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Los Angeles Superior Court

APR 01 2009

John A. Clarke, Executive Officer/Clerk
By DOROTHY SWAIN, Deputy

10 **SUPERIOR COURT FOR THE STATE OF CALIFORNIA**
11 **COUNTY OF LOS ANGELES**

12 **JOHN J. BIBLE, derivatively and on**
13 **behalf of AMERICAN**
14 **INTERNATIONAL GROUP, INC. ,**

14 **Plaintiff,**

15 vs.

16 **EDWARD LIDDY,**
17 **JAY WINTROB,**
18 **STEPHEN BOLLENBACH,**
19 **DENNIS DAMMERMAN,**
20 **SUZANNE NORA JOHNSON,**
21 **JAMES ORR,**
22 **VIRGINIA ROMETTY,**
23 **and Does 1-20, inclusive,**

21 **Defendants,**

22 and

23 **AMERICAN INTERNATIONAL**
24 **GROUP, INC.,**

24 **Nominal Defendant.**

CIVIL ACTION NO.: BC410879

COMPLAINT FOR:

- 1. CORPORATE WASTE
- 2. BREACH OF FIDUCIARY DUTY
- 3. ABUSE OF CONTROL
- 4. UNJUST ENRICHMENT AND IMPOSITION OF CONSTRUCTIVE TRUST

JURY TRIAL DEMANDED

TABLE OF CONTENTS

	Page
1	
2	
3	I. INTRODUCTION..... 1
4	II. PARTIES..... 3
5	A. Plaintiff..... 3
6	B. Defendants..... 3
7	C. Doe Defendants..... 6
8	D. Agents and Co-Actors..... 6
9	E. Unnamed Participants..... 6
10	III. FACTUAL ALLEGATIONS..... 7
11	A. AIG’s History Of Manipulated Financial Results..... 7
12	1. The Bid-Rigging and Contingent Commission Scheme..... 7
13	2. AIGFP and the Brightpoint and PNC Deals..... 7
14	B. AIG Emerges From The Depths Of Its 2005 Restatement, Claiming Improved Financial Results Driven By Its AIGFP Division..... 16
15	1. The Financial Rewards Of Working At AIGFP..... 16
16	2. AIG’s Lucrative Role In Credit Derivative Swap Market..... 18
17	3. AIG’s Reported Financial Results..... 20
18	C. February 2008: AIG Reveals Its Massive Exposure to CDS Losses..... 31
19	D. September 2008: After Asking The United States Taxpayers For Bail Out, AIG Reveals Details Of “Retention” Bonus Program..... 36
20	
21	IV. FUTILITY OF PRE-FILING DEMAND..... 46
22	V. CAUSES OF ACTION..... 50
23	FIRST CAUSE OF ACTION..... 50
24	SECOND CAUSE OF ACTION..... 51
25	THIRD CAUSE OF ACTION..... 52
26	FOURTH CAUSE OF ACTION..... 53
27	VI. PRAYER FOR RELIEF..... 54
28	VII. DEMAND FOR JURY TRIAL..... 54

1 Plaintiff John J. Bible (“Plaintiff”) alleges the following based on the investigation
2 conducted by Plaintiff and its counsel, a review and analysis of American International Group,
3 Inc.’s (“AIG” or the “Company”) filings with the United States Securities Exchange Commission
4 (the “SEC”), news articles and other media reports, press releases, interviews, and other matters
5 of record.

6 **I. INTRODUCTION**

7 “[W]e cannot attract and retain the best and brightest talent to lead and staff the
8 AIG businesses – which are now being operated principally on behalf of the
9 American taxpayers – if employees believe that their compensation is subject to
continued and arbitrary adjustment by the U.S. Treasury.”

10 *Edward M. Liddy, AIG’s Chairman and CEO, March 14, 2009*

11 I. This derivative action is brought on behalf of nominal Defendant American
12 International Group, Inc. (“AIG” or the “Company”), a corporation doing business throughout
13 the United States and in this County, against certain present and former members of AIG’s Board
14 of Directors and certain senior executives for breaches of fiduciary duty that have cost AIG, as
15 well as United States taxpayers, hundreds of millions of dollars.

16 2. As discussed below, at the same time AIG was successfully lobbying the
17 United States Government for approximately **\$175 billion** in taxpayer funds to keep it in
18 business, AIG’s senior management – the Individual Defendants herein – internally approved
19 over **\$1 billion** in bonus payments, including approximately \$400 million in bonuses to
20 employees in the AIG Financial Products (AIGFP) unit responsible for AIG’s demise, and \$57
21 million in “retention” pay for employees that AIG had already decided to terminate.

22 3. There was no rational business purpose or justification for these lucrative
23 additional payments, particularly given AIG’s deteriorating financial condition and dismal
24 financial performance of its AIGFP unit. Moreover, the same executives and employees had
25 already been overpaid as a result of the Individual Defendants’ deliberate exclusion of losses
26 from AIGFP’s portfolio of credit default swaps or “CDS” in determining compensation under
27 AIG’s existing plan. Accordingly, in order to deflect criticism from their decision, Defendants
28 falsely portrayed the gift of taxpayer funds as “retention” payments approved months earlier to

1 keep employees from leaving, which AIG was now contractually obligated to honor. In a March
2 14, 2009 letter to the Secretary of Treasury, AIG's Chairman and CEO, Defendant Edward
3 Liddy, said that "AIG's hands are tied."

4 4. Liddy's explanation is outrageous on its face. Putting aside the dubious premise
5 that it was necessary to retain the very executives and employees responsible for AIG's collapse,
6 let alone employees that AIG had already decided to terminate, it is absurd to suggest that AIG
7 was legally "obligated" to pay the bonuses under pre-existing agreements, when the only reason
8 that AIG even existed and had money to fund its operations was due to the US taxpayer bailout.
9 Absent the bailout, the employees would have no job to retain. Moreover, retention bonuses are
10 only arguably appropriate when the existing compensation plan fails to provide adequate
11 incentive for employees to remain. Yet, the Board's decision to approve retention bonuses in
12 addition to the artificially inflated salaries and bonuses previously approved was nothing short of
13 a corporate gift. AIGFP executives had already been overpaid for years based on financial
14 metrics that bore no relationship to the Company's overall profitability or ability to continue as a
15 going concern, and which deliberately excluded AIG's increasingly dire CDS losses.

16 5. On March 16, 2009, President Obama announced that he had asked Treasury
17 Secretary Timothy Geithner to "pursue every single legal avenue to block these bonuses and
18 make the American taxpayers whole." In strongly-worded remarks, President Obama called AIG
19 "a corporation that finds itself in financial distress due to recklessness and greed" and said "This
20 isn't just a matter of dollars and cents. It's about our fundamental values." President Obama
21 also openly questioned the purported business justification provided by AIG:

22 "Under these circumstances, it's hard to understand how derivative traders at AIG
23 warranted any bonuses, much less \$165 million in extra pay. How do they justify
24 this outrage to the taxpayers who are keeping the company afloat? . . . All across
25 the country, there are people who work hard and meet their responsibilities every
26 day, without the benefit of government bailouts or multimillion-dollar bonuses.
27 And all they ask is that everyone, from Main Street to Wall Street to Washington,
28 play by the same rules."

26 6. Political, business, and new commentators alike, from every background, have
27 joined the chorus in disgust. Certain AIG employees have now agreed to return the bonuses.
28 Unfortunately for AIG and its shareholders, much of the damage has already been done. As a

1 result of the approval of “retention” payments, which constitute corporate waste and gifts of AIG
2 assets, AIG has lost or will lose in the near future the use of hundreds of millions of dollars of
3 corporate funds. In addition, AIG has incurred and will continue to incur substantial expenses,
4 including legal fees, due to the state and federal government investigations into its compensation
5 policies and practices.

6 7. AIG’s Board cannot be expected to do anything to pursue recovery of funds that
7 have been paid out by, and should be reimbursed to, the Company, particularly since the
8 corporate gifts were approved by the AIG Board and its Compensation Committee. Defendant
9 Liddy has already declared that his “hands are tied.” Thus, the AIG Director Defendants are
10 unable to independently and disinterestedly consider a demand to vigorously pursue this action
11 on behalf of the Company because of their involvement in the wrongdoing alleged herein.

12 **II. PARTIES**

13 **A. Plaintiff**

14 8. Plaintiff **John J. Bible** presently owns AIG stock and has continuously held such
15 stock since 2004, and at all times relevant hereto. Plaintiff is a resident of San Mateo County and
16 a retired judge of the Superior Court. Plaintiff brings this action derivatively on behalf of AIG.

17 **B. Defendants**

18 9. Nominal Defendant **AIG** is a Delaware corporation with its principal executive
19 offices in New York, New York, and with substantial operations in Los Angeles County,
20 including its AIG Retirement Services and AIG Sun America operations headed by defendant
21 Wintrob. AIG, through its subsidiaries, describes itself as a world leader in insurance and
22 financial services with operations in more than 130 countries. AIG trades on the New York
23 Stock Exchange under the ticker symbol AIG. AIG Financial Products (“AIGFP”) is a wholly-
24 owned subsidiary of AIG, headquartered in London, UK. AIGFP’s primary business was the
25 issuance of CDSs. As described in more detail below, CDSs are financial instruments that
26 purport to allow a party to insure against a default on a credit instrument.

1 10. Defendant **Edward M. Liddy** is the Chairman and Chief Executive Officer of
2 AIG. As an officer and director, he had control over, and authorized, permitted or acquiesced to
3 the release of, all documents issued by AIG to the market. By virtue of his positions, he had
4 actual or constructive knowledge of the true state of AIG's finances and exposure, as well as
5 direct participation in the approval and implementation of employee compensation and retention
6 plan decisions.

7 11. Defendant **Jay Steven Wintrob** is the President and Chief Executive Officer of
8 AIG Retirement Systems, Inc. From 1998 to 2000, he was the Chief Operating Officer for AIG
9 SunAmerica. In 2000, Wintrob became President of AIG SunAmerica. Wintrob also held the
10 position of Divisional Executive Vice President for AIG. As an officer and director, he had
11 control over, and authorized, permitted or acquiesced to the release of, all documents issued by
12 AIG to the market. By virtue of his positions, he had actual or constructive knowledge of the
13 true state of AIG's finances and exposure, as well as direct participation in the approval and
14 implementation of employee compensation and retention plan decisions. Wintrob was also a
15 recipient of executive bonus and retention payments inappropriately approved of by the Board.
16 On information and belief, Wintrob is a resident of Los Angeles County.

17 12. Defendant **Stephen Bollenbach** is a director of AIG and serves as a member of
18 the Board's Audit Committee, Compensation and Management Committee, and the Regulatory,
19 Compliance and Legal Committee, where he is currently the Chairman. As a director he had
20 control over, and authorized, permitted or acquiesced to the release of, all documents issued by
21 AIG to the market. By virtue of his positions, he had actual or constructive knowledge of the
22 true state of AIG's finances and exposure, as well as direct participation in the approval and
23 implementation of employee compensation and retention plan decisions. On information and
24 belief, Bollenbach is a resident of Los Angeles County.

25 13. Defendant **Suzanne Nora Johnson** is a director of AIG and serves as a member
26 of the Board's Compensation and Management Committee and Finance Committee. Johnson
27 previously served as the Vice Chairman of Goldman Sachs and, before that, as an attorney with
28 Simpson, Thacher & Bartlett. As a director, she had control over, and authorized, permitted or

1 acquiesced to the release of, all documents issued by AIG to the market. By virtue of her
2 position, she had actual or constructive knowledge of the true state of AIG's finances and
3 exposure, as well as direct participation in the approval and implementation of employee
4 compensation and retention plan decisions. On information and belief, Johnson is a resident of
5 Los Angeles County.

6 14. Defendant **Dennis Dammerman** is a director of AIG and serves as a member
7 of the Board's Compensation and Management Committee and Finance Committee.
8 Dammerman previously served as Chairman of GE Capital Services. As a director, he had
9 control over, and authorized, permitted or acquiesced to the release of, all documents issued by
10 AIG to the market. By virtue of his position, he had actual or constructive knowledge of the true
11 state of AIG's finances and exposure, as well as direct participation in the approval and
12 implementation of employee compensation and retention plan decisions.

