Year Income Example

	Annual Production	Gross Commission	Renewals	Total Earnings	Accumulated Stock Bonus
Year 1	\$ 266,760	\$ 125,377	\$ -	\$ 125,377	\$ -
Year 2	\$ 266,760	\$ 125,377	\$ 7,500	\$ 132,877	\$ 5,000
Year 3	\$ 266,760	\$ 98,701	\$ 15,000	\$ 113,701	\$ 10,910
Year 4	\$ 266,760	\$ 98,701	\$ 32,500	\$ 131,201	\$ 21,501
Year 5	\$ 266,760	\$ 98,701	\$ 50,000	\$ 148,701	\$ 33,311
Year 6	\$ 266,760	\$ 98,701	\$ 67,500	\$ 166,201	\$ 46,478
Year 7	\$ 266,760	\$ 98,701	\$ 85,000	\$ 183,701	\$ 61,160
Year 8	\$ 266,760	\$ 98,701	\$ 102,500	\$ 201,201	\$ 77,530
Year 9	\$ 266,760	\$ 98,701	\$ 120,000	\$ 218,701	\$ 95,782
Year 10	\$ 266,760	\$ 98,701	\$ 137,500	\$ 236,201	\$ 116,134

The new recruits induced by Aflac’s promise of “a lot of money to be made” exemplified by this “10-Year Income Example” then sign up for insurance classes, receive their insurance license in due course, sign a standard associate contract with Aflac, and commence working for the Company as its independent associates.

However, what the vast majority of them quickly discover is that they are not making anything close to the income represented by Aflac during the recruitment, not to mention that instead of glamorous opportunities they mostly do cold-calling trying to schedule appointments to see potential customers. Many new associates, who are unsophisticated and new to the insurance business, blame themselves for their failure as they believe that the fault for not meeting the expectations lies with them; many, if not most, leave Aflac before the end of their first year as a result, leaving whatever accounts they had managed to open in the meantime to their sales coordinators as “orphan” or “house” accounts. The coordinators, who receive commission on those accounts, are then free to allocate them to those associates they favor, but the associates who had opened them and left Aflac before the year-end do not receive the promised commission on those accounts.

The fault for not meeting the income expectations, however, does not lie with the new associates but with Aflac itself, because the expectations themselves are wholly unrealistic as they are based on the premises that Aflac knows to be false:

This is a ten year income example of a person who produces \$266,760 in new business.

- ▶ This assumes 48% 1st year commissions, 3% renewals, and a 2% stock bonus Years 1 - 2.
- ▶ In years 3 - 10 rates are 37% 1st year commissions, 7% renewals, and a 3.5% stock bonus on any policy that pays 13 months.
- ▶ An agent **must see** 83 employees monthly to be on track as a \$250,000 producer

(45 employees x 12 months = 540 ee's @ 50% closing rate is 270 new sales 270 new sales x \$520 (avg. annual premium) x 1.9 policies (avg. enrollment per employee) = \$266,760 in new business)

All these assumptions are false. As a threshold matter, less than 2% of associates achieve the \$266,760 annual production number (or the \$250,000 as stated in prior year examples and is still carried over to the above 2016 example, see the reference to the “\$250,000 producer” in the third bullet point above), and the vast majority of them produce significantly less than that. Among other things, it is virtually impossible for a new associate to “see 83 employees monthly to be on track as a \$250,000 producer,” such that the assumption of the \$250,000 annual production (let alone of \$266,760) is false in the vast majority of cases.

But even if the associates were indeed producing \$250,000 or \$266,000 annually, their total income would be nowhere near the commissions as represented by Aflac, for several reasons.²

First, the assumption of “48% 1st year commission” is false. Only two of the Aflac policies offer 1st year commission of 48%, while all the others range from 25% to 43%, according to the Company’s own Compensation and Commissions schedules.

Second, nationwide on average approximately 22% of all policies are cancelled within the first year, and the associates do not receive any commissions on cancelled policies, which further reduces their 1st year commission, but is not reflected in the Aflac income example.

