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IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

AMERICAN INTERNATIONAL GROUP, INC. CONSOLIDATED DERIVATIVE LITIGATION	Civil Action No. 769-VCS **THIRD AMENDED CONSOLIDATED STOCKHOLDERS' DERIVATIVE COMPLAINT**
AMERICAN INTERNATIONAL GROUP, INC., Plaintiff, v. MAURICE R. GREENBERG and HOWARD I. SMITH, Defendants.	Civil Action No. 769-VCS **AMENDED COMPLAINT**

FIRST AMENDED COMBINED COMPLAINT

TABLE OF CONTENTS

AIG'S SUBSTANTIVE ALLEGATIONS FOR ITS CLAIMS AGAINST MAURICE R. GREENBERG AND HOWARD I. SMITH 2

I. PARTIES TO AIG'S COMPLAINT 4

II. GREENBERG AND SMITH LEAVE AIG DURING AN INTERNAL INVESTIGATION OF THEIR MANAGEMENT AND ACCOUNTING PRACTICES 4

III. RESTATED TRANSACTIONS 5

A. The Gen Re Transaction 5

B. Union Excess Reinsurance Company, Ltd. 6

C. DBG Legacy Issues 7

D. Net Investment Income 7

E. AIRCO Linked Swap Transactions (Nan Shan Transactions) 7

F. Capco Transaction 8

G. Top Level Adjustments 9

H. Workers' Compensation 9

IV. AIG IS SUBJECT TO VARIOUS LEGAL PROCEEDINGS AS A RESULT OF THE ALLEGED MISSTATEMENTS AND OTHER CONDUCT THAT GREENBERG AND SMITH WERE RESPONSIBLE FOR OVERSEEING 10

SUBSTANTIVE ALLEGATIONS FOR THE SHAREHOLDER PLAINTIFFS' DERIVATIVE CLAIMS 13

I. SUMMARY OF THE DERIVATIVE CLAIMS 14

II. SUMMARY OF DEFENDANTS' CONDUCT CAUSING HARM TO AIG 15

A. Improper Transactions and Accounting Manipulations 15

B. "Contingent Commissions" and "Bid-Rigging" 24

C. The Malpractice of AIG's Independent Auditor, PwC, Facilitated the Manipulation of AIG's Financial Statements 26

D. Relief Sought on Behalf of AIG for Defendants' Wrongful Behavior 27

III. THE PARTIES 28

A. The Shareholder Plaintiffs 28

B. The Nominal Defendant 29

C. The AIG Defendants And Related Individuals 30

1. Inside Director Defendants 30

2. Other Inside Directors 31

3. The AIG Officer Defendants 32

4. AIG Employee Defendants 34

D. The MMC Defendants 35

E. The ACE Defendants 40

F. Gen Re Defendants 41

G. PricewaterhouseCoopers 45

H. Duties of the AIG Director Defendants and AIG Officer Defendants 46

I. Duties of Defendant PricewaterhouseCoopers LLP 48

IV. SUBSTANTIVE ALLEGATIONS 50

A. Loss Reserve Manipulations 50

1. Reinsurance 50

2. Sham Finite Reinsurance Transactions With Gen Re 51

3. Improper Topside Reserve Adjustments 82

B. Concealing Underwriting Losses 85

1. Auto Warranty Insurance Losses 87

2. Concealment of Brazilian Life Insurance Losses 92

(a) Nan Shan I 93

(b) Nan Shan II 95

C. Mischaracterizing Premiums On Workers' Compensation Policies 97

D. The MMC Schemes 104

1. MMC Required AIG to Pay "Contingent Commissions" That Were Really Just Pay-to-Play Payments to Get MMC's Business 104

2. The Unlawful Bid-Rigging Scheme 109

3. Criminal Charges, Guilty Pleas, and Convictions Related to Bid-Rigging 117

4. MMC's Settlement With the New York State Attorney General............ 121

5. The Municipal Derivatives Bid Rigging Scheme 122

6. ACE's Settlement With The NYAG And The NYSID 125

E. Marketing Illegal Income Smoothing Products To Public Companies............... 125

1. Brightpoint 127

2. Illegal Off Balance Sheet Transactions: The C-GAIT Deals.................. 130

3. The GAITS Deals.. 135

4. AIG Settles With the SEC... 135

F. Creating Non-Existent Underwriting Revenue By Booking Life Settlement Transactions As Underwriting Volume.. 137

G. Reinsurance Transactions With Off-Shore Companies Controlled By AIG....... 140

1. Coral Re.. 141

2. Union Excess.. 143

3. Richmond 144

4. Astral Reinsurance 147

5. The D&O Defendants Breached Their Fiduciary Duties With Respect To AIG's Reinsurance Business 148

H. Manuafacturing Investment Income From Unrealized Capital Gains Using "Covered Call" Transactions.. 150

I. Failure To Properly Record Reserves At Domestic Brokerage Group 151

J. Doctored And Disappearing Documents... 154

K. AIG's Accounting During The Relevant Period Violated General Accounting Protocols And Standards And SEC Rules.. 156

L. PwC's Utter Failure To Follow GAAS In The Performance Of Its Auditing Obligations 160

1. PwC's False Audit Reports 162

2. PwC's Failure to Adequately Audit AIG's Internal Controls 163

M. The Negative Effect of Defendants' Actions on AIG's Business 170

N. The D&O Defendants Sold AIG Stock At Artificially Inflated Prices For Millions Of Dollars 171

V. DEMAND FUTILITY ALLEGATIONS 172

A. A Majority Of The Board Was Interested Or Lacked Independence At The Time This Action Was Filed 172

B. Defendants' Liability And Lack Of D&O Coverage Further Excuse Demand .. 186

C. Prior Failure Of The Board To Take Action Against Certain Of The Defendants 187

D. Demand Is Excused Because The Special Litigation Committee Charged With Determining Whether The Claims Asserted Herein Should Be Prosecuted Takes No Position With Respect To Them 188

COUNTS BROUGHT BY AIG 189

AIG'S COUNT I
FOR BREACH OF FIDUCIARY DUTY 189

AIG'S COUNT II
CLAIM FOR INDEMNIFICATION 190

THE SHAREHOLDER PLAINTIFFS' COUNTS 191

COUNT III
DERIVATIVE CLAIM FOR BREACH OF FIDUCIARY DUTY
(AGAINST THE D&O DEFENDANTS) 191

COUNT IV
DERIVATIVE CLAIM FOR CONTRIBUTION AND INDEMNIFICATION
(AGAINST THE D&O DEFENDANTS) 194

COUNT V
CONSPIRACY
(AGAINST THE D&O DEFENDANTS AND THE GEN RE DEFENDANTS) 196

COUNT VI
COMMON LAW FRAUD
(AGAINST THE D&O DEFENDANTS AND THE GEN RE DEFENDANTS) 196

COUNT VII
AIDING AND ABETTING BREACH OF FIDUCIARY DUTY
(AGAINST THE GEN RE DEFENDANTS) 197

COUNT VIII
BREACH OF FIDUCIARY DUTY
(AGAINST THE INSIDER SELLING DEFENDANTS) 198

COUNT IX
BREACH OF CONTRACT
(AGAINST PWC) 198

COUNT X
ACCOUNTING MALPRACTICE AND PROFESSIONAL NEGLIGENCE
(AGAINST PWC) 199

COUNT XI
CONSPIRACY
(AGAINST THE MMC DEFENDANTS, TATEOSSIAN, RADKE, MOHS, COELLO AND THE ACE DEFENDANTS) 200

COUNT XII
COMMON LAW FRAUD
(AGAINST THE MMC DEFENDANTS, TATEOSSIAN, RADKE, MOHS, COELLO AND THE ACE DEFENDANTS) 201

COUNT XIII
AIDING AND ABETTING BREACH OF FIDUCIARY DUTY
(AGAINST THE MMC DEFENDANTS) 202

COUNT XIV
UNJUST ENRICHMENT
(AGAINST THE MMC ENTITIES) 202

COUNT XV
DERIVATIVE CLAIM FOR BREACH OF FIDUCIARY DUTY
(AGAINST MAURICE GREENBERG, MATTHEWS AND TIZZIO) 203

AIG'S PRAYER FOR RELIEF 206

THE SHAREHOLDER PLAINTIFFS' PRAYER FOR RELIEF 206

By leave of Court, American International Group, Inc. ("AIG") and Shareholder Plaintiffs Teachers' Retirement System of Louisiana; City of New Orleans Employees' Retirement System; John Paul Fulco, Trustee f/b/o Lucia Forastiere Irrevocable June Forastiere Backe Children's Trust; Paula Rosen; Thomas McAdam and Bruce G. Murphy (collectively "Shareholder Plaintiffs") hereby file this First Amended Combined Complaint. AIG, by and through its undersigned counsel, asserts claims herein only against defendants Maurice R. Greenberg and Howard I. Smith for breach of fiduciary duty and indemnification. The only paragraphs in this joint document that relate to AIG's claims against Defendants Maurice Greenberg and Howard I. Smith are paragraphs 1 through 64, the Counts at the end of this joint document that are labeled AIG's Count I and AIG's Count II (incorporating paragraphs 1 through 64 and paragraphs 646 through 653) and AIG's Prayer For Relief. AIG's counsel signs this joint document only as to paragraphs 1 through 64, AIG's Count I and Count II (incorporating paragraphs 1 through 64 and paragraphs 646 through 653) and AIG's Prayer For Relief. AIG, by and through its designated Special Litigation Committee, takes no position as to the remainder of this joint document.

Shareholder Plaintiffs, by and through their undersigned attorneys, assert claims herein for various causes of action (as detailed in the counts labeled Shareholder Plaintiffs' Counts III through XV) on behalf of AIG (in its nominal defendant capacity) against defendants Maurice Greenberg, Edward E. Matthews, Thomas R. Tizzio, Michael Castelli, Christian M. Milton, L. Michael Murphy, Vincent Cantwell, Joseph H. Umansky, Robert P. Jacobson, Jean-Baptist Tateossian, Karen Radke, John Mohs, Carlos Coello, Marsh & McLennan Companies, Inc., Marsh, Inc., Marsh USA Inc., Marsh Placement Inc., Robert Stearns, Joshua Bewlay, Regina Hatton, Nicole Michaels, Todd Murphy, Kathryn Winter, Joseph Peiser, William Gilman,

Edward J. McNenney, Thomas T. Green, Jr., Greg J. Doherty, Kathy Drake, William L. McBurnie, Edward J. Keane, Jr., ACE, Ltd., ACE USA, ACE INA Holdings, Inc., Susan Rivera, Patricia Abrams, John Houldsworth, Richard Napier, Ronald Ferguson, Elizabeth A. Monrad, Christopher P. Garand, Robert D. Graham and PricewaterhouseCoopers LLP. The only paragraphs in this joint document that relate to the Shareholder Plaintiffs' claims are paragraphs 65 through 645, the Counts at the end of this joint document that are labeled Shareholder Plaintiffs' Counts III through XV (incorporating paragraphs 654 through 735), and the Shareholder Plaintiffs' Prayer For Relief. Lead Counsel for the Shareholder Plaintiffs sign this joint document only as to paragraphs 65 through 645, Shareholder Plaintiffs' Counts III through XV (incorporating and paragraphs 654 through 735) and the Shareholder Plaintiffs' Prayer For Relief.

AIG'S SUBSTANTIVE ALLEGATIONS FOR ITS CLAIMS AGAINST MAURICE R. GREENBERG AND HOWARD I. SMITH

1. This is an action by AIG against its former chief executive officer, Maurice R. Greenberg ("Greenberg"), and its former chief financial officer, Howard I. Smith ("Smith"), arising from breaches of their fiduciary duties as officers and directors of AIG.

2. From 1967 to March 2005, Greenberg was the CEO of AIG. He was a director of AIG from 1967 until June 2005, and served as chairman of the Board from 1988 to March 2005. Greenberg was responsible for all aspects of the Company's business and operations.

3. From 1996 to March 2005, Smith was AIG's CFO, and from 1997 to June 7, 2005, Smith was also an AIG director. As CFO, Smith was responsible for all aspects of AIG's financial reporting.

4. Both Greenberg and Smith were responsible for the content of AIG's financial statements included in AIG's filings with the Securities and Exchange Commission ("SEC").

5. At Greenberg and Smith's direction, AIG entered into numerous transactions and made numerous statements that have been the subject of investigations by, among others, the United States Department of Justice ("DOJ"), the SEC and various state regulatory authorities, and that are the subject of civil lawsuits.

6. As a result of Greenberg's and Smith's failures to fulfill their fiduciary obligations to AIG, AIG has, among other things, been required to: (i) undertake an expensive internal investigation; (ii) restate AIG's financial statements for the years ended December 31, 2000 to 2003 and for the quarters ended March 31, 2004, June 30, 2004, September 30, 2004, March 31, 2003, June 30, 2003, September 30, 2003, and December 31, 2003; (iii) pay $800 million to settle an SEC civil action against AIG relating to alleged misstatements (the "Misstatements") included in AIG's financial statements filed with the SEC; (iv) pay $25 million to resolve DOJ claims relating to the alleged Misstatements; (v) pay a $100 million fine to resolve a New York Attorney General ("NYAG") and New York State Insurance Department ("NYSID") civil action (the "NYAG Action"); (vi) pay hundreds of millions of dollars in interest and penalties to settle claims by the NYAG and NYSID that AIG underpaid both its workers compensation taxes and its required contributions to various State Workers Compensation funds and defend a lawsuit brought by the National Council on Compensation Insurance, Inc. ("NCCI") on behalf of the National Workers Compensation Reinsurance Pool ("NWCRP"); and (vii) pay millions of dollars addressing regulatory investigations and defending lawsuits, including consolidated securities class actions (the "Class Actions") and other litigation against AIG and others, seeking to recover damages on behalf of purchasers of AIG securities. In addition, AIG faces the prospect of further liability in civil lawsuits.

7. Greenberg and Smith, and those acting in concert with them, actively concealed the actions described in this Amended Complaint from, and failed to satisfy their duties of candor to, AIG's board of directors.

I. PARTIES TO AIG'S COMPLAINT

8. AIG is a Delaware corporation that maintains its principal executive offices at 70 Pine Street, New York, New York 10270. Its stock is traded on the New York Stock Exchange, and its market capitalization was approximately $185 billion. Together with its subsidiaries, AIG is engaged in a broad range of insurance, insurance-related and finance businesses in more than 130 countries.

9. Greenberg involved himself in almost every aspect of AIG's business. Greenberg either caused AIG to enter into the transactions that led to the alleged Misstatements or knowingly participated in them.

10. For more than eight years, Smith was a director, executive vice president and chief financial officer of AIG. In 2003, Smith was elected vice chairman of AIG's board of directors. Smith is a certified public accountant who, prior to joining AIG, had been a partner at Coopers & Lybrand, who were AIG's auditors.

11. Greenberg and Smith directed the accounting practices described herein that resulted in AIG's Restatement of its financial statements in 2005 and 2006.

II. GREENBERG AND SMITH LEAVE AIG DURING AN INTERNAL INVESTIGATION OF THEIR MANAGEMENT AND ACCOUNTING PRACTICES

12. On February 9, 2005, AIG received a subpoena from the NYAG seeking documents related to a purported reinsurance transaction between a subsidiary of AIG and a subsidiary of General Reinsurance Corporation (the "Gen Re transaction"). On February 10, 2005, AIG received a similar subpoena from the SEC.

13. On February 11, 2005, Greenberg and Smith were served with subpoenas to testify about Gen Re.

14. In March 2005, prior to the due date for the filing of AIG's 2004 Form 10-K, issues regarding the accounting treatment of several reinsurance transactions directed by Greenberg and Smith, including the Gen Re transaction, arose. As a result, AIG determined that it would not be able to file its 10-K for 2004 with the SEC by the March 16, 2005 deadline.

15. On March 14, 2005, Greenberg resigned as chief executive officer of AIG. On March 28, 2005, Greenberg resigned as Chairman of the Board of Directors. In April 2005, Greenberg invoked the Fifth Amendment at a deposition by the NYAG. On June 8, 2005, Greenberg resigned as a director of AIG.

16. On March 14, 2005, Smith went "on leave" as AIG's CFO and, on March 21, 2005, he was terminated after refusing to cooperate with AIG's internal investigation. Smith resigned from AIG's Board on June 7, 2005.

17. Following an extensive internal review of AIG's accounting, on May 31, 2005, AIG restated its financial statements for the years ended December 31, 2000 to 2003 and for the quarters ended March 31, 2004, June 30, 2004, September 30, 2004, March 31, 2003, June 30, 2003, September 30, 2003, and December 31, 2003 (the "Restatement").

III. RESTATED TRANSACTIONS

A. The Gen Re Transaction

18. In the third quarter of 2000, analysts criticized AIG's reported loss reserve reductions.

19. During the fourth quarter of 2000, AIG entered into an assumed reinsurance transaction with a subsidiary of Gen Re that, on paper, addressed the analysts' concerns.

20. The governing agreements made it appear that, through two equal tranches (in December 2000 and March 2001), AIG was assuming reinsurance risk from the Gen Re subsidiary.

21. AIG reported these transactions as insurance on its financial statements that were filed with the SEC and disseminated publicly.

22. By booking the Gen Re transaction as insurance, AIG's reserves for the fourth quarter of 2000 and the first quarter of 2001 each increased by $250 million.

23. The Gen Re transaction was directed by Greenberg and Smith to accomplish a desired accounting result and did not entail sufficient risk transfer to be accounted for as insurance under GAAP.

24. AIG's restated financial statements reflect the Gen Re transaction as a deposit, rather than insurance, which reduced net premiums and net loss reserves for the years 2000 through 2004.

B. Union Excess Reinsurance Company, Ltd.

25. Union Excess Reinsurance Company, Ltd. ("Union Excess") was an offshore reinsurance company through which AIG engaged in reinsurance transactions. AIG accounted for the transactions with Union Excess as reinsurance.

26. AIG employees managed the Union Excess relationship so that AIG received substantially all of the risks and rewards of the underlying reinsurance.

27. Greenberg and Smith directed both AIG's arrangements with Union Excess and the accounting for the transactions with Union Excess.

28. AIG concluded in the Restatement that, as a result of the control over these reinsurance arrangements and the structure of the relationship, Union Excess should have been

consolidated in AIG's financial statements, and the apparent accounting advantage Greenberg and Smith sought was eliminated.

C. DBG Legacy Issues

29. From the late 1980's through 2005, AIG's Domestic Brokerage Group ("DBG") Division's books and records contained significant accounting errors.

30. Specifically, allowances related to certain premiums receivable, reinsurance recoverables and other assets were not properly recorded in AIG's consolidated financial statements. Similarly, certain accounts were not properly reconciled.

31. Greenberg and Smith were aware of deficiencies and did not take steps to correct them.

32. AIG's Restatement with respect to the DBG Legacy issues resulted in a reduction in shareholders equity at December 31, 2004, of approximately $824 million.

D. Net Investment Income

33. From at least 2000 through 2003, AIG engaged in various transactions for the purpose of converting unrealized capital gains into net investment income ("NII"). Greenberg and Smith were responsible for these transactions as well as the accounting treatment applied to them.

34. The Restatement reversed the accounting for these transactions, which resulted in substantial decreases of NII in 2001, 2002 and 2003.

E. AIRCO Linked Swap Transactions (Nan Shan Transactions)

35. In 1999 and 2000, an AIG subsidiary, American International Reinsurance Company ("AIRCO"), engaged in a series of transactions with Union Excess, which, as initially accounted for by AIG, had the effect of converting incurred policy losses into capital losses.

36. Specifically, in each year, AIRCO entered into a stop loss reinsurance agreement with Union Excess for the accident and health insurance business of Nan Shan, an AIG company of which AIRCO is the majority owner.

37. At the same time, AIRCO also entered into a swap agreement with Union Excess in which a payment under the swap agreement was linked to the payment under the stop loss agreement.

38. As a result of these linked transactions, policy losses incurred in connection with the accident and health business of Nan Shan were converted into capital losses.

39. In the Restatement, AIG changed the accounting treatment it had applied to the AIRCO transactions and recognized underwriting losses for 2000.

40. Greenberg and Smith directed the accounting for the AIRCO linked swap transactions.

F. Capco Transaction

41. In 2000, AIG had underwriting losses relating to its auto warranty business.

42. Rather than reporting these underwriting losses, AIG entered into a series of transactions with Capco Reinsurance Company, Ltd. ("Capco"), a Barbados reinsurer, to recharacterize the underwriting losses as capital losses.

43. AIG recapitalized Capco through an AIG subsidiary and nonrecourse loans to individuals who purported to act as independent shareholders of Capco.

44. Prior to the Restatement, AIG did not consolidate Capco onto its books.

45. In the Restatement, AIG concluded that the Capco structure "consisted primarily of arrangements between subsidiaries of AIG and Capco that require Capco to be treated as a consolidated entity in AIG's financial statements."

46. The Restatement reversed the capital losses for 2000-2003, and recognized a corresponding amount of underwriting losses in 2000.

47. Greenberg and Smith were responsible for the Capco transaction and directed the accounting for it.

G. Top Level Adjustments

48. Greenberg and Smith caused various top-level adjustments and directed entries to be made to the Company's financial statements to achieve a desired financial reporting result.

49. The adjustments had many different effects. Some increased earnings by reducing reserves or increasing deferred acquisition costs while others affected the timing of revenue recognition, such as by deferring investment income. Other adjustments reclassified realized capital gains to net investment income and increased reported premium revenue.

50. In the Restatement, all undocumented and unsupported top level adjustments and directed entries were reversed.

H. Workers' Compensation

51. The NYAG Action alleged that "[f]or over a decade, AIG engaged in a scheme to mischaracterize premiums paid on the workers' compensation line of insurance" (the "Underpayments").

52. In AIG's settlement with the NYAG and NYSID, AIG agreed to pay $343.5 million into a fund in connection with the Underpayments. This amount included interest and penalties of $226.7 million.

53. Greenberg and Smith were responsible for AIG making the Underpayments and reporting the Underpayments in violation of applicable law and regulations, and they declined to permit AIG personnel to make corrective tax filings or payments.

IV. AIG IS SUBJECT TO VARIOUS LEGAL PROCEEDINGS AS A RESULT OF THE ALLEGED MISSTATEMENTS AND OTHER CONDUCT THAT GREENBERG AND SMITH WERE RESPONSIBLE FOR OVERSEEING

54. Greenberg's and Smith's conduct caused AIG to be subject to a number of actions brought by governmental entities and private parties.

55. Following the Restatement, the SEC and the NYAG and NYSID instituted civil actions against AIG. In addition, the DOJ conducted a criminal investigation of AIG relating to its accounting practices.

56. The NYAG and NYSID complaint against AIG was filed on May 26, 2005, and alleged, among other things, that AIG, Greenberg and Smith:

(i) "[e]ngaged in at least two sham insurance transactions to give the investing public the impression that AIG had a larger cushion of reserves to pay claims than it actually did – transactions that Greenberg personally proposed and negotiated in phone calls with the then CEO of General Reinsurance Corporation, Inc.,"

(ii) "made unsupported accounting entries to increase AIG's reserve levels before AIG issued its quarterly reports,"

(iii) "[h]id losses from its insurance underwriting business by converting underwriting losses to capital losses,"

(iv) "entered into a series of complex and fraudulent reinsurance transactions, known as Nan Shan I and Nan Shan II. Greenberg personally was apprised of the progress of Nan Shan I and II. As in the CAPCO scheme, the end result of Nan Shan I and II was conversion of embarrassing underwriting losses to more palatable investment losses,"

(v) "engaged in a scheme to mischaracterize premiums paid on the workers compensation line of insurance," and

(vi) "set up several offshore entities for the purpose of reinsuring AIG and its subsidiaries. AIG had repeatedly misled regulators about the nature of its relationships with these entities."

57. On February 9, 2006, the SEC filed a civil action against AIG, which alleged that "from at least 2000 until 2005, AIG materially falsified its financial statements through a variety of sham transactions and entities whose purpose was to paint a falsely rosy picture of AIG's financial reports to analysts and investors."

58. The SEC complaint alleged that:

(i) "AIG structured two sham reinsurance transactions with General Re Corporation ("Gen Re"). The purpose of the transactions was to add a total of $500 million in phony loss reserves to AIG's balance sheet in the fourth quarter of 2000 and the first quarter of 2001. The transactions were initiated by AIG to quell criticism by analysts concerning a reduction in AIG's loss reserves in the third quarter of 2000. The transactions had no economic substance, amounting to a round trip of cash, but they were designed to, and did, have a specific and false accounting effect."

(ii) With respect to Capco, "AIG concocted a scheme to conceal approximately $200 million in underwriting losses in its general insurance business by improperly converting them to capital (or investment) losses that were not in AIG's insurance business and therefore would be less embarrassing to AIG."

(iii) "AIG established Union Excess for an improper purpose, concealed the true nature of its relationship with Union Excess from auditors and regulators, and fraudulently improved its financial results by ceding reinsurance to Union Excess."

(iv) “AIG determined that certain transactions and investment strategies that were entered into in order to enhance net investment income had been accounted for incorrectly.”

(v) “A number of accounting entries, originating at AIG’s parent company level and directed by former senior management, were unsupported and had the effect of reclassifying income statement items and changing the presentation of certain financial measures. In some cases, top level adjustments were made at the parent level affecting subsidiaries without the knowledge of the subsidiaries’ management. In other cases, management either was aware of the entries or the entries were subsequently ‘pushed down’ to the subsidiaries.”

59. On February 9, 2006, AIG settled the action with the NYAG and NYSID by agreeing, among other things, to pay a total of $343.5 million for alleged injury caused by AIG’s underpayment of Workers’ Compensation premium taxes and other related fees and assessments for the tax years 1985 to 1996. AIG also agreed to pay a $100 million fine.

60. On February 9, 2006, AIG consented to a final judgment in the SEC Action. Pursuant to that judgment, AIG agreed to disgorge $700,000,000 and pay a civil penalty in the amount of $100,000,000.

61. Beginning in October 2004, a number of securities fraud class action lawsuits were brought in the United States District Court for the Southern District of New York. As amended in 2005, the lawsuits against, among others, AIG, Greenberg and Smith, allege violation of securities laws arising out of AIG’s alleged dissemination of false and misleading financial statements in connection with the alleged Misstatements. Additional lawsuits were also filed that seek damages in connection with the alleged Misstatements.

62. Both Greenberg and Smith were responsible for the structure of, and directed the accounting for, each of the transactions identified in, among others, the SEC, NYAG and Class Action Complaints.

63. In May 2007, the National Council on Compensation Insurance, Inc. ("NCCI") filed on behalf of the National Workers Compensation Reinsurance Pool ("NWCRP") a lawsuit against AIG alleging that, among other things, defendants in violation of 18 U.S.C. § 1962 "defrauded the NWCRP Participating Companies by sending NCCI (i) false and falsely sworn financials that underreported the true amount of workers compensation written by the AIG Companies and other affiliates and (ii) checks or other payment forms which underpaid the NWCRP Participating Companies for the amounts that were really owed relating to residual market losses and liabilities."

64. To date, AIG has spent millions of dollars defending the Class Actions and other lawsuits both on behalf of itself and its current and former officers and directors and, in light of the current status of proceedings in those litigations, will likely spend millions more.

SUBSTANTIVE ALLEGATIONS FOR THE SHAREHOLDER PLAINTIFFS' DERIVATIVE CLAIMS

Shareholder Plaintiffs, by and through their attorneys, derivatively on behalf of AIG (or the "Company"), allege upon personal knowledge as to themselves and their own acts, and upon information and belief as to all other matters, based upon, *inter alia,* the investigation conducted by and through their attorneys, which included, among other things, a review of documents obtained through discovery, including but not limited to documents produced in the consolidated federal securities class action litigation pending in the United States District Court for the Southern District of New York styled as *In re American General International Group, Inc. Securities Litigation*, No. 04-Civ. 8141 (JES) (S.D.N.Y.) (the "AIG Securities Action"),

Securities and Exchange Commission ("SEC") filings, criminal and civil complaints, indictments, guilty pleas, news reports, press releases, settlement agreements and other publicly available documents regarding AIG and other defendants, as follows:

I. SUMMARY OF THE DERIVATIVE CLAIMS

65. AIG is the world's largest commercial insurance company with approximately 93,000 employees in 130 countries.

66. This is a stockholders' derivative action brought on behalf of Nominal Defendant AIG against Maurice Greenberg, Edward E. Matthews, Thomas R. Tizzio, Michael Castelli, Christian M. Milton, L. Michael Murphy, Vincent Cantwell, Joseph H. Umansky and Robert P. Jacobson (all of whom are present or former officers and/or directors of AIG); Jean-Baptist Tateossian, Karen Radke, John Mohs and Carlos Coello (all of whom were AIG employees); Marsh & McLennan Companies, Inc. ("MMC"); Marsh, Inc.; Marsh USA Inc.; Marsh Placement Inc. (formerly known as Marsh Global Broking Inc.) (these four Marsh-related companies shall sometimes be referred to herein as the "MMC entities"); Robert Stearns, Joshua Bewlay, Regina Hatton, Nicole Michaels, Todd Murphy, Kathryn Winter, Joseph Peiser, William Gilman, Edward J. McNenney, Thomas T. Green Jr., Greg J. Doherty, Kathy Drake, William L. McBurnie and Edward J. Keane, Jr. (all of whom are former MMC executives); ACE, Ltd. ("ACE"); ACE USA; ACE INA Holdings, Inc.; Susan Rivera (former president and chief executive officer of ACE USA); Patricia Abrams (former ACE employee); Gen Re Corporation and its subsidiaries ("Gen Re"); John Houldsworth, Richard Napier, Ronald Ferguson, Elizabeth A. Monrad, Christopher P. Garand and Robert D. Graham (former Gen Re executives); and

PricewaterhouseCoopers, LLP ("PwC"), by Shareholder Plaintiffs, each of whom is now, and at all relevant times has been, a stockholder of AIG.[1]

67. Shareholder Plaintiffs bring this action to challenge the blatant disregard of fundamental corporate governance at AIG and to hold responsible former AIG executives who willfully breached their fiduciary duties – and third parties who actively aided such breaches or committed independent wrongful acts – and subjected the Company many billions of dollars of damages and liabilities.

II. SUMMARY OF DEFENDANTS' CONDUCT CAUSING HARM TO AIG

A. Improper Transactions and Accounting Manipulations

68. AIG's former CEO Maurice "Hank" Greenberg[2] micromanaged every aspect of AIG's business with the assistance of an inner circle of executives, including Howard I. Smith, Edward E. Matthews, Thomas R. Tizzio, Evan G. Greenberg, Michael Castelli, Christian M. Milton, L. Michael Murphy, Joseph H. Umansky, Robert P. Jacobson and Vincent Cantwell.

69. As executive officers and/or directors of AIG, these individuals owed fiduciary duties to AIG's stockholders; however, in reality, their ultimate allegiance was to Maurice Greenberg, who rewarded their fealty by using deferred compensation awarded by Starr International Company, Inc. ("SICO") (an entity controlled by Greenberg but not owned by

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[1] The MMC entities and defendants Stearns, Bewlay, Hatton, Michaels, Murphy, Winter, Peiser, Gilman, McNenney, Green, Doherty, Drake, McBurnie and Keane will sometimes be referred to herein as the "MMC Defendants." ACE, ACE USA, ACE INA Holdings, Inc., Susan Rivera and Patricia Abrams will sometimes be referred to herein as the "ACE Defendants." Gen Re, John Houldsworth, Richard Napier, Ronald Ferguson, Elizabeth A. Monrad, Christopher P. Garand and Robert D. Graham will sometimes be referred to herein as the "Gen Re Defendants."

[2] Maurice Greenberg ran AIG for 38 years and was at all relevant times, until March of 2005, AIG's Chief Executive Officer, President, and Chairman of its Board of Directors, and a director until June 2005. The use of Maurice Greenberg's nickname, "Hank," is so pervasive that many of the documents relevant to him use only that name or refer to him as "MRG." For the sake of clarity, Shareholder Plaintiffs here note that Maurice Greenberg and Hank Greenberg are the same individual.

AIG) and issuing invitations to the select few to join the "Billionaires' Club" and share in the extraordinary, albeit illegal, profits of C.V. Starr & Co., Inc. ("Starr").

70. Together, these executive officers and/or directors of AIG and the other defendants named herein caused or permitted the Company to engage in a panoply of improper transactions, accounting manipulations and false financial reporting, including:

a. Inventing at least two sham insurance transactions with the assistance of Gen Re and various of its executive officers (identified below) in order to deceive shareholders and the market into believing that AIG had a larger cushion of reserves ("loss reserves") to pay claims than it actually did;

b. Making "topside" adjustments to AIG's consolidated books and records in order to further overstate loss reserves in the Company's reported financial statements;

c. Concealing losses suffered at two of AIG's insurance underwriting businesses by fraudulently converting underwriting losses into investment losses;

d. Creating non-existent underwriting revenue by booking life settlement transactions as underwriting volume;

e. Concealing and deceiving insurance regulators regarding AIG's relationships with multiple offshore reinsurers that were affiliates of and controlled by AIG;

f. Concealing known losses for which AIG was required to take a charge and attempting to surreptitiously set aside reserves for such amounts over time;

g. Causing AIG to improperly report investment income from a "Covered Call Program" that converted unrealized capital gains into net investment income;

h. Causing AIG to book workers' compensation insurance premiums as regular liability insurance revenue in order to fraudulently reduce AIG's required contributions to state workers' compensation systems and to avoid paying taxes on those premiums;

i. Causing AIG to market fraudulent "non-traditional" insurance products that were specifically intended to enable other companies to report false financial information to the public;

j. Causing AIG to participate in an illegal "bid-rigging" scheme implemented by MMC; and

k. Causing AIG to participate in a scheme to fix prices and rig bids in the municipal derivatives market.

71. Each of these schemes misled shareholders as to the true state of AIG's business and ultimately subjected AIG to criminal and civil liability. When the improper transactions, regulatory violations and accounting and financial fraud perpetrated by AIG under the direction of Greenberg and the other defendants came to light, AIG:

a. restated all its financial statements from 1999 through the second quarter of 2005, lowering net income by $3.4 billion, or 7.5% percent, and reducing its consolidated net worth by $3.5 billion, or 3.9%;

b. incurred tens (if not hundreds) of millions of dollars in expenses to conduct multiple internal investigations and to defend itself from various government investigations;

c. paid $1.64 billion to resolve claims and matters under investigation with the U.S. Department of Justice ("DOJ"), the SEC, the Office of the New York Attorney General ("NYAG") and the New York State Department of Insurance ("NYSID");

d. was named as a defendant in numerous lawsuits, including consolidated class action suits for violation of the federal securities and antitrust laws, as well as the Employee Retirement Income Security Act of 1974 ("ERISA") and the Racketeer Influenced and Corrupt Organizations Act ("RICO");

e. paid more than $130 million to settle investigations by the SEC and DOJ into fraudulent structured financial transactions between AIG, PNC Financial Services Group and Brightpoint, Inc.; and

f. suffered great damage to its reputation and has been subjected to, and incurred additional costs related to, increased regulatory scrutiny, oversight and monitoring.

72. Furthermore, because AIG has not settled all claims arising out of defendants' improper conduct, the Company remains subject to substantial civil liability that cannot yet be accurately determined. By way of illustration, on August 27, 2007, the State of Ohio announced that it had filed an anti-trust lawsuit against MMC, AIG and three other insurers and their subsidiaries for price fixing and other anti-competitive behavior. The lawsuit accuses AIG "of participating in an 'unlawful conspiracy to allocate customers, divide markets and restrain competition' for casualty insurance policies for businesses in Ohio between January 2001 and

late 2004." Similarly, on July 19, 2007, two Minnesota Workers' Compensation insurance nonprofit associations – Minnesota's Workers' Compensation Reinsurance Association and Workers' Compensation Insurers Association – announced that they had filed suit against AIG seeking more than $100 million for AIG's fraudulent underreporting of workers' compensation premiums. Most recently, two AIG subsidiaries[3] were named as defendants in an action filed on March 12, 2008 in the United States District Court for the District of Columbia complaining of a price fixing conspiracy and big rigging scheme in the municipal derivatives markets (the "Municipal Derivatives Complaint"). The continued filing of additional claims against the AIG group of companies underscores the ongoing threat of additional civil liability.

73. On or about October 14, 2004, then NYAG Elliot Spitzer filed a complaint on behalf of the People of the State of New York against MMC and Marsh, Inc. (the "NYAG MMC Complaint") that accused AIG of participating in unlawful "kick-back" and "bid-rigging" practices with MMC – the world's largest insurance broker – in order to induce MMC to steer business to AIG and to shield AIG from competition from other insurance companies. The NYAG MMC Complaint and all attachments thereto are incorporated by reference herein.

74. The NYAG quickly broadened its investigation of AIG beyond the MMC scandal and into a wide range of transactions and business practices. The SEC, DOJ and NYSID also initiated investigations of AIG.

75. In February 2005, AIG received subpoenas from the NYAG and the SEC relating to investigations into AIG's use of non-traditional insurance products, assumed reinsurance

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[3] Specifically, AIG Financial Products Corp. and AIG SunAmerica Life Assurance Co. were named as defendants in this action.

transactions and AIG's accounting for such transactions. In March and April 2005, the SEC and NYAG issued additional subpoenas to AIG relating to other transactions and entities.

76. With so much regulatory focus on the Company, AIG itself announced that it would be conducting an investigation of its own accounting and other practices, with the assistance of outside counsel and defendant PwC.

77. On March 14, 2005, AIG announced that its Board of Directors had implemented a management succession plan and had selected a new president and CEO to replace Maurice Greenberg. On approximately March 28, 2005, Maurice Greenberg retired as Chairman of the AIG Board of Directors. On June 9, 2005, Maurice Greenberg resigned from the AIG Board of Directors.

78. On March 30, 2005, AIG announced that the filing of its 2004 Form 10-K would be delayed in order to complete an internal review of AIG's books and records that included issues arising from pending regulatory investigations. In a press release dated May 1, 2005, AIG disclosed that it would restate its consolidated shareholders' equity by approximately $1.7 billion as a result of its internal review.

79. On May 1, 2005, the Company disclosed that it would be restating all financial statements from 2000 through the third quarter of 2004, and that the financial statements previously issued for those periods (and utilized by the investing public) should no longer be relied upon.

80. On May 26, 2005, the NYAG filed a civil complaint against AIG, Maurice Greenberg and former AIG CFO Howard Smith, which alleged that Maurice Greenberg and his lieutenants used a host of improper transactions and accounting tricks to boost AIG's reported income. The complaint, citing telephone calls and other communications, states that Greenberg

and other senior executives at AIG conspired to falsify AIG's accounts, along with the former Gen Re chief executive Ronald Ferguson; a former AIG reinsurance executive, Christian Milton; two former Gen Re senior executives, Richard Napier and Elizabeth Monrad; and additional unidentified Gen Re executives. The NYAG complaint and all attachments thereto are incorporated by reference herein.

81. On May 31, 2005, AIG announced that it had completed its internal review and filed its 2004 Form 10-K. The Form 10-K included a restatement of AIG's financial statements for the years ended December 31, 2003, 2002, 2001 and 2000; the quarters ended March 31, June 30 and September 30, 2004; and the quarter ended December 31, 2003. The restatement resulted in a reduction of consolidated shareholders' equity of $2.26 billion (2.7%) and a reduction of net income of $3.9 billion (10.4%) at December 31, 2004.

82. AIG disclosed the following with respect to certain transactions underlying the restatements (which in each case are described in greater detail below):

> In many cases these transactions or entries appear to have had the purpose of achieving an accounting result that would enhance measures believed to be important to the financial community and may have involved documentation that did not accurately reflect the true nature of the arrangements. In certain instances, these transactions or entries may also have involved misrepresentations to members of management, regulators and AIG's independent auditors.[4]

83. On November 9, 2005, AIG announced an additional restatement and announced that it would delay the filing of its Form 10-Q for the quarter ended September 30, 2005 until November 14, 2005. In its press release announcing this restatement, AIG reported:

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[4] Each of the Company's Forms 10-K, 10-Q and Schedules 14A for the years 1996 through 2005, inclusive, are incorporated by reference herein. AIG's March 30, 2005 and May 1, 2005 press releases are also incorporated by reference herein.

> The most significant errors identified relate to the previously disclosed material weaknesses in internal controls surrounding accounting for derivatives and related assets and liabilities under FAS 133, reconciliation of certain balance sheet accounts and income tax accounting.
>
> ***
>
> AIG estimates that the errors identified in the third quarter of 2005 resulted in an understatement of previously reported consolidated retained earnings at June 30, 2005 of approximately $500 million…
>
> ***
>
> Due to the significance of these corrections, AIG will restate its financial statements for the years ended December 31, 2004, 2003 and 2002, along with affected Selected Consolidated Financial Data for 2001 and 2000 and quarterly financial information for 2004 and the first two quarters of 2005. AIG's prior financial statements for those periods should therefore no longer be relied upon.

AIG also announced in the November 9, 2005 press release that it had completed its previously disclosed statutory restatements of its General Insurance company subsidiaries for the year ended December 31, 2004.

84. In the aggregate, the two restatements reduced AIG's previously reported net income and stockholders' equity by $3.5 billion and $3.4 billion, respectively.

85. On February 9, 2006, AIG announced that it had reached an agreement to settle investigations and claims by various government agencies. As AIG reported in a Form 8-K filed on that date:

> On February 9, 2006, American International Group, Inc. (AIG) announced that it has reached a resolution of claims and matters under investigation with the United States Department of Justice (DOJ), the Securities and Exchange Commission (SEC), the Office of the New York Attorney General (NYAG) and the New York State Department of Insurance (DOI). The settlements resolve outstanding litigation filed by the SEC, NYAG and DOI against AIG and conclude negotiations with these authorities and the DOJ in connection with the accounting, financial reporting and

> insurance brokerage practices of AIG and its subsidiaries, as well as claims relating to the underpayment of certain workers' compensation premium taxes and other assessments.
>
> *As a result of these settlements, AIG will make payments totaling approximately $1.64 billion*. In addition, as part of its settlements, AIG has agreed to retain for a period of three years an Independent Consultant who will conduct a review that will include the adequacy of AIG's internal controls over financial reporting and the remediation plan that AIG has implemented as a result of its own internal review.