13 15. Defendant **James Orr** is a director of AIG and serves as the Chairman of the
14 Board's Compensation and Management Committee. As a director, he had control over, and
15 authorized, permitted or acquiesced to the release of, all documents issued by AIG to the market.
16 By virtue of his position, he had actual or constructive knowledge of the true state of AIG's
17 finances and exposure, as well as direct participation in the approval and implementation of
18 employee compensation and retention plan decisions.

19 16. Defendant **Virginia Rometty** is a director of AIG and serves as a member
20 of the Board's Compensation and Management Committee and Nominating and Corporate
21 Governance Committee. Rometty is also the Senior Vice President of Global Sales and
22 Distribution for IBM Corporation. As a director, she had control over, and authorized, permitted
23 or acquiesced to the release of, all documents issued by AIG to the market. By virtue of her
24 position, she had actual or constructive knowledge of the true state of AIG's finances and
25 exposure, as well as direct participation in the approval and implementation of employee
26 compensation and retention plan decisions.

1 17. Defendants Liddy and Wintrob are referred to collectively herein as the “Officer
2 Defendants.” Defendants Bollenbach, Dammerman, Liddy, Johnson, Orr and Rometty are
3 referred to collectively herein as the “Director Defendants.” The Officer and Director
4 Defendants are collectively referred to herein as the “Individual Defendants.”

5 **C. Doe Defendants**

6 18. Except as described herein, Plaintiff is ignorant of the true names of Defendants
7 sued as Does 1 through 20 inclusive and, therefore, sues these Defendants by such fictitious
8 names. Plaintiff will seek leave of the Court to amend this Complaint to allege their true names
9 and capacities when they are ascertained.

10 19. Plaintiff alleges that each of these Doe Defendants is responsible in some manner
11 for the acts and occurrences alleged herein, and that AIG’s damages were caused by such Doe
12 Defendants.

13 **D. Agents and Co-Actors**

14 20. At all relevant times, each Defendant was and is the agent of each of the
15 remaining Defendants, and in doing the acts alleged herein, was acting within the course and
16 scope of such agency. Each Defendant ratified and/or authorized the wrongful acts of each of the
17 Defendants.

18 21. Defendants, and each of them, are individually sued as participants and as aiders
19 and abettors in the improper acts, plans, schemes, and transactions that are the subject of this
20 Complaint.

21 22. Defendants, and each of them, have participated as members of the scheme or
22 acted with or in furtherance of it, or aided or assisted in carrying out its purposes alleged in this
23 Complaint, and have performed acts and made statements in furtherance of the violations and
24 conspiracy.

25 **E. Unnamed Participants**

26 23. Numerous individuals and entities participated actively during the course of and
27 in furtherance of the conspiracy and concealed such information from the public. There was a
28 conspiracy and many acts were done in the course of and in furtherance of the conspiracy by

1 statements, conduct, and intent to defraud. The individuals and entities acted in concert by joint
2 ventures and by acting as agents for principals, in order to advance the objectives of the
3 conspiracy. The acts were intended to promote the conspiratorial objectives.

4 **III. FACTUAL ALLEGATIONS**

5 **A. AIG's History Of Manipulated Financial Results**

6 **1. The Bid-Rigging and Contingent Commission Scheme**

7 24. In October 2004, the New York Attorney General ("NYAG") implicated AIG in a
8 scheme to pay insurance brokers illegal "contingent commission" that resulted in unsuspecting
9 clients being "steered" by the brokers to purchase AIG insurance policies at inflated prices.

10 25. To facilitate that scheme, AIG participated in illegal bid-rigging to deceive
11 customers into thinking the bids for their business were competitive. This illegal scheme
12 virtually guaranteed that the duped customers would renew their AIG-written policies, as so-
13 called "competitive" bids from other insurance companies were pre-arranged to be made at prices
14 higher than AIG's. In connection with this bid-rigging scheme, AIG submitted fake, non-
15 competitive bids in order to allow its co-conspirators to retain or obtain certain insurance
16 business at inflated, non-competitive prices.

17 26. The NYAG likened the bid-rigging scheme to "the same kind of cartel-like
18 behavior carried out by organized crime." Similarly, Peter Pope, Deputy New York Attorney
19 General in charge of the Criminal Division, said that the bid-rigging scheme is "like the Mafia's
20 Cement Club," where construction projects rotated to cement companies based on the kickbacks
21 the companies paid.

22 27. In connection with these events, at least four AIG executives and employees pled
23 guilty in New York State Court to felony and misdemeanor charges of Scheme of Defraud.

24 **2. AIGFP and the Brightpoint and PNC Deals**

25 28. On January 30, 2002, AIG disseminated a press release in which the Company
26 "confirmed that its subsidiary, AIG Financial Products Corp., entered into three structured
27 transactions with the PNC Financial Services Group, Inc., (PNC)." The press release further
28 stated that "[t]he entities involved in these transactions were consolidated into AIG's financial

1 statements, and thus were included on AIG's consolidated balance sheet. AIG has not entered
2 into any other transactions using this structure."

3 29. Less than one month later, on February 21, 2002, AIG confirmed that the SEC had
4 served AIG with a subpoena in connection with the PNC transactions.

5 30. According to Business Week Online, on February 27, 2002, at a meeting with
6 reporters, Greenberg reportedly brushed aside concerns over the SEC's inquiry, stating: "There's
7 a difference between complex transactions and dishonest transactions. If we're going to go back
8 to simple transactions, we can start trading in beads."

9 31. For the next two years the SEC continued its investigation of AIG. Then, on
10 September 21, 2004, AIG issued a press release announcing that the SEC was considering
11 bringing a civil action against the Company in connection with the PNC transactions. The press
12 release read, in relevant part:

13 AIG and its subsidiary AIG Financial Products Corp. (AIG-FP) have been
14 informed by the Staff of the Securities and Exchange Commission (SEC) that the
15 Staff is considering recommending that the SEC bring a civil action against AIG
16 and AIG-FP alleging violations of the federal securities laws. The Staff's
17 communication, commonly referred to as a "Wells Notice," arises out of the
18 SEC's investigation entitled In the Matter of PNC Financial Services Group, Inc.
(PNC), and involves certain transactions marketed by AIG-FP prior to 2003,
19 including three transactions entered into by a subsidiary of AIG-FP between June
20 2001 and November 2001. The PNC transactions were the subject of an SEC
21 action against PNC in 2002, and were terminated early the next year.

22 AIG and AIG-FP believe that the proposed action would be unwarranted and will
23 respond to the Staff.

24 32. The following week, on September 29, 2004, AIG issued a press release
25 announcing that the Department of Justice had begun a criminal investigation into AIG's role in
26 connection with the PNC transaction.

27 33. On November 30, 2004, the SEC announced the filing – and settlement – of a
28 civil case against AIG in the U.S. District Court for the District of Columbia. The SEC's
complaint alleged that AIG violated the antifraud provisions of the federal securities laws and
aided and abetted PNC's violations of reporting and record keeping provisions of those laws.
Specifically, the SEC alleged that AIG violated Section 17(a) of the Securities Act, Section 10(b)
of the Securities Exchange Act and Exchange Act Rule 10b-5, and aided and abetted PNC's

1 violations of Section 13(a) and 13(b)(2)(A) of the Exchange Act and Exchange Act Rules 12b-20
2 and 13a-13. Pursuant to the SEC's settlement with AIG, the Company consented to the entry of
3 final judgment that required the company to disgorge \$46,366,000, which represented the
4 \$39,821,000 in fees AIG received from PNC, plus \$6,545,000 in prejudgment interest.

5 34. The settlement also required AIG to retain an Independent Consultant to examine
6 certain AIG transactions between January 1, 2000 and December 2, 2004 (*i.e.* the date of the final
7 judgment) to determine whether the transactions were used or were designed to violate GAAP or
8 SEC rules. Moreover, AIG was required to establish a transaction review committee to review
9 and determine the appropriateness of certain transactions proposed to the undertaken by AIG
10 after December 2, 2004 (*i.e.*, the date for the final judgment).

11 35. As it had been with the SEC's investigation into the Company's deal with
12 Brightpoint, AIG was reportedly "uncooperative" with the SEC's investigation into the
13 Company's deals with PNC. As Fortune reported in its August 8, 2005 edition:

14 If Brightpoint was "strike one" for Greenberg, PNC soon became "strike two."
15 Once again, AIG was "basically uncooperative" with the SEC's investigation,
16 says a senior regulator in the case: "They kept talking about their impeccable
17 reputation."

18 36. On November 30, 2004, Deputy Attorney General James B. Comey, Assistant
19 Attorney General Christopher A. Wray of the Criminal Division of the Department of Justice,
20 and FBI Director Robert Mueller – all members of the President's Corporate Fraud Task Force –
21 announced that AIG and two of its subsidiaries had reached a settlement to resolve criminal
22 liability associated with the PAGIC transactions. The agreement was officially entered into the
23 AIG Fraud Section of the DOJ's Criminal Division (the "Fraud Section"), and the U.S. Attorney
24 for the Southern District of Indiana (which, in October 2004, had notified AIG that it was the
25 target of grand jury investigations regarding "non-traditional" insurance or "income smoothing"
26 products – in connection with the Brightpoint transaction).

27 37. Pursuant to the settlement agreement, ***AIG-FP agreed to pay \$80 million*** in
28 penalties. The Fraud Section agreed not to prosecute AIG or its subsidiaries (except for AIG-FP
and its subsidiaries, as discussed below) in connection with (1) the marketing or sale of the

1 GAITS and C-GAITS transactions, or (2) the marketing and sale of income smoothing products
2 that were the subject of the SEC's investigation styled, "In re Certain Loss Mitigation Insurance
3 Products," which included AIG's transaction with Brightpoint.

4 38. In connection with the agreement, on November 30, 2004, the Fraud Section also
5 entered into a Deferred Prosecution Agreement (the "DPA") with AIG FP PAGIC Equity
6 Holding Corp. ("AIG-FP PAGIC"), an AIGFP subsidiary, in the Western District of
7 Pennsylvania. Along with the DPA, the Fraud Section concurrently entered into a separate
8 agreement with AIGFP. The DPA provided, *inter alia*, that:

- 9 • AIGFP PAGIC "accepts responsibility for its conduct;"
- 10 • The United States was to file a criminal complaint in the U.S. District Court of the
11 Western District of Pennsylvania charging AIGFP PAGIC with aiding and
12 abetting securities fraud in connection with the GAITS and C-GAITS
13 transactions;
- 14 • The Fraud Section will recommend to the court that prosecution on the complaint
15 be deferred for 12 months, and that if AIGFP PAGIC fulfilled its agreement to
16 cooperate with the government, the Fraud Section would seek dismissal of the
17 complaint 30 days after the expiration of the 12 months.

18 The Fraud Section's separate, concurrent agreement with AIGFP provided, *inter alia*,
19 that:

- 20 • "AIG-FP accepts responsibility for the conduct of its employees;
- 21 • That AIGFP will pay a penalty of \$80,000,000;
- 22 • That, except for the DPA with AIGFP PAGIC, the Fraud Section will not
23 prosecute AIGFP for any conduct by AIGFP relating to the GAITS, C-
24 GAITS and PAGIC transactions provided AIGFP fulfills its agreement to
25 cooperate with the government in its investigation of these matters.

26 3. 2005: AIG Restates Five Years of Financial Results

27 39. In February 2005, the SEC and NYAG subpoenaed AIG to investigate whether it
28 had manipulated its own earnings by purchasing and/or selling so-called "finite" reinsurance
products from General Re and other reinsurance companies. On March 4, 2005, the market
learned that AIG's long-time Chief Executive, Maurice Greenberg, had also been subpoenaed by
the NYAG because he had personally initiated a finite reinsurance transaction with General Re
that fraudulently inflated AIG's claims reserves by \$500 million.

1 40. Although the government’s inquiries initially focused on the General Re
2 transaction, those investigations were gradually expanded to include a myriad of other accounting
3 issues, including AIG’s reinsurance deals with two off-shore reinsurers, Union Excess
4 Reinsurance Company, Ltd. (“Union Excess”) and Richmond Insurance Company Ltd.
5 (“Richmond”).