Third, the assumption that “in years 3-10 rates are 37% 1st year commission, 7% renewals” is also false. According to Aflac’s own Compensation and Commissions schedules, in year 3, the associates default to the “ACK” commission structure, where only one policy – for cancer – carries 38% commission rate, and the rest of the policies are all well below 37%. Same with the “7% renewal” – only the Whole Life policy, rarely sold, offers this rate, while the rest of the policies carry substantially lower renewal rates.

Fourth, to the extent that the new associates do manage to close accounts, they do not receive the full commission as promised by Aflac, for several reasons. Thus, the associates are not told during the recruitment that Aflac pays only 63% of the commission to which the associate is

² Compare the annual commission as represented by Aflac in its “10-Year Income Example” with the publicly reported income of Aflac’s insurance agents as between \$0 and \$55,000, with the average of between \$23,000 and \$28,000 per year. See, e.g., Aflac Salaries on Glassdoor.com. These numbers are a far cry from the \$125,377 first-year commission as represented by Aflac.

otherwise entitled upfront, and the rest is deferred and paid “as earned” through the rest of the year (by which time many of the associates leave and do not get paid the balance). Furthermore, unbeknownst to them, their regional sales coordinators split their commissions with other agents or brokers through manipulation of the “sit” codes to which they, but not the associates, have access. See the Cheat Codes Scheme below.

As a result of the Cheat Codes Scheme, after closing a sale, the new associate would be credited with commissions substantially lower than the policy offers. For example, Ms. Cort had closed a few accounts during her short stay at Aflac, receiving an average of 5% commission after the splits. Even though our clients complained to Aflac’s management about being cheated out of their commissions, some quite vocally (*see, e.g.*, Mr. McCarthy’s letter to Mr. Amos of September 28, 2016, and his complaint to Aflac Trust of October 18, 2016), their complaints were ignored; indeed, the practice of splitting commissions through cheat codes appears to have become rampant in recent years.

Fifth, Aflac also assures the new recruits that they will continue to be paid on the accounts they close for as long as their license and contract remain in good standing. As Aflac’s glossy recruiting brochure states, “Level renewal commission paid for the lifetime of the policy, NOT 1st and 2nd year only.” That was emphatically not the case with our clients Mr. Conroy, who had every single account taken away from him; Mr. McCarthy, who had two of his large accounts taken away from him; and others.

The sales coordinators are compensated by Aflac based on a number of associates reporting to them, and regional sales coordinators each has a target of 100 new recruits per year. Thus, Aflac creates incentives for its coordinators to engage in a large-scale recruiting and churning of the recruits based on false premises.

2. Manipulating the “average producer” metric. Aflac publishes its “average weekly producers” (“AWP”) and “average monthly producers” numbers as its key operational metrics indicative of its growth rate in its periodic securities filings with the SEC, in its annual and quarterly reports to the shareholders, and in financial analyst presentations.

As shown above, these numbers are inherently inflated due to the large-scale fraudulent recruiting and the resulting extremely high attrition rate within the first year. (Indeed, Aflac had been reported to have one of the least loyal workforce among all of the Fortune 500 companies, with the average tenure of only 1 year, *see n.1* below).

Moreover, these numbers are further inflated because they include the newly recruited associates as “producers” even though many of them do not produce anything during their short stay at the Company. In order to count them as “producers,” at the end of a reporting period Aflac falsely assigns a minimal amount of production – as low as \$1 – to the non-producing associates in order to count them towards the “average producer” metric by taking that production amount from other, producing associates.

Here is how this indisputably fraudulent practice looks in the following Q4 2014 example. On November 18, 2014, Benito Rotondi, State Training Coordinator in New York, sent an email to Ken Meier, Rick Peterson, and others at Aflac, stating: “Here is the Zero Producer Report that was promised you earlier today. As stated earlier we need another 63 Zero Producers by week 51.

Please review this with your team and *your help is greatly appreciated in getting at least \$1 of production to those who have zero next to their names* that are still active with us.”

Mr. Peterson then sent a reminder to his district sales coordinators on December 10, 2014: “DSC’s, Just another reminder *below is a list of our regions ‘0’ production producers. We need to get at least \$1 in production in there [sic] name. . . .* I’m asking each of you to pull you [sic] weight here. *The State really need [sic] this to happen* and I gave my word we would all do are [sic] part.”