(emphasis added).

86. The letter agreement executed between AIG and the DOJ and signed by AIG's CEO Martin Sullivan explicitly provides:

> Facts Regarding AIG/Gen Re LPT and CAPCO
>
> The *parties jointly acknowledge the following factual statements* regarding AIG/Gen Re LPT and CAPCO *as accurate*:
>
> AIG/Gen Re LPT
>
> AIG improperly recorded approximately $250 million in loss reserves in the fourth quarter of 2000 and reported those additional loss reserves to the public in its earnings releases and in financial reports it filed with the SEC. It improperly recorded an additional $250 million in loss reserves in the first quarter of 2001 and also reported those additional loss reserves in its earnings releases and SEC reports. Both increases in loss reserves resulted from the AIG/Gen RE LPT transactions.
>
> AIG entered into these transactions following investment analysts' criticism of AIG's reported loss reserve reductions in the third quarter of 2000. During the fourth quarter of 2000, high-level executives at AIG solicited high-level executives at Gen Re to execute a series of transactions which were designed to enable AIG to book and improperly report an increase in loss reserves totaling $500 million. The transaction documentation included: 1) a false "paper trail" offer letter which made it appear that AIG had been requested by Gen Re to assume certain reinsurance risk from Gen Re; and 2) contracts which falsely made it appear that AIG was assuming reinsurance risk and was being paid an up-front fee of $10 million for doing so, when, in fact, AIG was not assuming any real risk and was paying Gen Re an undisclosed $5 million plus

interest for participating in the transactions. As a result of these sham transactions, AIG improperly reported positive loss reserve growth for each of those periods when, in fact, AIG would have reported further decreases in loss reserves for those quarters.

On or about May 31, 2005, AIG filed its 2004 Form 10-K with the SEC which reversed and restated the $500 million increase in loss reserves relating to the AIG/Gen Re LPT transaction and stated in part: “AIG has concluded that the transaction was done to accomplish a desired accounting result and did not entail sufficient qualifying risk transfer. As a result, AIG has determined that the transaction should not have been recorded as insurance. AIG’s restated financial statements recharacterize the transaction as a deposit rather than as insurance.”

CAPCO

In 2000, AIG initiated a scheme to hide approximately $200 million in underwriting losses in its general insurance business by improperly converting them into capital losses (i.e., investment losses) that were less important to the investment community, and thus would blunt the attention of investors and analysts. As a result of the CAPCO transaction, AIG improperly failed to record and report in its earnings releases disseminated to investors and in financial reports filed with the SEC approximately $200 million in underwriting losses for the years 2000, 2001 and 2002.

To effect that scheme, AIG structured a series of bogus transactions to convert underwriting losses to investment losses by transferring them to Capco Reinsurance Company, Ltd. (“Capco”), an offshore entity. AIG in effect capitalized Capco through an AIG subsidiary and through non-recourse loans to individuals who acted as supposed independent shareholders of Capco. AIG should have consolidated Capco’s financial results into AIG’s financial statements because, among other reasons, Capco lacked sufficient equity from sources other than AIG and its affiliates. In its restatement filed with the SEC in May 2005, AIG admitted that the Capco transaction “involved an improper structure created to recharacterize underwriting losses relating to auto warranty business as capital losses. That structure ... appears to have not been properly disclosed to appropriate AIG personnel or its independent auditors.”AIG Form 8-K filed on February 9, 2006 (emphasis added) (incorporated herein by reference in its entirety).

87. As part of its settlements with the NYAG, DOJ, SEC and NYSID, and in addition to substantial non-monetary conditions, AIG was required to pay:

(1) with regard to the DOJ, $25 million to the United States Postal Inspection Service Consumer Fraud Fund for its manipulation of reported loss reserves through the fraudulent scheme with Gen Re and concealment of underwriting losses via fraudulent transactions involving Capco;

(2) with regard to the SEC, disgorgement of $700 million and a civil penalty of $100 million for its manipulation of reported loss reserves through the fraudulent scheme with Gen Re, and other accounting violations corrected by the May 31, 2005 restatement; and

(3) with regard to the NYAG and the NYSID, $343.5 million for underpayment of workers' compensation premium taxes and related fees and assessments and an additional $375 million for its participation in a bid-rigging scheme (described below).

B. "Contingent Commissions" and "Bid-Rigging"

88. In addition to triggering regulatory scrutiny that ultimately exposed false financial and regulatory reporting, accounting violations and other widespread misconduct by AIG's senior officers, the NYAG MMC Complaint also revealed AIG's involvement in illegal schemes orchestrated by MMC, a company headed by Maurice Greenberg's son, Jeffrey Greenberg, and its subsidiaries.

89. Among other facts, the NYAG MMC Complaint revealed that since at least the late 1990s, AIG and other insurance companies "agreed to pay Marsh more than a billion dollars in so-called 'contingent commissions' to steer them business and shield them from competition." The NYAG MMC Complaint alleged that AIG was a participant in a bid-rigging scheme orchestrated by MMC and its subsidiaries. The NYAG Complaint filed on October 14, 2004 provided the following, in pertinent part:

> Beginning in or around 2001 until at least the summer of 2004, Marsh Global Broking's Excess Casualty Group and AIG's American Home Excess Casualty division (AIG's principal provider of commercial umbrella or excess liability and excess

> worker's compensations insurance) engaged in systematic bid manipulation.[5]

90. From as early as 1996, the scheme required AIG to pay illegal "contingent commissions" in order to get business from MMC clients. This pay-to-play scheme was disguised in the form of services agreements between the companies, although MMC provided no such services. The total amount of contingent commissions MMC was paid by AIG approaches $1 billion. A few years later, MMC came up with an additional scheme that let all participants share in the ill-gotten gain. MMC, AIG executive officers (including Maurice Greenberg) and several employees of AIG, together with ACE, engaged in "bid-rigging" – a scheme by which policy prices were artificially inflated in what was supposed to be competitive bidding for commercial insurance business.

91. At least eighteen (18) individuals at MMC, AIG and ACE have been criminally charged and/or pled guilty for their roles in MMC's bid rigging scheme. As discussed at length below, two former MMC employees have been convicted on charges of restraint of trade for their role in the bid rigging scheme.

92. On January 31, 2005, MMC announced that it had agreed to pay $850 million and to adopt new business practices (including the elimination of contingent commissions) to settle charges by the NYAG and the NYSID relating to its two schemes of bid-rigging and of accepting contingent commissions to steer business to favored insurers. MMC issued the following public statement "apologiz[ing]" for its conduct:

> Marsh Inc. would like to take this opportunity to apologize for the conduct that led to the actions filed by the New York State Attorney General and Superintendent of Insurance. The recent admissions by former employees of Marsh and other companies

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[5] The NYAG MMC Complaint is incorporated herein by reference.

> have made clear that certain Marsh employees unlawfully deceived their customers. Such conduct was shameful, at odds with Marsh's stated policies and contrary to the values of Marsh's tens of thousands of other employees.

(emphasis added).

93. Similarly, ACE also settled with the NYAG and the NYSID for its participation in the illegal bid-rigging scheme, agreed to pay $80 million in penalties and restitution, and issued an apology acknowledging its improper conduct.

94. On March 12, 2008, two AIG subsidiaries—AIG Financial Products Corp. ("Financial Products") and AIG SunAmerica Life Assurance Co. ("SunAmerica")—were named in a complaint alleging that these subsidiaries, since 1992, have participated in a scheme to rig bids in the municipal derivatives market. In this action, Financial Products and SunAmerica stand accused of engaging in conduct similar to that the issue in the MMC bid rigging scheme, albeit in the context of fixing the terms of municipal derivatives that are supposed to be set by a competitive auction.

C. The Malpractice of AIG's Independent Auditor, PwC, Facilitated the Manipulation of AIG's Financial Statements

95. During the entire time AIG's senior executives were improperly recording sham transactions, booking affiliate transactions as arms' length deals, and making topside adjustments to AIG's books and other manipulations of AIG's financial statements, Defendant PwC was AIG's primary accountant and independent auditor.

96. PwC conducted audits and quarterly reviews of AIG's financial statements and issued audit opinions asserting that its audits of AIG's financial statements were conducted in accordance with generally accepted auditing standards ("GAAS") and opining that AIG's financial statements were fairly presented in conformity with generally accepted accounting principles ("GAAP").

97. GAAS required PwC to plan and perform its audits to obtain reasonable assurances that AIG's financial statements were free of material misstatements. GAAS also required PwC to report all significant internal control weaknesses ("reportable conditions") to AIG's audit committee or to certify that no reportable conditions existed.

98. After AIG commenced internal investigations in the wake of the NYAG's investigation and the filing of NYAG MMC Complaint in the fall of 2004, it became readily apparent to the public that AIG's internal controls were woefully deficient.

99. For example, AIG's May 1, 2005 Press Release stated:

> . . . AIG management has identified certain control deficiencies, including (i) the ability of certain former members of senior management to circumvent internal controls over financial reporting in certain circumstances, (ii) ineffective controls over accounting for certain structured transactions and transactions involving complex accounting standards and (iii) ineffective balance sheet reconciliation processes. These deficiencies are "material weaknesses" as defined by the Public Company Accounting Oversight Board's Auditing Standard No. 2. Consequently, management has concluded that AIG's internal control over financial reporting was ineffective as of December 31, 2004. Accordingly, PwC will issue an adverse opinion with respect to AIG's internal control over financial reporting.

100. In its audit of all of the relevant annual financial statements and its review of the relevant quarterly statements, PwC failed to accurately assess the adequacy of AIG's internal controls or to identify glaring control weaknesses. This failure allowed the defendants to cause AIG to improperly account for various transactions and to therefore vastly overstate revenues and the all-important loss reserves. Defendant PwC breached its own contracts with AIG and committed accounting malpractice.

D. Relief Sought on Behalf of AIG for Defendants' Wrongful Behavior

101. Shareholder Plaintiffs, derivatively on behalf of AIG, seek relief for the damage sustained, and to be sustained, by AIG as a result of the D&O Defendants' (defined below)

breaches of their fiduciary duties and knowing, reckless and/or gross negligence in, *inter alia*: (i) failing to discover and prevent AIG's violations of law; (ii) failing to properly implement, oversee and maintain appropriate and adequate internal controls, practices and procedures for AIG; (iii) failing to ensure that AIG operated in compliance with all applicable federal and state laws, rules, and regulations requiring the dissemination of accurate financial statements and restricting the misuse of material non-public information; (iv) failing to ensure that AIG not engage in any unsound or illegal business practices; (v) causing AIG to be sued for, and exposed to liability for, violations of the anti-fraud provisions of the federal securities, antitrust, labor and racketeering laws, as well as various state laws, and to be subjected to potential criminal liability; (vi) causing AIG to be exposed to fines, penalties and increased costs of capital; and (vii) selling their AIG stock at a time when they possessed material, non-public information belonging to AIG. Shareholder Plaintiffs, derivatively on behalf of AIG, also seek relief against: (1) the MMC Defendants and the ACE Defendants for engaging in a conspiracy with at least four AIG employees to rig insurance bids; (2) the MMC Defendants, for unjust enrichment, in the amount of the contingent commissions paid to them by AIG; (3) the Gen Re Defendants for aiding and abetting breaches of fiduciary duty; and (4) PwC for breach of contract, accounting malpractice and professional negligence.

III. THE PARTIES

A. The Shareholder Plaintiffs

102. Shareholder Plaintiff Teachers' Retirement System of Louisiana ("TRSL"), a Louisiana public trust fund, is a public employee pension plan. TRSL is charged with the investment and reinvestment of the trust fund of the Teachers' Retirement System of Louisiana, a public employee welfare and pension benefit plan, and certain other funds. At all times

relevant to the claims alleged herein, TRSL has been a holder of common stock of AIG, and will retain holdings in the Company through the course of this litigation.

103. Shareholder Plaintiff City of New Orleans Employees' Retirement System has owned AIG securities at all times relevant to this action, and will retain holdings in the Company through the course of this litigation.

104. Shareholder Plaintiff John Paul Fulco f/b/o Lucia Forastiere Irrevocable June Forastiere Backe Children's Trust, is the trustee of a trust created for the benefit of the children of June Forastiere Backe, and established under the laws of the state of Connecticut. Mr. Fulco is charged with the investment and reinvestment of the Lucia Forastiere Irrevocable June Forastiere Backe Children's Trust. At all times relevant to the claims alleged herein, the Lucia Forastiere Irrevocable June Forastiere Backe Children's Trust has been a holder of common stock of AIG, and will retain holdings in the Company through the course of this litigation.

105. Shareholder Plaintiff Paula Rosen has owned AIG common stock at all times relevant to this action, and will retain holdings in the Company through the course of this litigation.

106. Shareholder Plaintiff Thomas McAdam has owned AIG common stock at all times relevant to this action, and will retain holdings in the Company through the course of this litigation.

107. Shareholder Plaintiff Bruce G. Murphy has owned AIG common stock at all times relevant to this action, and will retain holdings in the Company through the course of this litigation.

B. The Nominal Defendant

108. Nominal Defendant AIG is incorporated in the state of Delaware and maintains its principal executive office at 70 Pine Street, New York, New York 10270. AIG is a holding

company for a wide array of subsidiaries that offer a broad range of insurance products, investment services and financial management services.

C. The AIG Defendants And Related Individuals

1. Inside Director Defendants

109. At all relevant times, the following parties, sometimes collectively referred to herein as the "Inside Director Defendants," served as members of the Board of Directors of AIG:

Edward E. Matthews

110. Defendant Edward E. Matthews ("Matthews") served as Senior Vice Chairman and served on the Board of Directors from 1973 to May 2003. Matthews served as Senior Vice Chairman in 2002 and was Vice Chairman at least as early as 1999. Matthews was also Vice Chairman of Investments and Financial Services of AIG until December 31, 2002. Matthews also served as Senior Advisor to AIG during part of 2003. Matthews served on the Finance Committee and the Executive Committee of AIG from at least as early as 1999.

111. Just prior to Matthew's retirement from the AIG Board, he owned 2250 shares of Starr – or 9.78% of its then-outstanding shares. Matthews also owned 8.33% of SICO. Matthews was at the relevant times and currently is a director of Starr and SICO.

Thomas R. Tizzio

112. Defendant Thomas R. Tizzio ("Tizzio") was both Senior Vice Chairman of General Insurance at AIG and served on the Board of Directors from at least as early as 1999 to 2003. In 2003, Tizzio was named as Honorary Director of AIG, and was Senior Vice Chairman of General Insurance until his retirement on March 31, 2006. He served on the Executive Committee of AIG at least as early as 1999, and served as an AIG officer since 1982.

113. During the times relevant to the actions complained of herein, Tizzio owned 1250 shares of Starr – or 5.35% of its outstanding shares – with a liquidation value of $32,060,000 as of January 1, 2005. During the relevant period, Tizzio also owned 8.33% of SICO.

2. Other Inside Directors

Maurice R. "Hank" Greenberg

114. Maurice Greenberg was Chief Executive Officer was CEO of AIG from approximately 1968 through March 14, 2005, when he was forced to resign from that position, and was chairman of the AIG Board of Directors from no later than 1969 through March 28, 2005, when he was forced to resign from that position. He began serving on the Board of Directors of AIG in 1967 and remained a director until June 8, 2005, when he was forced to resign from that position. In 2005, prior to his resignations, Maurice Greenberg served on the Executive Committee and the Finance Committee of AIG, and had been a member of both committees since at least as early as 1999. The Shareholder Plaintiffs allege only one Count against defendant Maurice Greenberg – Count XV.

Howard I. Smith

115. Howard I. Smith ("Smith") was Vice Chairman, Chief Financial Officer and Chief Administrative Officer of AIG until he was terminated on March 14, 2005 for his failure to cooperate with the investigations of the NYAG and the other regulatory agencies. He served on AIG's Board of Directors from 1997 to June 3, 2005, when he resigned that position. Defendant Smith was elected as Vice Chairman and CAO in 2003 and was elected CFO at least as early as 1999. Smith also held an Executive Vice President position at least as early as 1999 to 2003. Smith was a member of the Executive Committee from 2003 and a member of the Finance Committee from at least as early as 1999, until the time of his resignation from the Board. The

Shareholder Plaintiffs do not name Smith as a defendant in any of the Shareholder Plaintiffs' Counts.

Evan G. Greenberg

116. Non-party Evan G. Greenberg ("Evan Greenberg") was President, Chief Operating Officer, and a director of AIG and served on the Board of Directors from 1996 to the end of 2000. He served as a member of AIG's Executive Committee and Finance Committee from at least as early as 1999 to at least 2000. Evan Greenberg is the son of defendant Maurice Greenberg and the brother of Jeffrey Greenberg, the CEO of MMC. Evan Greenberg currently is CEO of insurer ACE, Ltd. Before joining ACE in November 2001, he spent 25 years at AIG. As of January 31, 2000, Evan Greenberg owned 9.64% of Starr common stock.

3. The AIG Officer Defendants

117. At relevant times, the following parties served as senior executive officers of AIG (the "AIG Officer Defendants"):

Michael J. Castelli

118. Defendant Michael J. Castelli ("Castelli") was the Company's Vice President since 1998 and Comptroller since 2000. Castelli was also the CFO of AIG's Domestic Brokerage Group until the fall of 1999. On January 6, 2005, Castelli was named Chief Administrative Officer and elected an AIG Senior Vice President. Castelli was then placed on leave by AIG on April 19, 2005. Prior to joining AIG in 1989, Castelli spent 11 years at PwC's predecessor, Coopers & Lybrand, LLP, with primary responsibility for the AIG account.

Christian M. Milton

119. Defendant Christian M. Milton ("Milton") was at all relevant times AIG's Vice President for Reinsurance. Milton was also the chairman of AIG's Reinsurance Security Committee and a member of AIG's Reinsurance Commutation Committee. Defendant Milton

was fired on Monday, March 14, 2005, after he indicated he would invoke his Fifth Amendment rights against possible self–incrimination as regulators investigated whether AIG manipulated its books to mislead investors.

120. On February 1, 2006, a federal grand jury in Norfolk, Virginia returned a 13–count indictment charging Milton (together with Defendants Ferguson, Monrad, and Graham) with various counts of conspiracy to commit securities fraud, securities fraud, causing false statements to be made to the SEC, and mail and wire fraud. On April 10, 2006, the trial judge in the Eastern District of Virginia transferred venue in the case, for the convenience of the parties, to the District of Connecticut. On September 20, 2006, a federal grand jury in New Haven, Connecticut issued a superseding indictment charging Milton with one count of conspiracy to violate federal securities laws and to commit mail fraud, seven counts of securities fraud, five counts of making false statements to the SEC, and three counts of mail fraud. The charges arose out of Milton's direct role in arranging and consummating sham reinsurance transactions with the Gen Re Defendants in order to fraudulently overstate AIG's loss reserves. The criminal indictments are incorporated by reference herein in their entirety. On February 25, 2008, Milton was found guilty on all charges. As of the date of this filing, Milton had not yet been sentenced.

121. Milton was also charged by the SEC on February 2, 2006 with aiding and abetting AIG's violations of Sections 10(b), 13(a), 13(b)(2) and 13(b)(5) and Rules 10b–5, 12b–20, 13a–1, 13a–13 and 13b2–1 of the Securities Exchange Act of 1934.

L. Michael Murphy

122. Defendant L. Michael Murphy ("Murphy") held various positions at AIG, including Chairman of the Advisory Committee on Bermuda-US Tax Convention in Bermuda. Defendant Murphy was fired on Sunday, April 27, 2005 for failing to cooperate with the investigations into AIG's finances. Defendant Murphy is based in Bermuda where he helped set

up numerous offshore entities for AIG. Murphy served as director of various AIG offshore units and was an executive of American International Co., an AIG unit in Bermuda.

Vincent Cantwell

123. Defendant Vincent Cantwell ("Cantwell") was at all relevant times AIG's Deputy Comptroller. Cantwell was placed on leave by AIG after it was revealed that he and Smith had made numerous unsupported changes to AIG's books and records – including adjustments which created additional loss reserves in late 2000 and 2001.

Joseph H. Umansky

124. Defendant Joseph H. Umansky ("Umansky") was AIG's senior vice president and president of AIG Reinsurance Advisers. According to numerous news articles, Umansky agreed to cooperate with the NYAG in exchange for immunity from criminal prosecution.

Robert P. Jacobson

125. Defendant Robert P. Jacobson ("Jacobson") joined AIG in 1998 as Vice President and Deputy Comptroller. He was named AIG Vice President, Domestic General Insurance and Senior Vice President and Chief Financial Officer of the Domestic Brokerage Group in 1999 and was named Domestic Brokerage Group Executive Vice President in 2003.

126. The D&O Defendants are Matthews, Tizzio, Castelli, Milton, Murphy, Cantwell, Umansky, and Jacobson.

4. AIG Employee Defendants

Jean-Baptist Tateossian

127. Defendant Jean-Baptist Tateossian ("Tateossian") was a manager in the National Accounts Unit of American Home Assurance Company ("American Home"), an AIG subsidiary, from at least July 2001 through 2004. On October 14, 2004, Tateossian pled guilty to felony

charges that he participated in a bid-rigging and kick-back scheme with the MMC Defendants (defined below) and the ACE Defendants (defined below).

Karen Radke

128. Defendant Karen Radke ("Radke") was a Senior Vice President in the Excess Casualty Unit of American Home from at least 2002 to 2004. On October 14, 2004, Radke pled guilty to felony charges that she participated in a bid-rigging and kick-back scheme with the MMC Defendants (defined below) and the ACE Defendants (defined below).

John Mohs

129. Defendant John Mohs ("Mohs") was a Vice President/Manager of an AIG unit from at least April 2002 through 2004. On February 15, 2005, Mohs pled guilty to felony charges that he participated in a bid-rigging and kick-back scheme with the MMC Defendants (defined below) and the ACE Defendants (defined below).

Carlos Coello

130. Defendant Carlos Coello ("Coello") was an underwriter at AIG from at least September 2002 through September 2004. On February 15, 2005, Coello pled guilty to misdemeanor charges that he participated in a bid-rigging and kick-back scheme with the MMC Defendants (defined below) and the ACE Defendants (defined below).

D. The MMC Defendants

131. Defendant MMC is a Delaware corporation with its principal place of business at 1166 Avenue of the Americas, New York, New York 10036-2774. MMC is the largest provider of insurance brokerage and consulting services in the world. MMC, a parent holding company traded on the New York Stock Exchange, does most or all of its business through its subsidiaries.

132. Defendant Marsh, Inc. ("Marsh") is a Delaware corporation and a wholly-owned subsidiary of MMC, with its principal place of business at 1166 Avenue of the Americas, New

York, New York 10036. Marsh is the principal operating subsidiary of MMC in the insurance brokerage business.

133. Defendant Marsh USA Inc. ("Marsh USA") is a Delaware corporation with its principal place of business at 1166 Avenue of the Americas, New York, New York 10036. It is a subsidiary of MMC and is an operating subsidiary of MMC. Marsh USA was one of the MMC subsidiaries that entered into a Service Agreement with AIG.

134. Defendant Marsh Placement Inc. (formerly Marsh Global Broking Inc.) ("MGB") has its principal place of business at 1166 Avenue of the Americas, New York, New York 10036. It is an operating subsidiary of MMC principally engaged in the insurance brokerage business. MGB was one of the MMC subsidiaries which entered into a Service Agreement with AIG. AIG's payments for the contingent commissions under the Service Agreement were made by checks payable to MGB.

135. The MMC Defendants conduct business within the State of Delaware and act as a broker for insurance policies for insureds located within the State of Delaware.

Robert Stearns

136. Defendant Robert Stearns ("Stearns") was a Senior Vice President of MMC. On January 6, 2005, Stearns pled guilty to one felony count of scheme to defraud in the first degree for his participation in MMC's illegal bid-rigging scheme.

Joshua Bewlay

137. Defendant Joshua Bewlay ("Bewlay") was a Managing Director of MMC and the West Region Manager of MMC's Global Broking Excess Casualty Unit. On February 15, 2005, Bewlay pled guilty to one felony count of scheme to defraud for his role in MMC's illegal bid-rigging scheme.

Kathryn Winter

138. Defendant Kathryn Winter ("Winter") was a Managing Director and Regional Manager of Global Broking Excess Casualty at MMC. On February 24, 2005, Winter pled guilty to one felony count of scheme to defraud for her role in MMC's illegal bid-rigging scheme.

Regina Hatton

139. Defendant Regina Hatton ("Hatton") was a Senior Vice President in MGB's Excess Casualty unit. In August 2005, Hatton pled guilty to a felony fraud charge for her role in MMC's illegal bid-rigging scheme.

Nicole Michaels

140. Defendant Nicole Michaels ("Michaels") was a Marsh insurance broker. In August 2005, Michaels pled guilty to a felony fraud charge for her role in MMC's illegal bid-rigging scheme.

Todd Murphy

141. Defendant Todd Murphy ("Todd Murphy") was a Senior Vice President and Global Broking Coordinator at MMC. In August 2005, Murphy pled guilty to a misdemeanor charge for his role in MMC's illegal bid-rigging scheme.

Joseph Peiser

142. Defendant Joseph Peiser ("Peiser") was a Managing Director and head of Global Broking Excess Casualty at MMC. On September 15, 2005, Peiser was indicted by a New York State grand jury and charged with numerous felonies – including charges of first-degree scheming to defraud, restraint of trade and competition, and grand larceny – stemming from his participation in MMC's illegal bid-rigging scheme.

Bill Gilman

143. Defendant Bill Gilman ("Gilman") was a Managing Director and the Executive Director of Marketing of MMC. On September 15, 2005, Gilman was indicted by a New York State grand jury and charged with numerous felonies – including charges of first-degree scheming to defraud, restraint of trade and competition, and grand larceny – stemming from his participation in MMC's illegal bid-rigging scheme. Following a ten-month trial, Gilman was convicted of restraint of trade on February 23, 2008. As of the date of this filing, Gilman had yet to be sentenced.

Edward J. McNenney

144. Defendant Edward J. McNenney ("McNenney") was a Managing Director and global placement director at MMC. On September 15, 2005, McNenney was indicted by a New York State grand jury and charged with numerous felonies – including charges of first-degree scheming to defraud, restraint of trade and competition, and grand larceny – stemming from his participation in MMC's illegal bid-rigging scheme. Following a ten month trial, McNenney was convicted of restraint of trade on February 23, 2008. As of the date of this filing, McNenney had not yet been sentenced.

Thomas T. Green, Jr.

145. Defendant Thomas T. Green ("Green") was a Senior Vice President at MMC. On September 15, 2005, Green was indicted by a New York State grand jury and charged with numerous felonies – including charges of first-degree scheming to defraud, restraint of trade and competition, and grand larceny – stemming from his participation in MMC's illegal bid-rigging scheme.

Greg J. Doherty

146. Defendant Greg J. Doherty ("Doherty") was, at various relevant times, a Senior Vice President, local broking coordinator and team leader at MMC and a Senior Vice President at ACE USA. On September 15, 2005, Doherty was indicted by a New York State grand jury and charged with numerous felonies – including charges of first-degree scheming to defraud, restraint of trade and competition, and grand larceny – stemming from his participation in MMC's illegal bid-rigging scheme.

Kathy Drake

147. Defendant Kathy Drake ("Drake") was a Managing Director of MMC and the local broking coordinator team leader of MMC's Global Broking Excess Casualty unit. On September 15, 2005, Drake was indicted by a New York State grand jury and charged with numerous felonies – including charges of scheming to defraud, restraint of trade and competition, and grand larceny – stemming from her participation in MMC's illegal bid-rigging scheme.

William L. McBurnie

148. William L. McBurnie ("McBurnie") was a coverage and carrier specialist and Senior Vice President at MMC. On September 15, 2005, McBurnie was indicted by a New York State grand jury and charged with numerous felonies – including charges of scheming to defraud, restraint of trade and competition, and grand larceny – stemming from his participation in MMC's illegal bid-rigging scheme.

Edward J. Keane Jr.

149. Edward J. Keane Jr. ("Keane") was an Assistant Vice President at MMC. On September 15, 2005, Keane was indicted by a New York State grand jury and charged with numerous felonies – including charges of scheming to defraud, restraint of trade and

competition, and grand larceny – stemming from his participation in MMC's illegal bid-rigging scheme.

150. MMC, Marsh, Marsh USA, MGB, Stearns, Bewlay, Hatton, Michaels, Todd Murphy, Winter, Gilman, Peiser, McNenney, Green, Doherty, Drake, McBurnie, and Keane will sometimes collectively be referred to as the "MMC Defendants."

E. The ACE Defendants

151. Defendant ACE is a holding company which, through its subsidiaries, is a global insurance and reinsurance provider. ACE is headquartered in the Bahamas and incorporated under Cayman Islands law. ACE has operations in approximately 50 countries throughout the world.

152. Defendant ACE USA, Inc. ("ACE USA"), a subsidiary of ACE, is an insurance company and one of the United States operating companies of ACE (with operations throughout the United States). ACE USA is a Delaware corporation. Its parent company is ACE INA and it is an indirect wholly-owned subsidiary of ACE. ACE USA is headquartered in Philadelphia, Pennsylvania and maintains an office at 1 Beaver Valley Road, Wilmington, Delaware.

153. Defendant ACE INA, Holdings, Inc. ("ACE INA"), a subsidiary of ACE, is an insurance company and one of the United States operating companies of ACE. ACE INA is headquartered in Philadelphia, Pennsylvania and is incorporated in Delaware.

Patricia Abrams

154. Defendant Patricia Abrams ("Abrams") was an Assistant Vice President at ACE in its Excess Casualty Division. On October 15, 2004, Abrams pled guilty to attempted restraint of trade and acknowledged her participation in MMC's bid-rigging/kickback scheme.

Susan Rivera

155. Susan Rivera ("Rivera") was ACE USA's president and chief executive officer. Rivera suddenly resigned in January 2005, following public revelations that Rivera was aware, by November 2003 at the latest, that ACE was participating in illegal bid-rigging.

156. ACE, ACE USA, ACE INA, Rivera and Abrams are collectively referred to herein as the "ACE Defendants."

F. Gen Re Defendants

157. Defendant Gen Re ("Gen Re"), a subsidiary of Berkshire Hathaway Inc., is a Delaware corporation with corporate headquarters in Stamford, Connecticut. Gen Re is a holding company for global reinsurance and related operations.

158. Gen Re, through its subsidiaries, is one of the world's four largest reinsurers, leads the United States market in reinsurance, has a presence in all major reinsurance markets with offices in 67 locations, and has over 2500 employees worldwide.

159. Gen Re conducts business through Rückversicherungs–Gesellschaft AG ("Cologne Re") and Gen Reinsurance Corporation.

160. Defendant Gen Reinsurance Corporation ("Gen Reinsurance"), a New Mexico corporation, is an operating subsidiary of Gen Re. Gen Reinsurance is headquartered in New York, New York.

John Houldsworth

161. John Houldsworth ("Houldsworth") was Chief Executive Officer of Gen Re's subsidiary, Cologne Re Dublin, from May 1990 through June 2001. In addition, from 1998 through 2004, Houldsworth served as Chief Underwriter for a Gen Re business, Alternative Solutions, located at Gen Re's corporate headquarters.

162. Gen Re terminated Houldsworth after he "agreed to plead guilty to a federal criminal charge of conspiring with others to misstate certain [AIG] financial statements and entered into a settlement agreement with the [SEC] related to such matters." (Berkshire Hathaway Inc. press release dated June 6, 2006). On June 9, 2005, Houldsworth pled guilty "to a charge of conspiracy to falsify SEC filings as part of a scheme to fraudulently enable American International Group, Inc. to report increased insurance reserves." (DOJ press release dated June 9, 2006). The SEC also brought a complaint against him in the United States District Court for the Southern District of New York, alleging that he aided and abetted AIG's violations of the Securities Exchange Act of 1934. Houldsworth did not contest these charges, and consented to the entry of a partial final judgment in that action.

Richard Napier

163. Defendant Richard Napier ("Napier") was Gen Re's Senior Vice President from 1992 until he was terminated by Gen Re on June 8, 2005. Napier was among those with core responsibility for the relationship between AIG and Gen Re, and was a co–conspirator in the scheme concerning AIG's sham transactions with Gen Re alleged herein. As noted in a DOJ Press Release dated June 10, 2005, Napier pled guilty on June 9, 2005 "to a charge of conspiracy to falsify SEC filings as part of a scheme to fraudulently enable American International Group, Inc. to report increased insurance reserves" and "admitted aiding and abetting AIG's submission to the SEC of fraudulent filings." The SEC also filed a complaint against Napier in the United States District Court for the Southern District of New York, alleging that he aided and abetted AIG's violations of the Securities Exchange Act of 1934. Napier did not contest these charges, and consented to the entry of a partial final judgment in that action.

Ronald Ferguson

164. Defendant Ronald Ferguson ("Ferguson") was Chief Executive Officer of Gen Re from 1999 to September 2001, when he retired as chief executive officer and became nonexecutive chairman. In June 2002, Ferguson retired as non–executive chairman and began working for Gen Re as a consultant under contract until Gen Re terminated his consulting agreement in May 2005.

165. On September 20, 2006, a federal grand jury in New Haven, Connecticut issued a superseding indictment charging Ferguson with one count of conspiracy to violate federal securities laws and to commit mail fraud, seven counts of securities fraud, five counts of making false statements to the SEC, and three counts of mail fraud. The charges arose out of Ferguson's direct role in arranging and consummating sham reinsurance transactions with Milton, Maurice Greenberg, and the other Gen Re Defendants in order to fraudulently overstate AIG's loss reserves. The criminal indictments are incorporated by reference herein in their entirety. On February 25, 2008, Ferguson was found guilty on all charges. As of the date of this filing, Ferguson had not yet been sentenced.

Elizabeth A. Monrad

166. Defendant Elizabeth A. Monrad ("Monrad") was Gen Re's chief financial officer from June 2000 until July 2003 and a member of the executive committee of Gen Re's Board of Directors from May 2002 through July 2003, and the chief financial officer of Gen Re's North American Operations from 1997 until she left Gen Re.

167. On September 20, 2006, a federal grand jury in New Haven, Connecticut issued a superseding indictment charging Monrad with one count of conspiracy to violate federal securities laws and to commit mail fraud, seven counts of securities fraud, five counts of making false statements to the SEC, and two counts of mail fraud. The charges arose out of Monrad's

direct role in arranging and consummating sham reinsurance transactions with Milton, Maurice Greenberg and the other Gen Re Defendants in order to fraudulently overstate AIG's loss reserves. The criminal indictments are incorporated by reference herein in their entirety. On February 25, 2008, Monrad was found guilty on all charges. As of the date of this filing, Monrad had not yet been sentenced.

Christopher P. Garand

168. Defendant Christopher P. Garand ("Garand") was a Gen Re senior vice president and the head and chief underwriter of Gen Re's finite reinsurance operations in the United States from 1994 until August 2005. Garand also served on the board of directors of Gen Re's subsidiary, Cologne Re Dublin ("CRD"), during the time period relevant to the AIG/Gen Re transactions alleged herein.

169. On September 20, 2006, a federal grand jury in New Haven, Connecticut issued a superseding indictment charging Garand with one count of conspiracy to violate federal securities laws and to commit mail fraud, three counts of securities fraud, three counts of making false statements to the SEC, and three counts of mail fraud. The charges arose out of Garand's direct role in arranging and consummating sham reinsurance transactions with Milton, Maurice Greenberg and the other Gen Re Defendants in order to fraudulently overstate AIG's loss reserves. The criminal indictments are incorporated by reference herein in their entirety. On February 25, 2008, Garand was found guilty on all charges. As of the date of this filing, Garand had not yet been sentenced.

Robert D. Graham

170. Defendant Robert D. Graham ("Graham") was a senior vice president and assistant general counsel at Gen Re, which he joined in 1986, until he retired from Gen Re in October 2005.

171. On September 20, 2006, a federal grand jury in New Haven, Connecticut issued a superseding indictment charging Defendant Graham with one count of conspiracy to violate federal securities laws and to commit mail fraud, seven counts of securities fraud, five counts of making false statements to the SEC, and three counts of mail fraud. The charges arise out of the direct role Defendant Graham played in arranging and consummating sham reinsurance transactions between Gen Re and AIG in order to allow AIG to fraudulently overstate AIG's loss reserves. The criminal indictments are incorporated by reference herein in their entirety. On February 25, 2008, Graham was found guilty on all charges. As of the date of this filing, Graham had not yet been sentenced.

172. Defendants Ferguson, Monrad, Graham, Milton and Garand were also charged by the SEC on February 2, 2006 with aiding and abetting AIG's violations of Sections 10(b), 13(a), 13(b)(2) and 13(b)(5) and Rules 10b–5, 12b–20, 13a–1, 13a–13 and 13b2–1 of the Securities Exchange Act of 1934. The SEC's February 2, 2006 complaint is incorporated herein by reference in its entirety.

173. Gen Re, Gen Reinsurance, Houldsworth, Napier, Ferguson, Monrad, Garand and Graham are collectively referred to herein as the "Gen Re Defendants."

G. PricewaterhouseCoopers

174. PwC is a Delaware limited liability partnership of certified public accountants and related professionals. It has 9,000 partners and a worldwide staff of 155,000.

175. PwC served at all times relevant to this action, and continues to serve, as AIG's auditor and principal accounting firm. PwC acted in that capacity pursuant to the terms of engagement letters that required PwC, *inter alia*, to audit AIG's financial statements in accordance with GAAS. PwC was retained, in significant part, to ensure that AIG's annual and quarterly financial statements could be relied upon by the Company, members of the investing

public, members of the financial community (including the media that would disseminate such financial results), and regulators. PwC received substantial payments and other rewards for its work, as detailed below.

H. Duties of the AIG Director Defendants and AIG Officer Defendants

176. Each of the Inside Director Defendants and AIG Officer Defendants (collectively, the "D&O Defendants"), along with Maurice Greenberg and Howard Smith, owed to AIG the duty to act with loyalty, good faith, due care and diligence in the management and administration of the affairs of the Company and in the use and preservation of its property and assets, and owed the duty of full and candid disclosure of all material facts related thereto. Further, each D&O Defendant, Maurice Greenberg and Howard Smith owed a duty to AIG to ensure that AIG operated in compliance with all applicable federal and state laws, rules and regulations and that AIG did not engage in any unsound or illegal business practices.

177. To discharge these duties, the D&O Defendants, Maurice Greenberg and Howard Smith were required to exercise reasonable and prudent supervision over the management, policies, practices, controls, and financial and corporate affairs of AIG. By virtue of this obligation, the D&O Defendants, Maurice Greenberg and Howard Smith were required, among other things, to:

a. manage, conduct, supervise, and direct the employees, businesses and affairs of AIG in accordance with laws, rules and regulations, and the charter and by-laws of AIG;

b. neither violate nor knowingly or recklessly permit any officer, director or employee of AIG to violate applicable laws, rules and regulations and to exercise reasonable control and supervision over such officers and employees;

c. ensure the prudence, honesty and soundness of policies and practices undertaken or proposed to be undertaken by AIG;

d. exercise appropriate control and supervision over public statements to the securities markets by the officers and employees of AIG (including supervising

the preparation, filing and/or dissemination of any SEC filing, press releases, audits, reports or other information disseminated by AIG) and examining and evaluating any reports of examinations or investigations concerning the practices, products or conduct of officers of AIG and making full and accurate disclosure of all material facts, concerning *inter alia*, each of the subjects and duties set forth above;

e. remain informed as to how AIG was, in fact, operating, and upon receiving notice or information of unsafe, imprudent or unsound practices, to make reasonable investigation in connection therewith and to take steps to correct that condition or practice; and

f. preserve and enhance AIG's reputation as befits a public corporation and to maintain public trust and confidence in AIG as a prudently managed institution fully capable of meeting its duties and obligations.

178. The AIG Officer Defendants, Maurice Greenberg and Howard Smith in their executive positions at AIG bore direct responsibility for the supervision and oversight of AIG's day-to-day operations, including AIG's reinsurance programs that were the source of many of the accounting machinations to which AIG has now admitted.

179. AIG's senior executives were members of or directly oversaw the responsibilities of the reinsurance security committee "consisting of members of AIG's senior management" – a committee charged with the responsibility to closely monitor AIG's reinsurance programs.

180. As set forth herein, not only did many of the D&O Defendants, Maurice Greenberg and Howard Smith have knowledge of the improper transactions, accounting manipulations and reporting violations at AIG – they failed to take any steps to rectify them. Some D&O Defendants, Maurice Greenberg and Howard Smith directly participated in and assisted such transactions, manipulations and reporting.

181. The misdeeds and injuries to AIG alleged herein could not have occurred absent the D&O Defendants', Maurice Greenberg's and Howard Smith's massive abrogation of these fiduciary duties.

I. Duties of Defendant PricewaterhouseCoopers LLP

182. PwC was, at all relevant times, AIG's independent auditor, and also served as a consultant to the Company on numerous occasions. As disclosed in AIG's annual reports, PwC undertook in connection with its audit engagements to audit AIG's financial statements in accordance with GAAS and to render an opinion as to whether those financial statements were fairly presented in conformity with United States GAAP and the doctrine of fair reporting.

183. SAS No. 1 of GAAS places the following basic requirements on performance of such services by an auditor:

a. The audit is to be performed by a person or persons having adequate technical training and proficiency as an auditor;

b. In all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor or auditors;

c. Due professional care is to be exercised in the planning and performance of the audit and the preparation of the report;

d. The work is to be adequately planned and assistants, if any, are to be properly supervised;

e. A sufficient understanding of internal control to plan the audit and to determine the nature, timing, and extent of tests to be performed;

f. Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit;

g. The report shall state whether the financial statements are presented in accordance with GAAP;

h. The report shall identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period;

i. Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report; and

j. The report shall contain either an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons should be

> stated. In all cases where an auditor's name is associated with financial statements, the report should contain: a) a clear-cut indication of the character of the auditor's work, if any, and b) the degree of responsibility the auditor is taking.