6 41. On March 30, 2005, AIG issued a press release in which the Company admitted
7 that the \$500 million AIG-General Re deal was improper. AIG also disclosed that its
8 “accounting treatment for certain additional items” was improper and needs to be
9 “recharacterized or otherwise adjusted.” The Company added that “[c]ertain but not all of the
10 original characterizations resulted from transactions which appear to have been structured for the
11 sole or primary purpose of accomplishing a desired accounting result.”

12 42. One month later, on May 1, 2005, AIG issued a press release in which it
13 announced that it planned to restate nearly five full years of earnings, a move that would reduce
14 consolidated shareholders’ equity by more than \$2.7 billion:

15 [t]he restatement will correct errors in prior accounting for improper or
16 inappropriate transactions or entries that appear to have had the purpose of
17 achieving an accounting result that would enhance measurer important to the
18 financial community and that may have involved documentation that did not
19 accurately reflect the nature of the arrangements.

20 43. AIG 2004 Form 10-K ultimately restated the Company’s earnings for the years
21 ended December 31, 2003, 2002, 2001 and 2000, the quarters ended March 31, June 30 and
22 September 30, 2004 and 2003 and the quarter ended December 31, 2003. The restatement
23 resulted in AIG slashing its net income from 2000 through 2004 by \$3.9 billion, or 10 percent,
24 and reducing the value of its shareholders’ equity by \$2.6 billion (rather than the \$2.7 billion as
25 previously announced).

26 44. AIG’s Form 10-K also implicated members of AIG senior management, including
27 Maurice Greenberg and Howard I. Smith (“Smith”), AIG’s former CFO, in committing securities
28 fraud:

1 Certain accounting entries originated at the parent company level had the effect of
2 reclassifying realized capital gains to net investment income, as well as adjusting
3 other line item reclassifications and other segment financial information. In some
4 cases, expense deferrals were increased or reserves decreased, both having the
5 effect of increasing reported earnings. In other cases, the adjustments affected
6 revenue and expense recognition between reporting periods or among business
7 segments. Certain of these entries were previously identified but considered not
8 to be sufficiently material to require correction. As part of its internal review,
9 AIG analyzed and assessed "top level" adjustments since 2000 and determined
10 that certain entries appear to have been made at the direction of certain former
11 members of senior management without appropriate documentation or support.

12 Certain of AIG's controls within its control environment were not effective to
13 prevent certain members of senior management, including the former Chief
14 Executive Officer and former Chief Financial Officer, from having the ability,
15 which in certain instances was utilized, to override certain controls and effect
16 certain transactions and accounting entries. In certain of these instances, such
17 transactions and accounting entries appear to have been largely motivated to
18 achieve desired accounting results and were not properly accounted for in
19 accordance with GAAP.

20 45. On March 28, 2005, AIG's outside counsel admitted to federal and state
21 regulators that the Company had violated the federal securities laws. Indeed, according to the
22 *Wall Street Journal*, "lawyers for AIG yesterday told regulators that they had uncovered evidence
23 suggesting that the company had misled investors and regulators in regulatory filings."
24 Another *Journal* article the next day revealed that, on or about March 29, 2005, AIG's outside
25 counsel disclosed to regulators that ***the Company had intentionally given false information to
26 the NYDOI during a routine inspection of AIG's property-casualty business in early 2005.***

27 46. On May 1, 2005, AIG issued a press release entitled, "AIG Nears Completion of
28 Internal Review; Will Restate Results; Provides Update on Internal Review and Timing of Form
29 10-K," in which it announced that it would again delay filing its 2004 Form 10-K, this time until
30 May 31, 2005. The Company announced its decision to restate its financial statements for the
31 years ended December 31, 2000, 2001, 2002 and 2003, the quarters ended March 31, June 30 and
32 September 20, 2003 and 2004, and the quarter ended December 31, 2003. Sullivan said: "We are
33 disappointed that we have not yet been able to file at the same time assuring we have accurate
34 financial statements, rigorous accounting, greater transparency and thorough disclosure. We
35 know how difficult these past several months have been for those who put their trust in AIG. We
36 now know that there was serious issues with our internal controls, and that it is necessary for us

1 to address those issues and strengthen our controls. We are taking actions that will enable AIG
2 to reinforce its credibility and the trust and confidence of our stakeholders.”

3 47. AIG’s 2004 Form 10-K ultimately restated its earnings for four years and several
4 quarters. The Restatement adjustments indicate how AIG had overstated its earnings, misapplied
5 GAAP, recorded transactions that were not insurance as if they were insurance, reclassified
6 transactions as more favorable categories than the transaction actually were, overstated assets and
7 understated liabilities. AIG’s 2004 10-K also disclosed serious problems with the Company’s
8 internal controls. Pricewaterhouse Coopers (“PwC”) found – in stark contrast to its findings from
9 its extensive review earlier in the year and from its numerous other audits and reviews before –
10 severe deficiencies in AIG’s internal controls over financial reporting. PwC’s Report to the
11 Board of Directors and Shareholders, incorporated into the 2004 10-K, stated in relevant part:

12 Control Environment: Certain of AIG’s controls within its control environment
13 were not effective to prevent certain members of senior management, including
14 the former Chief Executive Officer and former Chief Financial Officer, from
15 having the ability, which in certain instances was utilized, to override certain
16 controls and effect certain transactions and accounting entries. In certain of these
17 instances, such transactions and accounting entries appear to have been largely
18 motivated to achieve desired accounting results and were not properly accounted
19 for in accordance with GAAP. Further, in certain of these instances, information
20 critical to an effective review of transactions, accounting entries, were not
21 disclosed to the appropriate financial and accounting personnel, regulators and
22 AIG’s independent registered public accounting firm. As a result, discussion and
23 thorough legal, accounting, actuarial or other professional analysis did not occur.
24 This control deficiency is based primarily on these overrides. Specifically, this
25 control deficiency permitted the following:

- 26 • Creation of Capco, a special purpose entity used to effect transactions that were
27 recorded to convert, improperly, underwriting losses to investment losses and that
28 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.

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- Various transactions, such as Covered Calls and certain “Top Levels” 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 didn’t properly resolve reconciling items for premium receivables, reinsurance recoverable 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 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 controls 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 matters described above,

1 *to AIG's 2004 annual consolidated financial statements.* Furthermore, these
2 controls deficiencies could result in other misstatements in financial statement
3 accounts and disclosures that would result in a material misstatements to the
4 annual or interim AIG consolidated financial statements that would not be
prevented or detected. Accordingly, management had concluded that these
controls deficiencies constitute material weaknesses.

* * *

5 *As a result of the material weaknesses described above, AIG management had*
6 *concluded that, as December 31, 2004, AIG's internal control over financial*
7 *reporting was not effective* based on the criteria in Internal Control – Integrated
Framework issued by COSO.

8 48. The breadth of AIG's misdeeds was reflected in the sheer number of civil
9 and criminal investigations into the Company and its management, including probes brought by
10 the (1) SEC, (2) DOJ, (3) U.S. Attorney's Office for the Southern District of New York, (4)
11 NYAG, (5) NYDOI, (6) California Department of Insurance, (7) Florida Insurance Commission,
12 and (8) the insurance regulators of several other states. Those investigations caused numerous
13 AIG executives to leave the company, oftentimes after "pleading the Fifth":

14 **Maurice R. "Hank" Greenberg, AIG's CEO and Chairman:** On March 14, 2005 AIG
15 announced that its Board had forced Greenberg to resign from his post as CEO, a position
16 he had held since 1967, though the Board allowed him to remain non-executive chairman.
17 On March 29, 2005, Greenberg resigned from that position as well. On April 12, 2005,
Greenberg invoked his Fifth Amendment right against self incrimination while being
questioned by government investigators. Finally, on June 8, 2005, Greenberg resigned
from the Board, ending his 45 years with AIG.

18 **Howard I. Smith, AIG's CFO:** AIG announced on March 14, 2005 that Smith was
19 placed "on leave." On March 21, 2005, Smith was terminated after invoking his Fifth
Amendment right against self-incrimination while being questioned by government
investigators. Smith later resigned from AIG's Board on June 10, 2005.

20 **Christian M. Milton, AIG's Vice President of Reinsurance:** Like Smith, Milton – who
21 was a principal player in the AIG General Re deal – was terminated on March 21, 2005
22 after he invoked his Fifth Amendment right against self-incrimination while being
questioned by government regulators.

23 **L. Michael Murphy, Legal Counsel/Senior AIG Executive:** On March 27, 2005, AIG
24 fired Murphy, a longtime confidant of Greenberg who ran the Company's Bermuda
25 operations, after Murphy refused to cooperate with the Company's internal investigation.
According to the NYAG, Murphy "ordered [the] destruction of documents relating to
[AIG's] off-shore entities" and he, or employees under his control, removed more than 80
boxes of documents from AIG's Bermuda offices in March 2005.

26 **Michael J. Castelli, AIG's Vice President and Comptroller:** On April 15, 2005, AIG
27 placed Castelli "on leave" and subsequently fired him.

28 **Vincent Cantwell, AIG Vice President:** On April 15, 2005, AIG placed Cantwell, who
reported to Castelli, on leave.

1 **B. AIG Emerges From The Depths Of Its 2005 Restatement, Claiming**
2 **Improved Financial Results Driven By Its AIGFP Division**

3 49. As noted above, by mid-2005, AIG had announced a massive accounting
4 restatement due to the discovery of extensive fraud and accounting irregularities, requiring AIG
5 to restate five years of financial results and cut profits by nearly \$4 billion.

6 50. By July 2005, AIG and its Executives were claiming that they had cleaned shop.
7 According to AIG's new CEO, Martin Sullivan, "We are embarking on a new era for AIG that
8 will be marked by changes in the way we operate – including greater responsiveness and
9 transparency – while preserving the core values that have enabled us to build an unequalled
10 franchise. AIG's financial position is sound, our insurance cash flow is strong and our global
11 franchise is unmatched."

12 **1. The Financial Rewards Of Working At AIGFP**

13 51. Over the next few years, AIG reported increased revenues driven in large part by
14 the explosive growth of its Financial Products division or "AIGFP" based in Connecticut and
15 London.

16 52. The AIGFP unit generated huge profits from the sale of insurance products known
17 as **credit default swaps** or "CDSs," whereby AIGFP essentially agreed to insure financial
18 institutions holding collateralized debt obligations or "CDOs" – pools of loans sold to investors
19 based on the credit quality of the underlying securities – in case they defaulted, much the same
20 way as homeowners are required to buy mortgage insurance to protect lenders in case the
21 borrowers cannot pay back their loans. Because the underlying debt securities – mostly corporate
22 issues and a smattering of mortgage securities – carried high ratings, AIGFP was happy to book
23 income in exchange for providing insurance for supposedly unlikely claims.

24 53. AIGFP was a cash register for AIG. AIGFP's revenue rose from \$737 million in
25 1999 to \$3.26 billion in 2005. Profit margins on the business were enormous. In 2002, operating
26 income was 44 percent of revenue; in 2005, it reached 83 percent.

1 54. Similarly, employees in the small AIGFP unit, with approximately 400
2 employees, made fortunes. With the Director Defendants' knowledge and consent, AIGFP
3 reportedly paid its employees \$3.56 billion in the last seven years, working out to an average of
4 **\$1 million per employee per year.**

5 55. AIGFP's importance to AIG's bottom line was well known to Defendants, and its
6 alleged successes were widely promoted to the market. For example, at the close of the market
7 on November 9, 2006, AIG announced its financial results for the third quarter of 2006, reporting
8 income that was more than \$1 billion higher than the previous quarter and almost double the
9 profits the Company had booked for the same three-month period one year earlier. This
10 significant increase in earnings was sustained by the reported results of AIGFP, which
11 experienced an increased demand for its "super senior" CDSs and reported an operating income
12 of \$965 million – *an almost \$2 billion increase* from the \$952 million operating loss reported in
13 the second quarter of 2006. These impressive financial results helped maintain the Company's
14 public image as an adept manager of financial risk that could absorb any potential downturn in
15 the market for structured finance products, and assured investors of continued profitability.

16 56. Indeed, Defendants continued to misrepresent to investors that AIG's "super
17 senior" product was a stable, secure, and virtually **risk-free** profit center for the Company. Even
18 as the mortgage meltdown began to make headlines, AIG maintained that its size, diversification,
19 and superior risk management had insulated the Company from the turmoil in the credit markets
20 and that any exposure had been contained. AIG repeatedly reassured the market that the
21 Company's conservative and careful underwriting of the CDS portfolio had rendered these
22 instruments impervious to even the most severe recessionary market conditions. In truth, as
23 described below, the Company had grossly overvalued these instruments, reporting overstated
24 earnings based on these fraudulent valuations and other assets tied to the imploding residential
25 mortgage market.