This \$1 trick would then allow the coordinators to receive additional compensation because the Q4 bonus had the “average weekly producer” component to it; it also allows Aflac to report its “average weekly producers” or “average monthly producers” operational metrics inflated by hundreds if not thousands of “zero producers” with \$1 in fake production.

It also demonstrates that Aflac could manipulate its bonus and compensation structure with the purpose and/or effect of incentivizing its coordinators to pad those numbers. In fact, Mr. Conroy as far back as in 2010 opposed the inclusion of the “average weekly producer” number as a component of the district sales coordinators’ bonus, because the number was too easily manipulated (witness the \$1 trick above).

Thus, in his email to Mr. Amos II of April 13, 2010, Mr. Conroy expressly stated: “*Average Weekly Producers is, with all due respect, a ‘bull pucky’ number. There are too many ways to manipulate the figure.*”

Mr. Amos II responded: “*I really like the DSC bonus and I think it aligns.*” Mr. Amos II was right: the bonus structure with the “average weekly producer” component to it perfectly aligned the coordinators’ incentives to pad the AWP number for their own bonuses with the Company’s goal of reporting growth in this key operational metric, even though Mr. Amos II knew, having been expressly forewarned by Mr. Conroy, that this metric would be easily manipulated.

As Ms. White, President of Aflac U.S., assured investors during Aflac’s Financial Analysts Briefing for 2015, “we know that compensation is the most effective means of changing the activities of a sales force.” In the case of the AWP metric, it appears that Aflac purposely changed its compensation incentives to facilitate manipulation by the sales force.

3. Fraudulent Underwriting. In addition to the foregoing practices of fraudulent recruiting and manipulating the AWP metrics, Aflac has also been engaged in a number of unfair, deceptive and illicit underwriting practices that inflate its other key operational metrics, such as the “number of policies in force,” the “annualized premiums in force,” and the “total new annualized premium.”

To our current knowledge, these practices include issuing policies to unqualified policyholders; issuing policies without policyholders’ knowledge, authorization or consent; improper “bundling” or “tying” of different stand-alone policies; and the cannibalization of the existing policies through the Individual-to-Group Conversion. Some specific examples of such practices are set out below.

a. The SBA fraud. Rick Peterson, a Regional Sales Coordinator in New York, has been endorsing and allowing or encouraging his associates to place numerous New York City employees on Aflac accounts despite their ineligibility for those accounts. For example, the New York Sergeants' Benevolent Association (the "SBA") has over 600 policies, at least half of which were issued to regular patrolmen who were not New York Police Department Sergeants at the time of their enrollment.

In such cases, those patrolmen and Aflac's associates who enrolled them into the SBA account falsely certified, on their applications and on the new business transmittal forms respectively, that the account met the requirement set forth by Aflac New York and that each applicant was a valid member or employee of the SBA.

As noted above, in 2015, Mr. Conroy reported this fraud on the SBA account, as well as other similar fraud on other New York accounts, to Aflac's CEO Mr. Amos, its Chief Compliance Officer Mr. Daniel, as well as to Ken Meier, Vice President for the Northeast. Aflac then assigned its investigator Bill Capps to this matter, who confirmed to Mr. Conroy following his investigation that (a) Mr. Conroy's allegations were true, and (b) that he recommended Aflac to self-report those violations to the New York Department of Banking and Insurance and to New York City. Mr. Capps also shared with Mr. Conroy that Mr. Peterson denied that anybody reported the SBA fraud to him, which denial was false because Mr. Conroy had notified him about the fraud as far back as in November 2014.

Instead of reporting the violations, discontinuing the fraudulent underwriting practices, and disciplining those involved, Aflac chose to retaliate against the whistle-blower himself, in violation of the Sarbanes-Oxley Act and the Dodd-Frank Act.

b. The SNG/Express Enrollment fraud. Since 2003, Aflac has been using the SmartApp Next Generation, or SNG, as the primary online enrollment platform for its associates, along with the recently added Everwell. This is how Aflac explained the benefits of these enrollment tools during the 2015 Financial Analyst Briefing:

Our goal is to provide our career sales agents with easy-to-use technology that helps them to offer clients a full range of benefit plans and options that fit their needs. These tools also provide the opportunity for increased account penetration and increased policies per policyholder. While many agents still use our SNG® enrollment tool, we expect to incent our sales force to convert to using everwell for more enrollments, as it enables the agent to provide more of a comprehensive solution to health care needs. Although our experience with everwell is still somewhat limited, our results so far have demonstrated increased account penetration and increased policies per policyholder.