184. Providing guidance on the concept of due professional care, GAAS (AU Section 230) states:

> Due professional care requires the auditor to exercise professional skepticism. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. The auditor uses the knowledge, skill, and ability called for by the profession of public accounting to diligently perform, in good faith and with integrity, the gathering and objective evaluation of evidence.
>
> Gathering and objectively evaluating audit evidence requires the auditor to consider the competency and sufficiency of the evidence. Since evidence is gathered and evaluated throughout the audit, professional skepticism should be exercised throughout the audit process.
>
> The auditor neither assumes that management is dishonest nor assumes unquestioned honesty. In exercising professional skepticism, the auditor should not be satisfied with less than persuasive evidence because of a belief that management is honest.

185. These standards, and general contractual obligations, placed a duty upon PwC to act with reasonable care, diligence and competence in acting as AIG's independent accountant and auditor. They required PwC to exercise independent thought and judgment, and to independently confirm representations made by management and others within the Company to ensure their accuracy and to establish that they may be relied upon by the Company and members of the public. PwC was also required under GAAS to report all significant internal control weaknesses to AIG's audit committee, or to certify that no reportable conditions existed.

186. These duties notwithstanding, PwC failed to flag AIG's woefully inadequate internal controls year after year while the D&O Defendants manipulated AIG's accounting and reported financial statements and committed the acts complained of herein, eventually subjecting the Company to extensive liability and damages.

IV. SUBSTANTIVE ALLEGATIONS

187. Beginning no later than 1996, the D&O Defendants caused AIG to enter into a broad range of improper transactions and accounting, illegal operations, and fraudulent reporting practices. The financial impact of these schemes was enormous, as was the harm that they caused to AIG as they unraveled.

A. Loss Reserve Manipulations

1. Reinsurance

188. Reinsurance is insurance that an insurance company buys to protect itself from bearing loss beyond an acceptable level on policies that it has sold. It allows the insurer to "cede" or spread the risk of loss to the reinsurer(s), in exchange for the payment of a premium.

189. As one of the world's largest sellers of property and casualty insurance, AIG buys billons of dollars worth of reinsurance policies to protect itself from large potential claims on policies it sells. AIG and/or its subsidiaries also sell significant amounts of reinsurance to other insurance companies. According to various SEC filings by AIG, including its Form 10-K filed on March 15, 2004, "[t]he utilization of reinsurance is closely monitored by an internal reinsurance security committee, consisting of members of AIG's senior management."

190. GAAP requires insurance and reinsurance transactions to transfer "significant" risk from one party to another if either party intends to account for the transaction as insurance; without significant risk transfer, such transactions must be accounted for as financing. The risk must be that the amount the reinsurer will have to pay out will be greater than the premiums it receives for providing the reinsurance. Moreover, the transfer of risk must be to a third party independent of the insurer.

191. One particularly aggressive form of reinsurance is called "finite" or "non-traditional" or "loss-mitigation" insurance. An insurer obtaining such coverage pays a premium

and files a claim for payment when earnings drop beneath a contractually-defined level. The payments are reported as income, and have the effect of lowering the amount of loss reported by the insurer.

192. Finite reinsurance transactions include a maximum cap on the ultimate liability of the reinsurer. Moreover, the parties to such transactions enter into the relevant contract after the occurrence of the events giving rise to the relevant loss (although at a time when the full extent of that loss may not be readily determined). The finite reinsurer is paid a portion of the premiums received by the purchaser of the finite reinsurance. The purchaser of the finite reinsurance thus effectively borrows the claims reserves of the finite reinsurer.

193. As with other reinsurance, to qualify for insurance treatment under GAAP: (1) the insurer buying the finite reinsurance policy must be transferring a significant insurance risk of loss to the finite reinsurer (*i.e.*, that the reinsurer has the real risk of losing more of its claims reserves than it collects in premium); and (2) it must be "reasonably possible" that the reinsurer may realize a significant loss from the transaction. (Statement of Financial Accounting Standards No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts). If significant risk is not transferred, then the transaction does not qualify as "insurance," and is more appropriately accounted for as a loan transaction.

194. In its accounting and other documents, AIG reflects numerous reinsurance transactions that did not meet these GAAP requirements. The D&O Defendants and PwC knew, or with reasonable care should have known, that these transactions did not qualify under GAAP to be treated as reinsurance.

2. Sham Finite Reinsurance Transactions With Gen Re

195. A loss reserve is the amount of cash that an insurer maintains to cover the claims it can expect to pay out during a given period. Insurers' loss reserves are publicly reported, and

are of particular significance to investors: if the reserves are inadequate to cover claims that arise in a given period of time, the insurer will face massive financial difficulty. Thus, to protect their stock price, insurers have an interest in ensuring that their loss reserves are reasonably high.

196. On October 26, 2000, AIG issued its earnings release for the third quarter of 2000, showing an approximate $59 million decline in general insurance reserves. This reserves reduction drew sharp criticism from market analysts, at least two of whom downgraded AIG. In response, AIG's stock dropped six percent–down $6.06 to $93.31 per share – on October 26, 2000. Concerned that these public criticisms of his company's reserves could continue to negatively affect its stock prices, Maurice Greenberg personally called Gen Re's then chief executive Ronald Ferguson on or about October 31, 2000 to pitch a proposed transaction to boost AIG's loss reserves. During this conversation, Maurice Greenberg asked Ferguson if Gen Re would be willing to "loan" AIG $500 million in loss reserves on a short–term basis. Ferguson considered AIG an important account and encouraged his staff to do what they could to ensure that Gen Re was AIG's first choice provider. Houldsworth, during a November 14, 2000 call with Garand, retold the "story" he had gotten from Monrad concerning this call:

> Hank Greenberg phoned up Ron Ferguson and said 'Ron, I need your help . . . We've reduced our reserves by [$]500 million to boost our third quarter results, but we've now realized that come the end of the year, . . . the fact that we've taken down those year old reserves is going to be fairly apparent to anyone studying ou[r] group and we don't like what's going to happen in terms of stock market reaction or whatever . . . [W]e want to borrow [$]500 million of reserves [from] you for a couple of years.'

197. During his conversations with Ferguson, Maurice Greenberg made clear that, while he was looking to increase AIG's loss reserves, the proposed transaction was one that would not require AIG to take on any actual risk. Because AIG was not going to assume any risk from Gen Re, Ferguson understood that the transaction Greenberg was pitching was not a bona

fide reinsurance transaction but, rather, a sham transaction that would be used by AIG to artificially inflate its reported reserves.

198. As AIG was one of its largest clients, Gen Re quickly acted to accommodate Maurice Greenberg's request. The very day Greenberg pitched the proposed transaction to Ferguson, Gen Re's Napier and another Gen Re employee discussed the possibility of running the transaction through an offshore Gen Re subsidiary – Cologne Re Dublin (CRD) – to avoid United States regulatory oversight. Napier and Ferguson met on October 31, 2000 to discuss the proposed deal. During this meeting, Ferguson relayed to Napier that Maurice Greenberg wanted Gen Re to "transfer $200–$500 million of reserves to AIG for a six to nine month period" by year end. Ferguson cautioned that Gen Re should "make certain that [it did] not create (reporting) problems of [its] own." Further, Ferguson told Napier that Milton would be the AIG point person on the deal.

199. To avoid any confusion as to AIG's intent in entering into the transaction, Napier notified Ferguson via email on November 1, 2000 that he had confirmed with Milton that AIG "only want[ed] a reserves impact"– i.e., did not truly want a "reinsurance" transaction–and was attempting to enter the proposed transaction "to address the criticism [AIG] received from the analysts" in the third quarter of 2000 regarding the adequacy of its reserves. Napier later admitted that AIG did not want it publicly known that the transactions with Gen Re were simply a mechanism to boost AIG's ailing reserves.

200. Monrad – the Gen Re point person on the deal – was also clued in as to AIG's true intent in entering the transaction. In early November 2000, Napier expressly informed Monrad that it would be a "non–risk deal" and that CRD would give deposit liabilities – not true risk – to AIG. Further, the two discussed the advantages of using CRD as the counterparty to the

transaction – namely, that CRD did not "report to anyone" – allowing AIG to sidestep the "NA [North American] problem" of "regulators" and disclosures on "Sch[edule] F" of Gen Re's statutory filings in the United States. By way of explanation, AIG and Gen Re knew that domestic reinsurance companies were required to file a "Schedule F" to their annual reports providing certain specific information about each reinsurance transaction entered into, including the amount of premiums and the amount of reserves or deposit liabilities recorded relating to each transaction. If AIG and Gen Re both used domestic entities to effect the transaction, both companies would be required to report it on a Schedule F. If AIG reported the transaction as reinsurance while Gen Re reported it as a deposit, red flags would likely be raised for the regulators. Using an Irish entity like CRD – which had no such reporting obligations – would allow AIG and Gen Re to sidestep the problems posed by their planned disparate accounting for the transaction.

201. The details of the proposed AIG–Gen Re sham reinsurance transaction were worked out over the ensuing weeks. In a November 6, 2000 email, Napier advised Ferguson, Monrad and others about recent conversations with Milton, informing the team that "[t]he deal has changed a little. Instead of a 6 to 9 month duration, they are seeking a 24 month term." Ferguson replied, "Thanks. Keep me posted. Please do not make any pricing commitments or even pricing suggestions without talking to me." Napier promptly responded:

> We are pushing to meet Chris [Milton's] commitment to [Maurice Greenberg] that we will have general ideas by the end of the week. The next step will be to meet with AIG representatives to discuss the details of the structures. To fashion a final solution we need a better understanding of the impact they are seeking and the financial costs they are prepared to bear (aside from the cost of our product).

In keeping with Ferguson's directive to keep him in the loop, Napier would update Ferguson regularly, sometimes several times a day, as further details of the transaction were worked out.

202. On or about November 7, 2000, Napier circulated a memorandum to Ferguson, Monrad, and four other high level Gen Re employees bearing the subject line "MRG [Hank Greenberg] Reserve Project." This memorandum attached an October 27, 2000 analyst report discussing AIG's third quarter 2000 earnings release issued October 26, 2000. Notably, the report stated:

> The market was disturbed by AIG's net reserve decrease of $59 million . . . AIG had reduced reserves twice recently– in the second and fourth quarters of 1999– and the market reacted badly then as well. AIG bounced back in both cases because (1) like today, the explanation for the reserves decline was reasonable and (2) more important, no 'other shoe' ever dropped. We don't believe another shoe will drop this time either.
>
> We do care a lot about reserves, and if we saw a steady trend of unexplained releases during a period of premium growth, we'd definitely be concerned. But that is not the case here.

Napier's cover memorandum attaching the report queried whether AIG was planning such further releases, noting:

> Based upon [the analyst's] numbers, AIG reduced reserves by $59m. It will be interesting to understand more about the $500m figure [AIG had] been using for [the proposed deal]. Perhaps [AIG is] planning for further releases in Q4 and [is] seeking a means to offset the cosmetic impact.

203. Under the terms of the transaction ultimately agreed upon by the parties, Gen Re would pay AIG subsidiary National Union Fire Insurance Company of Pittsburgh, Pennsylvania ("National Union") $500 million to assume the risk from various insurance policies that had been sold by Gen Re to other insurance companies. AIG knew, however, when it entered into the transaction that it was going to pay out losses totaling $500 million–the same amount it had received from Gen Re to assume the risk. In exchange for its services, AIG would pay Gen Re a fee. Because the AIG–Gen Re transaction did not actually transfer significant risk to AIG, this transaction was not true reinsurance but, rather, a loan from Gen Re to AIG. The fee that AIG

paid Gen Re for the transaction was effectively the payoff in return for Gen Re's participation in the scheme.

204. From the outset, Gen Re was aware that AIG had a particular accounting objective in mind with regard to the proposed deal that Gen Re did not share. On November 13, 2000, Monrad called Houldsworth to ask if CRD could help with a U.S. AIG transaction. Monrad told Houldsworth there were transparency issues about Gen Re doing the transaction in the United States – that it would cause a problem with Gen Re's financial statements if they were ever examined. Also on or about November 13, 2000, Monrad emailed Ferguson and wrote, "If we proceed with the AIG [Loss Portfolio Transfer] transaction, we may have non–mirror image accounting, as AIG probably wants to book the premium and more importantly to them, the losses through underwriting, but we wouldn't want to lose $500 million of net premiums and losses incurred, even if P&L neutral — it hurts combined ratios and has other distortions if the transaction runs through underwriting." Both Monrad and Houldsworth knew at the time that CRD did not have $500 million of risk reserves to accomplish the transaction. Monrad also told him that Ferguson had requested that the contract be kept as confidential as possible.

205. Houldsworth discussed the proposed deal with CRD board member Garand on November 14, 2000. After Houldsworth relayed the details of Ferguson's call with Maurice Greenberg, he and Garand discussed the North America problem:

> Houldsworth: [Monrad] was basically saying to me, is it possible for [CRD] to charge, to give AIG 500 million of reserves for a 500 million premium on a funds withheld basis for a couple of years . . .
>
> Garand: It has to come from outside the US. It would be apparent in our numbers if we ceded it . . .
>
> Houldsworth: . . . if you do it in the States it's just going to stand out like a sore, it's going to look very odd in our numbers . . . The way Betsy [Monrad] described it to me initially on the phone . . .

> she basically said just can you give $500 million of reserves or deposit stuff to AIG and get it back in a couple of years which clearly we probably could do, but I just don't see how that solves anything. So, I've got two choices. One is to let you go and talk to Betsy or one is I call her up . . . myself, and I just wanted your advice on what one to do.
>
> Garand: She went to you so I think you should respond directly back to her. The issue over here is we can't do it over here so she is looking for where in the group we can find something.
>
> Houldsworth: Ok, yeah, yeah, but you're clearly understanding the motives, AIG's motivations and the issues in meeting those motivations better than I will, but either way I will talk to her and I will try and see where she is coming from. I think basically they were sitting in the office last night and she just thought 'oh God who can I call that might be able to help. Who has got $500 million in reserves outside of the States without too much regulatory oversight that would cause, you know, those sorts of problems.' It is fairly obvious that she was going to come in our direction really. There is no–one else.
>
> Garand: Yeah, I mean anything we do over here is going to be transparent.

206. Given AIG's intent to use the so–called "reinsurance" transaction for something other than its intended purpose (i.e., to shift its risk of underwriting losses), Gen Re stressed the need to hold the proposed deal in strictest confidence. On or about November 14, 2000, Monrad warned Houldsworth during a telephone conversation regarding the potential AIG deal that "clearly this is a confidential transaction" that was being "handled at the highest levels in AIG," with Maurice Greenberg and Milton leading the charge. Seeing the sham transaction for what it was, Houldsworth remarked that, for AIG, "***if there's enough pressure on at their end, they'll . . . find ways to cook their books won't they?***" Monrad laughed at Houldsworth's assurance that "cooking the books" was "up to [AIG] . . . we won't help them do that too much, we'll do nothing illegal."

207. To ensure that AIG would be able to record additional loss reserves, Houldsworth suggested structuring the deal so that it appeared to transfer significant risk to AIG by adding an illusory $100 million to the coverage limit. Houldsworth and Monrad discussed this idea during a November 14, 2000 telephone call:

> Houldsworth: I was thinking of doing something like a 600 million, they might not accept this, but I presume they need risk transfer to put on the thing! So something like a 600 million, limit for 500million, obviously, underlying reserves 500 million . . . The only question is, in my viewpoint clearly we got to have risk transfer in there, so I would say, you know, this 100 million, if they think they are all deposits underneath you know we tell them we are not going to bill them [for the additional $100 million] are they going to believe it, but again, that's up to them, they are going to have to leave a gap somewhere.

208. Monrad, Napier and Ferguson – in a later conversation on November 15, 2000 – again acknowledged the lack of risk transfer in the transaction and the need for a "handshake" deal between Ferguson and Maurice Greenberg:

> Houldsworth: There is clearly no risk transfer. You know there is no money changing hands.
>
> Monrad: [AIG] may have a tough time getting the accounting they want out of the deal that they want to do . . .
>
> They are not looking for real risk . . .
>
> * * *
>
> Napier: [W]hat would happen if we just did this where there was no risk? I mean we just charge them a fee for doing this deal.
>
> Houldsworth: Well what I was thinking is if you know if we charge them, if we give them a fee on this, my idea would be for them to, they would have to come to you and say what that fee is plus some sort of margin, you must have agreed to give that to us before we will sign this deal, or at the same time as we sign this deal so you know, net, we get our margin and I think it's just the same thing, but I think to give them a deal with no risk in it and just charge them a fee you can assume their auditors are being pushed in one direction, but I think that's going too far. I think

> that's detail, you know they are going to come to that if they suggest it, then fine, but I just can't see how on earth anybody, you know, we can charge the 500m for a 500 limit and get them to book that as a reserve but I would be staggered if they get away with that.
>
> Napier: Then the way to do this, if there is risk in this, the way to become whole requires [Hank Greenberg] and Ron [Ferguson] to have a handshake.

Even at this stage, it became clear what sort of transaction this was meant to be. Napier's "handshake" comment, meaning Gen Re needed an agreement with AIG to prevent the risk of losing money, was quickly corrected by Houldsworth, who told Napier that he was "thinking of the transaction wrong." Gen Re was not going to be out any funds. Napier was aware that if AIG entered into a no-risk transaction, it would not be entitled to account for the reserves carried with the portfolio. Napier's contemporaneous handwritten notes from this call reference a "side deal" to pay CRD its fee and refund the premium CRD would pay to AIG, observing that CRD "pay[s] AIG $10M fee [i.e., premium]; AIG pay[s CRD] $10M fee back + fee for deal."

209. On or about November 15, 2000, Houldsworth emailed to Monrad, Garand, and Napier a draft "slip," or contract term sheet, for the deal and a cover email summarizing the proposed transaction – specifically, CRD would "provide a retrocession contract transferring approx. $500M of reserves on a funds w/held basis to the client with the intention that no real risk is transferred." While Houldsworth noted that there were "[c]learly . . . a number of massive pitfalls in how the client [AIG] manages to deal with the accounting, tax and regulatory issues," Gen Re had been "follow[ing] Betsy [Monrad]'s instructions and ignor[ing] these problems." Houldsworth made clear that no risk would be transferred and that Gen Re would receive a fee for loaning reserves to AIG: "Given that we will not transfer any losses under this deal it will be necessary for [AIG] to repay any fee [the $10 million in cash 'premiums' paid by CRD] plus the margin they give us for entering this deal." Ferguson received a hard copy of this email.

210. Napier forwarded Houldsworth's November 15th email with attached slip to Milton on November 17, 2000. Milton in turn forwarded the email to Castelli on November 20, 2000, who immediately forwarded it to Howard Smith.

211. On or around November 15, 2000, Monrad and Napier met to discuss the "downside" of the deal. Napier and Monrad updated Ferguson about Houldsworth's slip and email, presenting it as a no-risk deal. Monrad mentioned that there was "reputational risk."

212. On or about November 15, 2000, Napier and Monrad briefed Ferguson on the details of the structure of the transaction being worked out with CRD so that he could finalize terms with AIG. Ferguson explained the terms of the proposed structure to Maurice Greenberg during a phone call on or about November 16, 2000. During this call, Ferguson and Greenberg agreed in substance that: (i) Gen Re would receive a 1% fee, amounting to $5 million; (ii) the transaction would be completed in two installments, or tranches, one in 2000 for $250 million and another in 2001 for $250 million; (iii) AIG and Gen Re needed to work out a way for Gen Re to get back the $10 million in "premiums" that it purportedly would be paying to AIG; and (iv) AIG would "not bear real risk" in the transaction.

213. On November 17, 2000, Napier again met with Ferguson because Ferguson had received several calls the evening of November 16 about the transaction. Maurice Greenberg had called and agreed to a 1% fee, or $5 million, confirming that the transaction was to be split into two parts of $250 million each. Greenberg also proposed in the call that instead of paying Gen Re a fee, AIG would give back to Gen Re 2.5% of participation in CCA, a reinsurance contract Gen Re had previously with AIG. In the call, Greenberg had also assigned Milton and Howard Smith to be the AIG point people in the project, and confirmed that AIG would not bear real risk

in the transaction. Ferguson also spoke with Warren Buffett on the evening of November 16. Buffett told Ferguson he would rather choose the fee option in terms of compensating Gen Re.

214. Napier sent an email on November 17, 2000 to Ferguson, Holdsworth, and Monrad, saying he had conveyed to Milton the structure of the transaction.

215. Monrad and Napier subsequently spoke with Houldsworth about his email and draft term sheet. Notably, the three discussed that: (i) there was no risk for AIG in the transaction; (ii) the risk for Gen Re was reputational; (iii) the transaction would show AIG getting paid $10 million up front so that AIG could mislead its auditors, but that AIG would repay that $10 million to Gen Re, plus pay a fee; (iv) it was AIG – not Gen Re – who had the "accounting problem;" (v) the contract would appear to credit interest to AIG so that it could pass the auditor's "smell test;" (vi) it was irrelevant whether the contract had $500 million, $600 million, or $700 million in stated risk because Gen Re was never going to bill AIG for any losses; and (vii) CRD could terminate the transaction at any time. Monrad noted that "these deals are a little bit like morphine. It's very hard to come off of them."

216. Ferguson relayed his conversation with Maurice Greenberg to Napier on or about November 17, 2000. In addition, Feguson asked Napier to relay this conversation to Milton. After Napier did so, he summarized his conversation with Milton in an email to Ferguson, Monrad, Houldsworth and others:

> Ron, I spoke with Chris [Milton] and brought him up to date on your discussion with [Hank Greenberg] as follows:
>
> > Dublin structure as outlined in [Houldsworth's November 15 email with attached proposed terms]
> >
> > • Fee= 1%
> >
> > • Two tranches of $250m (one for 2000, the other in 2001)

> • [Howard Smith] and Chris [Milton] will be the point people at AIG
>
> • Among the details to be worked out is how to recover the[premium] we advance . . .
>
> I will be sending a slightly edited version of [Houldsworth's draft term sheet] to Chris [Milton] as a discussion document. Betsy
>
> [Monrad] and I are to get together with [AIG] at 4:00 on Monday.

217. Ferguson replied to all, imploring the Gen Re team to keep the transactions confidential:

> "Thanks. Note to all–let's keep the circle of people involved in this as tight as possible."

To further ensure the confidentiality of AIG's plans, the Gen Re team dubbed the deal "Project A" and "Project Alpha."

218. The cover of the contracts' underwriting file reinforces the lengths to which Gen Re was willing to go to keep the deal a secret:

> Specific guidance has been received from Ron Ferguson that this file is to be kept confidential and consequently to be kept locked in [a CRD underwriter's] desk at all times. Permission to review this contract is to be sought from the [CRD underwriter], [CRD CEO] John Houldsworth] or [the CEO of Cologne Re Germany]. In CRD the only personnel authorized to review the file are [the CRD underwriter], John Houldsworth and [Houldsworth's assistant].

219. Monrad, Garand, Graham, Napier, and a Gen Re senior executive held a conference call with Milton on or about November 20, 2000, to discuss the structure and accounting for the transaction. Regarding the structure, the participants discussed, among other things, the fact that AIG would pay Gen Re a fee and that Gen Re would not be out any cash on the transaction. Regarding the accounting, Monrad told Milton, among other things, that Gen Re

would apply deposit accounting to the transaction and to "make sure AIG clearly understood that" – a point Ferguson had stressed in his conversations with Napier on November 17.

220. Knowing that AIG was going to account for this transaction as a risk transfer rather than a loan, Graham emailed Garand, Monrad and Napier on or about November 20, 2000 and proposed structuring the transaction using offshore entities so that "any reviewer of the AIG US entity's statements wouldn't be able to connect the dots to CRD and beyond:"

> In chatting with Chris Garand on the way back from the meeting, we discussed a possible scenario in which the initial transaction is between CRD and an AIG non–US entity, coming onshore as a related party reinsurance transaction between AIG entities.
>
> If it's split up enough among AIG's US entities, the transaction would probably not reach the [state insurance] regulatory prior approval threshold for any of them (it would need to be reported on an after the fact basis).
>
> The benefit of this approach would be that, since the AIG US entities would report the AIG non–US entity as cedants on Schedules F and P, any reviewer of the AIG US entity's statements wouldn't be able to connect the dots to CRD and beyond.

Indeed, Napier and Monrad met with Smith and Castelli at AIG's headquarters during the negotiation process to stress to Smith and Castelli that Gen Re would account for this transaction as a loan.

221. Milton and his Gen Re counterparts knew that the accounting for the transaction would not be "symmetrical" – i.e., AIG and Gen Re would account for it differently. Specifically, AIG planned to account for the transactions using reinsurance accounting to improperly add loss reserves to AIG's balance sheet, while Gen Re would use deposit accounting. Monrad told Napier and Houldsworth in a December 8, 2000 telephone conversation that she had discussed this asymmetrical accounting with Milton, who accepted it:

> Monrad: We told AIG there would not be symmetrical accounting here.
>
> Houldsworth: Okay, fine.
>
> Monrad: We told them that was one of the aspects of the deal they would have to digest.
>
> Houldsworth: That's fine then. That should do it, shouldn't it? It's so unlikely to be an issue so . . .
>
> Monrad: We haven't heard any push back from them in terms of can you change this, change that so . . .
>
> Napier: It's quite to the contrary. When Chris [Milton] called he said we're going to take it as –
>
> Monrad: It's a go.
>
> Napier: —we like it.
>
> Houldsworth: Okay. Okay.
>
> Monrad: Done.

222. Having agreed on the substance of the sham transaction, AIG and Gen Re set about the task of creating a fraudulent paper trail to make the deal appear legitimate. From the outset, the parties recognized that AIG's proposing a transaction to assume Gen Re's losses – as opposed to Gen Re seeking reinsurance to take liabilities off its books – could have alerted auditors and regulators to the fact that something was amiss, bringing additional unwanted scrutiny to the transaction. Accordingly – despite the fact that AIG had solicited the transaction to add loss reserves to its balance sheet – AIG and Gen Re created a "paper trail" to make it appear to the outside world that it was Gen Re who had proposed the deal. Napier later testified that the deal was made "to look like something it wasn't." Houldsworth believed that auditors would not sign off on the transaction if it was documented in its entirety. In fact, Napier later admitted that even had an auditor seen the offer letter and contract, those documents would not have contained the true terms of the transaction.

223. On December 7, 2000, Napier emailed Holdsworth, Garand, and Ferguson regarding the AIG project—more specifically about a call he had that morning with Milton. Milton told Napier that AIG wanted to proceed as outlined in Houldsworth's slip, in accordance with discussions between Ferguson and Maurice Greenberg.

224. On or about December 8, 2000, Houldsworth emailed a list of questions to Garand, Monrad and Napier that Houldsworth described as "the messy part." Three of the questions were: (i) "Do we [CRD] need to produce a paper trail offering the transaction to the client?;" (ii) "Payback leg have they [AIG] started considering the other arrangements to make us whole? . . . Hopefully, we get back the fee to them [the $10 million cash 'premiums'] plus our margin [the $5 million fee] upfront;" and (iii) "Do A[IG] expect our CRD financial statements to reflect the Loss Portfolio Transfer and the deposit back, hopefully not!"

225. Houldsworth noted that if they went for full wording, "someone from legal should join the process sooner rather than later" – and Defendant Graham was tapped for this job. Graham was fully up to speed on the deal, having been involved when Gen Re was looking at Bermuda as a possible structure to carry out the sham transaction, and having participated in a conference call about the deal held on Monday November 20, 2000.

226. Houldsworth, Monrad and Napier again discussed the paper trail issue during a December 8, 2000 telephone call. Houldsworth questioned whether AIG needed an "offer letter" "to make it look like a piece of risk business . . . because clearly they're not gonna have any supporting documentation, they're not gonna have any actuarial records . . . how many people book reserves based entirely on what the client tells them and survive for very long?" The defendants also discussed the $5 million inducement for Gen Re to participate in the sham transaction. Monrad suggested the financial documents that were needed, stating that "for paper

trail purposes . . . you need to have a wire that shows . . . 10 million at some point left your account . . . and we need them [AIG] to give us 10 million back . . . and we need five on top of that . . . for doing this." Napier said he could not imagine AIG would want to do it without full documentation as it was not clear at the time whether a slip alone would suffice as an acceptable reinsurance document. To effectuate the return of Gen Re's $10 million – plus its $5 million fee – Monrad indicated that she would like the funding to go "round trip . . . through different bank accounts." Monrad also indicated she wanted any transfers to be "simultaneous." Graham subsequently advised that Gen Re needed to "be careful with inter–company transfers" because "a curious outside party could deduce that there is a link between the transactions."

227. Also on December 8, 2000, Milton concluded that a paper trail was needed. Napier reported his conversation with Milton to Graham, Monrad and Houldsworth via email:

> Chris [Milton] felt we should establish a traditional paper trail for this transaction. Rob [Graham]'s work on the contract should complete the trail.

Napier separately emailed Ferguson that day, stating, "[T]he reserve transfer is on track. Rob Graham is drafting the agreement," to which Ferguson replied, "[T]hanks."

228. On December 11, 2000, Napier told Houldsworth in a telephone call that AIG wanted an offer letter as part of a paper trail. Accordingly, Houldsworth began drafting a false offer letter that made it appear that (1) Gen Re had approached AIG to reinsure Gen Re and (2) Gen Re was entering into the transaction for its own legitimate business purposes. To ensure that no one ever learned of this falsified documentation, Houldsworth emailed Graham some sample CRD contracts and noted, "due to the confidentiality requested b[y] Ron [Ferguson] no one else over here is working on this and all correspondence should be addressed to myself." Further, Garand stated that Gen Re should "[m]ake [AIG] sign in blood" to protect Gen Re from potential "reputational risk." In the call, Napier said "everything ought to be pretty clean," meaning the

contract to be given to Milton should look clean to anyone who looked at it, including accountants.

229. On or about December 12, 2000, Napier reviewed the fake offer letter that had been sent by Houldsworth to Milton and forwarded it to Graham and Monrad. The letter contained false information – that Gen Re initiated the contact, that there were specific goals to help Gen Re – all of which were false. Graham reviewed the fake offer letter a few days later, sending an email to Houldsworth and Napier with some suggested changes but noting that "Overall it's fine." On or about December 15, 2000, Houldsworth emailed the fake offer letter, which he had revised to incorporate Graham's comments, to Graham, Monrad and Napier.

230. On December 18, 2000, Houldsworth faxed a signed copy of the fake offer letter to Milton. The letter stated:

> I am writing further to your various conversations . . . with Rick Napier of our parent company in Stamford. I hope that I can give you a little more background on the proposal we hope that you will be able to help us with.

After discussing at length the "primary objectives" CRD was purportedly "seeking to achieve," the sham offer letter concluded:

> I hope that the above gives you a feel for what we have in mind and look forward to any comments you may have in respect of either my letter or the attached 'discussion' draft slip. I hope that on further review AIG will be able to support this cover and look forward to working together over the next few years.

While the offer letter to Milton falsely suggested that CRD was asking for AIG's "help" and "support," Milton knew that it was AIG who had asked for help from Gen Re. In fact, in a handwritten note transmitting Houldsworth's fax to the head of AIG's actuarial department, Milton admitted: "This is the Gen Re Deal that [Maurice Greenberg] talked to me about."

231. On December 19, 2000, Napier sent an email to Houldsworth, Monrad, Graham, Garand, and Ferguson, telling them that Houldsworth had sent Milton the letter; that Milton would respond the next day; and that Milton had confirmed he was proceeding with no deviations from the agreed-upon plan. On December 20, 2000, Ferguson emailed Napier regarding "Project A" [the transaction] thanking him for "staying on this."

232. On December 22, 2000, Graham emailed the contract he drafted to Houldsworth, copying Garand, Monrad, Napier and Ferguson. Graham noted that "once you've all had a chance to review, it will be in shape to share with AIG." Ferguson replied to all, "Thank you all for working on this matter – it seems to be very very high profile at AIG and is much appreciated." Garand noted that it "looks good as is" after he reviewed the contract and made sure that there was a commutation provision allowing Gen Re the option to end the contract at Gen Re's whim and to take all funds in the experience account to ensure that there was no upside for AIG. Notably, the sham contract omitted any reference to the secret, unwritten side agreement whereby AIG would advance Gen Re the $10 million in cash "premiums" and pay Gen Re a $5 million fee for participating in the transaction.

233. On or about December 22, 2000, Graham emailed Gen Re's Tim McCaffrey with an update on the status of the AIG transaction. Graham expressly referred to the disparate accounting treatment AIG and Gen Re planned to apply to the transaction, noting that "our group will book the transaction as a deposit. ***How AIG books it is between them, their accountants and God***; there is no undertaking by them to have the transaction reviewed by their regulators. Ron [Ferguson] et. al. have been advised of, and have accepted, the potential reputational risk that US regulators (insurance and securities) may attack the transaction and our part in it."

(emphasis added). Houldsworth asked Graham's advice regarding the mechanics of the sham paper trail during a December 27, 2000 telephone conversation:

> Houldsworth: I'll be happy for [the contract] to go straight off to AIG today, when they put the real question out for Rick [Napier] as to who's gonna send that. Do we send that again with another [offer] letter?
>
> Graham: I think the answer is you need to send [the contract]. What you want is, is for all of the deal correspondence on this thing really to come from you because it's your company that's doing the deal.
>
> Houldsworth: Yeah. Okay.
>
> Graham: It's perfectly okay for our guys [in Stamford] to have meetings and conversations but any paper trail ought to really lead to Dublin.

After conferencing Napier into the call, Graham reiterated: "What I said to [Houldsworth] is that all the paper trail for the deal really needs to go between Dublin and AIG, rather than from here to AIG."

234. Napier said on the call that "everything's got to come between Dublin and New York" because that was where the two parties to the agreement were located. There was no reason for Gen Re, located in Stamford, Connecticut, to appear involved in a purported reinsurance transaction between AIG and CRD. In reality, however, Gen Re was very much involved – including in the unwritten side agreement.

235. Later that day, Houldsworth emailed Graham, Napier, Monrad, and Garand with a few comments on Graham's draft contract, which was drafted as a risk-transfer deal when in actuality there was no risk being transferred. Graham revised the contract in accordance with Houldsworth's points. Houldsworth then emailed Graham's draft contract to Milton with another cover letter for the paper trail that made it appear as if CRD solicited the transaction,

when everyone involved in the deal knew that AIG had solicited it to manipulate its loss reserves:

> We are encouraged that you believe AIG will be able to provide us with cover for [the six reinsurance transactions that CRD had previously reinsured] . . . Consequently we have drafted a contract wording for discussion purposes which I have attached for your examination . . . I hope that on review of the draft agreement you will be able to support this cover and look forward to hearing from you shortly with your initial comments.

236. On December 28, 2000, Milton confirmed during a telephone call with Houldsworth and Napier receipt of the December 27, 2000 letter. Milton further indicated that he expected to send a reply email to Houldsworth that day accepting the proposal. In addition, Milton said that he did not need any further documentation by year–end to book the transaction as a year 2000 transaction and that, once he sent his reply email accepting the offer, the "paper trail" would be complete. Milton also said that he did not think payment need be made – because there was no risk under the transaction. Napier mentioned an adjustment in the CCA commission, another reinsurance contract, as a way for Gen Re to get its fees back.

237. Later that evening, Milton sent his promised reply email:

> Just to confirm our 50% participation [50% in 2000 and the other 50% in 2001] in your adverse loss experience cover. Will review specific contract wording this weekend and get back to you if we need any changes.

Napier forwarded Milton's email to Ferguson, Monrad, Graham and Garand, thanking them for their roles in completing the transaction and noting:

> This is a very unique solution to a special need for an important client. It looks like all that is left are a few housekeeping matters that should be cleaned up in the next couple weeks.

238. Recognizing that his deal had the purpose and effect of permitting AIG to falsify its financial results, Houldsworth asked Garand, during a December 28, 2000 telephone call, "on

AIG, I mean . . . how much of this sort of stuff do they do? ***I mean, how much cooking goes on in there?***" Garand informed Houldsworth in no uncertain terms that AIG will "***do whatever they need to make their numbers look right*** . . . they're very meticulous about managing their numbers." Concerned over the impact its role in AIG's book cooking might have on Gen Re, Houldsworth subsequently asked Garand whether, "on deals like this," Gen Re has a "locked drawer policy . . . that people just can't see them." Garand reassured him that "We haven't mentioned [that deal] to any of the finite people here . . . " Houldsworth indicated that he thought the AIG deal might have to cause Gen Re to "introduce . . . some sort of locked door policy."

239. While the fake offer letter and related documentation may have been sufficient to paper the trail, AIG's actuaries wanted more. Jay Morrow, an AIG vice president and actuary, testified at the criminal trial of Ferguson and the other Gen Re defendants that he had spoken with Milton and asked what kind of information would be available for review. He testified that Milton falsely stated that he was not able to keep the data supporting background information on the transaction and therefore did not have the data to give Morrow.

240. On December 29, 2000, Monrad and Houldsworth discussed how to have simultaneous transactions, or very close to it, so that Gen Re would not be out of funds in the transaction for any extended period of time.

241. On January 4, 2001, Napier emailed Milton to remind him to work out the details so that Gen Re could get the premiums and fees back. On January 8, Ferguson wrote Napier inquiring if they were "on track" to complete the transaction.

242. By February 2001, AIG and Gen Re had figured out a way to effect the transfer of the $10 million in "premiums" Gen Re was paying to AIG back to Gen Re, along with its $5

million fee. On or about February 16, 2001, Napier emailed Houldsworth and Monrad that Smith and Milton had decided that the most efficient way to transfer funds for the transaction to Gen Re would be to commute or terminate an unrelated transaction between Gen Re and HSB (an unrelated AIG subsidiary), which normally would mean Gen Re owed AIG $26 million; this money owed was to be used to hide the true passage of funds between Gen Re and AIG.

243. AIG and Gen Re decided to commute the HSB contract and distribute approximately $15 million from the HSB account to Gen Re, $10 million of which would be later paid back to AIG through its subsidiary National Union by CRD as premiums, with the remaining $5 million to compensate Gen Re for doing the deal.

244. On or about February 21, 2001, Napier notified Ferguson in a briefing for one of Ferguson's meetings with Maurice Greenberg that the commutation of an unrelated transaction between Gen Re and AIG subsidiary, HSB,would be used to fund the payments due under the reinsurance transaction, that Milton wanted to book the second part of that transaction in the first quarter of 2001, and that no money had yet changed hands. Tellingly, this memo was intended for broader distribution, but Napier deleted any mention of the Dublin reserve transaction in all versions of the memo that went to individuals other than Ferguson.

245. On or about March 7, 2001, Graham and Houldsworth had a telephone conversation about the AIG transaction. According to the indictment against Ferguson, Garand, Graham, Milton and Monrad, Houldsworth explained that "we aren't gonna pay them the [$10 million] fee yet we don't intend to pay them until we get the cash." Houldsworth warned "if they turn around and start . . . kicking up a fuss, I don't think they really want this made public, this transaction." Graham replied that "I think it's likely that it will go through, because they [AIG] need the relief." Graham further stated, in substance and in part, that "this is gray area stuff, uh,

for large zeroes." Houldsworth replied, "yes, it's quite shocking actually." Houldsworth explained "to be quite frank, this . . . doesn't make a difference to our account. You know, there's no risk transfer in it. It's deposit accounted." Graham responded that "[AIG's] organizational approach to compliance issues has always been 'pay the speeding ticket,' so, which is different than our organizational approach to compliance. So I'm pretty comfortable that our own skirts are clean but that they, ah, [AIG has] issues."

246. On or about March 8, 2001, Houldsworth sent Milton a signed copy of the sham contract for the first half of the reserve transaction, effective December 1, 2000. The sham contract, by its false terms, provided that CRD (Gen Re) would pay National Union (AIG) a 2% [$5 million] "loss transfer payment" or cash "premium," representing one–half of the $10 million total cash "premiums" due to AIG under the express contract terms.

247. On or about March 8, 2001, Houldsworth sent an email to Monrad, Graham, and Napier informing them that he had sent Milton a signed copy of the contract for the first half of the reserve transaction. Further, Houldsworth advised that CRD would not pay AIG for the contract despite the contractual terms requiring CRD to do so until an agreement had been reached with AIG on how AIG would pre–fund the $10 million in cash "premiums" and pay Gen Re its $5 million fee.

248. On March 27, 2001, Houldsworth emailed Graham, Monrad, and Napier and asked Graham to review a draft copy of a contract prepared for the second half of the reserve transaction which Milton wanted completed by the end of the first quarter of 2001. Houldsworth asked Graham, "Rob, could you give this your review to see if you feel it is acceptable or whether more needs doing, bear in mind my lack of legal knowledge and the fact we have tried to avoid any lawyers being involved elsewhere to keep the circle to a minimum?"

249. On May 3, 2001, Houldsworth emailed Napier and Milton saying he was ready to proceed with the second cover [the second $250 million] effective March 31, 2001. This email was part of the paper trail to conceal the sham transaction.

250. Napier informed Ferguson, on or about July 20, 2001, in a briefing memo for his meeting with Maurice Greenberg, that Gen Re was winding up or terminating a reinsurance contract with HSB and intended to use the proceeds to fund the AIG–Gen Re transaction. Napier further informed Ferguson that documents had been drafted and were on Milton's desk.

251. On or about August 21, 2001, Napier sent a letter to Milton, copying Monrad and Houldsworth, noting that the second stage of the reserve transfer had been completed and the only remaining issue was the transfer of funds. Ferguson also emailed Monrad and Napier that day asking if the reserve transfer had been completed. Monrad replied that the ball was in AIG's court to sign the documents. Ferguson further inquired about fees. Monrad replied that the $5 million had not been paid. Ferguson replied that he was surprised that they had not been paid.