1 **2. AIG’s Lucrative Role In Credit Derivative Swap Market**

2 57. Subprime mortgages consist of residential home loans extended to borrowers
3 who, pursuant to certain underwriting guidelines, do not qualify for “first tier” interest rates.
4 These underwriting guidelines typically include a variety of factors, including the borrower’s
5 credit history, income, assets, and amount of equity in the residential property. Subprime
6 mortgages carry higher interest rates because of their increased risk of higher rate of default.
7 Other non-prime mortgage products, sometimes referred to as “Alt-A” loans, are offered to
8 borrowers with purportedly prime credit, but for various reasons do not meet the underwriting
9 standards to qualify as prime loans that are sellable to Freddie Mac and Fannie Mac in the
10 secondary mortgage market.

11 58. By 2005, AIG’s involvement in the residential mortgage market had become
12 pervasive. AIG acted as a mortgage originator through its subsidiary American General Finance,
13 Inc., which originated mortgages, including first-lien and second-lien residential subprime
14 mortgages.

15 59. AIG’s insurance and financial subsidiaries also invested in CDOs and mortgage-
16 backed securities which utilize residential mortgage loans as collateral. CDOs are financial
17 instruments that bundle various asset-backed and/or mortgage-backed securities (“ABSs” and
18 “MBSs,” respectively) and repackage the income streams from these securities into various
19 “tranches” that correspond to the level of credit risk associated with the underlying assets and/or
20 mortgages. CDOs are structured so that the most senior tranches – or those with the least credit
21 risk– are also protected through layers of subordination whereby the income steams from the
22 underlying securities are allocated to the most senior tranches first, followed by the higher risk
23 mezzanine tranches, and then finally to the riskiest “equity” tranche.

24 60. AIG also acts as a securitizer of subprime mortgages, which it packages into
25 various securities, including CDOs, that it markets to investors.

26 61. Finally, AIG, through its subsidiaries – primarily AIGFP – acts as an insurer for
27 investors looking to hedge risk on debt instruments tied to the residential mortgage market.
28 Specifically, during the relevant period, AIGFP issued credit protection through “credit default

1 swaps” or “CDSs” on select senior CDOs. These CDSs are used by investors to hedge risk
2 exposure on CDOs and other debt securities. CDSs are derivative instruments in which one party
3 agrees, for a periodic fee, to assume the risk of non-payment on an underlying asset. In the event
4 of a default on the underlying asset, the seller of the CDS is obligated to compensate the
5 purchaser of the credit protection for the defaulted amounts. As explained by Company officials,
6 however, most of AIGFP’s super senior portfolio customers were large financial institutions that
7 used the swaps not as credit protection, but as a mechanism to achieve certain accounting
8 benefits or to provide regulatory capital relief.

9 62. Of course, the value of a CDS is dependent upon the quality of the underlying
10 asset. The price of a swap is set by the expected likelihood of a default and the probable amount
11 of the loss, or the “loss severity.” The “value” of the swap is therefore the amount of payments
12 due to the seller over the life of the swap, less the likely default payments the seller will owe the
13 purchaser. As the amount of the default payments increases, the value of the swap decreases.

14 63. Stated another way, because AIG is the seller of credit protection through
15 CDSs, AIG’s CDS portfolio consists of “derivative liabilities.” As the value of the underlying
16 CDO or other source of payments goes up, the potential liability of the CDS seller goes down.
17 The lower potential liability means more of the premium AIG received in selling the credit
18 protection is available as earnings. However, the inverse is also true. As the underlying credit
19 goes down, more of AIG’s premiums will be used to pay for losses, and the Company’s earnings
20 will diminish.

21 64. As a general rule, CDOs can only be valued by being “marked to model,” *i.e.*,
22 valued through mathematical models that determine the fair value of the asset. As credit
23 derivatives linked to CDOs, CDSs are likewise illiquid and can only be valued by means of
24 similar modeling techniques that incorporate various inputs and assumptions to extrapolate
25 default rates on the underlying instrument and, consequently, the resulting CDS values.

26 65. As investors would eventually discovery, AIG, through AIGFP, was the
27 counterparty on CDSs hedging the risk of failure to pay or other credit condition for at least
28 \$527 billion in debt, including over \$78 billion in CDOs as of December 31, 2007.

1 66. Accounting for derivative instruments, including CDSs, is governed by Statement
2 of Financial Accounting Standard (“FAS”) 133. FAS 133 requires that derivative instruments
3 such as credit defaults swaps be “marked to market” at the end of each reporting period. This
4 means that the derivative is valued on a company’s books at its current market value, with any
5 gains or losses from the prior period increasing or decreasing current earnings.

6 67. FAS 107, as amended by FAS 133, required a company to “disclose, either in
7 the body of the financial statements or in the accompanying notes, the fair value of financial
8 instruments for which it is practicable to estimate that value.” Quoted market prices are the best
9 evidence of fair value.

10 68. Where there are no quoted market prices, as was usually the case with AIG’s
11 CDSs, AIG would “mark-to-model.” The Company would estimate the fair value of its CDSs
12 based on inputs and assumptions taken from current market indicators or comparable
13 investments. This mark-to-model approach was allowed so long as the fair value estimate was
14 “practicable.”

15 3. AIG’s Reported Financial Results

16 69. On March 1, 2007, AIG issued its Form 10-K for 2006 (“2006 Form 10-K”) and
17 reported its financial results for the fourth quarter ended December 31, 2006. In the fourth
18 quarter of 2006, AIG reported net income of \$3.44 billion, or \$1.31 per diluted share, compared
19 to \$444 million, or \$0.17 per diluted share, for the fourth quarter of 2005. Fourth quarter 2006
20 adjusted net income was \$3.85 billion or \$1.47 per diluted share, compared to \$376 million or
21 \$0.14 per diluted share for the fourth quarter of 2005.

22 70. According to AIG’s Form 10-K for 2006, AIG performed the required market
23 value assessment on its derivative instruments under the following stated policy”

24 *Fair Value Determinations of Certain Assets and Liabilities (Financial Services):*

- 25 • Valuation models: utilizing factors, such as market liquidity and current interest,
26 foreign exchange and volatility rates.
- 27 • Market price data: AIG attempts to secure reliable and independent current market
28 price data, such as published exchange rates from external subscription services

1 such as Bloomberg or Reuters or third-party broker quotes for use in its models.
2 When such data is not available, AIG uses an internal methodology, which
3 includes interpolation and extrapolation from verifiable recent prices.

4 71. As explained in the 2006 Form 10-K, the descriptive “super senior” label was
5 meant to reflect the fact that AIG’s CDS product was designed to insure only most highly-rated
6 portion of securities that had many differing risk levels, and that in all cases the insured portion
7 was “senior” to even AAA rated tranche:

8 In certain cases, the credit risk associated with a designated portfolio is tranced
9 into different layers of risk, which are then analyzed and rated by the credit rating
10 agencies. Typically there will be an equity layer covering the first credit losses in
11 respect of the portfolio up to a specified percentage of the total portfolio, and then
12 successive layers that are rated, generally BBB-rated layer, an A-rated layer, an
13 AA-rated layer, and one or more AAA-rated layers. In transactions that are rated,
14 the risk layer or tranche that is immediately junior to the threshold level above
15 which AIGFP’s payment obligation would generally arise is rated AAA by the
16 rating agencies. In transactions that are not rated, AIGFP applies the same risk
17 criteria for setting the threshold level for its payment obligations. ***Therefore, the
18 risk layer assumed by AIGFP with respect to the designated portfolio in these
19 transactions is often called the “super senior” risk layer, defined as the layer of
20 risk senior to a risk layer that has been rated AAA by the credit rating agencies,
21 or if the transaction is not rated, equivalent thereto.*** (Emphasis added).

22 72. Thus, the “super senior” nature of the CDS product conveyed a strong message to
23 investors regarding the security of this product, and corresponding profitability to the insurer.

24 73. According to the 2006 Form 10-K, the Company continually monitored its CDS
25 portfolio to assess whether credit defaults on the underlying reference entities altered AIGFP’s
26 risk exposure:

27 AIGFP continually monitors the underlying portfolios to determine whether the
28 credit loss experience for any particular portfolio has caused the likelihood of
29 AIGFP having a payment obligation under the transaction to be greater than super
30 senior risk. ***AIGFP maintains the ability opportunistically to economically
31 hedge specific securities in a portfolio and thereby further limit its exposure to
32 loss and has hedged outstanding transactions in this manner on occasion.*** At
33 December 31, 2006, the notional amount with respect to the Capital Markets
34 credit derivative portfolio (including the super senior transactions) was \$483.6
35 billion. (Emphasis added).

1 74. Moreover, AIG assured investors that, because of how the CDSs were structured,
2 the possibility that AIG would actually be forced to make a payment on any of these instruments
3 was virtually non-existent, even in the most adverse market conditions. For example, in its 2006
4 Form 10-K, signed by Sullivan and Bensinger, the Company represented:

5 AIGFP provides such credit protection on a “second loss” basis, under which
6 AIGFP’s payment obligations arise only after credit losses in the designated
7 portfolio exceed a specified threshold amount or level of “first losses.” ***The***
8 ***threshold amount of credit losses that must be realized before AIGFP has any***
9 ***payment obligations is negotiated by AIGFP for each transaction to provide***
10 ***that the likelihood of any payment obligation by AIGFP under each transaction***
11 ***is remote, even in severe recessionary market scenarios.*** (Emphasis added).

12 75. However, the Company failed to disclose any losses in the CDS portfolio or even
13 to inform investors of any CDS exposure that potentially related to residential mortgages and
14 subprime mortgages in particular. The Company was certainly on notice of the deteriorating
15 conditions in the housing market and, indeed, acknowledged that the “softening of the U.S.
16 housing market” had significantly adversely affected several of the Company’s other divisions’
17 financial results. For example, on the March 2, 2007 conference call addressing the year-end
18 results, CEO Sullivan noted that “the softening of the U.S. housing market adversely affected our
19 Consumer Finance results,” as well as a reduction operating income in AIG’s Mortgage Guaranty
20 division, which “declined primarily as the result of unfavorable loss experience on third party
21 originated second lien business with lower-than-usual credit quality and a softening U.S. housing
22 market.”

23 76. On May 10, 2007, after the market closed, AIG announced its financial results for
24 the first quarter of 2007 as filed on its Form 10-Q with the SEC (the “2007 First Quarter Form
25 10-Q”). The Company reported net income of \$4.13 billion or \$1.58 per diluted share, compared
26 to \$3.20 billion or \$1.22 per diluted share in the first quarter of 2006. AIG shares edged up on
27 the news to \$72.58 per share from the previous close of \$72.20.

28 77. In addition to reporting net income, the Company also reported adjusted net
income, which purported to exclude the effects of FAS 133 losses of \$205 million. The losses
were attributed to the “effect of hedging activities that did not qualify for hedge accounting
treatment under FAS 133 or for which hedge accounting was not applied, including the related

1 foreign exchange gains and losses. In the first quarter of 2007, AIG began applying hedge
2 accounting for certain transactions, primarily in its Capital Markets operations.” Thus, the loss
3 was attributed to fluctuations in the value of its own economic hedges, rather than derivative
4 securities portfolios held by AIG.

5 78. Both Sullivan and Besinger certified the results reported in the 2007 First Quarter
6 Form 10-Q, representing, *inter alia*, that (1) the report was free from untrue statements of
7 material facts or material omissions and (2) that each had “[d]esigned such internal control over
8 financial reporting, or caused such internal control over financial reporting to be designed under
9 our supervision, to provide reasonable assurance regarding the reliability of financial reporting
10 and the preparation of financial statements for external purposes in accordance with generally
11 accepted accounting principles.”