The reality, however, is much less benign than represented by Aflac in its glossy briefing brochures for the analysts. According to our clients, the SNG platform has been widely used to facilitate fraudulent express enrollment, whereby Aflac associates, under intense pressure to meet sales goals, enroll customers into policies without their

knowledge, consent, or authorization, by using their personal information and by forging their signatures.

This is how the SNG express enrollment “provide[s] the opportunity for increased account penetration and increased policies per policyholder” in reality, according to our clients. The small-case market, *i.e.*, employer groups with fewer than 100 employees, represents 90% of Aflac accounts, and “has always been Aflac’s bread and butter.” During enrollment periods, Aflac associates would target those small companies, typically with not very sophisticated employees, such as bakeries, laundries, schools, etc. Aflac associates would go to those companies and conduct an “informational” session with the employees, where they would ask the employees to indicate, on paper forms and with signatures, which Aflac policies they might like to purchase in addition to those they already have. The associates would then collect the paper forms, promise the employees that they would come back later for the actual enrollment, and leave.

But they do not come back to enroll the employees – instead, they take their paper forms and input all the information into the SNG online platform applications, and then forge the employees’ signatures on the SNG final sign-up screen, copying their signatures from the “informational” paper forms.

When later the employees who were signed up by Aflac for additional policies without their knowledge discover additional payroll deductions for these policies (98% of Aflac policies are sold on a payroll deduction basis) and complain about them, they would be told by Aflac that they could only unenroll during the next enrollment period. By the time the new enrollment period arrives, Aflac would have been collecting premiums on those fraudulent policies for a year; indeed, many of the fraudulently enrolled employees might not remember to cancel those unauthorized policies next year, and Aflac would continue to collect premiums through payroll deductions.

According to our clients, the SNG/Express Enrollment fraud is widespread, and the unscrupulous associates who engage in it receive much more in commissions and bonuses than their colleagues who do not. Moreover, the SNG fraud has been reported to Aflac Trust, but nothing changed except that those who reported it were retaliated against. And, according to Aflac, its Everwell platform, recently rolled out to replace SNG, demonstrated even better “account penetration and increased policies per policyholder.”

c. Bundling of policies: “Mommy packages”; “Aflac Triple Play.” Illicit “bundling” or “tying” of policies is another way that Aflac achieves “increased account penetration and increased policies per policyholder.”

The so-called “Mommy package” is one representative example of such practices, whereby Aflac teams responsible for school enrollment are trained and encouraged to sell stand-alone policies bundled together as a package:

Hello School Team! (Coordinators – please forward to anyone who is not included). Thank you to those that came to training today,

I hope you found ways to maximize your opportunity each and every day within the schools! . . .

Mommy Package – Remember for DI – Max out benefit (so long as eligible), 3 mos, 7/7 or 0/7 elimination period (pick one). Payment is 8 weeks (minus elimination) for c-section, 6 weeks (minus elimination) for vaginal delivery. ***Add this with Hospital (if the price point makes sense) and that's the package!***

The associates would then tell school employees that they have to buy those stand-alone policies as a package, in violation of state insurance regulations. Subsequently, the employees would complain to Aflac and request that the policies be cancelled, but the “bundling” practice continues unabated.

Another bundling practice utilized by Aflac is the so-called “Aflac Triple Play,” whereby Aflac would offer the accident, cancer and sickness policies as a bundled package, creating a (false) appearance that the policies had to be purchased as a package, even though these are all stand-alone policies. Indeed, in the course of investigating Mr. Conroy’s allegations, Aflac’s Mr. Capps confirmed that Mr. Peterson was utilizing the “Aflac Triple Play” packages in New York.

d. The “Individual-to-Group Conversion.” The conversion of pre-existing individual policies into nearly identical new group policies typically happens on large accounts with the involvement of brokers. This is how Mr. McCarthy described the conversion of his large Univision account in a letter to Mr. Amos of September 28, 2016:

I have opened several large accounts including the City of Jersey City which was opened in August of 2002 as NB415 and NB417. These accounts later on in March of 2003 were moved under Columbus and became CL729 and CL730. Following this I opened Univision Communications, DA751, in March of 2003. Let’s start with the Univision account.