252. On or about August 28, 2001, Milton sent Houldsworth a signed copy of the contract for the first half of the sham reinsurance transaction. On September 5, Houldsworth confirmed in an email to Napier, Monrad, and Ferguson that Milton had sent paperwork for the first half of the transaction to Dublin, and was ready to sign papers for the second part of the transaction. At this point National Union was to serve as a conduit in the second half of the transaction, to allow CRD to pay the fees AIG had paid it (through the HSB portion of the transaction) back to AIG without detection. On or about September 6, 2001, Houldsworth caused a signed copy of the contract for the second half of the sham reinsurance transaction, effective March 31, 2001, to be sent to Milton. By its false terms, the sham contract provided that CRD (Gen Re) would pay National Union (AIG) a two percent [$5 million] "loss transfer

payment" or cash "premium," representing the second half of the total $10 million cash "premiums" due to AIG under the express contract terms. On or about October 2, 2001, Milton sent a CRD employee a signed copy of the contract for the second half of the sham reinsurance transaction. At the time, Houldsworth, Napier, Monrad, Milton, Graham, Garand, Ferguson, and others were aware that AIG's purpose for entering the transaction was to increase its reserves.

253. On November 13, 2001, Garand secured the HSB funds for use in the transaction and emailed Monrad, Napier and Houldsworth to report on an encounter Milton had with HSB executives where he made clear that the $26 million outstanding after the termination of the contract with Gen Re would not go back to HSB. Garand wrote "we can now ignore any sensitivities in locking up our part of the pot" – the $15 million of the side deal. Garand then asked what date the payments were technically due so that they could deduct lost investment income.

254. On or about December 18, 2001, Garand sent an email to Monrad, Houldsworth, and Napier summarizing how the funds from the HSB deal would be used for "locking in our $5mm intended economics on the accommodation cover CRD wrote for AIG, on which we were to take a $10mm hit." According to the email, Gen Re would: (i) pay HSB and National Union approximately $15.2 million less than Gen Re was holding for HSB (the total amount held was $26 million); (ii) use $10 million of the $15.2 million to pay the cash "premiums" due National Union on the two halves of the sham reinsurance transaction; and (iii) split the remaining $5.2 million between Gen Re and CRD (representing Gen Re's $5 million fee for doing the deal plus $.2 million in interest).

255. On July 24, 2002, to add to the sham paper trail, Milton wrote an AIG Reinsurance Services Internal Memo which he sent to Maurice Greenberg with copies to Howard

Smith, Douglas, and Castelli, about Gen Re's loss portfolio. In the memo, Milton discussed "commuting" Gen Re's loss portfolio, which, he wrote, would reduce AIG's GAAP loss reserves by $500 million.

256. According to the SEC complaint, to effect the transfer of funds in the HSB account and to mask the funding for the AIG/Gen Re transactions, Garand and Milton – with assistance from Graham, Monrad, and Napier – developed three additional sham contracts. First, Gen Re and HSB executed a commutation agreement on December 21, 2001, signed by Garand on behalf of Gen Re under which Gen Re was expressly obligated to pay $7.5 million to HSB (compared to the over $30 million HSB otherwise would have been entitled to receive).

257. Second, Gen Re and National Union executed a retrocession agreement on December 27, 2001, again signed by Garand on behalf of Gen Re and by Milton on behalf of National Union. Under this sham agreement, National Union agreed to reinsure Gen Re for any losses Gen Re became obligated to pay under its reinsurance contract with HSB. This was the very reinsurance contract that Gen Re and HSB had commuted just a few days earlier, eliminating the possibility that Gen Re could incur any losses thereunder. Gen Re, nevertheless, paid National Union $9.1 million in "premiums" under this sham contract, thereby concealing the real reason for the $9.1 million transfer and obscuring that their source was the HSB account.

258. Finally, to hide (1) the purpose of the transfer of $12.6 million from the HSB account from Gen RE to CRD, (2) the $10 million to prefund the premiums that CRD would pay to National Union and (3) approximately $2.6 million for CRD's portion of the fee AIG agreed to pay Gen Re, Gen Re and CRD entered into a sham reinsurance contract under which CRD would pay $400,000 in "premiums" to Gen Re for $13 million in "reinsurance coverage." Garand signed this sham agreement on behalf of Gen Re. On December 28, 2001, Gen Re paid

$12.6 million to CRD as "loss payments" due under this sham reinsurance contract. Gen Re kept the remaining $2.6 million as its share of the transaction fee. That same day, CRD transferred $10 million to National Union for the premium ostensibly due under the agreements.

259. AIG and Gen Re – and all relevant AIG and Gen Re personnel involved in the deal – knew and understood that these agreements were mere shams designed to hide the true reason of the transfer of funds between AIG and Gen Re: to permit AIG to boost fraudulently its reported reserves.

260. While the deal as it was originally requested by Maurice Greenberg was represented as lasting only six to nine months, it was later lengthened to 24 months, and then on May 15, 2002, in an email to Houldsworth, Napier noted that AIG wanted to leave the deal in place for a longer period. Houldsworth replied that it would be difficult to know "what to charge" AIG for the extension. As of June 20, 2002, Gen Re still did not know when the deal would terminate.

261. Garand led the charge in developing the above–described scheme to effect the fund transfer in a manner that would conceal its true purpose. During a December 11, 2000 phone call with Houldsworth, Garand hatched a plan to transfer the $12.6 million between Gen Re and CRD so the reason would not be apparent to outsiders reviewing the transaction: "On a totally unrelated contract, we [Gen Re] could write you [CRD] a losing transaction." Beyond working out the details to mask the true purpose of the transfer of funds between Gen Re and CRD, Garand was the Gen Re point person for working out the details of funding the AIG/Gen Re deal with Milton.

262. Garand and Milton spent months working out the details for the HSB commutation that AIG would use (1) to prefund the $10 million "premium" payment from Gen

Re to AIG and (2) to fund the $5 million transaction fee AIG owed Gen Re. Ferguson – determined to make sure that Gen Re received this fee – kept abreast of the progress Garand and Milton were making towards working out the details. In an August 2001 email to Monrad and others, Ferguson noted his surprise that "we [Gen Re] have not been paid" by AIG yet. Monrad attempted to quell his concerns, noting that "[w]hile we have not yet been 'paid,' we are holding the related cash that AIG has agreed to use from commutation of an existing HSB finite deal with a positive pot."

263. A few days later in August 2001, Ferguson emailed Joseph Brandon – a senior Gen Re executive – to lament that the "AIG reserve transaction" was "slow moving," stating that "it is [Napier's] opinion that AIG is not trying to stiff us on this transaction/fee but that rather it is caught up in the unwinding or restructuring of the HSB funding cover – which has gotten a bit slow and complicated owing to AIG changing their mind about how they want to handle the HSB unwind." After Mr. Brandon responded that Napier needed to be pushed "to get both of these items in the 'done pile," Ferguson replied that Napier was "on it" and had just written "a letter to CM [Chris Milton.]"

264. With the mechanics of the HSB commutation and the funding for the sham transaction close to final, Garand emailed Joseph Brandon on December 18, 2001 seeking approval for the transfer of funds for the AIG/Gen Re transactions:

> Earlier in the year we were wrestling with locking in our $5mm intended economics [i.e., Gen Re's fee] on the accommodation cover CRD wrote for AIG, on which we were to take a $10mm hit [i.e., the $10 million in premiums CRD was obligated to pay per the written contract terms]. We are now virtually there, as soon as I get Milton to accept the commutation we are doing on HSB and the retrocession to AIG. Cash settlements are intended to flow on December 28th as follows . . . :
>
> 1) First, we will pay HSB roughly $5mm in full settlement of all obligations. This compares to the funding cover pot of roughly

> $31.8mm that we would otherwise be obligated to return . . . at year end.
>
> 2) From the $28.6mm remainder we subtract $10mm to prepay us for the $10mm booking and cash loss that Dublin should reflect at the end of 2001.
>
> 3) From the $16.8mm remainder we subtract $5.2mm as our compensation (includes roughly $.2mm of investment income to reflect that our $5mm fees were due slightly less than a year ago, on average) for taking the CRD hit . . . The only potential problem I can envision with Milton is how the $16.8mm is split between him and HSB, but the $5mm is fully supportable, and HSB can well argue for more, though they are resigned to the fact that AIG is raiding their cookie jar.

Mr. Brandon signed the paperwork effecting the funding on December 28, 2001.

265. With the return of the $10 million in "premiums" it had paid to AIG – plus the agreed upon $5 million fee – safe it its own accounts, Gen Re terminated the AIG–Gen Re transaction. On or about July 24, 2002, Milton sent Maurice Greenberg a memorandum indicating that (i) Gen Re had requested that the transaction with AIG be terminated; (ii) the transaction was giving Gen Re "some cause for concern;" and (iii) the termination of the deal "would reduce [AIG's] GAAP loss reserves by $500 million."

266. The fraudulent AIG–Gen Re transaction made it possible for Maurice Greenberg and the other defendants to publicly report in a number of documents that AIG had added to its loss reserves, serving to allay analyst concerns over the Company's long–term prospects. By treating the transaction as if it were real reinsurance, AIG falsely inflated its Reserves for Losses and Loss Expense by $250 million and its Premiums and Other Considerations by $250 million in the financial statements contained in the Form 10–K for the year ended December 31, 2000, which AIG filed with the SEC on April 2, 2001. Similarly, AIG falsely inflated its Reserves for Losses and Loss Expense by an additional $250 million and its Premiums and Other Considerations by $250 million in the financial statements contained in the Form 10–Q for the

quarter ended March 31, 2001, which AIG filed with the SEC on May 15, 2001. AIG further falsely inflated its Reserves for Losses and Loss Expense by $500 million and its Premiums and Other Considerations by $500 million in total in the financial statements contained in the Form 10–K for the year ended December 31, 2001, which AIG filed with the SEC on April 1, 2002.

267. These sham loss reserves remained on AIG's books – and were reported in its financial statements filed with the SEC, causing its loss reserves to be falsely inflated by $500 million – until the first contract was commuted in November 2004 (at which point AIG's loss reserves were decreased by $250 million) and until AIG restated its accounting for the transaction on May 31, 2005 (at which point the $500 million was restated as deposits).

268. The defendants' manipulation of AIG's loss reserves to keep AIG's stock price from falling may also have been motivated, in part, by designs to more cheaply acquire an unrelated insurance company. Two months after the issuance of the February 8, 2001 earnings release, on April 3, 2001, AIG made an unsolicited all–stock bid for American General Corp. ("Am Gen") for $23 billion with a 5% collar on the downward movement of AIG stock, outbidding a competing offer made by Prudential PLC. AIG's significantly improved reserves had helped raise its stock price, thereby allowing AIG to outbid Prudential and purchase Am Gen with an artificially inflated stock.

269. According to a Morningstar equity analyst, "The Gen Re transaction could have helped fool the market into thinking that AIG was in better financial shape than it was," thereby keeping the trading price of AIG within the needed price range.

270. On March 30, 2005, AIG's Board admitted that the accounting for the Gen Re reinsurance transaction was improper.

271. AIG's 2004 10K, in correcting this issue, was forced to reflect a $250 million reduction in reported premiums and net loss reserves, and a $245 million increase with respect to the reporting of other liabilities.

272. On February 9, 2005 the NYAG and SEC served subpoenas on AIG relating to investigations of AIG's "non–traditional insurance products and certain assumed reinsurance transactions and AIG's accounting for such transactions." (AIG Press Release February 14, 2005, incorporated hereby by reference.) The DOJ joined in this investigation shortly thereafter. As reported by *The Wall Street Journal* on March 25, 2005, AIG discovered thirty or more transactions with at least twelve off–shore companies (including Union Excess and Richmond) with respect to which AIG might have utilized improper accounting.

273. The NYAG has stated that "[t]he evidence is overwhelming that these were transactions [with Gen Reinsurance Corporation] created for the purpose of deceiving the market. We call that fraud. It is deceptive. It is wrong. It is illegal."

274. On May 26, 2005 the NYAG filed a complaint against Maurice Greenberg and Smith relating to various accounting issues, including the Gen Re transactions. In early June 2005 the SEC brought a civil action, and the DOJ brought a criminal action against Defendants Houldsworth and Napier. The SEC Complaint states in part:

> This case is not about the violation of technical accounting rules. It involves the deliberate or extremely reckless efforts by senior corporate officers of a facilitator company (Gen Re) to aid and abet senior management of an issuer (AIG) in structuring transactions, having no economic substance, that were designed solely for the unlawful purpose of achieving a specific, and false, accounting effect on the issuer's financial statements.

275. The SEC complaint further alleges that: (1) Defendant Napier was the Gen Re point person, and dealt directly with AIG's Vice President, Defendant Milton, who told Napier what Maurice Greenberg wanted to achieve and (2) Napier worked with, inter alia, Defendant

Houldsworth to develop the structure of the transactions. Further, in late November or early December 2000, Defendant Napier and others at Gen Re met with Defendant Castelli and others at AIG to discuss the accounting for the transactions. Castelli also worked with Milton and Monrad to get the Gen Re transactions completed.

276. The Gen Re transactions could not have been consummated but for the involvement and assistance of Gen Re and its subsidiaries, and its executives, Defendants Ferguson, Houldsworth, and Napier, who worked with Maurice Greenberg, Smith, Milton and Castelli, to bring the transactions about. In fact, Defendants Napier and Houldsworth have pled guilty to charges brought against them by the DOJ for violation of the federal securities laws and aiding and abetting the accounting fraud that was perpetrated at AIG.

277. The guilty pleas entered by Napier and Houldsworth did not end the DOJ's investigation into the Gen Re–AIG transaction. On September 20, 2006, the DOJ issued a sixteen–count superseding indictment against Ferguson, Garand, Graham, Milton and Monrad for their roles in structuring the sham AIG–Gen Re reinsurance transaction. (Superseding Indictment dated September 20, 2006, incorporated herein by reference). These defendants were found guilty on all felony counts of conspiring to violate the federal securities laws and to commit mail fraud; committing securities fraud; committing mail fraud; and making false statements to the SEC on February 25, 2008.

3. Improper Topside Reserve Adjustments

278. In addition to the Gen Re transaction, certain of the defendants caused AIG to employ improper "topside" adjustments to boost its reported reserves. By way of explanation, AIG consolidates the financial results of its subsidiaries at the end of each reporting period. As a part of this consolidation process, AIG makes company-wide adjusting entries known as "topside" or "top level" adjustments.

279. AIG's senior officers, including at least Cantwell, Castelli, and Smith, directed and/or allowed fictitious "adjustments" to be made to AIG's books and records to fraudulently create additional reserves in late 2000 and early 2001. Smith personally directed a number of alterations to AIG's reserves numbers, instructing Cantwell to make a number of changes that Cantwell recorded in a spiral notebook. Cantwell would then photocopy the relevant pages from his notebook and hand them to a Michael Lok and his group in financial reporting for entry into AIG's official books and records. After executing Smith's fraudulent entries, financial reporting retained copies of the photocopied pages for its records.

280. While Lok was ostensibly serving as the "gatekeeper" for the topside adjustments, he did not question whether the entries he received were appropriate or were adequately supported. The weekend before each quarterly release of financial information, Lok and Cantwell would invariably be in the office on Saturdays — which Lok referred to as the "busy Saturdays" — to complete the quarterly closing work. On these "busy Saturdays," Lok would receive financial reports and analyses from various business units and would prepare a summary of these reports for Cantwell. The purpose of the analyses was to examine each business segment both individually and in a consolidated format.

281. Early in the next week following "busy Saturdays," Smith held meetings with Cantwell, Castelli and sometimes Lok to discuss the summary analyses Lok had prepared. During these meetings, Smith focused on meeting certain target numbers and asked Cantwell and Castelli to "see what they could do" to meet the numbers. Lok would subsequently receive instructions — chiefly from Cantwell — to make certain additional topside adjustments prior to the release of the quarterly financial information. These additional topside adjustments were communicated to Lok via a copy of Cantwell's spiral notebook. In addition, Jimmy Yu — a

financial analyst in AIG's Comptroller's Department — recalled receiving instructions from Castelli that typically included "enhancements" to get to the expected quarterly income statement results

282. During an April 2, 2005 interview with AIG Deputy General Counsel Jeffrey Hurd, Cantwell stated that "Howie Smith would have a number in mind for where AIG had to come in on various metrics, such as NIT [Net Interest Income] or OID [Other Income Deductions]." Cantwell specifically mentioned "as an example that the analysts may think that AIG's NII should be 8%, and the initial reports would only show 7.5%. V[incent] C[antwell] would take the consolidated reports and begin to look for top side adjustments that he could support in order to get the numbers set forth by H[oward] S[mith] as the targets. If he fell short of these numbers, he would report this to H[oward] S[mith]." Further, Cantwell had no documentary support for the top side adjustments when questioned by Hurd and admitted that he did not believe one would find documentary support for these entries were they to go back and look.

283. These improper "topside" adjustments allowed Smith and Cantwell to fraudulently increase AIG's fourth quarter 2000 reserves by approximately $32 million and first quarter 2001 reserves by approximately $70 million. AIG has since acknowledged that it was unable to find any documentation or supporting analysis for the adjustments noted in Cantwell's spiral notebook. Notably, Smith and Cantwell made such unsupported reserve changes going back as far as the early 1990s. Quarter after quarter, AIG allowed its official books and records to be altered based on nothing more that Smith's arbitrary and capricious "say so" and Cantwell's reflexively copied handwritten notes of Smith's directives. This fraudulent scheme allowed hundreds of millions of dollars to shift from account to account at AIG.

284. These topside adjustments or "TLA's" impacted numerous reported metricsthat were important to the Company and the investment community, including: reclassified realized capital gains as net investment income; TLA's entered from 2000 to 2004 that reduced reserves and correspondingly increased income; and/or TLAs that had the effect of "smoothing" earnings by, for example, reserving income that arguably should have been reported in an earlier period and releasing it in later reporting periods.

285. While these top side adjustments were discussed with PwC, Cantwell informed Hurd during his interview that if PwC "didn't ask the right questions, they weren't led to the right questions." Nonetheless, PwC had full access to the topside adjustment support binders, which had Cantwell's handwritten notes as the only support for certain of the adjustments. As reported in *Fortune* on August 8, 2005, Smith's lawyer has stated that the adjustments were approved by PwC.

286. Correction of AIG's financial statements required the reversal of all such unsupported journal entries. This has had the effect of reducing consolidated shareholders' equity at year-end 2004 by $206 million.

287. Defendants' manipulations of loss reserves were not limited to the Gen Re sham transactions and unsupported topside adjustments – as the Company's restatements revealed that its loss reserves were further inflated by an additional $498 million at June 30, 2005.

B. Concealing Underwriting Losses

288. In addition to artificially inflating loss reserves, the AIG Defendants also caused AIG to conceal underwriting losses through a series of transactions with Capco Reinsurance Company, Ltd. ("Capco"), a Barbados domiciled reinsurance company secretly controlled by AIG. As admitted by AIG's board, the Capco transactions were "structured for the sole purpose

or primary purpose of accomplishing a desired accounting effect" and none had a substantive transfer of risk that is required for a transaction to be called insurance.

289. AIG secretly acquired control of Capco (formerly owned by another insurance company that did business with AIG) through obtaining control of its voting stock. AIG located non-U.S. passive investors to purchase the stock, and provided the investment capital to those investors as loans from an AIG subsidiary. Defendants knew, at all times, that those loans were extremely unlikely to ever be repaid. AIG also acquired as an "investment," through an AIG subsidiary called AIRCO, in significant amounts of non-voting Capco stock. After thus setting up control of, and investment in, Capco, AIG transferred significant underwriting losses to Capco. AIG then allowed Capco to fail, and reported the result as a capital loss.

290. As AIG admitted in its March 30, 2005 press release:

> The transactions with Capco Reinsurance Company, Ltd. ("Capco"), a Barbados domiciled reinsurer, involved an ***improper structure created to recharacterize underwriting losses as capital losses***. That structure, which consisted primarily of arrangements between subsidiaries of AIG and Capco, will require that Capco be treated as a consolidated entity in AIGs financial statements. The result of such consolidation is to recharacterize approximately $200 million of previously reported capital losses as an equal amount of underwriting losses relating to auto warranty business from 2000 through 2003.

(emphasis added).

291. Similarly, as AIG affirmatively admitted as part of its settlement with the DOJ:

> In 2000, ***AIG initiated a scheme to hide approximately $200 million in underwriting losses in its general insurance business by improperly converting them into capital losses*** (i.e., investment losses) that were less important to the investment community, and thus would blunt the attention of investors and analysts. As a result of the CAPCO transaction, AIG improperly failed to record and report in its earnings releases disseminated to investors and in financial reports filed with the SEC approximately $200 million in underwriting losses for the years 2000, 2001 and 2002.

> To effect that scheme, ***AIG structured a series of bogus transactions to convert underwriting losses to investment losses*** by transferring them to Capco Reinsurance Company, Ltd. ("Capco"), an offshore entity. AIG in effect capitalized Capco through an AIG subsidiary and through non-recourse loans to individuals who acted as supposed independent shareholders of Capco. AIG should have consolidated Capco's financial results into AIG's financial statements because, among other reasons, Capco lacked sufficient equity from sources other than AIG and its affiliates. . .

See AIG Form 8-K filed on February 9, 2006 (emphasis added).

1. Auto Warranty Insurance Losses

292. In one such instance of attempting to re-characterize underwriting losses, after AIG's auto warranty insurance business racked up steep underwriting losses, the defendants caused AIG to fraudulently report such underwriting losses as investment losses instead. By 1999, AIG's subsidiary National Union had underwriting losses of $210 million from its auto warranty insurance business. The defendants did not want to disclose to the public that AIG had made such a misstep in its core underwriting business – so they invented a scheme to use Capco to characterize the losses as investment losses. As alleged in the NYAG complaint against AIG, "[i]n testimony compelled pursuant to General Business Law § 359 and Criminal Procedure Law § 50.20(2), Umansky has stated that Smith directed the plan to recharacterize the losses."

293. Smith documented the scheme in a December 20, 1999 memo, in which he directed that "[d]iscussion of this deal should be limited to as few people as possible."

294. On or about March 6, 2000, Smith met with Umansky and other senior AIG executives and discussed how to convert the auto warranty losses into investment losses. A memorandum dated March 24, 2000 from Jacobson to Evan Greenberg, and others, including Smith and Umansky, illustrates the knowledge of such persons.

295. Umansky wrote an April 20, 2000 memo to Maurice Greenberg and Smith explaining the scheme: "Our objective was to convert an underwriting loss into a capital loss. The approach we devised is unique but conceptually, somewhat simple. AIG forms an off-shore reinsurer and reinsures the warranty book into that wholly-owned subsidiary. AIG then sells the subsidiary through a series of partial sales, thus recognizing a capital loss. As the warranty losses emerge they are recognized in this off-shore company that is not consolidated as part of AIG. The accounting is aggressive and there will be a significant amount of structuring required in order to address all the legal, regulatory and tax issues."

296. Umansky and Smith then sought to identify a suitable offshore vehicle for "reinsuring" the underwriting losses, and suggested Capco, a small Barbados insurance company subsidiary of Western General Insurance Ltd. Smith then approved Umansky's choice of Capco as the offshore vehicle for the auto warranty scheme.

297. AIG needed to secretly take control of Capco without appearing to do so in order to avoid having to consolidate Capco's underwriting results on AIG's books – which would defeat the point of the scheme. Under New York Insurance Law, insurance companies are presumed to "control" entities for which they own "ten percent or more of the voting securities." N.Y. Ins. Law § 1501(a)(2).

298. In order to accomplish this objective, the transaction was structured in multiple steps. First, Western General transferred almost all of the existing business and capital out of Capco, leaving it with only $200,000 in capital - a virtual "shell."

299. Then, according to Umansky's own testimony (as set forth in the NYAG complaint against AIG), he was dispatched by Maurice Greenberg to Switzerland to meet with

AIG's private bank in Zurich, which then helped select three suitable non-U.S. passive investors who would be the nominal shareholders and mask AIG's control of Capco.

300. Next, to effectuate AIG's "investment" in Capco, Smith authorized AIG's Bermuda subsidiary, American International Reinsurance Company ("AIRCO"), to purchase non-voting Capco shares for $170 million while the three passive "investors" (three customers of AIG's private bank, Alfons Müller, Hanspeter Knecht and Kilmare Worldwide Inc.) each paid $6.33 million (for a total of $19 million) to Capco for voting common shares. An August 7, 2000 memorandum from Umansky to Maurice Greenberg and others – including Evan Greenberg, Tizzio and Smith – stated that "[t]he warranty structure, including the recapitalization of Capco Re, will be completed by the end of August." The authorization for AIRCO's purchase is documented in a memorandum from Smith dated August 12, 2000 that was copied to Murphy and Umansky.

301. However, as illustrated by an August 8, 2000 e-mail from Niel Friedman to Carol McFate, the "purchases" of Capco voting shares by these "hand-picked investors" were 100 percent financed by non-recourse loans from a different AIG subsidiary, which defendants knew "in all probability" would never be repaid.

302. Thus, as another document entitled "Narrative Description of Proposal for External Investor" illustrates, even if the purported "investment" in Capco by the Swiss investors ("hand-picked investors") became worthless (as was intended from the outset), the Swiss investors would incur no liability on the loans, and would suffer no losses.

303. Although the individual investors played no active management role in Capco, they each received a $33,000 fee for every year of their "investment" and another $33,000 payment upon its termination. John L. Marion, President of Western General and a director of

Union Excess, another of AIG's offshore affiliates, was appointed a director and served as president of Capco. AIG, however, exercised complete control over Capco. AIG appointed MIMS International (Barbados) Ltd. to manage Capco and AIG Global Investment Corp. (Ireland) Limited to handle Capco's investments.

304. Umansky continued to keep Maurice Greenberg, Smith, and other senior executives apprised of the progress of the scheme. In a memorandum from Umansky to Maurice Greenberg, Smith and Tizzio dated November 16, 2000, Umansky wrote: "[T]he warranty treaty (#21) is designed to cover $210 million of losses through a unique structure. The cash has been transferred into the structure and is shown on our balance sheet as assets; nothing has yet been charged to expense. The expectation is that as the losses develop and are recovered from the reinsurer, a capital loss will be recognized."

305. After setting up the structure, AIG then needed to transfer its auto warranty underwriting losses to Capco. To do this, the defendants caused Capco to reinsure National Union for the $210 million in auto warranty losses, for a premium of only $20 million. Capco began paying out on reinsurance claims to National Union in order to cover the auto warranty losses in or around early 2001. According to Umansky's testimony, the transaction was designed from the beginning to lose money for Capco, a fact known to both Greenberg and Smith.

306. The defendants' scheme successfully allowed the defendants to hide AIG's underwriting losses. On or about September 25, 2001, Umanksy reported: "Warranty structure (Capco) is working. 2001 will be second year end. I want to close down the structure as soon as possible."

307. As planned by the defendants, Capco steadily paid AIG for incoming auto warranty claims that it had reinsured. By the end of 2001, Capco's assets were nearly depleted.

In the fourth quarter of 2001, AIG sold $68 million of its shares back to Capco for pennies on the dollar, realizing an enormous investment loss. AIRCO wrote off the balance of its interest in Capco as a loss over time at Smith's direction.

308. In the end, the complex scheme implemented by the defendants (including Maurice Greenberg, Smith, Murphy, Umansky, Cantwell and Tizzio) resulted in AIG's underwriting losses being shifted to an off-balance sheet entity (Capco) where AIG investors could not see them. Instead, AIG reported a far less noticeable investment loss. However, the transaction did not make sense to AIRCO employees monitoring the investment in Capco who were surprised to see the investment lose value so quickly. AIRCO's accountants raised questions concerning the transaction and the accounting treatment of AIRCO's losses. In e-mail correspondence between January 4, 2001 and January 11, 2001 among Umansky, Cantwell and AIRCO's chief accountant, Richard Krupp, Krupp suggested that "the value of AIRCO's holding in Capco should be written down" based on AIRCO's sale of $68 million of its investment for less than 3 pennies on the dollar. Cantwell responded to Umansky on January 10, 2002, noting that "[i]f we do nothing in the way of URA loss recognition, we still run the risk of PwC waking up and smelling the coffee." Ultimately, Cantwell indicated that he had spoken with Smith, and that the asset should be carried at cost with no write-down. When Krupp expressed concern that they might have difficulty explaining it to PwC, Cantwell dismissed his concern, stating that "it would cause a problem of [other than temporary decline] if we do mark."

309. Umansky himself also expressed misgivings about the scheme's propriety in a memorandum to Greenberg and Smith dated May 22, 2002, in which he wrote: "The Capco structure needs to be revamped in order to put us farther from criticism in today's environment."

310. After Capco had served the defendants' intended purpose, the board of directors and shareholders of Capco voted to wind up its affairs and liquidate it. Umanksy sent Maurice Greenberg and Smith a memorandum dated September 9, 2002, stating: "Capco will be liquidated by year-end. AIG contracts in Capco will be commuted or novated by September 30."

311. When the liquidation was complete by the end of 2002, Capco's few remaining assets were distributed to AIRCO, as the holder of Capco's preferred shares. The Swiss "investors" were informed via a memorandum dated January 2, 2003 that their shares were worthless but that they "have no further liability under the Pledge Agreement or the Note." Umansky reported in a March 4, 2003 memo to Maurice Greenberg and Smith that "Capco has been liquidated and the AIG contracts novated."

312. As noted above, AIG has admitted that the Capco transaction was improper and that, as a result, "AIG improperly failed to record and report in its earnings releases disseminated to investors and in financial reports filed with the SEC approximately $200 million in underwriting losses for the years 2000, 2001 and 2002."

313. When Maurice Greenberg was asked in April 2005 about his involvement in Capco, he refused to answer, asserting his right not to testify under the Fifth Amendment. Umansky has cooperated with the authorities and has testified that the transaction was improper.

2. Concealment of Brazilian Life Insurance Losses

314. Another scheme executed by the defendants involved the fraudulent concealment of Brazilian life insurance losses, using reinsurance agreements and linked swaps to generate offsetting underwriting gains – which were in turn offset by investment losses.

315. In 1999, unfavorable results in AIG's Brazilian underwriting business, exacerbated by the collapse of the Brazilian *real*, caused AIG to incur significant losses. The D&O Defendants, not wanting to report these negative results as underwriting losses, came up

with a scheme to transform underwriting losses incurred by AIG's Brazilian life insurance business, Unibanco Seguros, into "investment losses."

316. In furtherance of their scheme, the D&O Defendants, Maurice Greenberg and Smith caused AIG to enter into a series of complex and fraudulent reinsurance transactions known as Nan Shan I and Nan Shan II. Similar to the Capco scheme, the goal of Nan Shan I and II was to conceal embarrassing underwriting losses (which selected upon AIG's core business and were of critical importance to investors) and instead to report more palatable investment losses.

317. The basic plan was that Union Excess would reinsure AIRCO for the losses of Nan Shan, a Taiwanese AIG company selected by the D&O Defendants. Then AIRCO would enter into a swap transaction with Union Excess to make Union Excess whole. In the end, AIRCO would recognize underwriting gains (to offset the Brazilian losses) on the reinsurance arrangements while simultaneously incurring an investment loss on the linked swaps.

318. The scheme was used once in 1999 to 'convert' more than $30 million of underwriting losses to investment losses and again in 2000 with respect to an additional $28 million in underwriting losses. The D&O Defendants, Maurice Greenberg and Smith were aware of these transactions.

(a) <u>Nan Shan I</u>

319. According to Umansky's sworn testimony, in 1999 he attended a meeting with Smith and another AIG employee in which Smith directed Umansky to recharacterize underwriting losses arising from Unibanco Seguros ("UNISEG"), AIG's Brazilian life insurance business. Without such a plan, these negative results would have been recorded as underwriting losses on the books of AIRCO, the same entity that was used to purchase Capco's shares in the auto warranty scheme.

320. Originally, the defendants concocted a plan in which Union Excess, one of AIG's off-balance sheet affiliates, would reinsure AIRCO for the already existing Brazilian underwriting losses and would be made whole through a "swap" transaction between Union Excess and AIRCO. A December 9, 1999 internal AIG email set forth the purpose of the transaction:

> [W]e have a foreign exchange loss of $44m in our Brazilian life operations and we are being asked to come up with a reinsurance contract before the end of the year which will somehow 'cancel' out the loss. The source of the request is from Joe Umansky's team, apparently based on Howie Smith's instructions.

321. However, the initial plan could not be implemented because Union Excess was not licensed to reinsure life insurance. Therefore, at Smith's direction, AIG searched for another entity "whose underwriting results would be reported on the line at AIRCO where the Brazilian losses would have appeared" and selected Nan Shan Life Insurance Company, Ltd. ("Nan Shan"), a Taiwanese AIG company that had incurred major accident and health losses in 1999.

322. Under the new plan, Union Excess would reinsure AIRCO for Nan Shan's (substantial known) losses in return for a small premium. Then, in order to "compensate" Union Excess, AIRCO entered into the swap transaction with Union Excess, for which AIRCO declared an investment loss. In this way, AIRCO's (and therefore AIG's) Brazilian underwriting losses would be converted to investment losses.

323. The first transaction was entered into on or about December 16, 1999, with the execution of an "Aggregate Loss Ratio Agreement" between AIRCO and Union Excess, under which Union Excess would reinsure 100% of AIRCO's 1999 calendar year accident and health risks originating with Nan Shan in excess of 40% of the 1999 calendar year net earned premium in return for a $1 million premium. At the end of 1999 (two-weeks later), the amount owing to AIRCO under this reinsurance agreement was $34,186,799.

324. The second transaction was an interest rate swap for the notional amount of $300 million between AIRCO and Union Excess executed on December 22, 1999, with an effective date of February 15, 2000.

325. Although the swap agreement provided it could be terminated by AIRCO on August 15, 2000, or on the 15th day of February or August in any subsequent year, it was terminated on February 2, 2000 (six weeks after execution and before the effective date of February 15, 2000). The termination of the swap agreement resulted in a payment to Union Excess from AIRCO of $33.3 million – almost exactly the amount of underwriting losses 'offset' on AIRCO's books via the reinsurance agreement with Union Excess ($34,186,799 minus $1,000,000 premium). The cancellation of the swap was confirmed in a letter dated February 4, 2000 signed by Murphy, who also executed related swap agreement documentation. Similarly, the reinsurance agreement was terminated on March 24, 2000. After some minor adjustments, $33,600,000 was credited to AIRCO's operating account.

326. A January 18, 2000 e-mail from the Vice President and Treasurer of AIRCO illustrates the linkage between the two transactions, noting that "[t]he loss AIRCO is recovering from Union Excess is $34,186,799. . . .Will this be the amount payable on the derivative contract?" A chain of e-mails leading to the January 18, 2000 e-mail illustrates that Umansky and Murphy were both involved in discussions regarding the details of the Nan Shan transaction.

327. Umansky testified that he briefed Greenberg and Smith on this transaction. When questioned about the Nan Shan I transaction in April 2005, Greenberg refused to answer, invoking his rights under the Fifth Amendment.

(b) Nan Shan II

328. In 2000, AIG repeated the same scheme it had used with Nan Shan I in 1999 to convert more underwriting losses into investment losses. On or about March 9, 2000, an

executive in AIG's Life Management Division received an email discussing Nan Shan I. He responded, "Are you aware that [Maurice Greenberg] wants a similar transaction for 2000 for about $56 million[?]"

329. In an April 20, 2000 memorandum to Maurice Greenberg and Smith, Umanksy reported:

> This contract is one where a significant recovery is realized and a compensating arrangement through a swap generates a capital loss for [American Life Insurance Company] and a gain for the reinsurer. The accounting is very aggressive and it's ***a duplication of a contract that was done last year. The 1999 swap will not be repeated, although a similar swap will be put in place to accomplish the same objective***. There are a number of other issues that I look forward to discussing with you on Monday.

(emphasis added).

330. Under the second Nan Shan transaction, Union Excess agreed to reinsure AIRCO for $30 million of losses arising from Nan Shan's 2000 accident year in exchange for a $2 million premium. A May 10, 2000 e-mail from Paul Brown to Frank Austin and Umansky stated:

> Frank, attached is a draft reinsurance agreement for the 2000 accident year as the same structure as the 1999 cover. The 2000 cover is designed to yield a 28m underwriting benefit (2m premium and 30m recovery).

Smith was copied on a subsequent follow-up e-mail that attached the May 10, 2000 e-mail.

331. Thus, the reinsurance agreement was intended to shift $30 million in known Nan Shan losses from AIRCO (where the $30 million in Nan Shan losses would have been reported) to Union Excess.

332. Once again, Union Excess needed to be "made whole" for absorbing the $30 million in known losses for only a $2 million premium, so the defendants caused AIRCO to enter into three swap transactions with Union Excess, which were later terminated with an "investment

loss" to AIRCO of $28.3 million. Thus, as in the first Nan Shan transaction, the millions ($28 million) in underwriting losses were converted into capital losses.

C. Mischaracterizing Premiums On Workers' Compensation Policies

333. For more than a decade, senior executives and directors at AIG engaged in a scheme to mischaracterize premiums paid on AIG's workers' compensation line of insurance. When selling workers' compensation insurance, insurers generally pay higher premium taxes and pay additional monies into state funds, known as special assessment funds. AIG avoided paying these monies by using a secret side agreement with customers — one never filed with or approved by the New York Insurance Department — that had the effect of recharacterizing a portion of workers' compensation premiums as general or auto liability insurance, where there were no such assessments. AIG continued to engage in these practices despite repeated warnings of their illegality and of the potentially devastating effects such intentional misconduct could have on AIG.

334. High-ranking AIG employees were warned as early as 1989 that these practices were illegal. During a June 27, 1989 meeting with AIG Risk Management, Inc. ("AIGRM") President Joe Smetana, AIGRM Vice President Mikk Hinnov ("Hinnov") recommended that AIG immediately stop these unlawful practices, which Hinnov contended amounted to "illicit tax evasion." In a contemporaneously prepared memorandum documenting this meeting, Hinnov detailed Smetana's lackluster response:

> Mr. Smetana responded to the effect that none of my presentation was news to him; and that in fact he had made a similar presentation (using stronger language) to his superiors some time ago. The policy decision in those higher councils had been to continue the illicit practices, pending discovery and implementation of another effective scheme to avoid some substantial part of the taxes and Assigned Risk assessments on our Worker's Compensation business. Therefore [he] prohibited me

> from directing our operations staffs to adopt the recommendation above.

335. Thereafter, Hinnov continued memorializing his view that the practice was illegal, and, indeed, that it "imperil[ed] the insurance licenses of the insurance companies for which we produce business."

336. In 1991, AIG's general counsel Mike Joye — who joined AIG from the partnership at blue-chip law firm LeBoeuf, Lamb, Greene and MacRae — undertook a review of the practice. Interview notes that he made during his inquiry reflect that employees had been told "that MRG knows the whole prog. & that he wants it this way." One interviewee told him: "You should be aware that MRG knows about this and has approved it."

337. During his interviews, Joye learned about the cost that the company would have to incur in order to "get legal." Specifically, compliance would require AIG to hire about 40 new people to do filings properly, to charge clients more, and to pay "much higher" assessment fees. Indeed, Joye's notes indicate that at one point an employee went to AIG's president and was told "that MRG did not want him to change things to make it legal - he wants to continue as is." In another interview a witness recounted a meeting he and others had with Greenberg. According to the notes, "MRG" asked "are we legal?" When an employee responded, "If we were legal, we wouldn't be in business," "MRG began laughing and that was the end of it."

338. In addition to being told of the history of noncompliance, Joye learned that for years AIG had evaded answering certain questionnaires from the California Department of Insurance. A responsive submission, one employee reported, "would [have] reveal[ed] that we had made false reports."

339. Greenberg and Tizzio have known — since at least January of 1992 — that AIG's domestic workers' compensation ("WC"), general liability ("GL") and auto liability ("AL")

businesses were "permeated with illegality" involving "various kinds of ***intentional violation*** of State and Federal law" of such magnitude that their discovery "would expose AIG to fines and penalties in the hundreds of millions of dollars and would jeopardize the careers of numerous long-time employees." (emphasis added). In a January 31, 1992 memo to Greenberg and Tizzio, Joye warned of "13 primary elements of illegality" with respect to AIG's WC, GL and AL businesses, as follows:

> (1) GENERAL REPORTING AND FILING VIOLATIONS. By various methods, AIGRM and AI Global ("AIGRM/Global") falsely report a substantial portion of their WC premiums as GL premiums. This is a violation of State statutes and regulations which require that premiums be reported by line of business. In addition, in many cases, guaranteed cost WC policy forms are filed and are the only forms approved for use by AIG in the particular States. However, the approved guaranteed cost forms are intentionally ignored by AIG employees, who write the business on Indemnity Agreement forms which have not been filed or approved and which would not qualify for approval in most States.
>
> (2) 18 MONTH CLOSEOUT PROGRAM. Under this program, AIGRM purports to terminate the WC policy at the first adjustment point 18 months after inception, calculates the refund of WC premium due to the insured and records the refund on its books as having been paid to the insured. Simultaneously, AIGRM records on its books that an amount equal to the WC refund was paid to AIG as a "Stop-Gap Liability Policy" premium, which premium is reported as GL premium. These are book entries only; no cash refund is paid. In addition, any further premiums generated at later adjustment points by the WC business for which the policy was terminated are also booked by AIGRM as GL premiums. This constitutes one of the methods by which AIGRM falsely reports WC premiums as GL premiums.
>
> (3) EXCEEDING MAXIMUM LEGAL PREMIUMS. AIGRM/Global's false reporting of WC premiums as GL premiums enables them to collect WC premiums in excess of the maximum amount permitted by law for a particular policy and to avoid reporting such collections.
>
> (4) AVOIDING RESIDUAL MARKET ASSESSMENTS. AIGRM/Global's false reporting of WC premiums as GL premiums enables them to report a much lower volume of WC premiums than they actually write. Since WC residual market

assessments against AIG are based on its reported WC premium volume, this results in a substantial reduction of such assessments against AIG. Rough estimates are that the amount of WC premiums not being reported is in the range of. $300-$400 million or more annually at current levels of business, and that this results in an unlawful benefit to AIG in the range of $60-$80 million or more annually. The amount of residual market assessments which AIG avoids by this technique is, of necessity, paid as additional assessments by the other insurance companies subject to WC residual market assessments.