12 79. These certifications, along with the disclosures in AIG’s May 10, 2007 press
13 release and 2007 First Quarter Form 10-Q were materially false and misleading. Nowhere did
14 the Company disclose losses to its CDS portfolio, the amount of CDS exposure related to
15 residential mortgages and subprime mortgage in particular, or the fact that AIG lacked the
16 internal controls to determine the actual market value of its CDS instruments required for
17 accurate reporting. The absence of any mention regarding these facts, while reporting only a *de*
18 *minimus* amount of mark-to-market adjustments attributed to other derivative activity, continued
19 to assure investors that any exposure to the growing housing crisis was immaterial.

20 80. On May 31, 2007, AIG officials held an investor conference to specifically
21 address the performance of its Financial Services Division, which included the Capital Markets
22 department of AIGFP, the business segment overseeing the Company’s CDS portfolio. During
23 the conference, AIG’s Cassano emphasized AIG’s role as a leader in the “super senior” CDS
24 business, noting that “credit derivatives are one of the fastest growing segments in the derivatives
25 markets and we’re a very large participant in a very specific niche, and that niche is in the super
26 senior business.”

1 81. During the conference, an AIG official discussed the conservative strategy
2 underlying the Company's approach to its "super senior" insurance product, noting that most of
3 its customers were large financial institutions that did not purchase the swaps for credit
4 protection, but rather to allow for favorable accounting treatment and regulatory capital relief:

5 It's worth noting that for many of the trades that we do, it's actually not really a
6 risk transfer that the people that we're trading with are trying to achieve. For the
7 European banks and the Asian banks, this is very much a regulatory capital
8 arbitrage business. By structuring their businesses, whether it's their mortgage
lending or their corporate loans into these sorts of trades and tranching the risk up,
they're able to significantly reduce the capital they have to hold against their
portfolios.

9 So typically they will do that, they will get the benefit of the lower capital, and
10 they actually end up keeping all of the lower tranches or any risk that there was is
11 actually going to be concentrated. As a business, we've done infrastructure of our
own, we've built all our models, all our different reporting systems, which we use
to sort of complement and supplement all of those – the different rating agencies.

12 82. According to AIG, the approach taken by the Company in writing the super senior
13 swaps was "very much assuming a worst case. [I]t's never sort of thinking what might happen,
14 it's always sort of what's the worst that could ever happen to me, what's the worst recession that
15 I can imagine and can I make sure that I can withstand all that."

16 83. AIG emphasized that every CDS transaction is "obviously heavily negotiated,
17 heavily structured. We put a lot of different features into the pools to make sure that the trade is
18 always going to [be] super senior for the life of it." According to AIG, the active management of
19 the CDS portfolio enabled the Company to further guard against any potential losses:
20 with the advent of the CDO market and the CDS market, it's actually fairly easy for us to hedge
21 any of the risk that we perceive. *So if the portfolio, if it did start to deteriorate, it would be very*
22 *easy for us to go out, buy an extra layer of protection to make sure that we maintain the sort of*
23 *super senior portfolio still.* I have to say, given the conservatism in that we've built these
24 portfolios, we haven't had to do a huge amount of hedging over the years. (Emphasis added).

25 84. In response to analyst questioning, Cassano stated that the CDS portfolio was
26 well-monitored and its valuations accurately reported. Specifically, Cassano told investors that
27 the Company had "bolstered our legal team. We've also implemented procedures following that,
28 right on the heels of that, of something we call the transaction review committee, which included

1 individuals from the CFO's Office and AIG's enterprise risk management committee, had
2 implemented a "very, very strict rule system" for transaction approvals, and that this committee
3 that had reporting obligations to AIG at the parent level.

4 85. As the market would eventually learn, however, AIGFP had failed to value its
5 CDS portfolios.

6 86. Following the end of the second quarter ended June 30, 2007, the number of
7 companies disclosing significant losses from exposure to residential mortgages – especially
8 subprime mortgages – rose at an alarming rate. Because these announced losses concerned
9 "structured investments" and credit insurance (e.g., default swaps) on these investments, AIG
10 shareholder became concerned that the Company was also susceptible to these losses.

11 87. For example, on August 1, 2007, Market Watch reported that "AIG shares
12 dropped more than 8% in July as investors worried the giant insurer could be hit by losses from
13 declines in the value of subprime mortgages." Paul Newsome, an analyst at A.G. Edwards,
14 observed that "AIG's shares have fallen significantly in past days. Why we don't exactly know,
15 but investors are telling us that it has something to do with the potential for AIG to suffer
16 significant losses from subprime mortgages."

17 88. On August 8, 2007, after the close of the market, in an effort to calm investor
18 concerns over AIG's subprime related exposure, AIG issued its second quarter 2007 earnings
19 release and Form 10-Q for the quarter ended June 30, 2007 ("2007 Second Quarter Form 10-Q").
20 In the press release accompanying the company's earnings, CEO Sullivan assured investors that
21 "[AIG] continue[s] to be very comfortable with our exposure to the U.S. residential mortgage
22 market, *both in our operations and our investment activities*. However, in recognition of the
23 significant investor interest in this topic, we will provide a presentation during our earnings
24 calls." (Emphasis added.)

25 89. On August 9, 2008, during the earnings conference call, AIG and senior AIG
26 officials, including Sullivan, Cassano, and Lewis, led investors through a PowerPoint
27 presentation titled "Residential Mortgage Presentations." The call and presentation only further
28 misled investors regarding AIG's "super senior" credit default swap portfolios.

1 90. During the conference call, AIG departed from its usual earnings presentation
2 specifically to allow time to address investors concerns over the Company's exposure to the U.S.
3 residential mortgage market. AIG again used the opportunity to calm investor concerns by
4 deliberately or recklessly misrepresenting not only that there had been no losses on AIG's credit
5 default swaps, but that any losses in the future were inconceivable. In walking investors through
6 the presentation, Lewis represented to investors that:

7 AIGFP's exposure to the market is derived through two sources. First, they write
8 *extremely risk-remote super senior or AAA-plus credit protection on highly*
9 *diversified pools of assets*, some of which include residential mortgages. Second,
10 they are cash investors in highly rated securities where some portion of the
11 underlying collateral, which may include collateral from many sectors, includes
12 residential mortgages. While both of these activities involve significant notional
13 exposure, *the risk actually undertaken is very modest and remote*, and has been
14 structured and managed effectively. AIGFP has been running a successful
15 business of writing super senior credit default swaps, or CDS protection, since
16 1998. As of June 20 this year, they had a total net CDS exposure across all asset
17 classes of \$465 billion. The super senior portion is the least likely to incur any
18 losses in these deals, since losses are allocated on a sequential basis from lowest
19 to highest quality. *Before AIGFP would be at risk for its first dollar of loss,*
20 *these structures would have to experience exceptional losses* that eroded all of
21 the tranches below the super senior level, including a very significant AAA layer
22 of protection. (Emphasis added).

15 91. Investors did not need to be concerned, according to the Company, because
16 AIGFP was superior to other companies in its credit judgment. Cassano, then-head of AIGFP,
17 thus assured investors that:

18 It is hard to get this message across but these [credit default swaps] are very much
19 handpicked. We are very much involved in the process of developing the
20 portfolios in which we are going to wrap, and then picking the attachment points.
21 People have been willing to work with us in order to do that, to create the value
22 that they do in these underlying. So the combination of the underlying credit
23 quality, and then the stresses that we put it through to make sure that we can hit
24 these marks *it is hard for us with, and without being flippant, to even see a*
25 *scenario within any kind of realm of reason that would see us losing \$1 in any*
26 *of those transactions.*

24 We wanted to make sure in this presentation, we broke out exactly what
25 everything looked like in order to give everybody the full disclosure. But we see
26 no issues at all emerging. We see no dollar of loss associated with any of that
27 [credit default swap] business. *Any reasonable scenario that anyone can draw,*
28 *and when I say reasonable, I mean a severe recession scenario that you can*
draw out of the life of those securities. (Emphasis added.)

1 During the call, Sullivan commented that:

2 AIG's Financial Products portfolio of super senior credit default swaps is well
3 structured; undergoes ongoing monitoring, modeling, and analysis; and enjoy [sic]
4 significant protection from collateral subordination. Certainly, we will be
5 following this market closely during this period of volatility and correction, and
6 we will continue to manage these risks carefully.

7 Temporary market disruptions may have some non-economic effect on AIG
8 through unrealized losses. However, the sound credit quality of the portfolios
9 should result in collection of substantially all principal and interest under any
10 reasonable scenario.

11 92. The call and presentation had its desired effect. For example, on August 13,
12 2007, the *Wall Street Journal* reported on the call as follows:

13 Exotic financial instruments linked to subprime mortgages are showing huge
14 losses in debt markets and weighing on companies from lenders to banks to
15 insurers. But not at American International Group Inc. – or so its executives say.
16 The insurance giant did its best to reassure markets late last week that it wasn't
17 going to get slammed by the crisis gripping mortgage and debt markets. Although
18 AIG sees mortgage delinquencies rising, executives said during an earnings
19 conference call that the bulk of its mortgage insurance and residential loans aren't
20 at risk. ***The company also said it didn't see problems related to a kind of
21 insurance contract, or derivative, it has written against financial instruments
22 that include some prime debt.*** AIG based its all-clear signal for those derivatives
23 on the fact that its internal models show that losses are extremely remote in the
24 portions of the investment vehicles its insuring. ***No likely losses means no
25 reason to worry, the company reasoned. ... Stock analysts seem satisfied by the
26 company's response that there isn't a problem.*** (Emphasis added.)

27 93. Indeed, as a result of AIG's and its management's statements, analysts reacted
28 positively and reported that the Company had successfully contained its exposure to the U.S.
housing market. A research report issued by Wachovia Capital Markets stated, "***We think the
company succeeded in identifying and isolating its mortgage market exposure.*** While the
mortgage guaranty business and consumer finance businesses are likely to be laggards for the
foreseeable future, we think AIG's business breadth and diversity are sufficient to fill the
potential profit gap, a notion that derives credence from strong second quarter results."
(Emphasis added.) In an A.G. Edwards & Sons, Inc. research report titled "AIG Investors Should
Rest Easy with AIG's Subprime Disclosure," analyst J. Paul Newsome stated "[t]o be succinct,
AIG believes that it has little in aggregate exposure to subprime defaults. We believe this
disclosure should satisfy most investors' concerns about the company's exposure." Reacting to

1 the positive second quarter results, Newsome increased his estimate for AIG's 2007 earnings to
2 \$6.67 from \$6.57 per share.

3 94. On August 8, 2007, AIG filed its 2007 Second Quarter Form 10-Q. As they did
4 with the 2007 First Quarter Form 10-Q, both Sullivan and Bensinger certified the results reported
5 in the 2007 Second Quarter Form 10-Q, representing *inter alia*, that (1) the report was free from
6 untrue statements of material facts or material omissions and (2) that each had "[d]esigned such
7 internal control over financial reporting, or caused such internal control over financial reporting
8 to be designed under our supervision, to provide reasonable assurance regarding the reliability of
9 financial reporting and the preparation of financial statements for external purposes in
10 accordance with generally accepted accounting principles."

11 95. In reality, AIG was not marking these investments to market based on the actual
12 market value of the derivatives as required by GAAP and, in fact, lacked the basic internal
13 controls required to do so. Furthermore, there had been even greater losses to AIG's CDS
14 portfolio directly attributable to the housing credit crisis.

15 96. Specifically, the deterioration of the credit quality of the assets underlying AIG's
16 CDS portfolio had declined to a point where significant defaults were a near certainty, and that
17 the market value of the portfolio itself had declined substantially. Defendants also knew that it
18 was unreasonable to expect no losses from these investments. Any legitimate procedure for
19 evaluating the expected losses would have demonstrated probable and estimable losses that
20 should have been taken in the first and second quarters, as well as when the statements were
21 made.

22 97. On November 7, 2007, the Company filed its third quarter Form 10-Q ("2007
23 Third Quarter Form 10-Q") after the close of the market. In the 2007 Third Quarter Form 10-Q,
24 which was signed by Sullivan and Bensinger, AIG admitted the credit and mortgage crises had
25 resulted in a small third quarter loss in its credit default swap portfolio (\$352 million) and
26 projected only slightly higher losses during the fourth quarter (\$550 million). Downplaying even
27 these small losses, the 2007 Third Quarter Form 10-Q stated that "AIG continues to believe that
28

1 it is highly unlikely” that AIGFP would ever actually have to make payments under its portfolio
2 of credit default swaps.