Approximately June of 2015, I was notified by our Broker Division that they were assisting a Broker, AON, who was looking to provide Univision with Group policies (Continental). I was informed that I would receive a 30% commission on all policies. Aflac was billing this account, at this time, approximately \$600,000.00 annually. I had been servicing this account since 2003. What happens next is unbelievable.

They sent their representatives into this account as they were preparing for an online enrollment and informed Univision employees that they COULD NOT keep their existing Aflac policies but now had to purchase the Group “Aflac” policies. They also forced Univision to discontinue all payroll deductions effective that January 1, 2016. As you can imagine, I was inundated with calls and emails from our policy holders. I was subsequently warned by Aflac not to contact any existing policy holders or interfere in the AON enrollment. I was actually able to save some existing policies and get them onto Direct Bill. Following the hijacking of the account, AON did their

enrollment which produced approximately \$100,000.00 in premium. I did not receive any split at all and Aflac suffered a loss of \$500,000.00. I really don't know if this is the what you would consider good business? I would be sure that our stockholders, of which I am one, would not approve? I have suffered a loss of income and have received no assistance from anyone? This is after I had protected and serviced this account for over fourteen years and produced millions of dollars for the Company. I would request that you have someone look into this and how this was allowed to happen.

As is pointed out in Mr. McCarthy's letter and appears undisputed, cannibalizing its own pre-existing \$600,000 worth of individual policies with new \$100,000 in substantially identical group policies makes no business sense. The only plausible explanation for this Individual-to-Group Conversion is to allow Aflac to report the \$100,000 as its "new annualized premium sales," which is the key indicator of the Company's growth rates and earning prospects, without disclosing that Aflac's "new" premium is in fact the result of cannibalizing Aflac' own pre-existing business.

The same Individual-to-Group Conversion occurred on the Medical Diagnostics Laboratories ("MDL") account handled by Mr. Conroy. That was a long-standing Aflac account with individual policies assigned in 2007 to Mr. Conroy, who had managed to grow it to \$80,000 by 2010, when Mr. Conroy was instructed by Aflac Group and his superiors to convert it into the Aflac Group Texas policies that were similar to the MDL pre-existing individual policies. Aflac Group also instructed Mr. Conroy to "domicile" MDL in Texas in order to facilitate the conversion, even though Aflac knew that MDL was headquartered in New Jersey. As a result, \$80,000 of pre-existing individual policies were converted into \$40,000 group policies, which Aflac then reported as "new premium."

As Mr. Amos stated in commenting on the Company's Q4 2015 results: "From a financial perspective, Aflac U.S. also performed well for the quarter and full year. I am very pleased with our fourth quarter new annualized premium sales, which hit an all-time record with the premium amount of \$496 million. This equated to a growth rate of 9.6% for the quarter, which helped drive annual sales results to increase 3.7% for the year." Similar comments were made by Aflac with respect to other quarters, *see, e.g.*, Mr. Amos' comment on the Q1 2016 results: "the increase in new annualized premium sales of 3.7% establishes a solid baseline for our expectation of a 3% to 5% growth rate for the U.S. in 2016."

If our suspicions are correct, the Individual-to-Group Conversion has the purpose and/or effect of revenue manipulation in Aflac's financial reporting by inflating the "new annualized premium sales" metric and the related growth rate expectations.

4. The "Cheat Codes" Scheme. The widespread use of "sit codes" by the regional sales coordinators and market directors to split the commission credits and reassign them at will and without the associates' knowledge and consent have resulted in our clients' and similarly situated associates' being cheated out of commission they would have been otherwise entitled to.