<u>(5) OVERCHARGING CLIENTS FOR RESIDUAL MARKET ASSESSMENTS.</u> Concerning Division 50's "50% Pay-In Program," AIGRM, with respect to the uncollected portion of the standard premium, does not pass along to the insured the benefit of the reduced residual market assessments described in paragraph (4) above. Instead, AIGRM charges the insured a residual market loading ("RML") equal to the amount the RML would have been if AIGRM had not falsely under-reported its WC premium volume and had collected and reported 100% of the standard premium instead of a lesser portion. The result is that AIGRM is charging its insureds for residual market assessments on the uncollected portion of the standard premium which are not made against AIG and which AIG does not pay.

<u>(6) AVOIDING STATE PREMIUM TAXES.</u> Since AIG's State WC premium tax obligations are based on its reported WC premium volume and since the GL premium tax rate is generally somewhat lower than the WC tax rate, AIGRM/Global's false reporting of WC premiums as GL premiums enables AIG to pay lower premium taxes than it is legally obligated to pay. In addition, State laws require that WC premiums be reported and paid to every State where an insured's employees are located, while GL premiums are required only to be reported and paid to a single State, usually the domiciliary of the named insured. The result is that, not only is AIG paying less taxes than it is legally obligated to pay, but individual States are losing substantial tax revenues to which they are legally entitled.

<u>(7) OVERCHARGING CLIENTS FOR STATE PREMIUM TAXES.</u> Concerning Division 50's "50% Pay-In Program," AIGRM, with respect to the uncollected portion of the standard premium, does not pass along to the insured the benefit of the reduced premium, tax payments described in paragraph (6) above. Instead, AIGRM charges the insured a premium tax loading equal to the amount the premium tax would have been if AIGRM had not falsely under-reported its WC premium volume and had collected and reported 100% of the standard premium instead of a lesser

portion. The result is that AIGRM is charging its insureds for premium taxes on the uncollected portion of. the standard premium which AIG does not report and does not pay.

(8) AVOIDING GUARANTY FUND AND SPECIAL PURPOSE FUND ASSESSMENTS. Most States have Guaranty Funds and Special Purpose Funds that levy assessments against insurers based on their reports WC premium volume. In these States, AIGRM/Global's false reporting of WC premiums as GL premiums enables AIG to pay substantially lower assessments for Guaranty Funds and Special Purpose Funds than it is legally obligated to pay. The amount of such assessments which AIG avoids, is, of necessity, paid as additional assessments by the other insurance companies subject to Guaranty Fund and Special Purpose Fund assessments.

(9) AVOIDING REINSURANCE PREMIUMS DUE MINNESOTA REINSURANCE FACILITY. Minnesota requires all WC insurers to purchase a mandatory WC reinsurance cover for a designated excess layer of coverage. The reinsurance premium paid by each WC direct writer is based on its reported WC premium volume in Minnesota. AIGRM/Global's false reporting of WC premiums as GL premiums enables AIG to pay lower reinsurance premiums to the Minnesota facility than it is legally obligated to pay.

(10) BOOKING FICTITIOUS PREMIUMS AND ASSETS. In Division 50's "50% Pay-In Program," only 50% of the designated maximum premium is collected at the inception of the policy. However, an amount equal to the uncollected portion of the premium is recorded by AIGRM at the inception of the policy as a reinsurance assumed premium and as an asset. These constitute fictitious premiums and assets on the books of AIG, as there are no reinsurance contracts and these are not reinsurance premiums.

(11) BOOKING FICTITIOUS PREMIUMS AND ASSETS. A study has been performed which estimates the amount of retrospective WC premiums expected to be collected on the subject business during the next decade. A practice has been instituted of taking down $25 million each quarter of the expected WC retro premiums and recording it as premium income on an accrual basis. This premium income is booked as reinsurance assumed premiums instead of WC premiums. This violates State statutes and regulations which require that premiums be reported by line of business. Also, such premiums and assets constitute fictitious income and assets on the books of AIG since there are no reinsurance contracts and these are not reinsurance premiums. In addition, this method avoids the payment of State premium taxes, residual market assessments and other fees and assessments that

> apply to written direct WC premiums but don't apply to reinsurance premiums. The annual unlawful benefit to AIG could be in the range of $15-$20 million.
>
> <u>(12) SEC REPORTING VIOLATIONS.</u> The reporting of fictitious premiums and assets referred to in items (10) and (11) above exists in the Form 10-K and Form 10-Q filings which AIG makes to the SEC. Assuming the amounts involved and the related circumstances constitute "material facts," this would trigger Section 78ff of the U.S.C.A., the penalty provision for false reports to the SEC. Section 78ff prescribes a penalty of up to $1 million and a jail term of up to l0 years for each person who willfully and knowingly makes or causes to be made a false report. It is possible that, for purposes of this provision, each quarterly and annual report would constitute a separate false report.
>
> <u>(13) ILLEGAL REBATES.</u> In AIGRM's "Cash Collateral" program, AIGRM, with respect to some of the business, has dispensed with the Notes for which cash was previously held as collateral, and just accepts the cash which is booked as premium income. If Notes are used, the Notes can be booked as premium income, the cash deposits are collateral for the Notes and interest can legally be paid to the insureds on the cash deposits collateralizing the Notes. However, when the Notes are eliminated and the cash is booked as premium income, as is the current practice for some of the business, it is illegal to pay interest on the cash because such interest constitutes a rebate to the Insureds. Most, if not all, States have laws prohibiting insurers from paying rebates to their insureds.

Notably, Joye unequivocally cautioned that "[t]he situation is so serious that it could threaten the continued existence of senior management in its current form."

340. Joye's memorandum recommended specific "corrective actions," including an immediate end to the illegal conduct, discharge of employees involved, restitution, and the institution of a compliance program. Tellingly, the D&O defendants declined to make ***any*** of Joye's recommended changes. According to an August 8, 2005 article in *Fortune*, "[a]fter finishing the memo, Joye met with Tizzio. What was Greenberg going to do? Nothing, Tizzio told him, according to Joye's later account." Rather, AIG engaged two law firms to review

Joye's memorandum. They named their inquiry the "AIG - X MATTER." Fax transmission sheets bore handwritten notations: "Extremely Confidential."

341. During the course of their investigations, the outside firms reviewed a 1989 memorandum from AIG's actuarial department. Notably, a portion of the memorandum discussed how proper booking of workers' compensation premiums would increase assessments and taxes that AIG would have to pay. In the margins of the copy from the lawyers' files are two notations. One reads "! Admits Div 50 is avoiding proper WC tax + [state assessment] charges." The other reads "$20-30M tax and [state assessment] dodge."

342. Draft memoranda created by the law firm described the two main practices Joye had found unlawful. While the firm noted a possible defense to one of these practices, it cautioned: "We should not be understood as endorsing this argument, or suggesting that it would necessarily carry the day in a litigation or regulatory proceeding. Nor should we be understood as condoning [the practice]." At best, the draft noted, the practice "may be" in a "grey area." As to the other practice, the firm observed that it was even "more problematic," but noted that it "appears" that the genesis of the practice was not an "intent to reduce RMLs or premium taxes" and that recent efforts to reduce the extent of understatement have been "partially successful." The firm, conveniently, concluded that "[o]n a going-forward basis, both practices . . . are being discontinued."

343. Further, the outside law firm produced a draft memorandum titled "Duty to Report Internal Insurance Fraud" that analyzed a corporation's duty to report fraud under the laws of a number of states. This draft concluded that "in their capacity as agents of a corporation, corporate directors and officers must cause the corporation to report fraudulent insurance transactions." In addition, the memorandum noted that "[a]n obligation of a director or

an officer, including the general counsel of an insurance corporation . . . to disclose internal insurance fraud might exist as a result of the individual's fiduciary duties to the corporation and its shareholders as developed under the New York Business Corporation Law."

344. Joye's decade-old warning came to fruition in 2006. In a February 9, 2006 8-K filing with the SEC, AIG announced that it had agreed to pay a total of $343.5 million for its misconduct with respect to workers' compensation. This $343.5 million payment represents ***a full 20%*** of the $1.64 billion AIG has agreed to pay to settle the myriad legal actions brought against it by the DOJ, the SEC, the NYAC and the DOI as a result of the wrongdoing alleged herein.

345. AIG also faces additional liability for its underpayment residual market assessments for workers compensation. As stated in AIG's Form 10-Q dated June 30, 2007:

> The National Workers Compensation Reinsurance Pool, on behalf of its participant members, has filed a lawsuit against AIG with respect to the underpayment of such assessments. The National Association of Insurance Commissioners has formed a Settlement Review Working Group directed by the State of Indiana, which has commenced its own investigation into the underreporting of workers compensation premium. In addition, similar lawsuits filed by the Attorney General of the State of Minnesota, the Minnesota Workers Compensation Reinsurance Association and the Minnesota Workers Compensation Insurers Association are pending.

D. The MMC Schemes

1. MMC Required AIG to Pay "Contingent Commissions" That Were Really Just Pay-to-Play Payments to Get MMC's Business

346. Beginning no later than 1996, MMC received billions of dollars in unlawful payments from insurance companies, including AIG. These so-called "contingent commissions" were paid by the insurance companies (including AIG) to MMC to get business from MMC.

347. Routine insurance industry practice is that when a company seeking insurance coverage enters into a contract with an insurance company for that coverage, the insured party will pay its broker, here MMC, a commission or an advisory fee for locating the best company for its needs at the lowest premiums. MMC's commission was calculated as a percentage of the insured's premium payment.

348. In most instances, the insured would send a check to its broker (MMC) for the full amount of the premium payment and the commission. The broker (MMC) would then deduct its commission and pass the balance of the premium payment on to the insurance company.

349. MMC forced the insurance companies (including AIG) to make their own payments to MMC just for the privilege of getting the business of MMC's clients. These payments were called "contingent commissions" and were made by insurance companies pursuant to arrangements generally known as contingent commission agreements, but which MMC specifically called "Placement Service Agreements" and, more recently, "Market Service Agreements" (collectively, "Service Agreements"). According to former MMC employee Mark Manzi, Defendant Gilman drafted the first Service Agreement.

350. Insurance companies that signed Service Agreements with MMC were called "partners" or "preferred markets." These "preferred markets" had a competitive advantage over non-preferred markets in bidding for business with MMC because: (1) MMC told their "preferred markets" what coverage to provide; (2) MMC told their "preferred markets" what policy forms to provide; (3) "preferred markets" were given timing information from MMC on when to provide quotes; (4) MMC steered business to their "preferred markets"; and (5) MMC virtually guaranteed that their "preferred markets" would win all renewal business they quoted by soliciting "protective quotes"—*i.e.,* quotes that were intentionally not competitive—from

their "non-preferred markets." According to Defendant Murphy, Defendants Bewlay, Drake and Gilman actively discouraged MMC brokers from seeking quotes from "non-preferred" markets.

351. The amount of the contingent commission payable under the Service Agreements was calculated based upon a number of factors, expressly stated in the Service Agreement, including whether the policy was for new or renewal business; the amount of the premium; and the growth rate for renewal policies. While prior to 1995 the amount of MMC's contingent commission was based primarily on the insurer's profitability, Defendant Gilman modified the Service Agreements in that year to peg MMC's contingent commissions to the insurer's growth and volume targets. As an insurer's book of business grew, so did MMC's contingent commissions.

352. A small group of "line managers" within Marsh Global Brokerage—including Defendants Gilman and Peiser—negotiated Service Agreements with the insurance carriers. Under the Service Agreements, these "contingent commissions" were recharacterized as payments for additional "services" provided by MMC to the insurance companies, including AIG

353. These so-called contingent commissions for additional "services" were, in reality, unlawful kickbacks. As Defendant Radke admitted during the Gilman/McNenney trials,[6] MMC provided no additional services or benefits to AIG (or to any of the other insurance companies that signed Service Agreements) in return for the additional commission that AIG (and other insurance companies) paid to MMC under the Service Agreements. The entire purpose of the additional commission paid by AIG and other insurers under the Service Agreements was to illegally compensate MMC for steering business to particular carriers without regard for whether

[6] The transcripts of the Gilman and McNenney Trials are incorporated herein by reference.

placement with those carriers was in the best interest of the insured. In fact, the MMC bid rigging scheme caused insureds to pay more for their insurance than they would have in a free market. Tellingly, former MMC General Counsel and Vice President Barry Furst testified at the Gilman/McNenney trials that Gilman told him that insurance prices could have been driven down by 10% across the board—for all excess casualty insurers, for all brokers, and for all carriers—overnight if MMC were to begin to negotiate to get the lowest possible price on every single placement, rather than continuing to steer business to the preordained "winner" of the rigged bid system.

354. While MMC may have protected AIG by in certain instances awarding it business under the "pay to play" system, the system harmed AIG by preventing it from competing legitimately for much-needed business. Former MMC employee Peter Andersen testified during the Gilman/McNenney trials that AIG underwriters and managers constantly asked for new business from MMC, lamenting that their numbers were down and that they needed to hit their targets. If AIG was not the "target market"—*i.e.,* the preordained winner—for a given policy, it would not be given the chance to bid competitively on that policy unless the "target market" "fell down"—*i.e.,* failed to meet target price, conditions and limits set by MMC for the winning bidder. Similarly, Defendant Tateossian testified that during 2002—when business was scarce and AIG was aggressively pursuing new business to make up for shortfalls—AIG lost the chance to write a policy for Seaboard Corporation because it was not the incumbent selected to win this business under the bid rigging scheme. AIG, instead of competing legitimately for this much-needed business, toed the line by submitting a high quote to protect incumbent Zurich.

355. MMC was able to force AIG to sign these Service Agreements because MMC had a virtual stranglehold on AIG---MMC, after all, represented the bulk of AIG's corporate clients.

In fact, Defendant Radke testified during the Gilman/McNenney trials that AIG continued to sign Service Agreements with MMC not because MMC provided valuable services thereunder but, rather, because it was afraid to lose its book of business. In at least one instance, MMC retaliated against AIG for attempting to contact a client outside of the constraints of the "pay to play" system. Peter Andersen testified during the Gilman/McNenney trials that Defendant Radke had visited Louisiana Pacific's risk manager without first telling MMC in connection with a possible 2004 renewal of its AIG policy. When Defendant McNenney learned about this unauthorized contact, he sent Radke an email hinting that MMC would interfere with AIG's ability to put together a competitive renewal bid by failing to give AIG direction on what the target was, leaving AIG exposed to the possibility of losing this business. McNenney even went so far as to call a meeting with local MMC brokers to find a replacement carrier for Louisiana Pacific to retaliate against AIG for trying to bypass the MMC "pay to play" system with AIG's own insured.

356. MMC's illegal practices were highly lucrative. In 2003 alone, MMC extracted approximately $800 million in unlawful contingent commission payments, or roughly 53% of its overall net income of $1.5 billion for that year. Over the years at issue in this action, AIG paid MMC at least hundreds of millions of dollars in illegal contingent commissions.

357. AIG was under a legal obligation to affirmatively disclose (including in its SEC filings) accurate and complete financial information including the nature and purpose of its expenses, particularly the nature and purpose of any expenses that were unlawful. AIG failed to disclose, and withheld from its SEC filings, the existence, nature and purpose of the contingent commission payments it made to MMC.

358. That Maurice Greenberg and the AIG Officer Defendants knew about the contingent commission payments to MMC is beyond peradventure. On October 18, 2004, Maurice Greenberg publicly admitted in a conference call with research analysts and investors that in July 2002 and October 2003 AIG had asked the insurance regulatory authorities of New York State "for clarification on the legality of the contingent-fee arrangements" with "Marsh." He never received that "clarification," but caused AIG to continue paying the contingent commissions anyway. Moreover, the sheer size of the payments (as much as $100 million per year) lead to the inescapable conclusion that every AIG Officer Defendant, Maurice Greenberg and Smith knew and approved of the payments.

2. The Unlawful Bid-Rigging Scheme

359. Jeffrey Greenberg, Maurice Greenberg's son, who for years worked at AIG with his father, assumed the CEO position of MMC in 1999. Not unlike his father at AIG, Jeffrey brought to bear on his executives an unrelenting pressure to boost earnings. One ex-Marsh division head described it as "this seismic shift in thinking and attitude that seemed to happen overnight."

360. This all-encompassing focus on earnings led to a new unlawful scheme of bid-rigging in MMC's commercial brokerage business. The brokerage business consisted of MMC finding or "brokering" insurance policies with various carriers for its commercial clients seeking to buy insurance coverage such as comprehensive general liability or property and casualty insurance. MMC was supposed to find the carrier best suited to a client's needs at the best price for the insured.

361. Unbeknownst to these clients or the shareholders of the insurers involved, and beginning no later than the end of year 2000, the MMC Defendants entered into a conspiracy with Maurice Greenberg and the AIG Officer Defendants, Tateossian, Radke, Mohs, Coello and

the ACE Defendants to rig supposedly competitive bidding for this commercial insurance business.

362. Specifically, MMC solicited and obtained fictitious bids/quotes from the insurance carrier participants in the conspiracy. Insurance companies were asked to submit either an "A Quote," "B Quote" (also known as a backup quote or a protective quote) or a "C Quote." The insurance company that was asked by MMC to submit the A Quote was the company that was predetermined to be the "winner" of the bid and would receive the policy. The "competitor" who was asked by MMC to and did submit a B Quote knew that it would not win the bid, but was told how much higher its bid must be than the A Quote to make the A Quote look good. Tateossian, Radke, Mohs and Coello (on behalf of AIG) and the ACE Defendants understood and agreed with MMC and with each other that they would take turns as the lowest "winning" bidder. Only when an insurance company was asked by MMC to submit a C Quote was it understood that the bidding on this particular policy was open to actual competition.

363. The MMC Defendants, Tateossian, Radke, Mohs and Coello and the ACE Defendants knew before the "bidding" process began which insurance carrier would "win" the bid. When the predetermined winner was ACE, AIG knew that the "competing bid" it was to submit was a fictitious bid that was supposed to be artificially high. When AIG was the predetermined winner, AIG similarly knew that the "competing bid" placed by ACE would be artificially high. According to Tateossian's testimony during a deposition in the AIG Securities Litigation, AIG was so confident that the bid rigging system would work as intended that it did not even bother to include possible premiums for business on which it submitted B quotes in its internal projections.

364. Several strata of MMC personnel were involved in obtaining B quotes to further the bid rigging scheme. First, Marsh Global Broking Coordinators ("GBCs") created broking plans setting forth both the preordained "winner" of the business and the preordained "loser" of the business—*i.e.,* the insurance carriers who were slotted to provide intentionally losing B quotes to create the appearance of "real" competition with the "winner's" bid. The GBCs disseminated these broking plans to Local Broking Coordinators ("LBCs"), who were tasked with contacting the underwriters for the all of the insurers listed on the broking plan. The LBCs told the "winner" the target they had to hit to win the business and solicited the "losers" to provide B quotes. Following little—if any—actual underwriting activity, the "losers" provided their protective B quotes to the LBCs, who forwarded them on to the GBCs. The GBCs, in turn, forwarded the "losing" quotes to an MMC Client Advisor ("CA"). The CA forwarded the quotes on to the uninformed client who would, predictably, choose to insure with the predetermined "winner" who had submitted the A quote.

365. For example, Alex Bynum of AIG was asked by Jason Monteforte of Marsh to submit a B quote on an account. Bynum was told that the incumbent had hit the target price and what that price was, and was instructed to submit a B quote with a higher price.

366. B quote files provide further proof that the B quote was submitted as mere window-dressing to make the A quote look more attractive. John Mohs, an Assistant Vice President at AIG, testified that on accounts where B bids were submitted, the record keeping practices were considerably more lax, with a "lot less" in terms of documentation kept on a specific account. There would be no official underwriting workup or worksheet or documentation of the endorsements, no loss analysis, and no documentation of the insured's

operations. Radke's assistant was in charge of maintaining unsuccessful new application files (B quote files) which were discarded after one year.

367. In addition to supplying phony B quotes to clients, the MMC Defendants went as far as to set up staged "client meetings" to perpetrate the illusion of true competition. During the Gilman/McNenney trials, Defendant Michaels—a former MMC LBC who worked on the AIG LBC team led by Defendant McNenney—testified that MMC set up client meetings attended by "losing" brokers to perpetrate the illusion that MMC was actually soliciting competitive quotes for its clients. Losing insurers attended these meetings—even though they knew they would not get the business—simply to show their faces and dupe clients into believing that MMC was actually attempting to find them the best policies at the best prices.

368. According to Mohs, it was common knowledge at AIG's Marsh Global Broking Unit ("MGBU") that Marsh controlled when there would be real competition for the business and who could compete for the business. Mohs would have to call his counterpart at Marsh, Peter Andersen ("Andersen") and ask him which of the bid opportunities Andersen sent to insurers weekly were real opportunities (otherwise known as C quotes) and which were not. During Radke and Tateossian's management terms at AIG, they used the phrase "incumbent is hot" to designate B quote accounts.

369. ACE USA's CEO Rivera was unquestionably aware of the scheme, as evidenced by a November 3, 2003 e-mail from Geoffrey Gregory ("Gregory"), president of ACE's casualty-risk unit, to Rivera which explained:

> Marsh is consistently asking us to provide what they refer to as "B" quotes for a risk. They openly acknowledge we will not bind these "B" quotes in the layers we are be [sic] asked to quote but that they "will work us into the program" at another attachment point. So for example if we are asked for a "B" quote for a lead umbrella then they provide us with pricing targets for that "B"

> quote. It has been inferred that the "pricing targets" provided are designed to ensure underwriters "do not do anything stupid" as respects pricing.

Gregory also bluntly warned Rivera that the way bids were being arranged "could potentially be construed as simply creating the appearance of competition."

370. In April 2003, Defendant Abrams expressed concern that none of the accounts she was working on were being given "real" opportunities to get business. In response, Abrams talked to her superior about ways to get ACE's pricing to be more competitive. However, when ACE submitted a bid superior in both price and terms to MMC's pre-set target price for Fortune Brand's 2003 excess casualty renewal—which was slotted, under the bid rigging scheme, to go to AIG—ACE's key contact at MMC, Greg Doherty, complained and instructed ACE to raise its quote so AIG could beat it. AIG's Mohs, who was involved in AIG's presentation for Fortune Brand, testified in the AIG federal securities action that Defendant McNenney told him in late 2002 that "he would see what he could do on the price." Mohs understood that to mean that McNenney would get ACE to raise their price. ACE fell in line, raising its quote for no reason other than to permit the pre-selected winner to get the business.

371. Similarly, in May 2003, ACE—which was supposed to be supplying a B quote on a renewal policy for Crawford & Co. to protect incumbent Zurich—submitted a winning quote. Abrams' superior, Dennis Burton—who reported to ACE INA President Susan Rivera—instructed Abrams to increase ACE's quote so Zurich would win the business.

372. In October 2004, Debevoise & Plimpton—outside counsel to ACE, interviewed Abrams in connection with the company's internal investigation into the MMC bid rigging scheme. Abrams admitted during the Gilman/McNenney trial that **she had not been forthcoming** about her role in the bid rigging scheme during this interview, fearing that she would be fired if she told the truth about ACE's role in submitting B quotes. After facing his

own interview with Debevoise, Burton **specifically told Abrams to lie about the Fortune Brands account** during her interview, instructing her to say that it was **Geoff Gregory—**and **not Burton—**who ordered her to **raise ACE's quote on that policy.**

373. According to an October 2004 *Wall Street Journal* article, "rather than put a stop to the phony bids, ACE began referring to them by an unrevealing in-house euphemism: 'indication' bids. . ." Notably, Defendant Doherty informed ACE underwriter James Williams in no uncertain terms in a June 20, 2003 email that "You do B-quotes or you're not doing any business."

374. The quote system was strictly enforced for MMC by William Gilman, the Executive Director of Marketing at defendant Marsh Global Broking and a Managing Director. Gilman refused to allow AIG to put in a competitive "C" quote when AIG had been designated to put in a "B" quote, and, on more than one occasion, he warned AIG that it would lose its entire book of business with MMC if it did not submit the predetermined B quote. Gilman knew that MMC had the wherewithal to carry out this threat. Notably, Gilman told Defendant Winter of an incident in 1999—referred to internally as the "Chubb War"—in which MMC moved all of Chubb's business to other insurers for a three month period to punish Chubb for its refusal to sign a Service Agreement. According to Defendant Bewlay's testimony during the Gilman/McNenney trials, Gilman told him that the "Chubb War" was designed to send a clear message to all insurers that Chubb's behavior was unacceptable and to show them that MMC could take away all of an insurer's business if it failed to sign a Service Agreement. Bewlay testified that everyone at Marsh Global Broking Excess Casualty supported the "Chubb War," including the head of the Chubb local brokerage group team, Defendant Drake. Drake told Mohs that Marsh instructed Chubbs' competitors to beat their price by 25 percent, and these

competitors would get all of Chubb's accounts. During the Gilman/McNenney trial, Chubb Senior Vice President Gail Soja testified that the company lost $3 million in premiums for the October 1999 renewal period due to MMC's Chubb boycott. Not surprisingly, Chubb acquiesced to MMC's show of force by signing a Service Agreement.

375. MMC similarly retaliated against ACE in November 2003 when Gilman learned that ACE had exposed the "B quote" system. In early November 2003, Jonathan Zaffino of ACE called Bewlay and stated that he urgently needed to meet with him. During this meeting, Zaffino told Bewlay that he had just come from a meeting with ACE management and ACE legal, during which an ACE attorney inquired about "B quotes." After Zaffino explained the "B quote" system, the ACE attorney responded that this might be illegal and advised ACE to stop providing B quotes. Subsequently, Defendant Peiser told Defendant Bewlay that he had to inform all LBCs to stop giving B quotes immediately. After Bewlay communicated this message, Gilman—at a meeting of both LBCs and GBCs—directed MMC employees to "crucify" ACE for its exposure of the B quote system by causing ACE to lose all of its renewals and refusing to give it any new business. Defendant McNenney went a step further, ordering the LBCs and GBCs to continue using the B quote system—albeit more secretly.

376. To bolster his mandate of strict compliance with the quote system, Gilman advised AIG of the benefits of the system. As he put it: MMC "protected AIG's ass" when it was the predetermined winner, and it expected AIG to help MMC "protect" other carriers when it was their turn to win by providing B quotes. Gilman, McNenney, and Anderson all told Mohs while he was at AIG that if he hit the target price, he would be protected and keep his account. If not, they would find someone else.

377. In October of 2003, Mohs bet Gilman while out drinking at a bar that even if Gilman pulled his "protection" of AIG, that Mohs could underwrite aggressively and be successful in keeping his accounts. Gilman accepted the challenge and said Marsh would be able to move all of the accounts it had placed with AIG. The pair decided upon November as the bet date, partly because Mohs felt that at AIG, "November is not a very big month, so if we lost all our business, it wouldn't hurt us that bad." The next morning, Radke and Perez – in a panic – told Mohs to call Gilman and rescind the challenge. Mohs admitted that, with the bidrigging scheme in place, if Marsh did not protect AIG's accounts, his unit would have had a higher likelihood of losing them.

378. MMC received extra payments from AIG under the bid rigging system in two ways. First, it derived the contingent commission on every single contract it placed with AIG. Second, it received a higher brokerage fee based upon an artificially inflated premium (in addition to the contingent commission) on contracts for which it rigged the bid.

379. MMC made sure that it extracted the most money permissible under the Service Agreements from the insurance companies who signed them. In the event the contingent commissions due did not add up—on a policy-by-policy basis—to the total amount of the contingent commission agreed upon in the Service Agreements, MMC would force the carriers to "true up" to the maximum amount permissible under the Agreement. For example, in 2003 ACE received $75 million in premium volume from MMC. On a policy level, MMC was due a commission of 5% of total premium volume. Under the Service Agreement, however, ACE was obligated to pay an aggregate 15% commission. ACE was therefore required to "true up"—*i.e.,* to pay MMC money over and above the commissions built into the policies to permit MMC to receive the full 15% due under the PSA.

3. Criminal Charges, Guilty Pleas, and Convictions Related to Bid-Rigging

380. Since October 2004, at least 17 former employees at AIG, MMC, ACE and Zurich American Insurance Company have entered guilty pleas to criminal charges relating to the illegal bid-rigging. Two former MMC employees have been convicted for their criminal conduct in connection with the bid rigging scandal, as described below in ¶¶ .

381. On or about October 14, 2004, Tateossian and Radke each pled guilty to a felony count. Those felony counts will be reduced to misdemeanors as part of plea bargain whereby they will cooperate with authorities and provide testimony against AIG. In connection with these pleas, Radke and Tateossian stated that they participated in the bid-rigging scheme from July 2001 through 2004 and from 2002 to 2004, respectively.

382. On or about October 15, 2004, Defendant Patricia Abrams pleaded guilty in New York State Supreme Court to attempted combination in restraint of trade, a misdemeanor, and acknowledged that she had helped MMC brokers rig bidding for corporate liability insurance policies.

383. Part of the evidence against Ms. Abrams included a December 2000 e-mail in which she stated that she had increased ACE's bid for a particular policy from $990,000 to $1.1 million because MMC wanted AIG to win that business.

384. Corroborating Ms. Abrams' account is one of the exhibits to the NYAG MMC Complaint, which appears to be an internal ACE memo, discussing this particular scheme. It states:

> Fortune Brands -
>
> Lead $25M – Original quote $990,000 Premium w/possibility of Batch. We were more competitive than AIG in price and terms. MMGB [MMC] requested we increase premium to $1.1M to be less competitive, so AIG does not lose the business. . . .

ACE-INA-005757. See also ACE-INA-01909, 005781.

385. On January 6, 2005, a MMC senior vice president, Robert Stearns, pled guilty in New York State Supreme Criminal Court to scheming to defraud in the first degree – a class E felony that carries a maximum sentence of sixteen months to four years in prison.

386. Mr. Stearns admitted that from 2002 to 2004 he instructed various insurance companies to submit specific B quotes for insurance coverage, *i.e.*, bids that were designed to be too high to prevail. Stearns would show these artificially inflated bids to the relevant MMC clients in order to make them think they were getting competitive quotes and, therefore, the best deal with the predetermined winner A quote.

387. In a March 5, 2003 e-mail, Josh Bewlay, head of Marsh's Global Broking Unit, directed Stearns to help AIG obtain a 25 percent price increase on a policy: "Bob, could you get the quote from Pete. AIG was to hit 25 percent increase. Then we need B quotes at the expiring attachments." As part of the scheme to rig this particular bid, Greg Doherty, a MMC broker, sent ACE underwriter James Williams a March 17, 2003 e-mail instructing him as follows: "need a 'B' for shits and giggles." Additional e-mails show that Zurich, ACE and St. Paul each subsequently offered losing quotes on this account. The client renewed the insurance policy with AIG.

388. On March 19, 2003, Stearns instructed a colleague to solicit a B Quote from AIG "higher in premium and more restrictive in coverage," and thus support the quote of the incumbent carrier, Chubb Corp.

389. On or about February 15, 2005, Defendants Bewlay, Mohs and Coello pled guilty to criminal counts. Bewlay pled guilty to one felony count for a scheme to defraud, concerning both the contingent commission kickbacks and the bid-rigging, which is punishable by up to four

years in prison. Mohs pled guilty to one felony count for a scheme to defraud. Coello pled guilty to a misdemeanor count for a scheme to defraud, punishable by up to one year in jail. Mohs and Coello stated that they participated in the bid-rigging scheme from April 2002 through 2004 and from September 2002 through September 2004, respectively.

390. On or about February 24, 2005, Defendant Winter pled guilty to one felony count of scheme to defraud for her role in MMC's illegal bid-rigging scheme.

391. In August 2005, Defendants Hatton and Michaels each pled guilty to a felony fraud charge for their role in MMC's illegal bid-rigging scheme. Also in August 2005, Murphy pled guilty to a misdemeanor charge for his role in MMC's illegal bid-rigging scheme.

392. On September 15, 2005, Defendants Peiser, Gilman, McNenney, Green and Doherty were each indicted by a New York State grand jury and charged with numerous felonies – including charges of first-degree scheming to defraud, restraint of trade and competition, and grand larceny – stemming from their participation in MMC's illegal bid-rigging scheme. Defendants Drake, Keane and McBurnie were also indicted and charged with numerous felonies – including charges of scheming to defraud, restraint of trade and competition, and grand larceny – stemming from their participation in MMC's illegal bid-rigging scheme.

393. Defendants Gilman and McNenney were convicted, following a ten month long trial under the caption *People of the State of New York v. Gilman, McNenney*, Indictment No. 4800-05,of restraint of trade. During the trial, several witnesses testified that Peiser, Gilman and numerous other persons at Marsh Global Broking had knowledge of, and participated in the bid-rigging scheme here at issue, including, but not limited to Defendants Peiser, Winter, Bewlay, Hatton, Michaels, Gilman, McNenney, Green, Drake and Stearns.

394. During her testimony at the Gilman/McNenney trials, Defendant Winter made clear that she knew of—and actively participated in—the bid rigging scheme. Similarly, Winters's plea agreement requires her to allocate the following facts under oath:

> As a managing director Winter and others at Marsh participated in a scheme with individuals at various insurance companies including AIG, ACE and Zurich. The primary goal of the scheme was to maximize Marsh's profits by controlling the market and protecting incumbent insurance carriers when their business was up for renewal. During this time period Winter and others at Marsh regularly instructed non-incumbent insurance companies to submit non-competitive bids for insurance business that Winter believed A, were higher in premium and/or more restrictive in coverage terms than bids provided by incumbent insurance companies; B, were designed to ensure that the incumbent carriers would win certain business; and, C, resulted in clients being tricked and deceived by deceptive bidding process.

395. In apparent recognition that the B quotes she admitted supplying were improper, Winter admitted that she lied to attorneys from Davis Polk & Wardwell—the firm that represented Marsh in connection with its internal investigation into NYAG's allegations of bid rigging—when asked about B quotes because she hoped they would not find out about them. Winter responded affirmatively when asked whether she believed Defendant Peiser participated in the scheme.

396. Further, Katherine O'Leary—a Marsh Client Advisor—testified during the Gilman/McNenney trials to at least one instance in which Winter prioritized protecting the AIG/Marsh bid rigging system over permitting a client to obtain coverage at the best possible price. In early 2003, Vivendi—which was in the midst of an accounting scandal and was teetering on the verge of bankruptcy—had sold its environmental division, which contained a number of risk exposures, and was looking for a corresponding reduction in its insurance premiums. Incumbent AIG quoted a renewal premium of $1 million and, under the bid rigging system, was slotted to obtain the renewal on these terms. Unfortunately for Marsh and AIG,

ACE submitted an unsolicited quote to provide the same coverage for $925,000 in premium. When O'Leary informed Winter of this superior unsolicited offer, Winter became upset that this bid might jeopardize Marsh's relationship with AIG—AIG, assured by the bid rigging system to get this business for $1 million, would now be forced to lower its quote if it wanted to keep the Vivendi policy. AIG lowered its quote to $925,000.

397. Defendant Winter was not the only former MMC employee involved in the bid rigging scheme. During the Gilman/McNenney trials, Kevin Bott—a former MGB broker and underwriter of excess casualty lines at Liberty International Underwriters ("Liberty")—testified that Defendants Hatton, Doherty and Michaels asked him for "B quotes" during his 2000-2005 tenure at Liberty.

398. Other contemporaneous business documents of MMC and various insurance companies including AIG and ACE demonstrate the extent of the bid-rigging scheme. *See* NYAG MMC Complaint exhibits which are incorporated herein by reference.

4. MMC's Settlement With the New York State Attorney General

399. Five of MMC's board members resigned in November 2004. Additionally, MMC's CEO Jeffrey Greenberg was forced to resign, reportedly for refusing to fully cooperate with the ongoing NYAG investigation. According to an October 25, 2004 *Time* article entitled "Spitzer Strikes Again," "Spitzer says the more he probed, the more Marsh misled and 'fed us the same foolishness they've been feeding the public over the years.' He felt that Marsh CEO Jeffrey Greenberg . . . was stonewalling him. 'I didn't see in their management a desire for reform.'" According to the same article, Spitzer characterized Greenberg's behavior as "unhelpful, distortive and unresponsive."

400. On January 31, 2005, MMC announced that it agreed to pay $850 million to settle charges relating to its two schemes of bid-rigging and of accepting so-called "contingent commissions" to steer business to favored insurers. MMC did not admit or deny wrongdoing. The money will be paid to policyholder clients of MMC over the next four years.

401. Under the January 31, 2005 Settlement Agreement between MMC and the NYAG, MMC will not only pay the $850 million in restitution to its policyholder clients, it will also implement new business practices (including the elimination of contingent commissions) and institute a system of full disclosure with respect to fees charged.

402. Also as part of the settlement, MMC issued a public statement "apologiz[ing]" for its conduct:

> Marsh Inc. would like to take this opportunity to apologize for the conduct that led to the actions filed by the New York State Attorney General and Superintendent of Insurance. The recent admissions by former employees of Marsh and other companies have made clear that certain Marsh employees unlawfully deceived their customers. Such conduct was shameful, at odds with Marsh's stated policies and contrary to the values of Marsh's tens of thousands of other employees.

5. The Municipal Derivatives Bid Rigging Scheme

403. Defendants Maurice Greenberg, Matthews and Tizzio—in addition to causing AIG to participate in MMC's unlawful bid rigging scheme—caused AIG, through its Financial Products and SunAmerica subsidiaries, to participate in a second unlawful scheme to fix prices and rig bids in the municipal derivatives market. The term "municipal derivatives" refers to a variety of tax-exempt vehicles that government entities use to invest the proceeds of municipal bond offerings while they are waiting to spend them for their given purpose. When government entities wish to enter into municipal derivatives contracts, they frequently engage brokers to obtain the best possible price for such derivatives by arranging an auction among multiple

municipal derivatives providers. While the municipal derivatives market is large—to wit, a substantial portion of the approximately $400 billion spent annually on municipal bonds is invested in municipal derivatives—it is very concentrated. There are no more than 20 major providers of municipal derivatives in the United States, while there are tens of thousands of issuers of municipal derivatives.

404. From 1992 until the present, AIG—among others referred to in the Municipal Derivatives Complaint as "Provider Defendants"—conspired with Bank of America to allocate customers and fix the prices of municipal derivatives sold in the United States through agreements not to compete and bid rigging.

405. The municipal derivatives bid rigging scheme operated similarly to the MMC bid rigging scheme described above. The Provider Defendants participated in rigged municipal derivatives auctions at which it was understood that they would take turns providing the winning bid. In addition to communicating directly with each other, the Provider Defendants would at times communicate the terms of their anticipated bids through a series of brokers (referred to in the Municipal Derivatives Complaint as the "Broker Defendants"). The Provider Defendant selected to win a given auction typically bid after it had been provided the terms of the other participants' bids. In many instances, sham bids were submitted to bolster the chosen winner's chance of success; in other instances, other potential competitors were paid for declining to submit a bid. The outcome of these auctions, accordingly, was predetermined.

406. In 2005, the Internal Revenue Service ("IRS") launched an investigation into these corrupt practices in the municipal derivatives market. The IRS investigation uncovered extensive evidence of bid rigging, leading Bank of America to agree on February 7, 2007 to pay $14.7 million to the IRS for its role in the scheme.

407. Following the IRS's lead, the Antitrust Division of the Department of Justice launched its own investigation into the municipal derivatives bid rigging scheme. For the better part of the last few years, the Antitrust Division has been examining whether there was collusion among financial institutions in the bidding process for a variety of municipal derivatives.

408. On November 15, 2006, the Federal Bureau of Investigation ("FBI") raided the offices of CDR Financial Products ("CDR"), Investment Management Advisory Group, Inc. ("IMAGE") and Sound Capital Management, Inc. ("Sound Capital"), seizing documents from each of these entities. CDR, IMAGE and Sound Capital are named—along with AIG—as defendants in the Municipal Derivatives Complaint. Following the FBI raids, the Provider Defendants and Broker Defendants named in the Municipal Derivatives Complaint—including AIG—were served with subpoenas seeking information dating back to 1992.

409. On December 11, 2006, prosecutors based in the New York field office of the Antitrust Division brought the municipal derivatives bid rigging scheme before a federal grand jury sitting in the United States District Court for the Southern District of New York.

410. With investigators closing in, Bank of America announced on February 9, 2007 that it was cooperating with the DOJ's investigation in exchange for leniency under the DOJ's amnesty program.

411. The Municipal Derivatives Complaint—filed on March 12, 2008—is pending in the United States District Court for the District of Columbia. AIG subsidiaries Financial Products and SunAmerica are named as defendants in this Complaint. Plaintiffs in that action represent all persons or entities who purchased municipal derivatives from the Broker and Provider Defendants named therein from January 1, 1992 through the present. AIG is exposed to

a significant threat of civil liability in the Municipal Derivatives Complaint—including the possibility of treble damages.

6. ACE's Settlement With The NYAG And The NYSID

412. On April 26, 2006, ACE reached a settlement with the NYAG and the NYSID "to resolve allegations of bid-rigging and improper 'finite reinsurance' transactions." Pursuant to this "Assurance of Discontinuance and Voluntary Compliance" (incorporated herein by reference), ACE agreed to pay $80 million in restitution and penalties, to adopt a series of reforms of its business practices and to issue an apology acknowledging its improper conduct.

E. Marketing Illegal Income Smoothing Products To Public Companies

413. Beginning in 1997, the D&O Defendants caused or allowed AIG to develop, start marketing and sell "non-traditional" insurance products to publicly reporting companies. Under these "non-traditional" arrangements, companies would pay AIG a substantial fee, in exchange for which AIG provided the company with a backdated insurance policy that enabled the company to "smooth" out its income statement by deferring known losses over a period of time.

414. The D&O Defendants caused or allowed AIG to design, market, sell and participate in special purpose entities ("SPEs") that were formed for the sole purpose of helping reporting companies move poorly performing assets off their balance sheet.

415. The D&O Defendants knew or should have known of these transactions and that they would have the effect of improperly smoothing the outside company's earnings (exposing AIG to regulatory, criminal and civil actions) and misstating AIG's financial results (through improper accounting of the transactions on AIG's books).