3 98. The following morning, AIG executives dismissed any material impact of credit
4 default swap losses during its earnings conference call, with Lewis stating that the “ultimate
5 credit risk actually undertaken is remote and has been structured and managed effectively.”
6 Sullivan further trivialized the already understated losses, stating:

7 The loss taken this quarter reflects a change in the fair value of these derivatives
8 due to the significant widening of credit spreads on the underlying collateral.
9 However it does not reflect a change in our view. ***AIG does not expect to pay any
10 losses on this carefully structured and well-managed portfolio.*** All Super Senior
11 transactions are written to a zero loss standard; underlying collateral assets
12 analyze the model to determine appropriate risk attachment points to that all
13 transactions have significant subordination below AIG-FP’s attachment point.
14 (Emphasis added.)

15 99. The earnings call again featured a PowerPoint “Residential Mortgage
16 Presentation.” The slide presentation furthered AIG’s efforts to mislead investors regarding its
17 “super senior” credit default swap portfolios, stating that “AIG does not expect to be required to
18 make any payments form this exposure.” Once again, the 2007 Third Quarter Form 10-Q
19 indicated only minor mark-to-market losses on the credit default swap portfolio.

20 100. Bensinger and Sullivan certified that AIG’s 2007 Third Quarter Form 10-Q: (i)
21 “[did] not contain any untrue statement of a material fact or omit to state a material fact
22 necessary to make the statements made, in light of the circumstances under which such
23 statements were made, not misleading”; and (ii) that “the financial statements, and other financial
24 information included in [the Form 10-Q] fairly present[ed] in all material respects the financial
25 condition, results of operations and cash flows of the registrant as of, and for, the periods
26 presented.” In addition, Bensinger and Sullivan each certified in the 2007 Third
27 Quarter Form 10-Q that they had “[d]esigned such internal controls over financial reporting, or
28 caused such internal control over financial reporting to be designed under [their] supervision, to
provide reasonable assurance regarding the reliability of financial reporting and the preparation
of financial statements for external purposes in accordance with generally accepted accounting
principles.”

1 101. On December 5, 2007, AIG held an investor meeting for the purpose of
2 discussing the Company's exposure to the residential mortgage market. During this meeting,
3 AIG disclosed, for the first time, that the value of its "super senior" CDS portfolio had declined
4 between \$1.05 and \$1.15 billion since September 30, 2007. Taking the disclosures of these
5 losses together with the prior disclosures of losses in the third quarter Form 10-Q, AIG led the
6 market to believe that the total disclosed decline in value of AIG's "super senior" credit default
7 swap portfolio for 2007 through November was between \$1.4 and \$1.5 billion. AIG later
8 confirmed this disclosure in its Form 8-K/A filed with the SEC on December 7, 2007.

9 102. During the investor meeting, Sullivan told shareholders that the possibility that the
10 swaps would sustain a loss was "close to zero" and that AIG is "confident in [its] marks and the
11 reasonableness of [its] valuation methods." Sullivan also told investors that AIG had "a high
12 degree of certainty in" the losses that AIG had "booked to date" and that the Company's U.S.
13 residential housing market exposure levels "are manageable given AIG's size, financial strength
14 and global diversification." With respect to the valuation models, Sullivan claimed AIGFP's
15 models "have proven to be very reliable" and "provide AIG with a very high level of comfort."
16 Sullivan concluded that "AIG has accurately identified all areas of exposure to the U.S.
17 residential housing market."

18 103. Analysts reacted positively to the disclosures at the December 5, 2007 meeting,
19 satisfied with AIG's claims that it would not suffer the kinds of massive mortgage-related
20 writedowns experienced by other financial institutions. As noted by analyst Gary Ransom of
21 Fox-Pitt Kelton Cochran Caronia Waller in a December 6, 2007 report:

22 The company indicated that it expects another \$500-\$600 million mark-to-market
23 impact from the CDO book in addition to the \$550 million noted for October
24 during the third quarter conference call. The company reiterated its belief that
25 actual losses would be zero. ... We believe concerns about the mortgage exposure
have been overdone. There were legitimate concerns about some fundamental
weaknesses in the third quarter, but we expect improvement over the next few
quarters.

26 104. Citing to AIG's claims that it had successfully contained its subprime exposure,
27 Ransom rated AIG "outperform."

1 105. Likewise, a December 6, 2007 analyst report issued by Wachovia Capital Markets
2 stated:

3 We believe the greatest degree of investor confusion concerning AIG's exposure
4 to the mortgage problem has rested with the company's Financial Product
5 business and on the company's investment portfolio. With a liberal dose of data
6 and a large measure of logic, we think AIG succeeded in diffusing some of the
7 confusion on these matters, which should allow both investors and management to
8 concentrate on the company's fundamentals once again. ... Mark to model
9 adjustments on AIG's "super senior" CDS business were estimated at \$500 to
10 \$600 million in November, adding to the estimate for October of \$550 million. ***In
11 our opinion, these are accounting adjustments, lacking an economic
12 foundation, which should reverse over time.*** (Emphasis added.)

13 106. The statements also had a positive effect on AIG's stock. As the *Wall Street
14 Journal's* blog *MarketBeat* reported that same day:

15 AIG's stock was the leading Dow component out of the gate, opening at \$58 a
16 share, up \$2.55, or 4.6%, from Tuesday's \$55.45 close. The rally was bolstered
17 by statements from company executives during today's session that its exposure to
18 housing is 'manageable,' ***and that it has no exposure to structured investment
19 vehicles,*** which hold a big load of the odorous mass known as collateralized debt
20 obligations ... Of course, the markets have heard this sort of thing before – losses
21 expected to be contained weren't; exposures that looked healthy were less so – but
22 ***saying one has no exposure, that's a bit more definitive.*** (Emphasis added.)

23 **C. February 2008: AIG Reveals Its Massive Exposure to CDS Losses**

24 107. On February 11, 2008, in its Form 8-K ("February 11, 2008 Form 8-K"), AIG
25 admitted that its credit swap portfolio losses were previously understated and that material
26 information previously supplied to the market required correcting. AIG's gross cumulative
27 decline in valuation for its credit swap portfolio through November 30, 2007 was actually \$5.96
28 billion, more than \$4 billion greater than the net figure reported to shareholders in December
2007. Further, utilization of the "cash flow diversion feature" and "negative basis adjustment" in
AIG's December disclosures reduced the \$5.964 billion dollars in "gross" losses down to
approximately \$1.4 to \$1.5 billion in losses, which AIG disclosed in its December 7, 2007 Form
8-K. This was the first time AIG utilized these two techniques in this manner, according to the
Form 8-K. In fact, AIG had previously informed the market that prior to the December
disclosures, the Company believed it could not reliably estimate the value of the "cash flow
diversion features" and thus did not utilize either feature in calculating the value of its credit

1 swap portfolio as of September 30, 2007, and as of October 31, 2007, when it reported losses in
2 the CDS portfolio at those intervals in its 2007 Third Quarter Form 10-Q.

3 108. However, faced with enormous gross losses, AIG reversed this position at the
4 time of the December 5, 2007 Investor Meeting and, for the first time, utilized these features on a
5 net basis, enabling the Company to reduce reported losses by \$732 million. AIG also admitted
6 that the December 2007 disclosures represented the first time AIG began to net its losses in its
7 credit swap portfolio against \$3.63 billion by utilizing “negative basis adjustments.” These
8 negative basis adjustments, which the Company claimed were intended to reflect the spread
9 differential between the spreads implied from cash CDO prices and credit spreads implied from
10 the pricing of CDS on the CDOs, had the effect of making the Company’s CDS losses appear
11 much less substantial – in the order of several billion dollars – than they actually were.

12 109. Significantly, AIG’s 2007 Third Quarter Form 10-Q failed to discuss the use of
13 “negative basis adjustments” by AIG in calculating the value of its credit swap portfolio at that
14 time. As reported in the February 11, 2008 Form 8-K, AIG admitted that it did not have grounds
15 to utilize the \$3.63 billion “negative basis adjustment” (which AIG used in its December 2007
16 disclosures to significantly reduce reported credit swap portfolio losses) going forward in AIG’s
17 upcoming Form 10-K for year-end 2007.

18 110. As reported in the February 11, 2008 Form 8-K, the “super senior” credit default
19 swap portfolio losses reported in AIG’s Third Quarter 2007 Form 10-Q were calculated using a
20 modified Binomial Expansion Technique (“BET”) that incorporated “generic” valuation inputs,
21 as opposed to observed market-based inputs that AIG later adopted to calculate its losses,
22 including “cash bond prices provided by the managers of the underlying CDO collateral pools,
23 or, where not provided by the managers, prices derived from a price matrix based on cash bond
24 prices that were provided.” AIG further admitted in this report that the type of generic valuation
25 methodology that was the basis of its loss disclosures in the Company’s 2007 Third Quarter
26 Form 10-Q resulted in dramatically lower loss calculations as compared to market-based
27 valuation that AIG later implemented. Significantly, the February 11, 2008 8-K indicates that
28

1 AIG's reported gross loss through November 30, 2007, would have been 57 percent less if AIG
2 had relied on the generic valuation methodology.

3 111. Finally, as reported in the February 11, 2008 Form 8-K, AIG was advised by its
4 auditors that "they have concluded that at December 31, 2007, AIG had a material weakness in
5 its internal control over financial reporting and oversight relating to the fair value valuation of the
6 super senior credit default swap portfolio."

7 112. The February 11, 2008 disclosures revealed only the tip of the iceberg. In reality,
8 the losses AIG had already sustained, but continued to conceal, were much higher. Over the next
9 several months, investors would slowly learn the staggering amount of losses that were
10 fraudulently withheld from the investing public.

11 113. On February 28, 2008, AIG filed its Form 10-K for the year-end 2007 ("2007
12 Form 10-K"), which included additional losses on its credit swap portfolio. As reported in the
13 2007 Form 10-K, just weeks after its prior statements, AIG announced that the cumulative value
14 of its credit default swap portfolio dropped \$11.5 billion and, as a result, AIG reported its largest
15 quarterly loss ever of \$5.3 billion. In addition, AIG reported that its investment portfolio lost \$3
16 billion in value due to losses from the Company's portfolio of residential mortgage debt.

17 114. In connection with the filing of the 2007 Form 10-K, Sullivan reported to the
18 market that Cassano, head of AIGFP, the entity responsible for the Company's CDS portfolio,
19 had agreed to leave AIG.

20 115. AIG effectively conceded in its 2007 Form 10-K and fourth quarter 2007 earnings
21 call on February 29, 2008, that the offsets it had previously used to reduce the Company's
22 reported losses were improper. Accordingly, AIG reduced or eliminated these offsets from its
23 loss calculations. Specifically, AIG conceded in the 2007 Form 10-K that it did not have a basis
24 to apply the \$3.63 billion in "negative basis adjustments" previously used in its December 2007
25 disclosures to reduce reported loss in value of the credit default swap portfolio. On the February
26 29, 2008 conference call, Bensinger admitted that, despite using the negative basis adjustments to
27 report the CDS portfolio's third quarter losses, "AIG concluded that recording a negative basis
28 adjustment at this time is not consistent with GAAP fair value requirements."

1 116. On February 29, 2008, AIG also conceded in its fourth quarter earnings call that
2 the “cash flow diversion features” used in its December 7, 2007 and February 11, 2008
3 disclosures to reduce reported loss in value of its credit default swap portfolio were improper.
4 Materials posted on AIG’s website in support of the call make clear that AIG reduced this
5 offsetting amount to only \$310 million – a 58% reduction from the offset for such features that
6 AIG used in its December 7 and February 11 Form 8-Ks.

7 117. The 2007 Form 10-K also reported, for the first time, that AIG’s credit default
8 swap portfolio included \$6.5 billion in liquidity puts written on CDOs linked to the subprime
9 mortgage market. These put agreements required AIGFP to purchase certain CDOs at par,
10 provided the securities did not suffer a default.

11 118. The put agreements represented substantial near-term liabilities. Owners of
12 these put agreements would not likely exercise them until it was apparent that a default on the
13 underlying collateral was imminent or at least likely. AIG would then have to take back the
14 underlying assets in exchange for only the CDS price it had received when the credit quality of
15 the assets was considered much higher. In other words, the puts allowed purchasers of the
16 subprime CDOs to force AIG to buy them back at the original price, despite the fact they had
17 declined in value.