When an application is submitted to Aflac, it is accompanied by a transmittal sheet that instructs Aflac how to pay commission on all levels and assign production. The split of

commission and production credit is accomplished by the use of these “sit” codes, to which only the regional sales coordinators or those above them have access – not the associates, nor brokers or even district sales coordinators. The associates are typically not notified which “sit codes” are being used, and have no say in which “sit” codes should be used and how the credits should be split. The regional sales coordinators and market directors can and do utilize these Cheat Codes to assign the commission or production credits to whomever they choose without disclosing it to the producing associate, and for whatever purpose, including for purpose of manipulating contests and bonus awards.

Our clients have provided us with numerous examples demonstrating how the Cheat Code scheme allows the regional sales coordinators and market directors to enrich themselves and their favorites at the direct expense of the producing associates.

5. Potential earnings manipulation. In addition to the credible evidence of Aflac’s manipulation of its key operational metrics summarized above, and the suspected revenue manipulation through the Individual-to-Group Conversions on larger accounts, our clients’ allegations also raises the specter of earnings manipulation achieved by keeping the reporting periods “open” past their calendar close date and improperly booking production revenues from business received in that extra time period.

For example, at the end of last quarter, on September 28, 2016, Aflac distributed to its sales associates an email with the subject line “Holding Open Week 39,” and stating:

Holding Open Week 39 – Aflac Columbus & New York – Individual Business

Production Week 39 will not close on Friday, September 30th [i.e., calendar quarter end]. We will hold open production week 39 until all guaranteed business has been processed. This includes Columbus and Aflac New York. . . . An exact close-out date for Week 39 will be determined and communicated on Monday, October 3rd.

Holding Open Week 39 – Aflac Group

Production Open Week 39 will not close on Thursday September 29th but will be held open until Sunday October 2nd. Business submitted on or before Sunday, October 2nd that was received according to the following guidelines will count for week 39.

Another example is from the 2014 year-end, when Aflac apparently achieved its sales and earnings projections before the calendar year-end, and then added the remaining days of that year as “**Week 0**” to its fiscal year 2015, in effect making 2015 a “53-week year.”

Thus, on Monday morning of December 29, 2014, Ken Meier sent the following email titled “Week 0”:

NY-M/LI Team,

Dan Amos called me yesterday (while I was at that horrible Giants game) and asked me to let all of you know how much he appreciates all of you. Not only we were #1 in the country again, but were also one of only 4 markets with over a double digit increase in sales. It means more to him and Aflac that NYC is performing well, this shows stockholders that Aflac is headed in the right direction when the best market is leading the way. . . .

Let's take advantage of this zero week and get off to 2015 with a fast start. Week one 2015 does not close until next Friday the 9th, so we can either take this week off or start 2015 off one step ahead.

Our clients are not aware how Aflac books revenue for accounting purposes, but the foregoing examples on their face strongly suggest that Aflac may be manipulating the timing of its revenue recognition in order to meet the earnings projections through these deceptive practices, known as "cookie jar accounting" and "income smoothing." We also note in this regard Aflac's enviable track record of meeting earnings projections in 9 out of 10 recent quarters:

9/27/2016

AFLAC Is Even More Attractive After Earnings - Sure Dividend Sure Dividend

Quarter	Estimate EPS	Actual EPS	Surprise	Surprise (%)
December-13	1.39	1.40	0.01	0.72%
March-14	1.58	1.69	0.11	6.96%
June-14	1.59	1.66	0.07	4.40%
September-14	1.43	1.51	0.08	5.59%
December-14	1.29	1.29	0.00	0.00%
March-15	1.54	1.54	0.00	0.00%
June-15	1.52	1.50	-0.02	-1.32%
September-15	1.48	1.56	0.08	5.41%
December-15	1.47	1.56	0.09	6.12%
March-16	1.63	1.73	0.10	6.13%

Data: Yahoo Finance

6. Whistleblower Retaliation. At the same time that Aflac encouraged and incentivized its associates to engage in the wrongful and fraudulent practices described above, it retaliated against those who reported those practices up-the-ladder to Aflac Trust and Aflac top management. Thus, as discussed above, after reporting a particularly egregious "stuffing" transaction involving hundreds of Aflac policyholders, Mr. Conroy was stripped of all his accounts and then locked out of Aflac's Manhattan offices, even as Aflac was conducting an investigation that ultimately confirmed Mr. Conroy's allegations. Other individuals were similarly stripped of their accounts and forced out of Aflac for reporting fraudulent practices to Aflac Trust or to its top management, in violation of the Sarbanes-Oxley Act and the Dodd-Frank Act.