416. An insurer is entitled, under GAAP, to report a receivable on its balance sheet reflecting an "insurance recovery" against a specified loss, then net the amount of recovery against the loss (thereby lowering the loss), *only* when it is probable that that recovery will occur.

To warrant such treatment, the recovery must be an insurance recovery, *e.g.* one that *transfers risk between the insurer and the insured*. If the recovery is not an insurance recovery, it must instead be accounted for as a financing arrangement (which is reflected as a deposit on the company's balance sheets, rather than as a lowering of loss).

417. In or about 1997, the D&O Defendants caused or allowed AIG to develop an insurance product that was intended to serve an "income statement smoothing" function, allowing publicly traded companies to improperly reflect over numerous reporting periods one-time losses that they had or would incur, rather than reporting them all in the single appropriate reporting period.

418. These products were "retroactive" insurance policies, which were generally structured as follows. A public company would approach AIG with the total amount of losses it needed to hide from investors and, for a fee, AIG would underwrite a policy and charge the company a premium for the purported policy (which would be paid in monthly installments) equal to the amount of the total losses that the public company wanted to conceal from its investors.

419. Each month, the company would deposit money with AIG under the pretense that it was paying the "premium" that it owed AIG. This enabled the company to report the "premium" as an ordinary monthly business expense. AIG, on the other hand, would report the "premium" as income.

420. The company would then file a claim on the policy for the total amount of the losses it sought to defer, which claim AIG would unquestioningly pay. After AIG paid, the public company would apply the insurance proceeds to offset the losses in the financial period in which the losses were incurred.

421. By the end of the policy term, AIG would have recovered the full amount it paid out on the company's claim and a fee for the arrangement. Any deposits beyond this amount would be refunded to the company.

422. At no point in this "insurance" transaction was there any actual transfer of risk. AIG knew its total exposure and what it was going to pay out on the company's claim at the time that the policy got issued. As such, this finite transaction was nothing more than a loan transaction improperly accounted for as "insurance."

423. To avoid raising suspicion, the D&O Defendants caused or allowed AIG to design these sham insurance transactions to falsely reflect legitimate traditional insurance transactions. AIG did this by combining the retroactive insurance policy with another traditional insurance policy, making the retroactive policy unidentifiable by investors.

1. Brightpoint

424. One egregious example of AIG income-smoothing products is AIG's transaction with Brightpoint, Inc. ("Brightpoint"), which concealed $11.9 million in losses that Brightpoint had sustained in 1998 and overstated Brightpoint's pre-tax net income by 61% in its 1998 Form 10-K.

425. In October 1998, Brightpoint announced that it would need to recognize losses ranging from $13 to $18 million in the fourth quarter of 1998. Brightpoint's problems worsened when sometime after this announcement it discovered that its losses in that quarter were actually $29 million.

426. Brightpoint turned to National Union, one of AIG's principal general insurance company subsidiaries, for assistance. National Union offered Brightpoint one of the above described income-smoothing "insurance products."

427. Brightpoint purchased from National Union a "retroactive" insurance policy that covered all of Brightpoint's extra losses. The parties combined this "retroactive coverage" with other insurance coverage (the "Policy") in an effort to make the arrangement look like a traditional, non-retroactive indemnity insurance policy, and then backdated the Policy to August 1998.

428. The "cost" of this "retroactive coverage" to Brightpoint was about $15 million, which Brightpoint paid for in monthly "premiums" over the three-year term of the Policy. Shortly after the Policy was finalized in January 1999, Brightpoint made an insurance claim on the Policy in the amount of its excess losses, which AIG approved and paid out. AIG issued a letter to Brightpoint's auditors in which it falsely represented that there was a possibility that Brightpoint would recover under the Policy, when all along AIG knew that Brightpoint was certain to recover.

429. Upon AIG's payment on the insurance claim, Brightpoint was able to record an insurance receivable of $11.9 million in the fourth quarter of 1998, which offset its total losses of $29 million and brought Brightpoint's reported net loss within the previously disclosed range of $13 to $18 million.

430. Not long thereafter, the SEC began making inquiries into the Policy that AIG had sold to Brightpoint. According to the SEC's September 11, 2003 Order Instituting Proceedings Against AIG, the SEC first requested information from AIG concerning this transaction in July 2000 and then served it with a subpoena for the production of documents in November 2001. Despite the significance of an SEC investigation into an AIG transaction, the D&O Defendants did not cause AIG to issue any public statement concerning these events.

431. The SEC's order instituting those proceedings indicates that a White Paper was circulated to thirty-two members of AIG's management, instructing them as to how the structure could be used to achieve income smoothing. This White Paper suggested ways to circumvent new accounting rules that had been introduced in response to "abuse by insureds who did not recognize loss events as they occurred." One suggestion was that parties to the relevant transactions avoid putting problematic contractual terms into writing.

432. After Brightpoint's auditors again reviewed the insurance transaction with AIG, they were unable to verify whether or not the Policy qualified as insurance. They did determine, however, that Brightpoint was required to restate its 1998 financials to reflect the entire premium expense, which amounted to $15.3 million.

433. On January 31, 2002, Brightpoint announced that it would need to again restate its financials for 1998 to reflect that the "premiums" paid under the Policy were deposits made with AIG. When Brightpoint "cancelled" the Policy and AIG refunded the full amount of premiums Brightpoint had paid to AIG over and above the "insurance claim payments" under the Policy, any surviving assertion that this transaction was legitimately characterized as insurance disappeared.

434. On September 11, 2003, the SEC instituted and settled both administrative and civil proceedings against AIG, Brightpoint and several Brightpoint officers and employees on the basis of the "non-traditional" or "finite" insurance product AIG sold to Brightpoint. The SEC found that AIG designed and sold this insurance product to enable "a public reporting company to spread the recognition of known and quantified one-time losses over several future reporting periods." The SEC stated:

> [T]he 'retroactive coverage' should not have been accounted for as insurance. It was only a mechanism for Brightpoint to deposit

> money with AIG - in the form of monthly 'premiums' - which AIG was then to refund to Brightpoint as purported 'insurance claim payments.'

435. A statement issued by the SEC on that day indicated that AIG had played an "indispensable part in the fraudulent transaction" and that "AIG had worked hand in hand with Brightpoint personnel to custom design a purported insurance policy that allowed Brightpoint to overstate its earnings by a staggering 61%." The SEC also concluded that by participating in a scheme to defraud Brightpoint's auditors and investors AIG had violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

436. AIG agreed to pay a $10 million fine in settlement of the SEC's enforcement action and entered into a consent order agreeing not to market such a product again.

2. Illegal Off Balance Sheet Transactions: The C-GAIT Deals

437. From March 2001 through January 2002, the D&O Defendants caused or allowed AIG to develop and aggressively market, through its wholly-owned subsidiary AIG Financial Products Corp. ("AIGFP"), a product called the Contributed Guaranteed Alternative Investment Trust Security ("C-GAITS"), which was designed to enable companies to remove troubled or volatile assets off their balance sheets through the use of special purpose entities ("SPEs").

438. The D&O Defendants caused or allowed AIG to structure the C-GAITS products as follows:

> AIG would represent to a prospective counterparty that AIGFP would establish a special purpose entity (SPE) to which the counterparty would transfer cash and certain troubled, underperforming or volatile assets. In exchange, the counterparty would receive preferred stock that could later be converted to common stock that carried voting rights only with respect to the liquidation of the SPE.
>
> If the assets appreciated, the counterparty would be able to liquidate its investment and report the proceeds as income on its

balance sheet. If the assets depreciated, the counterparty would maintain the SPE investment on its balance sheet as an "available for sale" security. In either case, the poorly performing assets were off the counterparty's balance sheet.

So that the counterparty could avoid consolidating the SPE on its financial statement, certain GAAP requirements had to be met; namely an independent third-party investor, in this case AIGFP, would have to make a "substantive capital investment" equal to 3% of the total assets. AIGFP had to have "substantive risks and rewards of ownership of the assets of the SPE" under GAAP.

AIGFP would make a capital investment equal to 3% of the assets that the counterparty transferred to the SPE, in return for which it received preferred stock and voting common stock in the SPE.

The counterparty would pay AIGFP a structuring fee that exceeded AIGFP's capital investment in the SPE. Part of the fee would be paid at closing and the remainder would be paid out over a four year period. If the SPE was liquidated within this period, AIGFP would receive the present value of the outstanding fees.

The cash contributed to the SPE by the counterparty would be used to purchase 30-year zero coupon notes (notes that paid no interest until maturity), which upon maturity ensured that the counterparty would recover its original capital investment, without regard to the performance of the volatile assets that were contributed.

The cash contributed to the SPE by AIG would be used to purchase highly rated debt securities, which carried low risk.

439. The C-GAITS product:

gave the counter-party contractual rights that permitted it to benefit from appreciation of the assets it contributed to the SPE by redeeming its investment in the SPE or liquidating the SPE in exchange for a distribution of the zero coupon note and other assets or the cash proceeds from their sale. If the value of the assets held by the SPE appreciated, the counter-party could exercise rights of redemption and liquidation that would terminate the transaction and allow it to recognize a gain on its income statement. As long as the SPE held the assets, the counter-party's reported earnings supposedly would not be affected by variations in the value of the assets because the assets would not be consolidated on the counter-party's financial statements and changes in the value of the counter-party's preferred interest in the SPE would be recorded in the "Other Comprehensive Income" line

> within the Shareholders' Equity section of the counter-party's balance sheet. As a result, as marketed by AIG, the counter-party could recognize gains on its income statement if the SPE's assets appreciated in value but would avoid recognizing losses if those assets declined in value, provided that the counter-party held its preferred interest for 30 years to maturity and therefore received at maturity at a minimum the return of its original investment.

SEC Complaint filed against AIG dated November 30, 2004 (incorporated herein by reference).

440. However, for a counterparty to realize these benefits through non-consolidation, "the majority owner of the SPE had to be an independent third party who made a substantive capital investment in the SPE, had control of the SPE, and had substantive risks and rewards of ownership of the assets of the SPE." *Id*. As stated in the SEC's complaint against AIG:

> Conversely, nonconsolidation was not appropriate when the majority owner of the SPE made only a nominal capital investment, the activities of the SPE were virtually all on the sponsor's or transferor's behalf, and the substantive risks and rewards of the assets or the debt of the SPE rested directly or indirectly with the sponsor or transferor. Three percent was the minimally acceptable amount under GAAP to indicate a substantive capital investment sufficient for nonconsolidation, though a greater investment could be necessary depending on the facts and circumstances. GAAP further provided that fees paid to the owner of the SPE for structuring the transaction were treated as a return of the owner's initial capital investment.

Id.

441. To facilitate its marketing of the C-GAITS product, AIG asked an outside accounting firm for an opinion letter stating that non- the above transaction (including the non-consolidation of the SPE on the counter-party's financial statements) complied with GAAP.

442. The accounting firm flagged AIG's issuance of the zero coupon note as problematic because it could be viewed as a return of AIG's capital investment (through the SPE's "purchase" of the note from AIG), bringing AIGFP's capital investment below the 3% minimum required by GAAP.

443. When the outside accounting firm issued its final opinion letter, "it stated that 'the cash transferred to the SPE along with other assets would be invested in a zero coupon note maturing in 30 years," without identifying an issuer or specifying whether AIG might issue the zero coupon note. The outside accounting firm also recommended that AIGFP increase its capital contribution from 3% to 5%.

444. Disregarding the outside accountant's advice, on or around May 29, 2001, AIG proposed the C-GAIT to PNC Financial Services Group ("PNC") as which contemplated the use of an SPE in which AIGFP would make a 3%, not 5%, capital investment and AIG would issue the 30-year zero coupon note to PNC. The D&O Defendants did not cause or allow AIG to disclose the concerns of its outside accountant regarding AIG's capital investment and issuance of the 30-year zero coupon note to PNC or other potential counterparties.

445. The D&O Defendants caused or allowed AIG to help PNC structure three of these SPEs in 2001 through three C-GAITS transactions, named the PAGIC transactions (PAGIC I, II, and III). Ultimately, PNC requested AIG to change the issuer of the 30-year zero coupon note from AIG to some other issuer on the advice of its own accounting firm. Though AIG did not end up issuing the 30-year zero coupon note, it did fail to increase its capital investment to 5%, as recommended by its outside accountant. The payment of structuring fees to AIG in the PAGIC I and PAGIC II transactions reduced AIG's "substantive capital investment" below the minimum 3% level required by GAAP for nonconsolidation of the SPEs by PNC. Additionally, as set forth in the SEC's Complaint:

> [t]he PAGIC I and PAGIC II transactions also did not satisfy the GAAP requirement that the majority owner of the SPE, *i.e.* AIG, have substantive risks and rewards of ownership of the assets of the SPE. AIG did not have the ability to benefit from any improvement in the value of the assets that PNC had transferred to the SPE because PNC could decide at any time to convert its

> preferred stock to common stock, vote to liquidate the SPE, and then capture the benefit of the improvement in the value of the assets that it had transferred. At the same time, AIG did not have substantive risks because (a) the fees that it received exceeded the amount that it had contributed to the SPE, (b) the amount that it had contributed was invested in highly rated debt securities and thus substantially protected from loss, and (c) it would receive the dividend on its preferred stock regardless of the performance of the assets that PNC had contributed to the SPE.

446. The result was that AIG improperly recognized fees of $46.36 million from the C-GAITS transactions with PNC, and such fees reduced AIGFP's capital investment below the 3% threshold required by GAAP. PNC, on the other hand, improperly removed $762 million worth of doubtful loans and volatile venture-capital investments from its balance sheet and into the C-GAITS, and thereby avoided charges to its income statement from declines in the value of these troubled assets.

447. AIG also continued to market the C-GAITS transactions to other counterparties without informing such counterparties of the advice and concerns of its accountants.

448. The SEC warned AIG in an October 5, 2004 release that it was considering an enforcement action against AIG concerning the C-GAITS transactions. This release was the first notice to the investing public of the problems with the transactions and the possibility of AIG's liability.

449. According to the SEC's Complaint:

> AIG (a) recklessly made misstatements of material facts, and omitted to state material facts, about whether the C-GAITS product satisfied GAAP requirements for nonconsolidation of an SPE; and (b) entered into the three PAGIC transactions with PNC that it was reckless in not knowing did not satisfy the GAAP requirements for nonconsolidation of the SPEs by PNC.

450. On September 29, 2004, AIG announced that the DOJ was joining in the SEC's investigation of the three C-GAITS transactions involving AIG and PNC, and on October 21, 2004, AIG became the target of a federal grand jury investigation.

3. The GAITS Deals

451. Between June 2000 and March 2001, wholly-owned subsidiaries of AIGFP also entered into five "Guaranteed Alternative Investment Trust Security" ("GAITS") transactions with insurance company subsidiaries of two publicly traded companies.

452. AIGFP received a fee in each of the GAITS transactions, in return for which the two counterparties to the five GAITS transactions transferred $231,659,000 in assets to the SPEs.

453. The GAITS transactions also failed to satisfy GAAP requirements for non-consolidation of the SPE because the structuring fees received by AIG reduced its capital investment below the 3% minimum threshold required by GAAP.

4. AIG Settles With the SEC

454. On or about December 1, 2004, AIG announced that it and its subsidiary AIG Financial Products Corp. had reached a final settlement with the SEC, the Fraud Section of the DOJ, and the United States Attorney for the Southern District of Indiana with respect to certain structured transactions with third party purchasers of insurance products including Brightpoint, Inc. and The PNC Financial Services Group, Inc. The SEC had alleged that the transactions "were designed to enable the buyer to remove troubled or other potentially volatile assets from its balance sheet." The SEC stated that PNC had used the AIG product "to improperly remove $762 million in loan and venture-capital assets from its balance sheet and to avoid charges to its income statement related to the decline in value of these assets."

455. According to government documents, AIG had "continued marketing the off-balance-sheet investment vehicle that led to [the] settlements with regulators and the Justice

Department, even after auditors and would-be clients had raised questions about potential accounting problems" during 2001 and in early 2002.

456. Without admitting or denying wrongdoing, AIG agreed to pay $126 million, consisting of an $80 million penalty to the DOJ and a $46 million payment to an SEC disgorgement fund, as a result of the PNC transaction.

457. The settlement also enjoined AIG from future violations of the antifraud provisions of the federal securities laws, required the establishment of a transaction review committee, and required the "appointment of an independent [monitor] to review company transactions between 2000 and 2004 to determine whether they were used by a counterparty to violate generally accepted accounting principles or obtain a specified accounting or reporting result." PNC Financial Services recently agreed to pay $30 million to settle a class action lawsuit brought by investors claiming that PNC used fraudulent insurance contracts to improve earnings statements.

458. AIG's senior executives, including but not limited to Smith, Matthews and Milton, were aware of, and authorized, AIG's involvement (through its subsidiary AIGFP) in the marketing and sale of C-GAITS income smoothing products. Smith, Matthews and Milton were each members of AIG's Credit Risk Committee ("CRC") which, as set forth in AIGFP's Credit Policies Manual, was responsible for monitoring the credit approval and operating policies of AIGFP and its subsidiaries. The Credit Policies Manual illustrates that prior approval of the C-GAITS transactions by the CRC was required before AIGFP could proceed with the transactions. Furthermore, AIGFP's CEO attended a meeting at AIG where he discussed the transactions specifically, a fact he later related to the PwC engagement partner for the AIG audit. AIGFP's CEO also indicated that he made the CRC aware of the transactions.

F. Creating Non-Existent Underwriting Revenue By Booking Life Settlement Transactions As Underwriting Volume

459. The defendants also caused AIG to fraudulently report of income from AIG's "life settlements" investments as underwriting income.

460. AIG entered the life settlements business in 2001. In a life settlement an investor purchases an insurance policy from a policyholder nearing the end of his or her life, for a price that exceeds the cash surrender value of the policy but represents a discount to the ultimate payout on the policy. The investor then continues to pay the premiums on the policy and receives the death benefits on the policy when the policyholder dies. The investor is betting that the death benefits will exceed the sum of (i) cash paid to the policyholder and (ii) any premiums paid by the investor before the policyholder dies.

461. Life settlements are somewhat controversial in that they involve purchasing life insurance policies from sick and/or elderly people with short life expectancies – betting they will die sooner rather than later. As described in a article in the March 19, 2001 edition of *Forbes* entitled "Death Wish," "[t]his is a pretty ghoulish way to make a buck, but as a cold-blooded investment it sounds good."

462. Maurice Greenberg was aware of the negative public relations that could result if AIG were to involve itself in the life settlements business as he enclosed the "Death Wish" article in a March 12, 2001 memo to David Fields with the note "[n]ot very attractive" and wrote in an April 16, 2001 memo to Fields that "[i]t seems to me that anybody doing anything in the field stands the risk of adverse PR . . . I am uneasy about this."

463. AIG was also concerned that, as a purchaser of a life settlement, it might be required under GAAP to carry the investment at a loss because the purchase price exceeds its cash surrender value at the time of purchase.

464. To avoid the public relations risk and the accounting issues, it was decided that the AIG name would not be used and AIG's life settlement transactions would be conducted through a third-party trust.

465. An August 15, 2001 e-mail from Robert Forant to Murphy and others, including Fields, together with various other correspondence, illustrates that Maurice Greenberg worked with Fields and Murphy to set up the life settlements structure. Smith and defendant Tizzio were also involved, as they were copied on a September 19, 2001 memorandum from Fields to Maurice Greenberg in which he laid out the structure of the business and specifically referenced a conversation with Smith regarding the source of AIG funds.

466. As stated in the NYAG AIG Complaint, "[t]he September 19, 2001 memorandum reported that AIG would set up a trust called Coventry Life Settlement Trust ('Coventry'), which would be majority owned by Hanover Life Reassurance (Ireland) Limited, a non-AIG entity. Coventry would act as owner and administrator of a trust that would permit AIG to book its life settlement activities as underwriting volume, thereby enhancing AIG's underlying insurance underwriting results."

467. Field's September 19, 2001 memo stated that "we have: . . . . designed a structure to maximize the premium and profit that can be recognized. The structure we've created for this purpose will increase the premium booked on a single transaction by over 20 times the amount we originally contemplated. Furthermore, this structure will also enhance our statutory loss ratio and net investment income as well."

468. Under this "structure," American Home Assurance Corp. ("AHAC"), an AIG affiliate, would lend Coventry all of the funds needed to purchase life settlement policies and to pay the premiums on the purchased policies. But rather than purchasing life settlements directly,

defendants concocted a scheme whereby Coventry would use the borrowed funds to pay a "premium" to an Alaskan insurance subsidiary of AIG , American International Specialty Lines Insurance Co. ("AISLIC") in exchange for a fake surety insurance policy (that would guarantee Coventry's obligations to third parties). Coventry would then file a "claim" with AISLIC for the same amount that it had just paid to AISLIC as a premium, and would use the funds received back from AISLIC to purchase life settlements and pay its other expenses. When death benefits were ultimately paid on life settlements, Coventry would pay the benefits to AISLIC as further "premium" on the insurance policy, in order to allow AISLIC to report the life settlement income as underwriting income (on the surety policies issued to Coventry).

469. On September 26, 2001, Fields wrote an e-mail to Maurice Greenberg that provided: "Coventry will sign documents partnering with us as soon as practicable – which at the latest should be Monday, October 1st. We expect premium production of at least $10 Million before the end of that week."

470. Almost two years later, on or about August 4, 2003, Smith reported to Maurice Greenberg on the volume of the life settlement business transacted to date in a memorandum that indicated net written/earned premiums of $927 million versus losses incurred of $851 million and a GAAP underwriting profit of $76 million. The NYAG AIG Complaint alleged that AIG was still "falsely report[ing] this investment income as underwriting income to the present day [May 26, 2005]."

471. In 2004, the Alaska Department of Insurance issued a determination that AISLIC's policy with Coventry did not constitute insurance, and directed AISLIC to remove the "Coventry Life Settlements Program from its book of business." On October 1, 2004, AISLIC assigned and transferred all rights, obligations, duties and liabilities under the program to

AIRCO, the same entity used in the CAPCO and Nan Shan schemes, but continued to account for the life settlement program as if it were insurance. The settlement agreement with the Alaska Department of Insurance was signed by AISLIC's president, Jacobson.

472. Ultimately, under intense regulatory scrutiny, AIG admitted that its accounting for this scheme violated GAAP, noting in its May 1, 2005 press release that that it had "determined that certain aspects of its prior accounting for this business were incorrect" and estimating "[t]he effect of this correction. . . to be a decrease of approximately $100 million to consolidated shareholders' equity at December 31, 2004."

473. However, the actual restatement required as a result of the scheme (as reported in AIG's May 31, 2005 10-K) was much larger - decreasing net income by $394 million and stockholders' equity by $396 million.

474. In April 2005, Greenberg invoked this Fifth Amendment privilege when asked about the Coventry matter.

G. Reinsurance Transactions With Off-Shore Companies Controlled By AIG

475. The D&O Defendants caused or allowed AIG to habitually purchase reinsurance from obscure affiliated companies in unregulated offshore locales, such as Bermuda, Barbados and the Cayman Islands. AIG's 2003 state regulatory filings show that AIG used private, offshore companies for at least six times more reinsurance than any of its nine biggest United States competitors.

476. Offshore businesses are not required to disclose the identities of those that own and control them, or other details of their operations, as insurers in the United States must do in filings with state insurance departments and the SEC. When a company controls another company, both companies' books are typically consolidated for accounting purposes, thus limiting or eliminating a parent company's ability to hide losses on the subsidiary's books. In

other words, because the company essentially stands on both sides of the transaction, the benefits received by each of the parties are a wash on a consolidated basis. Furthermore, pursuant to GAAP accounting on a consolidated basis, if an insurer purchases reinsurance from a reinsurance company that it owns or controls, the insurer cannot claim on its books a reinsurance recoverable, *i.e.* protection against potential losses covered by the reinsurance, because the insurer is effectively reinsuring itself. In addition, AIG was required by state insurance laws (including Section 1505 of the New York Insurance Law) to file such arrangements for review by State insurance regulators before entering into them.

477. In early 2005, regulators began to investigate reinsurance transactions between AIG and two such entities, Union Excess Reinsurance Company, Ltd. ("Union Excess") and Richmond Insurance Company Ltd. ("Richmond"), two off-shore reinsurance companies with significant business dealings with AIG.

478. In March 2005, press reports revealed that AIG was engaging in reinsurance transactions with offshore companies in which it secretly owned significant equity or had control. The transactions with Union Excess and Richmond were actually with AIG affiliates and should have had no net effect on AIG's balance sheets because AIG reports on a consolidated basis. Rather than collapse the transactions on its financials, AIG accounted for them as if they were with arm's length, unrelated third parties, while repeatedly misleading regulators about the nature of its relationships with these entities.

1. Coral Re

479. AIG's use of offshore affiliated reinsurers dates back to at least 1987, when AIG set up Coral Re, a Barbados-based reinsurer, for the purpose of reinsuring AIG business. By 1991, AIG had purchased approximately $1 billion in reinsurance from Coral Re, even though Coral Re had a capitalization of only $15 million. By the early 1990s, Coral Re had become the

focus of intense regulatory scrutiny from insurance departments in Delaware, New York and Pennsylvania.

480. Ultimately, insurance regulators in both Delaware and New York found that Coral Re was not a genuine, independent reinsurance operation, but rather a secret arm of AIG that existed solely to do business with AIG. The NYSID's determination was based on the following factors:

- AIG created Coral Re;
- AIG found the investors and drafted all documents related to the initial capitalization of Coral Re;
- Coral Re was undercapitalized from the start and assumed huge amounts of risk through the sale of reinsurance to AIG;
- in 1991 approximately 83% of Coral Re's assets were pledged for letters of credit with AIG as the beneficiary;
- a material amount of the premiums from AIG to Coral Re was paid to a bank that is an affiliate of AIG and acted as collateral agent on the letters of credit;
- all of Coral Re's management and administrative functions were performed by an AIG affiliate;
- AIG unilaterally amended certain provisions in its reinsurance contracts with Coral Re; and
- there were numerous relationships between the Coral Re investors and AIG (including common officers and the same management company).

481. To resolve these state examinations, AIG agreed to cease purchasing reinsurance from Coral Re and to report any similar entities in the future.[7]

482. However, unbeknownst to state regulators, AIG already had two preexisting offshore affiliates very similar to Coral Re – Richmond, a Bermuda holding company with a

[7] AIG had reached a similar settlement with Delaware in 1992.

Barbados reinsurance subsidiary similar to Coral Re formed in 1986 and Union Excess, a Barbados reinsurer similar to Coral Re formed in 1991.

483. Despite minor variations, Richmond, Union Excess and Coral Re all shared the following "characteristics":

- they were created by AIG;
- AIG found the investors and drafted all documents related to the initial capitalization;
- they were undercapitalized;
- they had passive investors backed by AIG or its affiliates;
- the management and administrative functions of each were performed by the same AIG affiliate; and
- officers of the three offshore entities had numerous relationships with AIG and with each other.[8]

2. Union Excess

484. AIG subsidiaries regularly engaged in reinsurance transactions with Union Excess since 1991. AIG ultimately ceded approximately 50 reinsurance contracts to Union Excess in order to fraudulently improve its financial results.

485. Union Excess was used to "reinsure" certain AIG liabilities. Even though AIG controlled Union Excess, the defendants concealed this fact and treated Union Excess as an independent entity, which enabled AIG to materially reduce the amount of expense associated with the underlying insurance. This would not have been possible if AIG had consolidated Union Excess's results.

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[8] For example, Coral Re, Richmond and Union Excess all shared a management company owned by AIG, the three entities had investors in common, certain individuals sat on the board of all three, and Murphy, an AIG employee, was an officer and alternate director of Richmond.

486. As noted in the NYAG AIG Complaint, "Umansky, who was responsible for setting up Union Excess, testified that he modeled the Union Excess structure on Coral Re. He further testified that he had a number of conversations with both Smith and Greenberg about Union Excess, and that they too were aware that Union Excess was modeled on Coral Re. They nonetheless failed to make the required disclosure to the insurance departments."

487. While AIG owned no direct equity interest in Union Excess, it nonetheless had indirect control over Union Excess through SICO, AIG's purported long-term compensation vehicle, which provided the golden handcuffs Maurice Greenberg used to ensure total compliance of AIG's executives with his will. At all relevant times, Union Excess did business with no one other than AIG.

488. Due to AIG's indirect control of Union Excess, the reinsurance transactions AIG engaged in with Union Excess did not involve a sufficient transfer of risk, and therefore could not be considered "insurance." In other words, these transactions were loans among related entities that AIG failed to report as liabilities on its balance sheet.

489. AIG acknowledged, in its restatement, that AIG controlled Union Excess, and that based on AIG's control over Union Excess and the lack of intent to transfer risk, its accounting for the transaction was improper and AIG should have consolidated Union Excess on its financial statements.

490. As reported in AIG's May 31, 2005 10-K, the restatement of Union Excess transactions reduced AIG's 2004 Consolidated Shareholders' equity by $951 million, and its income by $78 million.

3. Richmond

491. AIG subsidiaries also regularly engaged in reinsurance transactions with Richmond and its subsidiaries.

492. Richmond operated out of AIG's office on Richmond Road in Bermuda. A Bermuda insurance registry listed AIG as Richmond's "management company." Additionally, Richmond had only six employees. According to a Bermuda business directory, Richmond executives, including its chief executive officer J.C.H. Johnson and the chief underwriting officer Ralph Rathjen, used AIG email addresses. Richmond does all of its business with AIG.

493. Richmond should have been treated as a consolidated entity in AIG's financial statements. Under the defendants' control, AIG's transactions with Richmond were improperly treated as dealings with an arm's-length, unrelated reinsurer.

494. AIG also lied to State regulators about its control of Richmond. For example, in 1999, when the New York Insurance Department inquired whether AIG controlled Richmond, AIG unequivocally answered that AIG "does not control [Richmond]." AIG and its subsidiary, AIUO Ltd. ("AIUO"), filed a Disclaimer of Control in November 1999 with the NYSID, signed by Murphy, which omitted the following critical facts: (1) a Richmond subsidiary had a management agreement with an AIG subsidiary; (2) Richmond's investors had a put agreement with AIUO, obligating AIUO to repurchase their shares at a value that rendered the "investments" riskless to the investors; and (3) Hank Greenberg, on behalf of AIG, had guaranteed AIUO's put obligations to the investors under the Shareholders Agreement. Under New York law, Murphy was required – but failed – to report the interest AIG had in Richmond's securities and contract(s) for services between AIG and Richmond.[9]

495. In November 2004, after the NYAG commenced its investigation into finite insurance, a Richmond investor advised Murphy that it wanted to sell its share back to AIG.

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[9] Under New York law, Murphy was required to report any interest that AIG had in Richmond's securities and any contract for services between AIG and Richmond.

496. Beginning on or about March 16, 2005, Murphy called a board of directors meeting to discuss the investor's desire to sell its shares and the NYAG investigation. The meeting was subsequently adjourned over several days. The meeting was tape recorded and, according to routine practice, an AIG employee took possession of and stored the recordings after the meeting. Over the weekend of March 19, 2005, Murphy removed the recordings (which as of the date of the filing of the NYAG AIG Complaint had not been recovered) and ordered the deletion of electronic files of any draft transcripts of the recordings.

497. A former executive of Richmond has stated that Richmond was where AIG would place certain finite risk deals from its Global Risk Management unit. The former executive said that through the 1990's and up into 2005, Richmond effectively allowed AIG to hide certain finite risk policies that were expected to generate losses early in their life. The former executive further added that "AIG would cede business to Richmond as if it was a reinsurer of AIG, when all it was an alter ego of AIG."

498. The transactions between AIG and Richmond were initiated for the sole purpose of aiding AIG in artificially increasing its premium income and loss reserves.

499. AIG finally admitted the truth on March 30, 2005, when it stated in a press release that:

> [T]he review of the operations of the Richmond subsidiaries had shown significant previously undisclosed evidence of AIG control. Therefore, AIG has determined that Richmond should be treated as a consolidated entity in AIG's financial statements.

500. The restatement of improper reporting relating to Richmond resulted in a reduction of AIG's 2004 shareholders' equity by $77 million, and its income by $26 million.

4. Astral Reinsurance

501. Astral Reinsurance Co. ("Astral"), a subsidiary of SICO, served as a reinsurer to AIG from 1984 through at least 1998. Virtually all of Astral's business was with AIG, and Astral's officers were located in a building controlled by AIG. AIG executives served as its top management, including Defendant Murphy.

502. From 1993 through 1998, AIG reported in it filings with state insurance departments that it conducted business with Astral, but listed Astral as unaffiliated with AIG. When Astral was liquidated in 2002, it held AIG stock worth approximately $1.4 billion, more than 1% of AIG's then-total stock, as well as $36 million of stock in a separate unit of AIG.

503. AIG also used Astral to hide its control of Union Excess and Richmond by causing other insurers to invest in those entities, while having Astral clandestinely guarantee those insurers' investments by providing them a "put" option, the exercise of which would directly or indirectly "put" the investment back to Astral with no loss to the third party. (This was revealed by Munich Reinsurance Company ("Munich Re") in the course of an interview with representatives of the NYAG.) This arrangement meant that AIG, through Astral, backed Union Excess and Richmond.

504. Union Excess had between 6 and 10 shareholders, all of which were reinsurance companies. Pursuant to the put option terms, Astral stood ready to buy most of their stakes in Union Excess for three years after their capital was transferred.

505. The D&O Defendants caused or permitted AIG to improperly treat its transactions with Astral as "insurance" involving a sufficient transfer of risk with an arm's-length, unrelated reinsurer, when they should have been consolidated in AIG's financial statements. In other words, these transactions were loans that AIG failed to report as liabilities on its balance sheet.

5. The D&O Defendants Breached Their Fiduciary Duties With Respect To AIG's Reinsurance Business

506. AIG's first and second quarter 2000 Forms 10-Q stated in relevant part (and all subsequent 10-Qs made the same or similar representations) that "AIG's Reinsurance Security Department conducts ongoing detailed assessments of the reinsurance markets and current and potential reinsurers, both foreign and domestic." Moreover, AIG made identical or similar representations in each of its subsequent Forms 10-K. For example, in its 2003 Form 10-K, AIG stated that "[t]he utilization of reinsurance is closely monitored by an internal reinsurance security committee, consisting of members of AIG's senior management."

507. According to an internal memorandum from Robert E. Lewis and Milton to Maurice Greenberg dated March 31, 2003, the Reinsurance Security Division:

> . . . is responsible for analyzing the credit worthiness of our reinsurers, assigning and maintaining accurate Obligor Risk Ratings (ORRs), setting appropriate limits by reinsurer and line of business, consistent with the risk rating, size of the reinsurer, and the relative risk of each insurance line. This process is ongoing within the Division, and the Credit Risk Management Department reviews the ORRs and reinsurer limits periodically. ***The Division is the closest of any AIG unit in observing the amount of premium and type of risk ceded to each reinsurer***. Based upon their general ***analysis of the reinsurer and reflecting upon the amount, type, and concentrations of risk the reinsurer is undertaking***, the Division adjusts approval limits. Going forward Chris and I will review the approved reinsurer limits monthly.

(emphasis added).

508. Defendant Milton was the Chairman of AIG's reinsurance security committee. Other D&O Defendants were also members of the reinsurance security committee – which consisted of members of AIG's senior management.

509. As documented in PwC audit workpapers from the fiscal period ended December 31, 1999 and a PwC memorandum dated January 6, 2001 regarding Monitoring Controls over underwriting:

> Policies pertaining to ceded reinsurance exist and are controlled by Chris Milton's group. Reinsurers must be on an approved list and the amount of business that can be placed with them is limited. A special committee composed of senior management (*e.g.,* ***M.R. Greenberg, Howard Smith, Tom Tizzio, and Evan Greenberg***) closely monitors reinsurance.

(emphasis added).

510. On May 14, 2004, AIG filed its quarterly report with the SEC on Form 10-Q. The Company's Form 10-Q was signed and certified pursuant to the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") by Maurice Greenberg and Smith. Sarbanes-Oxley required a statement affirming review thereof, as well as confirmation that the signatories had evaluated AIG's disclosure controls and procedures, and that they were designed and utilized to ensure the disclosure of material information relating to AIG.

511. For all the reasons detailed above regarding AIG's reinsurance transactions, Milton and the other D&O Defendants who were members of the reinsurance security committee either paid inadequate attention to, and failed to monitor AIG's reinsurance business or participated in, or acquiesced to, AIG's misdeeds (including GAAP violations and making false statements to insurance regulators and shareholders) related to reinsurance transactions, and thereby breached their fiduciary duty. Alternatively, the D&O Defendants failed to adequately pay attention to issues raised by the reinsurance security committee and thereby breached their fiduciary duties.

H. Manuafacturing Investment Income From Unrealized Capital Gains Using "Covered Call" Transactions

512. Net investment income (together with combined ratio) is a significant metric reviewed by analysts to evaluate insurance companies' underwriting profit

513. From 2001 to 2003, subsidiaries of AIG entered into arrangements with third parties whereby those subsidiaries sold in-the-money call options on securities in their investment portfolios (primarily with respect to bonds) with respect to which they had unrealized appreciation. Then, through sequential forward transactions and swaps, AIG would reacquire the securities/bonds.

514. In recording these transactions, AIG recognized net investment income based on the unrealized gains without recognizing capital gains. Over a three year period these transactions allowed AIG to improperly increase investment income and decrease capital gains by a total of approximately $300 million.

515. As a result of this scheme, AIG was forced to restate its previously reported financial statements from 2001 through 2003 to reduce net investment income and correspondingly increase capital gains in order to correct the improper accounting.

516. As stated in AIG's May 1, 2005 press release (incorporated herein by reference):

> Covered Calls - From 2001 through 2003, AIG subsidiaries entered into a series of transactions with third parties whereby these subsidiaries sold in-the-money calls, principally on municipal bonds in their investment portfolios, that had unrealized appreciation associated with them. Through a series of forward transactions and swaps that allowed AIG to reacquire the bonds, AIG recognized net investment income rather than realized capital gains in the amount of the unrealized appreciation of the bonds. The adjustments required to correct this error will reduce previously reported amounts of net investment income and correspondingly increase realized capital gains from these transactions over the three-year period.

517. In its 10-K filed on May 31, 2005, AIG reduced previously reported net investment income for 2001-2004 by $297 million as a result of its improper accounting for "covered call" transactions.

518. In a submission to the NYAG in August 2005, Maurice Greenberg stated that Defendant PwC, among others, had actual knowledge of the improper way these transactions were reflected on AIG's books.

I. Failure To Properly Record Reserves At Domestic Brokerage Group

519. AIG failed to properly book reserves for a number of legacy problems — dating back to the 1990s — in its domestic brokerage group ("DBG") (the "DBG Reserves Issues"). On May 31, 2005, AIG was forced to restate its results to account for, among other things, the DBG Reserves Issues.

520. Beginning in 2002, the senior financial and accounting employees in AIG's DBG began to track a number of accounting line-items for which AIG was under-reserved. Jacobson and DBG Controller Robert Beier ("Beier") prepared a spreadsheet detailing these DBG Reserves Issues and outlining the minimum levels of estimated exposure on these line items.[10] These DBG Reserve Memos were distributed to AIG's officers, including Smith and defendants Castelli and Tizzio. However, rather than reserving at least this minimum exposure, the defendants opted to provide smaller reserve amounts each quarter, which gradually increased the reserves available to be taken against the accounts listed on the DBG Reserve Memos.

521. By way of background, a number of the line items on the DBG Reserve Memos related to accounts that were "legacies" of accounting problems identified as far back as the early

[10] This spreadsheet was periodically updated; the initial spreadsheet and all of its subsequent iterations will be referred to herein, collectively, as the "DBG Reserve Memos."

1990s. These problems varied in their specifics and ranged from uncollectible receivables to reconciliation problems to inadequate tracking of activity in large accounts. One of the larger items — known as the "AIGRM Legacy" — related to (1) differences between the general ledger and subledger balances at AIG's risk management unit and (2) discrepancies concerning receivables at that division attributable to the complexity of that unit's accounts and its use of manual processes. Both Greenberg and Smith were aware of the AIGRM Legacy as early as 1992.

522. In 1997, AIG added staff to the risk management group who were tasked with reconciling the AIGRM Legacy accounts and collecting on accounts receivable at that unit. Notably, Tizzio prepared a memorandum entitled "AIGRM Estimated Unbooked Legacy Exposure" in January 1998 that detailed the estimated exposure on various AIGRM accounts.

523. In late 2000, AIG stepped up its efforts to address the AIGRM Legacy issues, forming the "Fusion Group" to consolidate the disparate units of loss sensitive booking, billing and collections into one organization. The Fusion Group was later supplemented with a 20-person unit specifically charged with addressing AIGRM Legacy issues, which were estimated during Castelli's tenure as DBG controller at an exposure level of between $100 and $650 million. According to Beier, the existence of this legacy account was no secret at AIG.

524. Jacobson worked to get a handle on the scope of the AIGRM and other Legacy issues and to bring these issues to Greenberg's and Smith's attention. To this end, Jacobson prepared a schedule entitled "Executive Summary of Exposure @ 12/31/2002" that estimated AIG's minimum and maximum exposure on the AIGRM Legacy accounts — along with several other problematic accounts — as of the end of 2002.

525. Beginning in 2002, AIG began to increase reserves each quarter to cover potential exposure on these Legacy issues. In a March 23, 2003 report to Jacobson entitled "Legacy Receivable Issues," Jacobson was alerted to the fact that "deferred premium balances totaling $145M had been inactive in the general ledger for an average of 7 years." Further, Jacobson was unequivocally cautioned that "$34.9M [of that total] are overstated and should be reduced to zero, as reflected in the subledger." This report was sent to Jacobson, Castelli and Tizzio — all of whom were responsible for AIG's financial management and who were in a position to address the issues raised in the report.