18 119. Beyond disclosing the mere existence of the liquidity puts, the 2007 Form 10-K
19 also reported for the first time that, pursuant to the terms of the liquidity puts, AIG had actually
20 repurchased \$754 million of these securities, and had provided third parties with \$3 billion in
21 liquidity facilities in case AIGFP was required to repurchase additional CDOs over the next three
22 years. The fact that AIG was forced to repurchase hundreds of million of dollars worth of
23 mortgage-related securities pursuant to the terms of the liquidity puts further demonstrate that
24 Defendants knew about AIG’s exposure to the subprime mortgage market throughout 2007, and
25 is telling evidence that AIG was aware that the market for structured finance products such as
26 CDOs had become significantly less liquid.

1 and Chief Financial Officer concluded that, as of December 31, 2007, AIG's
2 disclosure controls and procedures were ineffective.

3 Management of AIG is responsible for establishing and maintaining adequate
4 internal control over financial reporting. AIG's internal control over financial
5 reporting is a process, under the supervision of AIG's Chief Executive Officer and
6 Chief Financial Officer, designed to provide reasonable assurance regarding the
7 reliability of financial reporting and the preparation of AIG's financial statements
8 for external purposes in accordance with GAAP.

9 * * *

10 As of December 31, 2007, controls over the AIGFP super senior credit default
11 swap portfolio valuation process and oversight thereof were not effective. AIG
12 had insufficient resources to design and carry out effective controls to prevent or
13 detect errors and to determine appropriate disclosures on a timely basis with
14 respect to the processes and models introduced in the fourth quarter of 2007. As a
15 result, AIG had not fully developed its controls to assess, on a timely basis, the
16 relevance to its valuation of all third party information. Also, controls to permit
17 the appropriate oversight and monitoring of the AIGFP super senior credit default
18 swap portfolio valuation process, including timely sharing of information at the
19 appropriate levels of the organization, did not operate effectively. As a result,
20 controls over the AIGFP super senior credit default swap portfolio valuation
21 process and oversight thereof were not adequate to prevent or detect
22 misstatements in the accuracy of management's fair value estimates and
23 disclosures on a timely basis, resulting in adjustments for purposes of AIG's
24 December 31, 2007 consolidated financial statements. In addition, this deficiency
25 could result in a misstatement in management's fair value estimates or disclosures
26 that could be material to AIG's annual or interim consolidated financial
27 statements that would not be prevented or detected on a timely basis.

28 **D. September 2008: After Asking The United States Taxpayers For Bail Out,
AIG Reveals Details Of "Retention" Bonus Program**

122. By September 2008, AIG's financial condition was increasingly dire. On
September 12, 2008, Standard and Poor's warned that it could cut AIG's credit ratings. Such a
cut would necessitate that AIG post collateral to its CDS counterparties. AIG management came
to the conclusion that they would have to raise \$40 billion to stay afloat. This number was
climbing quickly because AIG's real estate portfolio continued to deteriorate.

123. On Sunday, September 14, 2008, AIG discovered yet another major undisclosed
accounting failure – that one of its regulated subsidiaries, its securities lending business, needed a
separate injection of as much as \$20 billion. This raised the total amount that AIG would need to
more than \$60 billion. This capital was needed as a direct result of the risky, and undisclosed,
investments that the Defendants had made in the CDS markets.

1 124. By late on the night of Sunday September 14, 2008, AIG, through its advisors,
2 informed Timothy Geithner, then president of the Federal Reserve Bank of New York, that it
3 needed “60 billion *plus*.” AIG could not quantify the plus.

4 125. On Monday, September 15, 2008, AIG informed New York state superintendent
5 of insurance, Eric Dinallo, that the firm would need as much as \$70 billion to avoid bankruptcy.
6 Mr. Dinallo replied that the state would not act unless there was a plan in place to provide the
7 rest of what AIG needed, saying “I can’t risk hurting the policyholders if your company goes
8 bankrupt,” according to the Wall Street Journal.

9 126. By late Monday, September 15, 2008, investment bankers working at the Federal
10 Reserve offices determined that AIG in fact needed \$80 billion to stay afloat. That same night,
11 AIG was downgraded by Standard and Poor’s and Moody’s Investor Services. It was reported
12 that as a result AIG would need to post an additional \$14 billion plus to its counterparties, money
13 it did not have.

14 127. After the markets closed on Tuesday, September 16, 2008, the United States
15 government intervened to prevent the bankruptcy of AIG. The bailout was initially for \$80
16 billion, and has now eclipsed \$170 billion, with the US government taking a near 80% stake in
17 the company.

18 128. On September 22, 2008, AIG filed a Form 8-K with the SEC stating: “On
19 September 22, 2008, a retention program of American International Group, Inc. (‘AIG’) became
20 effective. The program applies to approximately 130 executives and consists of cash awards
21 payable 60 percent in December 2008 and 40 percent in December 2009.” The bonus recipients
22 were not disclosed.

23 129. On November 25, 2008, AIG announced that it no longer intended to give 2008
24 bonuses to top executives, and that the firm’s next 50 highest-ranked executives would forego
25 salary raises through 2009. However, according to a Reuters’ article published the next day,
26 entitled, “AIG Gives ‘Retention’ Pay After Scrapping Bonuses,” AIG still intended to pay over
27 130 managers “cash awards” to stay with the firm, including a \$3 million “retention” payment to
28 Defendant Jay Wintrob, the CEO of AIG Retirement Services Inc. AIG did not disclose why

1 retention payments to Wintrob or others were deemed necessary or how they were calculated.
2 Notably, Wintrob was already one of the six top-paid AIG executives in 2007, with total
3 compensation valued at \$7.63 million. Further, the Compensation Committee had previously
4 decided that the AIGFP unrealized market valuation losses in 2007 would not be taken into
5 account in determining the financial metrics applicable to the general bonus pool for AIG's
6 senior executives or the amounts earned under AIG's long-term compensation plans, such that
7 these amounts were already artificially inflated for the benefit of AIG's executives and
8 employees. David Schmidt, an executive compensation consultant with James F. Reda &
9 Associates, stated: "The expectation from the public and Congress was that they weren't getting
10 bonuses, not that they'd be pushed off by several months. That clearly violates the spirit of AIG
11 saying they'll forgo their bonuses."

12 130. On December 1, 2008, Congressman Elijah Cummings, a member of the House
13 Oversight Committee, sent a letter to AIG's Liddy asking about AIG's intention to make
14 "retention" payments to executives after announcing that executives were foregoing bonuses.
15 Describing AIG's announcement as a "disingenuous slight of hand," and questioning why
16 additional retention bonuses were necessary to retain employees while massive layoffs were
17 occurring at other major financial entities, Congressman Cummings asked AIG to identify the
18 executives receiving the payments and the justification for the bonus to retain them. A copy of
19 the letter is attached hereto as Exhibit A.

20 131. On December 5, 2008, Defendant Liddy responded to the Oversight Committee.
21 Liddy confirmed that, on September 18, 2008 – i.e., just days after the Government had approved
22 bailout funds for AIG – AIG's Compensation Committee approved "retention" payments for 168
23 employees, including at least 13 executive officers of AIG, with payments ranging from \$92,500
24 to \$4 million. A copy of the letter is attached hereto as Exhibit B.

25 132. On December 9, 2008, Congressman Cummings sent a response letter to AIG's
26 Liddy, questioning the need for the payments and asking for further information: "I remain
27 concerned, as do many American taxpayers, that these retention payments are simply bonuses by
28 another name. . . . I think we could all benefit from some clarity as to the difference between the

1 amount of compensation that AIG would have paid under normal circumstances to those
2 receiving retention payments and the amounts these 168 individuals are now expected to receive
3 in compensation.” A copy of the letter is attached hereto as Exhibit C. On December 16, 2008,
4 Congressman Cummings requesting a Congressional hearing to examining reports of AIG’s
5 secret retention payments. A copy of the letter is attached hereto as Exhibit D.

6 133. On December 17, 2008, Defendant Liddy cancelled a scheduled meeting with
7 Congressman Cummings to discuss AIG’s retention payments. Over the next few months, AIG
8 chose to remain silent about its retention plan and the need to incentivize employees with
9 bonuses to remain at AIG.

10 134. On March 2, 2009, AIG reported its financial results for the fourth quarter of
11 2008, as well as for the full 2008 fiscal year. AIG reported a loss of \$61.7 billion for the fourth
12 quarter, reportedly the largest corporate loss in history, including \$17.6 billion in losses from the
13 AIGFP unit alone.

14 135. Over the weekend of March 15, 2009, despite AIG’s staggering losses, it was
15 reported that AIG had decided to award approximately **\$1.2 billion** in employee “retention”
16 bonuses to approximately **6,400 employees**, including \$450 million in bonuses to employees in
17 the AIGFP unit at the heart of AIG’s collapse the prior year.

18 136. Published reports also described a meeting the previous Wednesday between
19 Liddy and Treasury Secretary Geithner, who asked AIG to cease the retention program. Instead,
20 Liddy sent a letter to Secretary Geithner, a copy of which is attached as Exhibit E, stating his
21 intention to go forward with the payments. The letter states in pertinent part:

22 In the first quarter of 2008, prior management took significant retention
23 steps at AIG Financial Products. These arrangements were designed at a time
24 when AIG Financial Products was expected to have a significant, ongoing role at
25 AIG, and guaranteed a minimum level of pay for both 2008 and 2009. (Due to
26 losses at AIG Financial Products, a senior manager will receive about 43% of his
27 2007 expected Level for 2008.) ***Some of these payments are coming due on
March 15, and, quite frankly, AIG’s hands are tied.*** Outside counsel has
28 advised that these are legal, binding obligations of AIG, and there are some
serious legal, as well as business, consequences for not paying. Given the trillion-
dollar portfolio at AIG Financial Products, retaining key traders and risk managers
is critical to our goal of repayment. This is all discussed in more detail in the
attached “white paper”.

1 *Needless to say, in the current circumstances, I do not like these*
2 *arrangements and find it distasteful and difficult to recommend to you that we*
3 *must proceed with them.* With the benefit of hindsight, I would have designed
4 these differently and at significantly lower levels. I am committed, however, to
5 working within the existing arrangements to get the most out of them for AIG's
6 constituencies. Honoring contractual commitments is at the heart of what we do
7 in the insurance business. I cannot have our clients lose faith in our desire and
8 ability to do just that. . . .

9 You have also asked AIG to think our 2008 corporate bonus proposals.
10 The proposals AIG originally submitted to you are part of a deliberate process,
11 recommended by me and supported by the independent compensation committee
12 of AIG's board of directors. We started with the additional compensation limits
13 that AIG had already committed to – limits that were more extensive than those at
14 any other recipient of TARP funds at the time – and weighed a variety of
15 considerations appropriate to the goal of repayment and AIG's unique
16 circumstances.

17 Nevertheless, in response to your request, we are now proposing further
18 changes to the 2008 corporate bonus proposals for Senior Partners that will better
19 align their interests with AIG's restructuring efforts and the goal of repayment.
20 As before, our Leadership Group (including me) will receive no 2008 year-end
21 bonus.

22 I would not be doing my job if I did not directly advise you of my grave
23 concern about the long-term consequences of the actions we are taking today. On
24 the one hand, all of us at AIG recognize the environment in which we operate and
25 the remonstrations of our President for a more restrained system of compensation
26 for executives. *On the other hand, we cannot attract and retain the best and*
27 *brightest talent to lead and staff the AIG businesses – which are now being*
28 *operated principally on behalf of the American taxpayers – if employees believe*
that their compensation is subject to continued and arbitrary adjustment by the
U.S. Treasury.

Emphasis added. Liddy's letter attached a "White Paper" stating in pertinent part:

AIGFP Employee Retention Plan

Executive Summary

AIG is contractually obligated to pay a total of about \$165 million of previously
awarded retention pay to AIGFP employees (in respect of 2008). This amount is
due pursuant to a retention plan entered into in early 2008. About \$55 million of
retention pay was previously paid around December, and about \$93 million of
additional retention pay will be eliminated because of losses at AIGFP (in
accordance with the terms of the plan). AIG is also obligated to pay about \$6
million of guaranteed pay to AIGFP employees under contractual obligations
outside of the retention plan.