7. Proposed resolution. Aflac's standard associate contract provides in Article 10.2 that "the parties agree to attempt, in good faith, to resolve the Dispute within 15 days of the date that the notice of Dispute has been given to the other party or parties." Below, we set out our proposed resolution of this Dispute.

Aflac proudly calls itself one of the most ethical companies in the world, the company founded and built upon principles rooted in Christianity, according to Mr. Amos. In a revealing interview with the Faith and Leadership program at Duke Divinity School in November 2011, Mr. Amos II, President of Aflac, stated that the founders of the Company “*knew that doing the right thing would be critically important to their success in business,*” and continued:

Today, that’s exemplified in the Aflac Way, a book that every employee receives covering customer service, how people are treated and our company’s basic principles. Almost all of those principles come in some way from Scripture, adapted for use in the workplace. They might be as simple as, “Everyone is important. No matter who walks through the door, whether it’s the man in overalls or a straw hat or the man in a \$500 suit, everyone is treated equally.”

Mr. Amos himself explained the Aflac Way in the latest Annual Report to shareholders as “the privilege of enriching the lives of policyholders, sales associates, employees and shareholders.” *Why then does Aflac have one of the least loyal and least paid workforce out of all of the Fortune 500 companies?*³ The answer, we believe, lies in the preceding pages, which show how the Company has strayed from the Aflac Way in its unethical and unfair mistreatment of its sales force, including our current and prospective clients.

But it is not too late for Aflac to “do the right thing”: admit the wrongdoings, redress the grievances caused to our clients, and punish those who had caused them. At the very least, Aflac can “do the right thing” by allowing our clients to litigate this Dispute in a fair and efficient manner by waiving the contractual arbitration and class action clauses which, as you know, are highly disfavored in the court of public opinion.

Conversely, insisting on those contractual restrictions may (or may not) provide Aflac with a tactical advantage in litigation in the short run, but only at the expense of its reputation as the world’s most ethical company founded on Christian principles, and with the long-term detriment to its brand name. Witness, for example, the rolling Wells Fargo scandal and its ramifications. Or take another not-so-distant scandal involving Computer Associates (“CA”), which started with a New York Times article by Alex Berenson titled *A Software Company Runs Out of Tricks; Past May Haunt Computer Associates* that published allegations of a dozen of mistreated CA employees about the accounting tricks employed by CA (including, ironically, the “35-day months”), and which ended with CA’s billionaire CEO, its CFO, General Counsel, and others receiving stiff prison sentences for covering it up. (*A propos*, the undersigned defended CA in that case as part of the Wachtell Lipton team that obtained a deferred prosecution agreement for the company.)

³ The Business Insider issue of July 25, 2013, reports that Aflac ranks among the highest in employee attrition rate among all of the Fortune 500 companies, second only to Mass Mutual, with Aflac’s median employee tenure of 1 year (9 months at Mass Mutual). Aflac shares the second place with Amazon; however, the median pay at Amazon is \$93,200 (and \$60,000 at Mass Mutual), compared to \$38,000 at Aflac.

December 10, 2016

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Aflac's founders "knew that doing the right thing would be critically important to their success in business." Do you, their successors and stewards of the company they had founded, agree?

Please direct your response to me and my co-counsel Andrew St. Laurent of Harris, St. Laurent & Chaudhry LLP within the next 5 days. We are happy to engage in any good-faith discussions regarding this Dispute, with the goal of resolving it in a fair and efficient manner for the benefit of all involved.

If we do not hear back from you by December 15, we shall assume that you are not interested in good-faith discussions, and will proceed accordingly without further notice, and with the usual caveat that we reserve all our rights to amend, modify or supplement the above.

Very Truly Yours,



Dimitry Joffe

cc: Andrew St. Laurent (by email to andrew@sc-harric.com)