526. In December 2003, Smith, Jacobson and Castelli met with Greenberg to discuss the DBG Reserves Issues. At this meeting, Greenberg was given a copy of Jacobson's "Executive Summary of Exposure @ 12/31/2002." According to Jacobson, Greenberg instructed him merely to continue his research and keep him informed. Greenberg did not inquire as to the adequacy of the reserves set aside in light of Jacobson's findings.

527. On December 20, 2004, Castelli, Jacobson, Smith and Sullivan again met with Greenberg in his office to discuss the DBG Reserve Issue. Jacobson shared an updated version of the Executive Summary of Exposure at 12/31/03 with each of the attendees at this meeting. Greenberg was — according to Castelli — "not pleased" with the progress that had been made towards resolving these issues.

528. Smith periodically received and reviewed the DBG Reserve Memos. Nonetheless, he declined to order a formal analysis of this issue pursuant to FAS 5 or to authorize an appropriate reserve for these potential liabilities be provided. Rather, Smith claimed the amounts were immaterial to AIG's balance sheet to justify his refusal to cause the

Company to adjust its reserves to reflect these known problems. In reality, Smith was worried about the effect on AIG's reported income that such an adjustment would have.

529. In 2002, Smith instructed Jacobson to increase reserves by $100 million for the matters identified in the DBG Reserve Memos, but failed to provide any explanation as to why these reserves should be booked in that particular year. During a December 2004 meeting, Greenberg stated that AIG should increase the reserves for the items identified in the DBG Reserve Memos "to the extent possible."

530. From 1999 to 2004, AIG incrementally increased its operating expenses for these reserves which should have been booked in 1999 at the latest.

531. AIG was forced to restate its reported reserves due in part to the DBG Reserve Issues. As stated in AIG's May 1, 2005 press release:

> Domestic Brokerage Group ("DBG") Issues - ***A review of allowances for doubtful accounts and other accruals recorded by certain DBG member companies has led AIG to conclude that the allowances*** related to certain premiums receivable, reinsurance recoverables and other assets ***were not properly analyzed in prior periods and the appropriate allowances were not properly recorded in the consolidated financial statements***. In addition, various accounts were not properly reconciled. AIG's restated consolidated financial statements will reflect the recording of appropriate allowances for the time periods affected. ***The effect of this restatement on consolidated shareholders' equity at December 31, 2004 will be a decrease of approximately $300 million.***

(emphasis added).

J. Doctored And Disappearing Documents

532. With regulators breathing down their necks, defendants resorted to altering documents, stealing documents and outright refusing to cooperate with investigators to cover up their wrongdoing. The New York Times reported that certain documents in connection with the Gen Re deal "were doctored several months after the deal was struck," quoting unnamed

executives with direct knowledge of the transaction. The deal was "repapered" by midlevel employees of Gen Re in an effort to assist AIG to avoid government scrutiny. The transaction, which was initiated by Greenberg, was re-documented to make it appear as though Gen Re paid $10 million to AIG, when in reality AIG paid Gen Re $5 million.

533. On March 21, 2005, Smith and Milton, AIG's chief financial officer and vice president for reinsurance, respectively, were fired for failing to cooperate with regulators investigating AIG's reinsurance transactions and the transaction between AIG and Gen Re. Both individuals had informed the Company that they would be invoking their Fifth Amendment right against possible self-incrimination. Milton actually misled state regulators, providing information to the NYSID that falsely minimized AIG's financial connections to one or more offshore reinsurers.

534. Additionally, as discussed above, Murphy ordered the destruction of documents, including records of three Richmond board meetings convened in large part to discuss the NYAG investigation. Additionally, Murphy has invoked his Fifth Amendment rights in response to questions regarding his involvement in Richmond. Murphy has refused (1) to answer any questions regarding his knowledge of Richmond's activities, his relationship with Richmond (where he was an alternate director and secretary) or Richmond's relationship with AIG; (2) to identify his signature on documents; (3) to recount any discussions with Greenberg about Richmond; (4) to discuss the placement of reinsurance contracts with Richmond; (5) to explain Richmond's presence in Bermuda; or (6) to respond to any questions concerning removal of documents related to Richmond and the destruction of those documents, in each case invoking his Fifth Amendment rights. AIG fired Murphy for refusing to cooperate with government and internal investigations.

535. By Easter weekend 2005, Maurice Greenberg, having just been forced out of the CEO seat he had held for decades, sent his representatives to remove documents from AIG's office in Bermuda. In an escapade that has become known as the "Document Caper," Greenberg's representatives removed boxes of documents from an AIG office in Bermuda that AIG shared with Starr, SICO and other Greenberg-driven entities. On March 26, 2005, it was discovered that records were missing and that an AIG employee had destroyed computer records and tape recordings of business meetings. AIG's board, under threat of criminal indictment, retrieved the documents from Greenberg's representatives and sent its armed security force to guard the Bermuda office and the documents it contained. Of course, the documents that were destroyed were not, and cannot be, recovered.

536. On the heels of the Document Caper, the SEC secured a court order on April 7, 2005 from the United States District Court for the Southern District of New York compelling AIG, Maurice Greenberg and Starr to preserve any documents requested by the SEC. The order prohibits AIG, Maurice Greenberg and Starr "from interfering with the ability of the [SEC] to obtain any and all documents" in those parties' possession or control. The order also sets out security measures and security procedures for the production of documents located outside the United States.

K. AIG's Accounting During The Relevant Period Violated General Accounting Protocols And Standards And SEC Rules

537. Pursuant to SEC Regulation S-X (17 C.F.R. § 210.4(a)(1)), "Financial statements filed with the Commission which are not prepared in accordance with generally accepted accounting principles will be presumed to be misleading or inaccurate."

538. The D&O Defendants caused or permitted AIG to improperly manipulate, and then falsely report, AIG's financial results during the relevant period in violation of GAAP and SEC Rules.

539. Other defendants herein either aided and abetted or conspired with the D&O Defendants to cause or permit AIG to engage in the massively improper reporting of financial results.

540. PwC failed to conduct its audits of AIG's financial statements in accordance with GAAS or to flag obvious GAAP violations in the course of its audits.

541. On March 30, 2005, AIG publicly admitted that its accounting for reinsurance transactions was improper, and that as a result of these, and other accounting improprieties, it would be forced to restate its consolidated shareholders' equity as of year-end 2004 by $1.7 billion. AIG further stated, on March 30, 2005, that the improper accounting arose from transactions that "appeared to have been structured for the sole or primary purpose of accomplishing a desired accounting result."

542. On May 1, 2005, AIG issued another press release, this one seven pages in length, setting forth a laundry list of accounting misdeeds. This press release further announced that the Company would have to restate its financial statements for its 2000 through 2003 financial years, and for the first three quarters of 2004, as well as the final quarter of 2003. (AIG May 1, 2005 Press Release).

543. The May 1, 2005 Press Release further stated:

> The restatement will correct errors in prior accounting for improper or inappropriate transactions or entries that appear to have had the purpose of achieving an accounting result that would enhance measures important to the financial community and that may have involved documentation that did not accurately reflect the nature of the arrangements. In certain instances, these transactions or entries may also have involved

> misrepresentations to members of management, regulators and AIG's independent auditors. The adjustments also include transactions or entries that should be restated as a result of quantitative and qualitative factors or as a result of errors, some of which had been previously identified but considered not to be material to require correction.
>
> AIG expects to receive unqualified audit opinions from PwC with respect to its consolidated financial statements and its internal control assessment process. However, as a result of its internal review, AIG management has identified certain control deficiencies, including (i) the ability of certain former members of senior management to circumvent internal controls over financial reporting in certain circumstances, (ii) ineffective controls over accounting for certain structured transactions and transactions involving complex accounting standards and (iii) ineffective balance sheet reconciliation processes. These deficiencies are "material weaknesses" as defined by the Public Company Accounting Oversight Board's Auditing Standard No. 2. Consequently, management has concluded that AIG's internal control over financial reporting was ineffective as of December 31, 2004. Accordingly, PwC will issue an adverse opinion with respect to AIG's internal control over financial reporting. AIG has begun to actively address the control deficiencies identified by its review. Management's report on AIG's internal controls and a summary of AIG's remediation plans will be included in the Form 10-K.

544. On May 31, 2005, the restated financials and AIG's 10-K for 2004 were finally filed. The 10-K decreased consolidated shareholders' equity as of December 31, 2004 by $2.26 billion. The 10-K also reduced reported income for the period from January 1, 2000 through the third quarter of 2004, inclusive, by $3.924 billion. As the 10-K stated, in many cases the restated transactions "***appear to have had the purpose of achieving an accounting result that would enhance measures believed to be important to the financial community and may have involved documentation that did not accurately reflect the true nature of the arrangements***." (emphasis added) AIG acknowledged that "***these transactions . . . may also have involved misrepresentations to members of management, regulators, and AIG's independent auditors***." The damage caused by these misrepresentations is particularly acute because AIG operates in a heavily regulated industry.

545. These restatements reduced consolidated shareholders' equity at December 31, 2004 by approximately 2.7% or $2.26 billion, and its statement of net income for the restated period by $3.924 billion, one of the largest adjustments in the history of corporate America.

546. On November 9, 2005, AIG announced an additional restatement, this time for the three years ended in December 31, 2004. AIG announced that it would delay the filing of its Form 10-Q for the quarter ended September 30, 2005 until November 14, 2005. In its press release announcing this restatement, AIG reported:

> The most significant errors identified relate to the previously disclosed material weaknesses in internal controls surrounding accounting for derivatives and related assets and liabilities under FAS 133, reconciliation of certain balance sheet accounts and income tax accounting.
>
> ***
>
> AIG estimates that the errors identified in the third quarter of 2005 resulted in an understatement of previously reported consolidated retained earnings at June 30, 2005 of approximately $500 million...
>
> ***
>
> Due to the significance of these corrections, AIG will restate its financial statements for the years ended December 31, 2004, 2003 and 2002, along with affected Selected Consolidated Financial Data for 2001 and 2000 and quarterly financial information for 2004 and the first two quarters of 2005. AIG's prior financial statements for those periods should therefore no longer be relied upon.

547. Further, AIG announced the completion of its previously disclosed statutory restatements of its General Insurance company subsidiaries for the year ended December 31, 2004. AIG reduced its previously reported stockholders' equity by another $1.2 billion (for a total of $3.5 billion).

548. In addition to restatements of amounts improperly reported as a result of: (i) sham transactions with Gen Re; (ii) unsupported topside adjustments; (iii) AIG's life settlements program; (iv) "covered call" transactions; (v) concealment of underwriting losses; (vi) bogus

underwriting revenues generated using linked swaps; (vii) failure to record allowances for doubtful accounts and other accruals; and (viii) AIG's transfer of insurance risk to – and failure to consolidate – affiliated entities (in each case as described above), AIG's accounting adjustments also encompassed a host of other transaction types, including but not limited to: valuation of assets; foreign currency translation; deferred acquisition costs; awards to senior management of deferred compensation through AIG's affiliate, SICO (reduced net income for 2000 through 2004 by $496 million); failure to consolidate trusts established by AIG subsidiaries in connection with a municipal bond program (reduced net income for 2000 through 2004 by $221 million); improper accounting for hedge fund derivative contracts (reduced net income for 2000 through 2004 by $496 million); overstatement of general insurance deferred acquisition costs (reduced net income for 2000 through 2004 by $221 million); and others (in each case described in AIG's Forms 10-K filed on May 31, 2005 and March 16, 2006; Forms 10-K/A filed on March 16, 2006 and June 19, 2006; and AIG's press release dated May 1, 2005, which are each incorporated herein by reference in their entirety). In addition to restatements of AIG's reported net income and shareholders' equity, these accounting improprieties required revisions of AIG's reported premiums, underwriting results, and net investment income before realized capital gains and losses, as well as other entries, in both its consolidated and business segment results.

L. PwC's Utter Failure To Follow GAAS In The Performance Of Its Auditing Obligations

549. PwC served as AIG's independent auditor at all times relevant to the transactions and actions described in this Complaint. It had sole responsibility for auditing and expressing opinions upon the Company's financial statements. A primary purpose of AIG's retention of PwC was to enable the company to rely upon, file with relevant government agencies, and

publicly disclose such financial statements. PwC knew at all relevant times that its work would be relied upon by AIG, its Board and its financial management.

550. PwC is liable to AIG because, in the course of reviewing and auditing AIG's financial statements, it knew or recklessly disregarded significant facts about AIG's financial reporting, including facts about weaknesses and deficiencies in AIG's internal control structure. PwC's actions led it to certify financial statements as being in compliance with GAAP when those statements contained numerous, significant violations of GAAP.

551. As AIG's independent auditor, PwC: frequently and regularly met, spoke and corresponded with the Company's management and its Audit Committee, including the D&O Defendants, as well as other AIG employees, concerning operations, transactions, business structures, accounting policies, and other issues relevant to AIG's financial statements; was often physically on site at AIG's offices; had unfettered access to internal corporate data and reports; and had the opportunity to, and did, test the Company's financial statements, as well as the Company's internal controls structure.

552. In addition to its annual audits, PwC performed review procedures every quarter at AIG as required by the SEC. The objective of its quarterly review procedures, as stated in AU Section 722, Interim Financial Information, was to provide a basis for reporting whether material modifications should be made to the quarterly financial statements and related disclosures in order to comply with GAAP.

553. PWC's procedures should have included, among others:

- Obtaining a knowledge of internal controls to uncover areas of potential misstatements:
- Analytical procedures to provide a basis for inquiry about financial relationships that appear to be unusual;

- Inquiry of financial executives about changes to AIG's business activities; and
- Analyzing significant transactions and infrequently occurring transactions to determine how they should be correctly reported in the quarterly financial statements.

554. PwC was required under GAAS to plan and perform its reviews and audits to obtain reasonable assurances that AIG's financial statements were free of material misstatements and had a responsibility to discuss any material misstatements identified in AIG's financial statements with the Company's audit committee and to have management adjust the financial statements.

1. PwC's False Audit Reports

555. On February 7, 2001, February 6, 2002, and February 11, 2004 PwC issued its "Independent Auditors Report" attesting to the facts that AIG's financial statements for each of the relevant years:

- Complied with GAAP;
- Were free of material misstatements; and
- Fairly presented AIG's financial position and results of operations.

556. However, in reality, AIG's financial statements did not comply with GAAP and were replete with material misstatements. For example, AIG's net income, as reported on by PwC, was grossly overstated in 2003, 2001 and 2000 by 12.6%, 23.8% and 9.0%, respectively.

557. The improper transactions that materially misstated AIG's financial results were not isolated instances but rather encompassed a broad pattern of accounting manipulation to support AIG's fictitious financial statements. PwC had a responsibility, under GAAS, to look for circumstances that easily lend themselves to fraudulent and illegal activities. The guidance in AU Section 316, *Consideration of Fraud in a Financial Statement Audit*, should have been used

by PwC as roadmap to uncovering the accounting fraud carried out by the defendants. Indeed, many of the classic warning signs in AU Section 316 were present at AIG, including, but not limited to:

- Intentionally misapplied accounting principles – a $223 million overstatement of net income as a result of not accounting for investment income in accordance with GAAP;
- Altered supporting documents for amounts in the financial statements – a $372 million overstatement of net income in 2000 as a result of transactions that did not transfer risk;
- Management was dominated by a small group of people;
- Complex transactions – the legal form of the Gen Re transaction differed significantly from its economic substance;
- Top side adjustments that resulted in a $226 million overstatement of net income;
- Management set aggressive financial goals;
- Assets, loss reserves, revenue and expenses were based on significant estimates; and
- Related party transactions – several controlled entries were consolidated in the restatement.

558. Given the extent of the misconduct perpetrated by the defendants, even if PwC had performed the most rudimentary audit procedures the fraud would have been discovered.

2. PwC's Failure to Adequately Audit AIG's Internal Controls

559. PwC was required, under GAAS, to assess AIG's internal accounting controls as an integral part of performing an audit. *See* AU Section 319, *Consideration of Internal Control*

in a Financial Statement Audit; (an auditor is to obtain an understanding of internal control sufficient to plan an effective audit).

560. Further, PwC was required to assess the audit risk and materiality associated with poor internal controls as described in AU Section 312, *Audit Risk and Materiality in Conducting an Audit*.

561. PwC was also required by GAAS to report all significant internal control weaknesses ("reportable conditions") to AIG's audit committee, or to certify that no reportable conditions existed.

562. However, after AIG commenced internal investigations in the wake of the NYAG investigation and filing of the NYAG MMC Complaint in October 2004, it became readily apparent that AIG's internal controls were woefully deficient.

563. For example, AIG's May 31, 2005 Form 10-K disclosed that:

> AIG management conducted an assessment of the effectiveness of AIG's internal control over financial reporting as of December 31, 2004 based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
>
> A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of AIG's annual or interim financial statements will not be prevented or detected. In connection with the assessment described above, AIG management identified control deficiencies as of December 31, 2004 in the following areas:
>
> *Control environment:* Certain of AIG's controls within its control environment were not effective to prevent certain members of senior management, including the former Chief Executive Officer and former Chief Financial Officer, from having the ability, which in certain instances was utilized, to override certain controls and effect certain transactions and accounting entries. In certain of these instances, such transactions and accounting entries appear to have been largely motivated to achieve desired accounting results and were not properly accounted for in

accordance with GAAP. Further, in certain of these instances, information critical to an effective review of transactions, accounting entries, and certain entities used in these transactions and accounting entries, were not disclosed to the appropriate financial and accounting personnel, regulators and AIG's independent registered public accounting firm. As a result, discussion and thorough legal, accounting, actuarial or other professional analysis did not occur. This control deficiency is based primarily on these overrides.

Specifically, this control deficiency permitted the following:

- Creation of Capco, a special purpose entity used to effect transactions that were recorded to convert, improperly, underwriting losses to investment losses and that were not correctly accounted for in accordance with GAAP, resulting in a misstatement of premiums and other considerations, realized capital gains (losses), incurred policy losses and benefits and related balance sheet accounts.

- Incorrect recording under GAAP of reinsurance transactions that did not involve sufficient risk transfer, such as the Gen Re transaction, and in some cases also related to entities which should have been consolidated, such as Union Excess and Richmond. This incorrect recording under GAAP resulted in a misstatement of premiums and other considerations, incurred policy losses and benefits, net investment income, reinsurance assets, deferred policy acquisition costs, other assets, reserve for losses and loss expenses, reserve for unearned premiums, other liabilities and retained earnings. See below for a related discussion under *Controls over the evaluation of risk transfer.*

- Various transactions, such as Covered Calls and certain "Top Level" Adjustments, converted realized and unrealized gains into investment income, thereby incorrectly applying GAAP, resulting in a misstatement of net investment income, realized capital gains (losses), and accumulated other comprehensive income.

- Incorrect recording under GAAP of changes to loss reserves and changes to loss reserves through "Top Level" Adjustments without adequate support, resulting in a misstatement of incurred policy losses and benefits,

reserves for losses and loss expenses, foreign currency translation adjustments and retained earnings.

Controls over the evaluation of risk transfer: AIG did not maintain effective controls over the proper evaluation, documentation and disclosure of whether certain insurance and reinsurance transactions involved sufficient risk transfer to qualify for insurance and reinsurance accounting. These transactions included Gen Re, Union Excess, Richmond and certain transactions involving AIG Re, AIG Risk Finance and AIG Risk Management. As a result, AIG did not properly account for these transactions under GAAP, resulting in a misstatement of premiums and other considerations, incurred policy losses and benefits, net investment income, reinsurance assets, deferred policy acquisition costs, other assets, reserve for losses and loss expenses, reserve for unearned premiums, other liabilities, and retained earnings.

Controls over certain balance sheet reconciliations: AIG did not maintain effective controls to ensure the accuracy of certain balance sheet accounts in certain key segments of AIG's operations, principally in the Domestic Brokerage Group. Specifically, accounting personnel did not perform timely reconciliations and did not properly resolve reconciling items for premium receivables, reinsurance recoverables and intercompany accounts. As a result, insurance acquisition and other operating expenses, premiums and insurance balances receivable, reinsurance assets, other assets and retained earnings were misstated under GAAP.

Controls over the accounting for certain derivative transactions: AIG did not maintain effective controls over the evaluation and documentation of whether certain derivative transactions qualified under GAAP for hedge accounting, resulting in a misstatement of net investment income, realized capital gains (losses), other revenues, accumulated other comprehensive income (loss) and related balance sheet accounts.

Controls over income tax accounting: AIG did not maintain effective controls over the determination and reporting of certain components of the provision for income taxes and related deferred income tax balances. Specifically, AIG did not maintain effective controls to review and monitor the accuracy of the components of the income tax provision calculations and related deferred income taxes and to monitor the differences between the income tax basis and the financial reporting basis of assets and liabilities to effectively reconcile the differences to the deferred income tax balances. As a result, deferred income taxes payable, retained

> earnings and accumulated other comprehensive income were misstated under GAAP.
>
> The control deficiencies described above resulted in the restatement of AIG's 2003, 2002, 2001 and 2000 annual consolidated financial statements and 2004 and 2003 interim consolidated financial statements, as well as adjustments, including audit adjustments relating to the derivative matter described above, to AIG's 2004 annual consolidated financial statements. Furthermore, these control deficiencies could result in other misstatements in financial statement accounts and disclosures that would result in a material misstatement to the annual or interim AIG consolidated financial statements that would not be prevented or detected. Accordingly, management has concluded that these control deficiencies constitute material weaknesses.
>
> As a result of the material weaknesses described above, AIG management has concluded that, as of December 31, 2004, AIG's internal control over financial reporting was not effective based on the criteria in *Internal Control – Integrated Framework* issued by COSO.

564. Similarly, after auditing AIG management's conclusions regarding material internal control weaknesses, PwC itself concluded (in its audit opinion accompanying AIG's May 31, 2005 10-K) that:

> In our opinion, management's assessment that AIG did not maintain effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO. Also, in our opinion, because of the effects of the material weaknesses described above on the achievement of the objectives of the control criteria, AIG has not maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO.

565. AIG also disclosed, in its May 31, 2005 Form 10-K, that its disclosure controls and procedures were ineffective:

> ***Evaluation of Disclosure Controls and Procedures***
>
> As of the end of the period covered by this report (December 31, 2004), an evaluation was carried out by AIG's management, with

> the participation of AIG's current Chief Executive Officer and Chief Financial Officer, of the effectiveness of AIG's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (Exchange Act)). Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. Based on its evaluation and the identification of the material weaknesses in internal control over financial reporting described below and new information about preexisting facts which came to AIG's attention during the course of its internal review, and because of an inability to file the Annual Report on Form 10-K within the statutory time period, AIG's Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2004, AIG's disclosure controls and procedures were ineffective.

566. Thus, it is clear that, at all relevant times, AIG's internal controls were woefully inadequate – as PwC would easily have discerned had it done even a modicum of competent audit work with respect to internal controls as required by GAAS.

567. Despite its unfettered access to AIG's financial information and duties under GAAS, PwC was grossly negligent or acted in a willfully improper manner in failing to identify and/or disclose the glaring control deficiencies and massive accounting improprieties that allowed the other defendants to manipulate AIG's financial statements, forced the Company to restate its financial statements for the five years ended December 31, 2004 and the six month period ended June 30, 2005, reducing consolidated shareholders' equity by more than $3.4 billion.

568. In his August 2005 submission to the NYAG, Maurice Greenberg expressly stated that defendant PwC (as well as AIG senior executives) had express knowledge of and approved the accounting treatment chosen for the items on AIG's books that were restated.

569. PwC received over $213 million from AIG as payment for its auditing and consulting services during the period 2000 through 2004: $25.4 million in 2000, $26.9 million in 2001, $39 million in 2002, $44.8 million in 2003, and $77 million in 2004.

570. PwC's performance in connection with its audits of AIG's financial statements was vastly below the standard of due professional care required of independent auditors in its position.

571. PwC owed AIG a duty to provide these services, and all other work that it did on behalf of AIG, with reasonable skill, knowledge, diligence and competence possessed by an ordinarily prudent member of the auditing profession. PwC failed to fulfill that duty in its audits and reviews of AIG's financial statements during the period from 1999 through the third quarter of 2004. Instead, PwC either blindly accepted the information that it was spoon-fed by management, failing to conduct adequate tests to catch ***any*** of the rampant accounting improprieties with which AIG's financial statements were fraught for the entire relevant period, or it knowingly disregarded significant information.

572. The monetary amounts and nature of the infractions involved in the fleecing of AIG were so vast and diverse that they could not have gone unnoticed by any reasonably competent auditor. It would have been virtually impossible for PwC to audit the Company's financial statements without noticing the systemic improprieties.

573. PwC's actions and/or inactions assisted the defendants in improperly reporting information concerning AIG's operations, transactions, and financial circumstances, and disseminating such reports to government regulators and the general public. In short, PwC's utter failure to meet the standard of a reasonably competent auditor allowed AIG to disseminate

inaccurate and misrepresentative financial statements with a improper seal of approval from PwC.

M. The Negative Effect of Defendants' Actions on AIG's Business

574. Defendants' misdeeds have had serious negative effects on AIG. As set forth at length herein, Defendants' malfeasance caused AIG to be investigated and charged by a host of regulatory and investigatory bodies, including the SEC, the DOJ, the NYAG and the NYSID. In addition to suffering serious reputational harm and incurring enormous expenses to investigate and defend itself, AIG has had to pay over ***$1.64*** billion to resolve these claims.

575. Further, as a direct result of the D&O Defendants' conduct, AIG has been named as a defendant in numerous lawsuits and faces enormous potential liability (likely totaling billions of dollars) for violations of federal securities, antitrust and racketeering laws, and state law.

576. In addition, AIG has twice restated its financial results for 1999 through the third quarter of 2004. In addition to shaking investor confidence in the veracity of AIG's accounting and financial reporting functions and causing a dramatic decline in its market capitalization, AIG's restatements reduced consolidated shareholders' equity by a stunning ***$3.5 billion***.

577. Between March and May 2005, each of the major credit rating companies downgraded AIG's credit rating – once one of AIG's strengths and a feature that set it apart from most other insurance companies. Standard & Poor's and Fitch Ratings also placed AIG on "negative watch" and Moody's placed AIG on "review for further possible downgrade." The credit ratings of many of AIG's insurance and other subsidiaries were also negatively affected.

578. All told, Defendants' wrongdoing has subjected AIG to more than $1.6 billion in fines; has caused it to be sued in a variety of actions in both state and federal court, resulting in its continued exposure to significant defense costs and the ever-present risk of massive monetary

judgments against it; and has caused it to twice make multi-billion dollar restatements of its financial results. AIG has incurred catastrophic monetary and reputational damage as a result of the wrongs complained of herein.

N. The D&O Defendants Sold AIG Stock At Artificially Inflated Prices For Millions Of Dollars

579. The defendants listed below (the "Insider Selling Defendants") sold significant amounts of AIG stock while the stock price was artificially inflated by the undisclosed accounting improprieties complained of herein. This provided them with proceeds of more than $31 million dollars since 1999 as set forth in the following chart:

Name	**Date**	**Shares**	**Price**	**Proceeds**
Edward E. Matthews	8/24/1999	42,000	$65.50	$2,751,000
	10/8/1999	125,527	$62.79	$7,881,840
	1/10/2000	37,500	$72.17	$2,706,375
	1/2/2001	37,000	$96.89	$3,584,930
	12/3/2001	700	$81.32	$56,924
	12/3/2001	8,300	$81.25	$674,375
	10/28/2002	50,000	$66.05	$3,302,500
		301,027		**$20,957,944**
Thomas R. Tizzio	3/10/1999	4,500	$63.66	$286,470
	3/10/1999	9,938	$63.70	$633,050
	3/10/1999	6,188	$63.73	$394,361
	3/10/1999	7,500	$63.76	$478,200
	3/10/1999	3,750	$63.83	$239,362
	3/10/1999	5,709	$63.86	$364,576
	4/4/2002	5,700	$72.75	$414,675
	4/4/2002	1,500	$72.76	$109,140
	5/14/2004	24,000	$71.00	$1,704,000
	5/21/2004	16,000	$71.00	$1,136,000
		84,785		**$5,759,834**
TOTAL		**6,955,378**		**$29,301,848**

V. DEMAND FUTILITY ALLEGATIONS

580. The AIG Board of Directors, at the time the first complaint in this action was filed, consisted of the same fifteen people. Five of these directors were inside directors who were also senior officers of AIG: Maurice Greenberg, Smith, Sullivan, Kanak, and Tse. The other ten directors were Aidinoff, Chia, Marshall Cohen, Feldstein, Futter, Hills, Hoenemeyer, Holbrooke, Zarb and William S. Cohen. Each of these 15 directors also was a member of AIG's Board during all or part of the time period when the alleged wrongdoing took place. Because the claims asserted herein are substantially the same claims as were asserted in the original complaint, the demand requirements are measured against the board as it was composed at the time of the filing of the original complaint.

581. Shareholder Plaintiffs did not make any demand upon the AIG Board of Directors as it existed at the time of filing the original complaint to bring an action asserting the claims herein to recover damages for the injuries suffered by AIG, since such demand would be futile, and is therefore excused, for the following reasons:

A. A Majority Of The Board Was Interested Or Lacked Independence At The Time This Action Was Filed

582. The demand requirement as to the claims first brought in the original complaint and reasserted in this Complaint is measured against the composition of the board at the time the original complaint was filed, as the claims asserted in this complaint are substantially the same as the claims asserted in the original complaint. A majority of the board at that time was interested or lacked independence from the primary wrongdoers (Maurice Greenberg and the other defendants named herein), for the reasons described below, and therefore could not adequately consider a demand.

583. First, the corporate culture of AIG as led by Maurice Greenberg needs to be explained to truly understand the domination he exerted over everyone at AIG. He ran AIG with an iron fist, and is reported to have controlled or had direct knowledge of virtually everything at AIG, right down to the janitorial functions. A former AIG executive said that "[i]f a twig snaps in a Chinese forest, Maurice Greenberg hears it." So profound was the board's deference to Hank Greenberg that they let him – and him alone – choose who his successor would be. The board would not even get to know who it was until a sealed envelope containing the identity of his hand-picked replacement was opened in the event of his retirement or untimely death.

584. The New York Attorney General himself has said of AIG and Greenberg, "[t]hat Company was a black box, run with an iron fist by a CEO who did not tell the public the truth."

585. Moreover, according to *The Wall Street Journal*, people familiar with the AIG board meetings stated that at such meetings "directors often refrained from asking questions because they didn't want to appear ignorant or to challenge Mr. Greenberg's authority." At one such meeting, when a director asked if the board should consider decreasing the conflicting connections between AIG and other entities controlled by Maurice Greenberg, which are now subject to regulatory investigation, Maurice Greenberg shut the director down with a simple statement of "[t]hat would be stupid!"

Maurice Greenberg

586. Maurice Greenberg's inability to have considered a demand is self-evident. Numerous regulatory agencies have identified him as the architect of much of the wrongdoing at AIG, as have the participants in the shady transactions which he personally arranged or blessed. He invoked his Fifth Amendment right against self-incrimination rather than answer regulators' questions, and as such, has effectively admitted his inability to consider a demand.

587. Maurice Greenberg suffered from an irreconcilable conflict in considering the prosecution of those involved. It is clear that Maurice Greenberg would not take any steps to sue his own son, Evan Greenberg (CEO of ACE), who is implicated in certain of the accounting manipulations set forth above, as well as the Marsh scandal.

Smith

588. Smith was Greenberg's right-hand man, having been a senior executive officer of AIG. Quite simply, Smith owed his livelihood to Maurice Greenberg. He drew his AIG compensation ($1.36 million in salary and bonus in 2004 alone) at Greenberg's pleasure. More significantly, Greenberg also controlled SICO and Starr, in which Smith owned 8.33% and 8.56%, respectively. Smith's Starr holdings alone carry a liquidation value of $26,646,250. Smith's ability to realize that value from his Starr holdings was completely dependent upon Greenberg, because Smith's removal from AIG at Greenberg's direction would have resulted in a forfeiture of his Starr holdings.

589. On March 14, 2005, Smith's employment at AIG was terminated because he refused to cooperate with investigators by invoking his Fifth Amendment Right against self-incrimination. The invocation of that right works as an admission by Smith that he is unable to adequately consider a demand.

590. Defendant Smith was, at the time the original complaint was filed, on the Advisory Council of the Weisman Center for International Business of Baruch College. Between fiscal years 2001 and 2003, the Starr Foundation (chaired by Greenberg, and with Smith and Tse as directors) paid a total of $200,000 to Baruch College, and $1.725 million to the Baruch College Fund (which included the first installments on a $300,000 grant to the Weisman Center).

Martin J. Sullivan

591. At the time of the filing of the original complaint, Martin J. Sullivan ("Sullivan") was a senior executive officer of AIG serving at the pleasure of Maurice Greenberg and thus owed his livelihood to Greenberg. For serving in his AIG capacities, Sullivan was paid $1.6 million and $1.4 million in salary and bonus for the 2004 and 2003 fiscal years, respectively. Sullivan was also beholden to Maurice Greenberg for his 5.35% interest in Starr, carrying a liquidation value of $8.25 million.

592. Sullivan has also been identified by Hank Greenberg as having been complicitous in the accounting treatment of the transactions at issue in AIG's restatements of its financials earlier this year.

593. Sullivan was, at the time the original complaint was filed, a director of Young Audiences, Inc., to which the Starr Foundation gave $2,275,000 for 2001 through 2003. Maurice Greenberg's wife, Corinne, was, at the time the original complaint was filed a vice president of Young Audiences.

594. Sullivan was, at the time the original complaint was filed, Chairman of the Business Administration Committee of the British Memorial Garden New York Trust. In 2003, the Starr Foundation awarded a grant of $45,000 to the Trust.

Donald P. Kanak

595. Donald P. Kanak ("Kanak") was, at the time of the filing of the original complaint, a senior executive officer of AIG, and served in such position at the pleasure of Maurice Greenberg. Kanak was paid a salary plus bonus of $1.7 million in 2004 and $1.5 million in 2003. Kanak also was beholden to Hank Greenberg for his 4.28% interest in Starr, carrying a liquidation value of $8.25 million.

596. In fiscal year 2003, the Starr Foundation donated $500,000 to the University of North Carolina – of which Kanak was, at the time the original complaint was filed, on the Board of Visitors – to "Establish C.V. Starr Scholarship Funds."

Edmund S.W. Tse

597. Edmund S.W. Tse ("Tse") was, at the time of the filing of the original complaint, a senior executive officer of AIG, and served in such position at the pleasure of Maurice Greenberg. For serving in his AIG capacities, Tse was paid a salary plus bonus of nearly $1.6 million in 2004 and nearly $1.4 million in 2003. Tse is also beholden to Maurice Greenberg for his 8.33% interest in SICO and his 7.49% interest in Starr, which carries a liquidation value of $26.6 million.

598. Between fiscal years 2001 and 2003, the University of Hong Kong, of which Tse is a distinguished graduate, received from the Starr Foundation, grants totaling $7,606,500, including a grant of $750,000 to "Augment C.V. Starr Scholarship fund for student exchange programs" and $25,000 to "Augment C.V. Starr Scholarship Fund at the School of Chinese Medicine."

Bernard Aidinoff

599. Bernard ("Aidinoff") cannot impartially consider a demand because the law firm to which he is Senior Counsel (and was formerly a partner of), Sullivan & Cromwell, has received (and continues to receive) millions of dollars of business from AIG. For example, Sullivan & Cromwell's website reveals that it has represented AIG in its acquisitions of Hartford Steam & Boiler, 20th Century Industries, SunAmerica (a $16.5 billion stock transaction), HSB Group (a $1.19 billion stock transaction), in AIG Highstar Capital, L.P. ($555 million acquisition of Williams Gas Pipelines Central, Inc. and units of Western Frontier Pipeline Company, L.L.C., in the establishment of Allied World Assurance and Transatlantic Holdings, including its

subsequent IPO, in IPC's attempt to acquire AIG's Tempest Re, and in connection with the establishment of the Bermuda Commodities Exchange (an index of insured property losses), including drafting legislation in Bermuda, preparing the rules of the exchange, a related clearinghouse, and consultation with the relevant authorities of Bermuda. Sullivan & Cromwell also established grandfathered federal thrifts for AIG, provided executive compensation and employee benefits advice, and represented AIG in a variety of private investment matters including investment in the Blackstone Group. Sullivan & Cromwell also lists AIG as a significant investment advisor client. Thus, Aidinoff, through Sullivan & Cromwell, has derived and will continue to derive substantial revenues for legal representation at the mercy of Hank Greenberg.

600. Aidinoff was also, at the time the original complaint was filed, a director of First SunAmerica Life Insurance Company, a wholly-owned AIG subsidiary, and as such, served in that position at the pleasure of Greenberg (who controls nearly 20% of AIG's outstanding stock through the Starr/SICO entities). Aidinoff was, at the time the original complaint was filed, a member of the Council on Foreign Relations, to which the Starr Foundation (chaired by Greenberg) gave $7 million.

601. Aidinoff was also, at the time the original complaint was filed, a member of the Brookings Institute. Between 1998 and 2003, the Brookings Institute received $1.85 million from the Starr Foundation (chaired by Hank Greenberg, with Smith and Tse as directors).

602. Aidinoff (along with Sullivan) was, at the time the original complaint was filed, a director of Young Audiences, Inc., to which the Starr Foundation (chaired by Maurice Greenberg, with Smith and Tse as directors) gave $2,275,000 for 2001 through 2003. Maurice

Greenberg's wife, Corinne, was, at the time the original complaint was filed, a vice president of Young Audiences.

603. Aidinoff was also, at the time the original complaint was filed, a Chairman Emeritus of the Orchestra of St. Lukes. The Starr Foundation (chaired by Maurice Greenberg, with Smith and Tse as directors) has granted $300,000 to the Orchestra of Saint Luke's, and was one of its largest corporate donors in 2004. In addition, Maurice Greenberg and his wife personally donated between $25,000 and $74,999 in 2004. Corinne Greenberg was, at the time the original complaint was filed, also a director of the Orchestra of Saint Luke's.

604. Aidinoff and Maurice Greenberg (as well as Futter, Zarb, Wisner, Feldstein, Hills and Holbrooke) were, at the time the original complaint was filed, affiliated with the Council on Foreign Relations, Aidinoff as member and Greenberg as the former Vice Chairman (and Honorary Vice Chairman).

Pei-Yuan Chia

605. Pai-Yuan Chia ("Chia") cannot impartially consider a demand because, at the time the original complaint was filed, Greenberg, through the Starr Foundation he chairs (with Smith and Tse as directors), had recently made a $25 million donation to Memorial Sloan-Kettering – a cause dear enough to Chia's heart that he and his family donated between $1 million and $2,499,999 of their own money to the same entity.

606. Maurice Greenberg and Chia were, at the time the original complaint was filed, both trustees of The Asia Society. Holbrooke was also a trustee as well as the chairman of the executive committee of the Society, having succeeded Maurice Greenberg in that position.

607. The Asia Society's annual reports form 2001-02 and 2002-03, under the heading "Benefactors: $5,000,000 and above" list "Maurice R. and Corinne P. Greenberg," and the Starr Foundation. (Also listed in the "Benefactor" category is Citigroup, discussed below.) The

Society's annual report lists, in the Sponsor $500,000 - $999,999 category, the Chia Family Foundation.

608. In 2003 alone, the Starr Foundation donated $2.6 million to the Asia Society. Between 1999 and 2003 the Starr Foundation donated approximately $16.2 million to that organization.

609. Chia is a former trustee of New York University Hospitals. The Starr Foundation, between 1997 and 2003, awarded grants totaling approximately $8.2 million to New York University Hospitals.

Marshall A. Cohen

610. Marshall A. Cohen was, at the time the original complaint was filed, a shareholder in Coral Re. In the mid-1990's, AIG's relationship with Coral Re, a Barbados based company, came under scrutiny from regulators in Delaware. The Delaware authorities questioned Coral Re's independence from AIG. Coral Re was set up by AIG in 1987 to reinsure certain risks for AIG's subsidiaries. AIG cited the "less restrictive" statutory requirements in Barbados as the reason to base Coral Re there. Coral Re provided reinsurance to AIG's subsidiaries, such as National Union and Lexington Insurance. Coral Re was managed by American International Management Company which was another subsidiary of AIG.

611. The Delaware authorities examined many of the reinsurance contracts Coral Re wrote for AIG. The Delaware insurance regulators found that Coral Re was not a genuine, independent reinsurance operation, but rather a secret arm of AIG that existed solely to do business with AIG. The regulators ordered AIG to close Coral Re and to report to them any similarly structured reinsurance entities. Marshall Cohen's ownership in Coral Re prevented him from adequately considering a demand on transactions with similarly structured offshore reinsurers.

612. Marshall Cohen was appointed to the special litigation committee which reviewed TRSL's allegations in its complaint in C.A. No. 20106. He has actually demonstrated his inability to fairly and thoroughly consider a demand related to claims of unfair or illegal insurance practices, for all the reasons stated in TRSL's Answering Brief in Opposition to the Special Litigation Committee's Motion to Terminate, filed with this Court in C.A. No. 20106 on January 14, 2005 (the allegations of which are incorporated by reference herein).

Martin S. Feldstein

613. Martin S. Feldstein ("Feldstein") cannot impartially consider a demand because the Bureau of Economic Research – of which Feldstein was, at the time the original complaint was filed, President and CEO – received $2.65 million from the Starr Foundation (chaired by Greenberg, with Smith and Tse as directors) in 2001 and 2002. These contributions were made to establish the C.V. Starr Research Fund for International Economics.

614. According to AIG's own proxy statement, directors can only be considered independent if contributions to their organizations are not greater than 2% of such organizations' total revenues for the relevant year. The donations to Feldstein's National Bureau of Economic Research exceeded this amount. Nonetheless, the Board has taken the position that the contributions did not render Feldstein's independence "impaired."

615. Feldstein was, at the time the original complaint was filed, a professor at Harvard University, another recipient of a substantial donation from the Starr Foundation (chaired by Maurice Greenberg with Tse and Smith as directors). In 2001 through 2003, the Starr Foundation donated $1.4 million to the Harvard Kennedy School of Government, and in 2003, the Starr Foundation granted Harvard University an additional $1,142,500, $375,000 of which was directed toward the C.V. Starr Scholarship Fund, and granted to the Harvard Business School $1,000,000 to establish as C.V. Starr Scholarship Fund. In 2002, the Starr Foundation

granted $350,000 for to Harvard for the C.V. Starr Scholarship Fund, and $200,000 to the Harvard Business School.

616. Feldstein also served, at the time the original complaint was filed, on the Council on Foreign Relations with Greenberg, as well as Hills and Aidinoff. Feldstein was a director and Hank Greenberg is the former Vice Chairman (and was also Honorary Vice Chairman). "Signs of Greenberg's largesse are evident at the council's 68th Street headquarters: there is a Greenberg reception Room, a Greenberg Chair and a Greenberg Center for Geoeconomic Studies." Between 1998 and 2003, the Counsel on Foreign Relations received almost $7 million from the Starr Foundation. In addition, Maurice Greenberg and the Starr Foundation each were, at the time the original complaint was filed, members of the Council's Chairman's Circle, which requires an annual contribution of at least $25,000.

617. Feldstein was, at the time the original complaint was filed, a member of the Board of Advisors of the Federal Reserve Bank of New York. Maurice Greenberg is the former Chairman of the Bank.

Ellen V. Futter

618. Ellen V. Futter ("Futter") could not, at the time the original complaint was filed, impartially consider a demand because the American Museum of Natural History – of which Futter was President – received, between 1999 and 2001, a whopping $36.5 million donation from the Starr Foundation (chaired by Greenberg and with Smith and Tse as directors), and in 2003, the museum received another $1 million from the Starr Foundation. So profound was Futter's and the museum's gratitude for this gift that they named a state-of-the-art laboratory at the museum "The C.V. Starr Natural Science Building." In addition to the largesse Greenberg grants to Futter's museum through the Starr Foundation, his personal foundation donates $50,000

to the museum each year. Moreover, Maurice Greenberg was, in 1999 and 2001, a trustee of the American Museum of Natural History.

619. Futter also served Deputy Chairman of the Federal Reserve Bank of New York board while Greenberg was its Chairman.

620. Notably, in AIG's 2004 proxy statement, when listing those directors that the Nominating and Corporate Governance Committee had determined to be independent, AIG did not include Futter.

Carla A. Hills

621. Carla A. Hills ("Hills") cannot impartially consider a demand because she has served as a consultant to AIG and derived substantial income from such retentions. For a number of years (through early 2002 when the agreement was terminated), AIG had a consulting agreement on trade issues with Hills through Hills & Company, "whereby she provide[d] services to AIG." Hills is 71 years old and her principal employment is through Hills & Company.

622. Hills and Maurice Greenberg have both been affiliated with seven organizations: the Center for Strategic and International Studies, the Council on Foreign Relations, the Institute for International Economics, The Asia Society, the Trilateral Commission, the US-ASEAN Business Council and the US-China Business Council. Greenberg is the former Vice Chairman and Hills was, at the time the original complaint was filed, a member of the Center for Strategic and International Studies. Greenberg is the former Vice Chairman and Hills was, at the time the original complaint was filed, the Vice Chairman of the Council on Foreign Relations. Both were directors of the Institute for International Economics, trustees of The Asia Society and members of the Trilateral Commission. Greenberg was Vice Chairman and Hills' husband was Vice

Chairman of the US-ASEAN Business Council. Both Hills and Hank Greenberg were directors of the US-China Business Council.

623. Between 1998 and 2003, the Starr Foundation (chaired by Maurice Greenberg, with Smith and Tse as directors) contributed $3.2 million to the Institute for International Economics. During the same period, it contributed $120,000 to the Trilateral Commission.

624. Hills was, at the time the original complaint was filed, also associated with the National Committee on U.S. – China Relations, which, between 1998 and 2003, received $1.85 million from the Starr Foundation (chaired by Maurice Greenberg, with Smith and Tse as directors).

Frank J. Hoenemeyer

625. Frank J. Hoenemeyer ("Hoenemeyer") could not impartially consider a demand because he, as an "expert director" in the field of insurance due to his lengthy career as an executive and director of Prudential Insurance Company of North America, stands to be jointly and severally liable for the harm caused by the transactions complained of herein. As an expert director, he knew or should have known that the transactions were unfair, illegal, and harmful to AIG.

626. Hoenemeyer has already demonstrated his unwillingness and inability to appropriately address corporate governance problems at AIG. As TRSL learned in response to a §220 demand it made on AIG in October 2002, Maurice Greenberg invited, in September 2002, the AIG Audit Committee (chaired by Hoenemeyer) to review the agency relationships between AIG and Starr. Hoenemeyer simply stated that the Audit Committee would take the invitation "under advisement" and then did nothing whatsoever until TRSL made its §220 demand in October 2002. Hoenemeyer's notes and internal AIG documents showed that the TRSL §220

demand for inspection was viewed as a hostile move and a prelude to a shareholder suit. Only then did he even entertain the notion of examining the fairness of the AIG/Starr relationship.

627. Hoenemeyer was appointed to the special litigation committee which reviewed TRSL's allegations in its complaint in C.A. No. 20106. He has actually demonstrated his inability to fairly and thoroughly consider a demand related to claims of unfair or illegal insurance practices, for all the reasons stated in TRSL's Answering Brief in Opposition to the Special Litigation Committee's Motion to Terminate, filed with this Court in C.A. No. 20106 on January 14, 2005.

Richard Holbrooke

628. Richard Holbrooke ("Holbrooke") could not impartially consider a demand because the Starr Foundation (chaired by Greenberg, with Smith and Tse as directors) donated more than $10 million to the Asia Society during Holbrooke's tenure on the AIG board. The Asia Society is dear to Holbrooke, who has chaired the Society since 2002 – a position he took over from Maurice Greenberg. The 2001-2002 Annual Report of the Society show that both Greenberg (through Maurice R. and Corrine P. Greenberg, Inc.) and the Starr Foundation each donated more than $5 million. In 2003 alone, the Starr Foundation donated $2.6 million to the Asia Society. Between 1999 and 2003, the Starr Foundation donated approximately $16.2 million to that organization.

William S. Cohen

629. William S. Cohen could not impartially consider a demand because he was beholden to Greenberg for the Starr Foundation's $1 million donations to the William S. Cohen Center for International Policy and Commerce at the University of Maine in 1999 and 2001. According to the website of the William S. Cohen Center, since the entity was established it has

only raised a total of $1.5 million. This means that the Starr Foundation has donated more than two thirds of the funds that this organization has ever received.

630. William Cohen was nominated for his AIG directorship by Maurice Greenberg, despite the existence of AIG's Nominating Committee which is charged with identifying nominees for the Board. In fact, from its inception until to March 6, 2005 (well after this suit was instituted), AIG's Nominating Committee did not select a single board candidate – Maurice Greenberg did.

Frank Zarb

631. Frank Zarb ("Zarb") was unable to impartially consider demand because he had prior, direct knowledge of AIG's accounting treatment of derivative transactions. Maurice Greenberg stated that Zarb had such knowledge in a submission Greenberg made to the NYAG in August 2005.

632. Zarb and Maurice Greenberg's friendship dates back to the 1970s. It is so close, Maurice Greenberg invited Zarb and his wife to travel with Greenberg and his wife, Corinne, to Russia in the early 1990s. In 1993, Greenberg caused AIG to make a $200 million investment in Alexander and Alexander, while simultaneously "recommending" (read "directing") Alexander and Alexander to hire Zarb as its CEO. Alexander and Alexander did as Greenberg bade them to do, and Zarb was promptly hired as CEO. A few years later, Zarb walked away from Alexander and Alexander after its sale to another insurance company with a $23 million severance package.

633. Maurice Greenberg directed the Starr Foundation (which he chaired, and of which Smith and Tse were, at the time the original complaint was filed, directors) to donate $3.5 million to his friend Zarb's alma matter, Hofstra University, to construct a building for the Frank F. Zarb School of Business (obviously named after Zarb), and to donate a further $500,000 to

endow a faculty chair there. In 2003 the Starr Foundation donated $675,000 to the Zarb School.

634. At the time of the original complaint was filed, Maurice Greenberg and Zarb were affiliated with the Counsel on Foreign Relations.

635. Thus, each and every member of the board had disabling conflicts and could not impartially consider a demand. Demand is therefore futile.

B. Defendants' Liability And Lack Of D&O Coverage Further Excuse Demand

636. Demand is excused because the acts and practices alleged herein cannot be defended by the Inside Director Defendants and are not subject to the protection of the business judgment rule.

637. Demand is excused because the wrongs alleged herein constitute violations of the fiduciary duties owed by AIG's board, and are incapable of ratification by the current board. The Director Defendants are subject to liability for breaching their fiduciary duties to AIG by, *inter alia*, participating in the design of and/or executing the illegal business plan described herein, and failing to detect, prevent, or halt the violations of law complained of herein.

638. Demand is also excused because the Director Defendants participated in, approved, and/or permitted the wrongs alleged herein, concealed or disguised those wrongs, or recklessly and/or negligently disregarded them, and are therefore not disinterested parties and lack sufficient independence to exercise business judgment as alleged herein. Given the significance of the improper transactions to AIG's financial results, the Director Defendants must have known of and approved of them or were so grossly uninformed as to abdicate their responsibility as directors of the Company.

639. Demand is also excused because insurance policies covering the liability of a company's officers and directors purport to exclude legal claims asserted directly by the

company against such persons. Thus, there was, and is, a substantial disincentive for the Board to cause AIG to bring any action directly against the D&O Defendants. Generally, under the terms of such directors' and officers' insurance policies, a company would be required by the carriers to cooperate in the defense of any claims, such as the present action, which seek to impose liability upon certain officers and directors of AIG, including the D&O Defendants in this action, for misconduct and mismanagement. Thus, if the policy or policies which AIG maintains contain the foregoing provision, the insurance carriers would argue that AIG and its Board of Directors are thereby contractually disabled from complying with any demand that would cause AIG to institute, and/or prosecute any action against the D&O Defendants for such misconduct and mismanagement; because to do so could result in the loss of AIG's insurance coverage. Similarly, AIG would be disabled from pursuing the D&O Defendants as it would not benefit from any insurance they may have.

C. Prior Failure Of The Board To Take Action Against Certain Of The Defendants

640. On December 31, 2002, the Teachers' Retirement System of Louisiana filed suit derivatively on behalf of AIG, in this Court, alleging self dealing and breaches of fiduciary duty by many of the defendants here at issue. The Board, with the exception of one member since deceased, was virtually identical to the one here at issue. There, the Board admitted demand futility by creating a Special Litigation Committee. However, that committee promptly recommended dismissal of the complaint. For all the reasons set forth in TRSL's Answering Brief in Opposition to the Special Litigation Committee's Motion to Terminate, filed with this Court on January 14, 2005 in C.A. No. 20106, that committee utterly failed to fulfill its duties to thoroughly investigate the allegations of TRSL's complaint and provided the Court with no

reasonable basis for its determination to end the suit. This rejection of the obligation to take action against any defendant further demonstrates the futility of demand here.

D. Demand Is Excused Because The Special Litigation Committee Charged With Determining Whether The Claims Asserted Herein Should Be Prosecuted Takes No Position With Respect To Them

641. AIG has been sued in several actions relating to the misconduct complained of herein. Beginning in October 2004, a number of putative securities fraud class action suits were filed against AIG and consolidated as *In re American International Group, Inc. Securities Litigation*. These securities class actions were based, in significant part, on material misstatements by AIG that directly resulted from the misconduct alleged herein. Similarly, several ERISA actions were filed between November 30, 2004 and July 1, 2005 against AIG, again complaining principally of the same fraudulent conduct alleged herein. This action is one of numerous derivative actions — filed in this Court and in the Southern District of New York — between October 2004 and July 2005 complaining of the misconduct alleged herein.

642. In response to the filing of the consolidated derivative actions, AIG appointed a special litigation committee (the “SLC”) to investigate these claims. The derivative cases were stayed until March 14, 2007 to permit the SLC to complete its work.

643. After the SLC completed its investigation, AIG filed a stipulation with the Court on February 5, 2007 informing it that the SLC had decided to take control of the derivative actions filed on its behalf in this Court and in the Southern District of New York. Accordingly, on March 14, 2007, the Court realigned AIG as a party-plaintiff in this action.

644. AIG, in its new role as party-plaintiff, filed an Amended Complaint on June 13, 2007 (the “AIG Direct Complaint”). The AIG Direct Complaint asserts claims against Hank Greenberg and Smith. That same day, AIG moved to terminate the litigation with respect to several other defendants against which Shareholder Plaintiffs had asserted derivative claims (the

"Dismissed Defendants") on the grounds that the SLC had "determined that it [was] not in the best interests of AIG to pursue claims against [the Dismissed Defendants]").[11] However, the SLC did not recommend the dismissal of Shareholder Plaintiffs' claims against any of the remaining defendants originally named in the Consolidated Stockholders' Derivative Complaint.[12]

645. AIG has informed the Court that it takes no position with respect to the remaining defendants named in the First Amended Consolidated Stockholders' Derivative Complaint — *i.e.*, all defendants other than the Direct Action Defendants and the Dismissed Defendants.

COUNTS BROUGHT BY AIG

AIG'S COUNT I
For Breach of Fiduciary Duty

646. AIG repeats and realleges each and every allegation of Paragraphs 1 to 64 as if fully set forth herein.

647. As officers and directors, Greenberg and Smith owed a fiduciary duty to AIG to exercise loyalty and good faith in the management and administration of the affairs of the Company, including its financial reporting, and owed a duty of full and candid disclosure relating thereto.

648. Greenberg and Smith breached their fiduciary duty of loyalty and acted in bad faith, causing damages to AIG, by, inter alia, (i) directing and/or knowingly participating in

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[11] Namely, the SLC moved to terminate the litigation with respect to Martin J. Sullivan, Donald P. Kanak, Edmund S.W. Tse, Pei-Yuan Chia, Marshall A. Cohen, Martin S. Feldstein, Ellen V. Futter, Carla A. Hills, Frank J. Hoenemeyer, Frank Zarb, Jay S. Wintrob, Frank G. Wisner, Kristian P. Moor, John Graf and Eli Broad. The Shareholder Plaintiffs dropped these defendants from the complaint in response to the SLC's motion to terminate.

[12] In addition to former directors, officers and employees of AIG originally named in the Consolidated Stockholders' Derivative Complaint, Plaintiffs' Second Amended Consolidated Stockholders' Derivative Complaint names former AIG officers Umansky, Cantwell and Jacobson as defendants.

transactions structured for the sole or primary purpose of accomplishing desired accounting results which are alleged to have violated positive law; (ii) causing AIG to be exposed to liability for violations of the federal securities laws and potential criminal liability, as previously described herein; (iii) causing AIG to not report or make corrective payments with respect to the Underpayments of its workers compensation taxes and assessments; and (iv) directing the accounting for transactions that were corrected in the Restatement.

649. Greenberg's and Smith's breaches of their fiduciary duties have proximately caused, and will continue to cause, AIG to suffer monetary damages, including, among other things:

a. payment of $800 million to settle the SEC Action;

b. payment of hundreds of million in interest and penalties to settle the NYAG and NYSID actions;

c. exposure to damages, forfeitures, fines and penalties;

d. damage to AIG's reputation and good will;

e. loss of business and business opportunities;

f. increased costs of capital;

g. legal fees, costs, and related expenses incurred by AIG in connection with the investigations by the NYAG, SEC, DOJ and various state regulators;

h. the costs of AIG's internal investigation and Restatement; and

i. legal fees, costs, and related expenses and potential damages incurred in connection with civil litigation, including but not limited to, the Class Actions and lawsuits relating to workers' compensation underpayments.

AIG'S COUNT II
Claim for Indemnification

650. AIG repeats and realleges each and every allegation of Paragraphs 1 to 64 and 646 to 649 as if fully set forth herein.

651. Greenberg's and Smith's misconduct and wrongdoing described herein have had, and will continue to have, a series of deleterious effects on AIG, including, but not limited to:

a. payment of $800 million to settle the SEC Action;

b. payment of hundreds of millions of dollars in interest to settle the NYAG Action;

c. payment of a $100 million penalty to settle the NYAG Action;

d. costs of investigating and restating the alleged Misstatements; and

e. the exposure of AIG to suit for losses allegedly resulting from their misconduct, thereby, at a minimum, causing the Company to incur unnecessary direct and indirect investigatory, litigation and administrative costs, and potentially resulting in awards, judgments or settlements against AIG.

652. AIG's liability and payments with respect to the foregoing arises from the breach of duties owed by Greenberg and Smith to AIG.

653. AIG is entitled to indemnification from each of Greenberg and Smith in connection with all such claims that have been, or may in the future be, asserted against AIG by virtue of Greenberg's and Smith's misconduct and wrongdoing.

THE SHAREHOLDER PLAINTIFFS' COUNTS

COUNT III
Derivative Claim For Breach Of Fiduciary Duty
(Against the D&O Defendants)

654. Shareholder Plaintiffs incorporate by reference paragraphs 65 to 645 above as if set forth herein.

655. The D&O Defendants all owed a fiduciary duty to AIG and its stockholders, the duty to exercise loyalty, good faith, due care and diligence in the management and administration of the affairs of the Company, as well as in the auditing and financial reporting of the Company, and owed the duty of full and candid disclosure of all material facts relating thereto.

656. As fiduciaries, to discharge these duties, the D&O Defendants were required to exercise prudent supervision over the management, policies, practices, controls, and financial and corporate affairs of AIG.

657. In performing the aforementioned services, the D&O Defendants all breached their fiduciary duties, causing damages to AIG, by, *inter alia*, (i) directly participating in or, alternatively, failing to discover and prevent AIG's violations of law; (ii) failing to properly implement, oversee and maintain appropriate and adequate internal controls, practices and procedures for AIG; (iii) orchestrating, participating in or acquiescing transactions "structured for the sole of primary purpose of accomplishing a desired accounting result"; (iv) failing to ensure that AIG operated in compliance with all applicable federal and state laws, rules, and regulations requiring the dissemination of accurate financial statements and restricting the misuse of material non-public information; (v) failing to ensure that AIG not engage in any unsafe, unsound, or illegal business practices; (vi) causing AIG to be sued for, and exposed to, liability for violations of the anti-fraud provisions of the federal securities antitrust and racketeering laws, as well as state laws related to AIG's reporting of workers' compensation premiums, and potential criminal liability, as previously described herein; (vii) abusing their control of the Company; and (viii) and grossly mismanaging the Company.

658. The improprieties described herein would not have occurred but the for the D&O Defendants' intentional wrongdoing and/or conscious or reckless disregard for their oversight responsibilities. The D&O Defendants, in their executive positions at AIG, bore direct responsibility for the supervision and oversight of AIG's day-to-day operations, including AIG's reinsurance programs, which were the source of many of the accounting machinations, described herein, which AIG has now had to acknowledge. Indeed, it is evident that Maurice Greenberg

and the D&O Defendants were direct participants in, or knew of and acquiesced in, certain of these scandals.

659. Milton and other senior executives of AIG were members of or directly oversaw the responsibilities of the "Reinsurance Security Committee consisting of members of AIG's senior management," which closely monitored AIG's reinsurance programs. Thus, they had to know about and countenance, if not encourage, the placing of reinsurance with controlled reinsurers.

660. The Inside Defendants' failure to detect, prevent or halt the improprieties in AIG's reinsurance programs is particularly egregious because, as described herein, the Company has had numerous past brushes with regulatory authorities that would have put a vigilant board of directors on the alert. Within two months of its instigation, the current internal investigation caused AIG to announce that it had overstated its net worth by approximately $1.7 billion, and within two months of that announcement to increase that number by another $1 billion. This further demonstrates that even the slightest due diligence by the Board would have detected and stopped the wrongful practices years ago.

661. The D&O Defendants' breaches of their fiduciary duties have proximately caused, and will continue to cause, AIG to suffer substantial monetary damages as a result of the wrongdoing herein, as well as further and even greater damage in the future, including, among other things:

a. exposure to forfeitures, fines and penalties;

b. damage to AIG's reputation and good will (including perhaps irreparable damage to AIG's reputation and credibility with insurance and securities regulators, and to AIG's reputation and credibility in the business, insurance and financial community);

c. resultant loss of business and business opportunities;

d. increased costs of capital;

e. a huge loss in market value and shareholder equity;

f. legal fees and related expenses incurred and to be incurred by AIG in connection with the investigations by the NYAG, the SEC, the DOJ, the NYSID and various state regulators;

g. the costs of internal investigations, including the costs of investigations conducted by outside counsel; and

h. Legal fees, costs and potentially huge amounts payable in settlement or satisfaction of class action lawsuits alleging violations of federal and state laws.

662. AIG has been directly and substantially injured by reason of the D&O Defendants' intentional breach and/or reckless disregard of their fiduciary duties to the Company. Shareholder Plaintiffs, as shareholders and representatives of AIG, seek damages and other relief for the Company, in an amount to be proven at trial.

663. Shareholder Plaintiffs have no adequate remedy at law.

COUNT IV
Derivative Claim For Contribution And Indemnification
(Against The D&O Defendants)

664. Shareholder Plaintiffs incorporate by reference paragraphs 65 to 645 above as if set forth herein.

665. AIG is alleged to be liable to various persons, entities and/or classes by virtue of the same facts or circumstances as are alleged herein to give rise to the D&O Defendants' liability to AIG.

666. In addition, the D&O Defendants' misconduct and wrongdoing and the disclosures and events described herein have had, and will continue to have, a series of deleterious effects on AIG, including, but not limited to:

a. exposure to forfeitures, fines and penalties;

b. damage to AIG's reputation and good will (including perhaps irreparable damage to AIG's reputation and credibility with insurance and securities regulators, and to AIG's reputation and credibility in the business, insurance and financial community);

c. resultant loss of business and business opportunities;

d. increased costs of capital;

e. a huge loss in market value and shareholder equity; and

f. legal fees and related expenses incurred and to be incurred by AIG in connection with the investigations by the NYAG, the SEC, the DOJ, the NYSID and various state regulators.

g. the costs of internal investigations, including the costs of investigations conducted by outside counsel; and

h. Legal fees, costs and potentially huge amounts payable in settlement or satisfaction of class action lawsuits alleging violations of federal and state laws.

i. the costs of internal investigations, including the costs of investigations conducted by outside counsel; and

j. Legal fees, costs and potentially huge amounts payable in settlement or satisfaction of class action lawsuits alleging violations of federal and state laws.

667. By reason of the violations of law and other related misconduct described herein, AIG's alleged liability arises, in whole or in part, from the intentional, knowing, reckless, disloyal and bad faith acts or omissions of the D&O Defendants as previously alleged herein.

668. AIG is therefore entitled to contribution and indemnification from each of the Defendants in connection with all such claims that have been, are or may in the future be asserted against AIG by virtue of Defendants' misconduct and wrongdoing.

669. Shareholder Plaintiffs have no adequate remedy at law.

COUNT V
Conspiracy
(Against The D&O Defendants And The Gen Re Defendants)

670. Shareholder Plaintiffs incorporate by reference paragraphs 65 to 645 above as if set forth herein.

671. The D&O Defendants and the Gen Re Defendants conspired together to consummate a sham reinsurance transaction for the purpose of falsely bolstering AIG's loss reserves.

672. Each of them designed and participated in the transaction whereby the Gen Re Defendants agreed to make a payment to AIG that was falsely denoted as premium, and AIG agreed to insure certain known losses of the Gen Re Defendants. All aspects of the losses were known, however, and no risk shifted to AIG.

673. The D&O Defendants illegally caused AIG to reflect the transaction as a legitimate reinsurance transaction and recorded payments received from the Gen Re Defendants to AIG's loss reserves. By the D&O Defendants' and the Gen Re Defendants' design, the transaction never shifted any risk to AIG. The transaction should have been recorded as a loan and should never have increased AIG's loss reserves.

674. The conspiracy to consummate this sham transaction directly and proximately caused AIG harm.

675. Shareholder Plaintiffs have no adequate remedy at law.

COUNT VI
Common Law Fraud
(Against The D&O Defendants And The Gen Re Defendants)

676. Shareholder Plaintiffs incorporate by reference paragraphs 65 to 645 above as if set forth herein.

677. The D&O Defendants and the Gen Re Defendants defrauded AIG.

678. The defendants named herein represented to AIG that the Gen Re transaction was a legitimate reinsurance contract.

679. That representation was false because the Gen Re transaction was designed by these defendants to transfer no risk to AIG and thus was not a bona fide reinsurance transaction.

680. AIG relied on the representation that the Gen Re transaction was a legitimate reinsurance transaction in recording it on its books and raising its loss reserve levels to reflect the payment from Gen Re.

681. AIG was harmed by the fraudulent activities of these defendants, and has since had to restate its loss reserves to eliminate the effect of the Gen Re transaction. As a result of the fraud of defendants herein, AIG has been exposed to regulatory investigations and numerous legal proceedings.

682. Shareholder Plaintiffs have no adequate remedy at law.

COUNT VII
Aiding And Abetting Breach Of Fiduciary Duty
(Against The Gen Re Defendants)

683. Shareholder Plaintiffs incorporate by reference paragraphs 65 to 645 above as if set forth herein.

684. The D&O Defendants and Maurice Greenberg each owed the utmost fiduciary duties of good faith, loyalty and care. The D&O Defendants and Maurice Greenberg breached their fiduciary duties in designing and consummating the Gen Re transaction and causing it to be reflected on AIG's books as a reinsurance transaction rather than a loan.

685. The Gen Re Defendants knew that the D&O Defendants and Maurice Greenberg, as executive officers of AIG, owed AIG the fiduciary duties of good faith, loyalty and care.

686. The Gen Re defendants knew that the D&O Defendants and Maurice Greenberg breached their fiduciary duties in the Gen Re transaction because it was designed by these

defendants to transfer no risk to AIG and thus was not a bona fide reinsurance transaction. The Gen Re defendants knew that the D&O Defendants and Maurice Greenberg wanted the transaction to give them the means to falsely increase AIG's loss reserves, and the Gen Re defendants expressly participated in the transaction to allow the D&O Defendants and Maurice Greenberg to do so.

687. AIG was harmed by the Gen Re defendants' actions, including by being exposed to regulatory investigations and numerous legal proceedings.

688. Shareholder Plaintiffs have no adequate remedy at law.

COUNT VIII
Breach Of Fiduciary Duty
(Against The Insider Selling Defendants)

689. Shareholder Plaintiffs incorporate by reference paragraphs 65 to 645 above as if set forth herein.

690. Each of the Insider Selling Defendants owed AIG the utmost duties of good faith, loyalty and care.

691. Each of the Insider Selling Defendants breached those duties by selling significant amounts of AIG stock at times when they knew that the price of that stock was artificially inflated by undisclosed accounting improprieties at AIG.

692. Shareholder Plaintiffs have no adequate remedy at law.

COUNT IX
Breach Of Contract
(Against PwC)

693. Shareholder Plaintiffs incorporate by reference paragraphs 65 to 645 above as if set forth herein.

694. From 1999 to 2004 inclusive, PwC was party to written contracts with AIG. These contracts required PwC to provide services to AIG in accordance with GAAS.

695. PwC breached these contractual provisions by, inter alia, failing to perform its audits in accordance with GAAS, and by issuing unqualified opinions and or other positive statements about AIG's financial statements despite the broad-ranging violations of GAAP contained in those financial statements.

696. PwC's violations of its contracts with AIG have damaged AIG as herein alleged.

COUNT X
Accounting Malpractice And Professional Negligence
(Against PwC)

697. Shareholder Plaintiffs incorporate by reference paragraphs 65 to 645 above as if set forth herein.

698. In 1999 through 2004 inclusive, PwC issued unqualified opinions on AIG's financial statements, signifying that it had audited such statements in accordance with GAAS, and found them to be compliant with GAAP. PwC granted AIG consent to disseminate these unqualified opinions publicly in connection with their filing of their annual Forms 10-K.

699. A reasonably competent auditor would conduct its audits in compliance with GAAS, described above. Such audits would be designed to detect improper accounting of transactions by management of the company. GAAS requires an auditor to act with reasonable care, diligence and competence, and to exercise independent thought and judgment in acting as an independent accountant and auditor.

700. PwC failed to meet the standard of a reasonably competent auditor in its audits of AIG's books between 1999 and 2004, inclusive. PwC rendered its unqualified opinions despite its awareness, or recklessness in not being aware, that they were patently false. Contrary to its public representations, PwC's audits of AIG failed utterly to comply with GAAS and AIG's financial statements violated GAAP as well as SEC rules.

701. While performing its audits, PwC received information demonstrating that, as set forth in detail herein, AIG's financial statements were fraught with improprieties. In fact, Hank Greenberg has confirmed, in an August 2005 submission to the NYAG, that PwC had direct knowledge of the accounting improprieties at AIG. PwC did not demand that AIG correct these issues or withhold its unqualified opinion.

702. As a result of PwC's improper actions and/or inactions, PwC knew, was grossly negligent or was negligent in not knowing the material undisclosed adverse information about AIG's financial statements. PwC, moreover, participated in creating, reviewing and signing off on AIG's misleading public representations as reflected, inter alia, on the Company's Forms 10-K.

703. Foreseeably, AIG relied on the services and statements and services provided by PwC. As a direct and proximate result, AIG was damaged thereby.

COUNT XI
Conspiracy
(Against The MMC Defendants, Tateossian, Radke,
Mohs, Coello And The ACE Defendants)

704. Shareholder Plaintiffs incorporate by reference paragraphs 65 to 645 above as if set forth herein.

705. The MMC Defendants, Tateossian, Radke, Mohs, Coello and the ACE Defendants entered into a conspiracy whereby they illegally rigged the outcome of competitive bidding for commercial insurance contracts.

706. The defendants named in this Count carried out their scheme throughout the bidding on contracts with MMC clients for more than four years. The illegality of the scheme is amply demonstrated by the guilty pleas entered by Tateossian, Radke, Mohs, Coello, Abrams,

Stearns, Winter, Hatton, Michaels, Todd Murphy, Bewlay, & Adams to criminal charges brought against them for their roles in the bid-rigging scheme.

707. As a result of this conspiracy, AIG has been harmed, including by being exposed to regulatory investigations, criminal and civil charges for its involvement in the scheme.

708. Shareholder Plaintiffs have no adequate remedy at law.

COUNT XII
Common Law Fraud
(Against The MMC Defendants, Tateossian, Radke, Mohs,
Coello And The ACE Defendants)

709. Shareholder Plaintiffs incorporate by reference paragraphs 65 to 645 above as if set forth herein.

710. The MMC Defendants, Tateossian, Radke, Mohs, Coello and the ACE Defendants defrauded AIG.

711. The defendants named herein caused ACE and other insurers to put in bids for commercial insurance contracts that deliberately undercut AIG's bids for that business. These defendants caused AIG to place bids that were deliberately designed to cause AIG to lose the contracts at issue.

712. AIG relied on the integrity of its four employees (Tateossian, Radke, Mohs and Coello) to have caused AIG to be participating in truly competitive bidding for the commercial business of the MMC clients.

713. AIG similarly relied on the integrity of the MMC defendants to be broking truly competitive bidding and on the integrity of the ACE defendants to be participating fairly and honestly in truly competitive bidding.

714. AIG was harmed by the fraudulent activities of these defendants.

715. Shareholder Plaintiffs have no adequate remedy at law.

COUNT XIII
Aiding And Abetting Breach Of Fiduciary Duty
(Against The MMC Defendants)

716. Shareholder Plaintiffs incorporate by reference paragraphs 65 to 645 above as if set forth herein.

717. The MMC Defendants knew that Maurice Greenberg and the D&O Defendants owed AIG the utmost duties of good faith, loyalty and care.

718. Maurice Greenberg and the D&O Defendants breached their fiduciary duties to AIG by causing and allowing AIG to make illegal "contingent commission" payments to MMC.

719. The MMC Defendants knew that Hank Greenberg and the D&O Defendants were breaching their fiduciary duties to AIG in making and allowing these illegal payments to MMC.

720. The MMC Defendants participated in those breaches of fiduciary duty by requiring Maurice Greenberg and the D&O Defendants to cause AIG to make the illegal payments to MMC.

721. AIG has been harmed by The MMC Defendants' inducing its fiduciaries to breach their duties to AIG.

722. Shareholder Plaintiffs have no adequate remedy at law.

COUNT XIV
Unjust Enrichment
(Against The MMC Entities)

723. Shareholder Plaintiffs incorporate by reference paragraphs 65 to 645 above as if set forth herein.

724. The MMC Entities have been, and continue to be unjustly enriched through the unlawful and/or wrongful collection of kickbacks in the form of contingent commission payments by AIG to MMC, and continue to so benefit to the detriment and at the expense of AIG.

725. Accordingly, Shareholder Plaintiffs seek full restitution for (joint and several) enrichment, benefits and ill-gotten gains acquired as a result of the unlawful and/or wrongful conduct alleged herein.

726. Shareholder Plaintiffs have no adequate remedy at law.

COUNT XV
Derivative Claim For Breach Of Fiduciary Duty
(Against Maurice Greenberg, Matthews And Tizzio)

727. Shareholder Plaintiffs incorporate by reference paragraphs 65 to 645 above as if set forth herein.

728. This count is brought against Maurice Greenberg with regard to Financial Products' and SunAmerica's activities in the municipal derivatives market from 1992 through June 2005; against Matthews with regard to Financial Products' and SunAmerica's activities in the municipal derivatives market from 1992 through December 2003; and against Tizzio with regard to Financial Products' and SunAmerica's activities in the municipal derivatives market from 1992 through his retirement in 2006 (Maurice Greenberg, Matthews and Tizzio are referred to herein collective as the "Municipal Derivatives Defendants").

729. The Municipal Derivatives Defendants all owed a fiduciary duty to AIG and its stockholders, the duty to exercise loyalty, good faith, due care and diligence in the management and administration of the affairs of the Company, as well as in the auditing and financial reporting of the Company, and owed the duty of full and candid disclosure of all material facts relating thereto.

730. As fiduciaries, to discharge these duties, the Municipal Derivatives Defendants were required to exercise prudent supervision over the management, policies, practices, controls, and financial and corporate affairs of AIG.

731. In performing the aforementioned services, the Municipal Derivatives Defendants all breached their fiduciary duties, causing damages to AIG, by, *inter alia,* (i) directly participating in or, alternatively, failing to discover and prevent AIG subsidiaries Financial Product's and SunAmerica's participation in the municipal derivatives bid rigging scheme discussed above; (ii) failing to properly implement, oversee and maintain appropriate and adequate internal controls, practices and procedures for AIG subsidiaries Financial Products and SunAmerica; (iii) failing to ensure that AIG subsidiaries Financial Products and SunAmerica operated in compliance with all applicable federal and state laws, rules, and regulations requiring the dissemination of accurate financial statements and restricting the misuse of material non-public information; (iv) failing to ensure that AIG subsidiaries Financial Products and SunAmerica not engage in any unsafe, unsound, or illegal business practices; (v) causing AIG subsidiaries Financial Products and SunAmerica to be sued for, and exposed to, liability for violations of the anti-fraud provisions of the federal antitrust laws, as well as state laws, related to AIG's participation in the municipal derivatives bid rigging scheme discussed above; (vi) abusing their control of the Company; and (vii) and grossly mismanaging the Company.

732. The improprieties described herein would not have occurred but the for the Municipal Derivatives Defendants' intentional wrongdoing and/or conscious or reckless disregard for their oversight responsibilities. The Municipal Derivative Defendants, in their executive positions at AIG, bore direct responsibility for the supervision and oversight of AIG's day-to-day operations, including oversight of Financial Products and SunAmerica, which were directly involved in the municipal derivatives bid rigging scheme described herein, for which Financial Products and SunAmerica are now being sued.

733. The Municipal Derivatives Defendants' breaches of their fiduciary duties have proximately caused, and will continue to cause, AIG to suffer substantial monetary damages as a result of the wrongdoing herein, as well as further and even greater damage in the future, including, among other things:

a. exposure to forfeitures, fines and penalties;

b. damage to AIG's reputation and good will (including perhaps irreparable damage to AIG's reputation and credibility with insurance and securities regulators, and to AIG's reputation and credibility in the business, insurance and financial community);

c. resultant loss of business and business opportunities;

d. increased costs of capital;

e. a huge loss in market value and shareholder equity;

f. the costs of internal investigations, including the costs of investigations conducted by outside counsel; and

g. Legal fees, costs and potentially huge amounts payable in settlement or satisfaction of class action lawsuits alleging violations of federal and state laws.

734. AIG has been directly and substantially injured by reason of the Municipal Derivatives Defendants' intentional breach and/or reckless disregard of their fiduciary duties to the Company. Shareholder Plaintiffs, as shareholders and representatives of AIG, seek damages and other relief for the Company, in an amount to be proven at trial.

735. Shareholder Plaintiffs have no adequate remedy at law.

AIG'S PRAYER FOR RELIEF

WHEREFORE, AIG demands judgment against Defendants Greenberg and Smith, jointly and severally, as follows:

(i) on Counts I and II, declaring that Defendants Greenberg and Smith have breached their fiduciary duties to, and are liable to indemnify, AIG, and awarding AIG damages in an amount to be determined at trial but in excess of $1 billion;

(ii) for prejudgment interest;

(iii) for costs and expenses of this action; and

(iv) for such other and further relief as the Court deems just and proper.

THE SHAREHOLDER PLAINTIFFS' PRAYER FOR RELIEF

WHEREFORE, the Shareholder Plaintiffs, derivatively on behalf of AIG, pray for judgment as follows:

A. As to Count III, Breach of Fiduciary Duty, against all the D&O Defendants:

(i) an award of monetary damages to AIG from all of the D&O Defendants, for all losses and/or damages suffered by AIG as a result of the wrongdoings complained of herein, together with prejudgment and post-judgment interest thereon, in an amount to be proven at trial; and

(ii) a declaration that D&O Defendants breached their fiduciary duties to AIG.

B. As to Count IV, Contribution and Indemnification, that all of the D&O Defendants are liable to AIG for contribution and indemnification in connection with all such claims that have been, are or may in the future be asserted against AIG by virtue of those defendants' misconduct and wrongdoing alleged herein;

C. As to Count V, Conspiracy Against the D&O Defendants and the Gen Re Defendants that AIG be made whole for all losses and/or damages suffered by it as a result of the Gen Re transaction;

D. As to Count VI, Common Law Fraud against the D&O Defendants and the Gen Re Defendants that AIG be made whole for all losses and/or damages suffered by it as a result of the Gen Re transaction;

E. As to Count VII, Aiding and Abetting Breach of Fiduciary Duty against the Gen Re Defendants, an order making AIG whole for the damage suffered as a result of the breaches of fiduciary duty by the D&O Defendants and Maurice Greenberg;

F. As to Count VIII, Breach of Fiduciary Duty for Insider Selling, that the Insider Selling Defendants be ordered to disgorge all profits made on their sales of AIG stock during the relevant period.

G. As to Counts IX and X, Breach of Contract and Accounting Malpractice and Professional Negligence, against PwC,

(i) an award of monetary damages for all losses and/or damages suffered by AIG as a result of the wrongdoings complained of herein; and

(ii) restitution of all fees paid to PwC by AIG for its provision of auditing and accounting services to AIG from 1999 through 2004;

H. As to Count XI, Conspiracy against the MMC Defendants, Tateossian, Radke, Mohs, Coello and the ACE Defendants, an order awarding monetary damages to AIG for all losses and/or damages suffered by AIG as a result of the contingent commission kickback payments and bid-rigging schemes;

I. As to Count XII, Common Law Fraud against the MMC Defendants, Tateossian, Radke, Mohs, Coello and the ACE Defendants, an order awarding monetary damages to AIG for all losses and/or damages suffered by AIG as a result of the contingent commission kickback payments and bid-rigging schemes;

J. As to Count XIII, Aiding and Abetting Breach of Fiduciary Duty against MMC, Marsh, Marsh USA and MGB, an order making AIG whole for the damage suffered as a result of the breaches of fiduciary duty by the D&O Defendants and Hank Greenberg;

K. As to Count XIV, Unjust Enrichment against all the MMC Defendants, an order requiring the disgorgement of all the contingent commission kickback payments made by AIG to the MMC Defendants.

L. As to Count XV, Breach of Fiduciary Duty, against the Municipal Derivatives Defendants:

(i) an award of monetary damages to AIG, against all of the Municipal Derivatives Defendants, for all losses and/or damages suffered by AIG as a result of the wrongdoings complained of herein, together with prejudgment and post-judgment interest thereon, in an amount to be proved at trial;

(ii) a declaration that these defendants breached their fiduciary duties to AIG;

(iii) a declaration that Maurice Greenberg, Matthews and Tizzio are or were expert directors and therefore are jointly and severally liable for all damages herein;

M. Awarding Shareholder Plaintiffs the fees and expenses incurred in this action, including an allowance of fees for Shareholder Plaintiffs' attorneys and experts;

N. Awarding pre- and post-judgment interest on all monetary awards; and

O. Granting Shareholder Plaintiffs such other and further relief as the Court may deem just and proper.

Dated: April 11, 2008.

FOR PLAINTIFF AMERICAN INTERNATIONAL GROUP, INC., AS TO PARAGRAPHS 1 THROUGH 64, AMERICAN INTERNATIONAL GROUP, INC.'S COUNTS I AND II (INCORPORATING PARAGRAPHS 646 THROUGH 653) AND AMERICAN INTERNATIONAL GROUP, INC.'S PRAYER FOR RELIEF ONLY

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FOR CO-LEAD PLAINTIFFS, THE TEACHERS' RETIREMENT SYSTEM OF LOUISIANA AND THE CITY OF NEW ORLEANS EMPLOYEES' RETIREMENT SYSTEM, TOGETHER WITH THE OTHER SHAREHOLDER PLAINTIFFS, AS TO PARAGRAPHS 65 THROUGH 645, THE SHAREHOLDER PLAINTIFFS' COUNTS III THROUGH XIV (INCORPORATING PARAGRAPHS 654 THROUGH 734) AND THE SHAREHOLDER PLAINTIFFS' PRAYER FOR RELIEF ONLY

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