AIG is required to make these payments on or before March 15 by the terms of
the retention plan or individual contract guarantees, all of which pre-date TARP
and AIG's current Chief Executive Officer. Outside counsel has advised that AIG
is legally obligated to pay and, under applicable law, risk a doubling of the
amount owed as a penalty. In addition to this and other legal obstacles, business
requirements necessitate payment.

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AIG has also attempted to develop acceptable alternatives to restructure guaranteed amounts owed. However, efforts have not been successful for payments in respect of 2008 in light of the employees' contractual rights to receive these payments combined with new tax limits under Section 409A of the Internal Revenue Code that limit the ability of employers and employees to alter payment dates for deferred compensation. However, AIG has committed to use its best efforts to reduce the amounts AIG owes in respect of 2009. This will be accomplished through voluntary acts such as salary reductions, through negotiations when we sell businesses and through other arrangements over time. We believe that guaranteed payments at AIGFP for 2009 can be reduced by at least 30%.

Details Regarding Retention Plan

In the first quarter of 2008, AIGFP adopted a retention plan for about 400 employees that provided guaranteed payments to employees if they worked through specified payment dates (or either resigned for good reason or was terminated without cause before the relevant dates). At the time, AIGFP was expected to have a valuable, on-going role at AIG. ***The plan was implemented because there was a significant risk of departures among employees at AIGFP, and given the \$2.7 trillion of derivative positions at AIGFP at that time, retention incentives appeared to be in the best interest of all of AIG's stakeholders.*** The program was evidenced by a written plan distributed to employees and by individual agreements executed by them.

For senior management the plan provides that 2008 and 2009 compensation will be 75% of 2007 expected compensation levels. Other participants are set at the full 2007 level. This resulted in a \$313 million total for 2008 and a \$327 million total for 2009 (because some employees who had other guaranteed compensation for 2008 were excluded for that year). ***The 2008 awards range from \$1,000 to slight less than \$6.5 million.*** Only seven employees will receive more than \$3 million.

The total for each year is divided into two components. The first is required to be paid on or before March 15 of the following year (this is \$220 million for 2008), and the second is retained by AIGFP, serves as part of AIGFP's capital structure and is at risk for losses (this is about \$93 million for 2008). The division between current pay and at-risk pay is highest for the most senior employees – up to almost half. This is how AIGFP has traditionally structured its compensation.

Of the \$220 million, about \$165 million is required to be paid on or prior to March 15, 2009 and about \$55 million was previously paid. In light of the large losses incurred last year, current and former employees will see their deferred compensation accounts reduced to the point where they will have negative balances. As a consequence there is no immediate prospect that employees will receive any payout of the at-risk piece for 2008 (about \$93 million) or the remaining approximately \$582 million in at risk pay earned from prior years. A senior AIGFP manager therefore worked in 2008 for about 43% of his 2007 expected level.

An additional \$6 million is guaranteed to employees for 2008 pursuant to contractual arrangements outside of the retention plan. To avoid any confusion, the information in this section is specific to the retention plan.

1 * * *

2 **Details Regarding Business Impact of Failure to Pay**

3 AIGFP's derivatives portfolio stands at about \$1.6 trillion and remains a
4 significant risk. Failure to pay the required retention payments therefore could
have very significant business ramifications.

5 For example, AIGFP is a party to derivatives and structured transactions,
6 guaranteed by AIG, that allow counterparties to terminate in the event of a "cross
7 default" by AIGFP or AIG. A cross default in many of these transactions is
defined as a failure by AIGFP to make one or more payments in an amount that
exceeds a threshold of \$25 million.

8 In the event a counterparty elects to terminate a transactions early, such
9 transaction will be terminated at its replacement value, less any previously posted
collateral. Due to current market conditions, it is not possible to reliably estimate
10 the replacement cost of these transactions. However, the size of the portfolio with
these types of provisions is in the several hundreds of billions of dollars and a
11 cross-default in this portfolio could trigger other cross-defaults over the entire
portfolio of AIGFP.

12 There are also substantial risks related to the hedging of AIGFP's as generally
13 well hedged, the heading is dynamic – that is, it must be monitored and adjusted
continuously. To the extent that AIGFP were to lose traders who currently
14 oversee complicated though familiar positions and know how hedge the book,
gaps in hedging could result in significant losses. This is driven to some extent by
15 the size of the portfolios. In the interest rate book, for example, percent – could
result in a change in value of \$700 million dollars if the book were not foreign
exchange, commodities and equity derivatives books.

16 AIGFP's books also contain a significant number of complex – so-called bespoke
17 - transactions that are difficult to understand and manage. This is one reason
replacing key traders and risk managers would not be practical on a large scale.
18 Personal knowledge of the trades and the unique systems at AIGFP will be critical
to an effective unwind of AIGFP's businesses and portfolios.

19 In this current environment, any perceived disruption in AIGFP's ability to
20 conduct business, such as one that would result from the departure of a number of
key employees, could also cause parties to limit or cease trading with AIGFP.
21 Obviously, this would adversely affect its ability to continue to cost-effectively
hedge its positions.

22 Departures also have regulatory ramifications. As an example, the resignation of
23 the senior managers of AIGFP's Banque of AIG subsidiary would allow the
Commission Bancaire, the French banking regulator, to appoint its own designee
24 to step in and manage Banque AIG. Such an appointment would constitute an
event of default under Banque AIG's derivative and structured transactions,
25 including the regulatory capital CDS book (\$234 billion notional amount as of
December 31, 2008), and potentially cost tens of billions of dollars in unwind
26 costs. Although it is difficult to assess the likelihood of such regulatory action, at
a minimum the disruption associated with significant departures related to a
27 failure to honor contractual obligations would require intensive interactions with
regulators and other constituents (rating agencies, counterparties, etc.) to assure

1 them of the ongoing viability of AIGFP as well its commitment to honoring
2 counterparty contracts and claims.

3 * * *

4 **Detail Regarding 2009 Fiscal Year**

5 Under the retention plan, \$327 million is due for 2009. Of that, \$97 million
6 constitutes at risk pay that will be eliminated by AIGFP's losses. An additional
\$7.6 million is guaranteed to employees for 2009 pursuant to contractual
arrangements outside of the retention plan.

7 AIG has taken significant steps to limit overall compensation at AIGFP where it
8 can and has committed to doing more. The 25 highest paid active contract
9 employees have agreed to reduce their remaining 2009 salaries to \$1. Salaries for
10 this group ranged up to \$500,000, and the average salary was in excess of
11 \$270,000. (There are apparently legal limits that may complicate the
12 implementation of this and AIG will likely implement the lowest salary levels we
can equitably put in place across the relevant jurisdictions.) The remaining 2009
salary of all other officers – anyone with a title of associate vice president or
higher – is being reduced by 10% (subject to compliance with local law
requirements). In addition, other forms of non-cash compensation will be reduced
or eliminated.

13 We also believe that there will be considerably greater flexibility to reduce
14 contractual payments in respect of 2009, and AIG intends to use its best efforts to
15 do so. AIGFP intends to sell some of its books of business during the year. The
16 employees related to these books will go with the sold businesses, and we intend
17 to require the buyer to assume going-forward compensation payments. It is also
18 expected that, over the course of the year, employees will leave voluntarily or be
19 terminated for cause and will therefore no longer be entitled to retention amounts
20 from AIG. Because the plan was designed to provide security for employees,
21 including protection against terminations without cause, AIG is required to pay
the amounts owed to employees who are downsized. However, if a downsized
employee finds new employment, retention amounts will be reduced by the
earnings from the other employer. In addition, for employees in foreign
jurisdictions who are not U.S. taxpayers, to whom the limits of Section 409A do
not apply, AIG will have the ability to negotiate with employees who are
downsized. With all of these actions and other creative restructuring solutions,
AIG hereby commits to use best efforts to reduce expected 2009 retention
payments by at least 30%.

22 Emphasis added.

23 137. The same justification was provided in a March 16, 2009 letter from Paul
24 Hastings, AIGFP's counsel, to the Federal Reserve Bank of New York. A copy of the letter is
25 attached hereto as Exhibit F. A copy of the Retention Plan, released by the House Financial
26 Services Committee, is attached hereto, as Exhibit G.

1 138. The reaction to AIG's justification for approving retention bonuses under was
2 universal outrage. In an article entitled, "*Bailout King AIG Still To Pay Millions in Bonuses*," the
3 Washington Post reported that debate over the bonuses had been simmering for months and that,
4 "as lawmakers increasingly clamored for details of their size, outrage grew in Congress and
5 beyond." The Wall Street Journal focused on the AIGFP payments in an article entitled, "*AIG to
6 Pay \$450 Million in Bonuses*," and noted after recounting Liddy's justification for the payments,
7 "But the tone and content of Mr. Liddy's letter are an indication of the politically difficult nature
8 of making bonus payments to employees of a firm that is operating with massive taxpayer
9 support." The New York Times, in an article entitled, "*Bonus Money at Troubled AIG Draws
10 Heavy Criticism*," noted that "Obama administration officials and Republicans alike were nearly
11 universal in condemning" the bonus payments to executives at AIGFP. The Times also quoted
12 Lawrence Summers, the top White House economic advisor, as stating: "There are a lot of
13 terrible things that have happened in the last 18 months, but what's happened at AIG is the most
14 outrageous."

15 139. There was similar reaction from both Republicans and Democrats in Washington.
16 Senator Mitch McConnell, the Republican minority leader, questioned AIG's explanation that it
17 was contractually obligated to make the payments: "Did they enter into these contracts knowing
18 full well that, as a practical matter, the taxpayers of the United States were going to be
19 reimbursing their employees? Particularly employees who got them into this mess in the first
20 place. I think it's an outrage." Likewise, on March 15, 2009, Congressman Cummings, whose
21 investigation first shined light on AIG's retention plan, issued a release stating:

22 Mr. Liddy has repeatedly taken billions of hard-earned dollars from the American
23 people – many of whom have lost their homes, their savings, and their jobs – and
24 then slapped those people in the face with that very money. Mr. Liddy continues
25 to display reckless and irresponsible behavior at the helm of this company, and we
26 simply cannot afford to accept it any longer.

27 AIG has been trying to play the American people for fools by giving nearly \$1
28 billion in bonuses by the name of 'retention payments,' – including to employees
at the FP unit whose reckless behavior drove the company into the ground. Any
credibility that could have been given to Mr. Liddy's argument that these
payments are necessary to retain top talent was completely destroyed in last
month's 10-K filing when AIG itself disclosed that nearly \$60 million of those
retention payments are going to employees who will be terminated.

1 These payments are nothing but a reward for obvious failure, and it is an
2 egregious offense to have the American taxpayers foot the bill. Something is
3 terribly wrong with this picture, and the reckless behavior at AIG must stop
4 immediately.

5 140. The reaction reached a crescendo on March 16, 2009, when President Obama
6 blasted AIG's bonus plan as an "outrage" that violates "fundamental values." " President
7 Obama also openly questioned the purported business justification provided by AIG:

8 Under these circumstances, it's hard to understand how derivative traders at AIG
9 warranted any bonuses, much less \$165 million in extra pay. How do they justify
10 this outrage to the taxpayers who are keeping the company afloat? . . . All across
11 the country, there are people who work hard and meet their responsibilities every
12 day, without the benefit of government bailouts or multimillion-dollar bonuses.
13 And all they ask is that everyone, from Main Street to Wall Street to Washington,
14 play by the same rules.

15 According to both the Wall Street Journal and New York Times, President Obama directed
16 Secretary Geithner to pursue every avenue to block the bonuses under the Retention Plan.

17 141. On March 17, 2009, New York Attorney General Andrew Cuomo revealed that 73
18 employees were paid more than \$1 million each from the initial \$165 million in bonuses paid out
19 by AIG. The highest bonus was \$6.4 million, and six other employees received more than \$4
20 million. Fifteen other people reportedly received bonuses of more than \$2 million, and 51 people
21 received bonuses between \$1 million and \$2 million. Even more troubling, while AIG said the
22 bonuses were needed to persuade workers to stick around in its financial products unit, eleven of
23 those who received "retention" bonuses of \$1 million or more were reportedly no longer working
24 at AIG, including one who received \$4.6 million.

25 142. On March 17, 2009, in an article entitled, "AIG Plans Retention Pay for Staff
26 Facing Dismissal," Bloomberg reported that AIG had filed documents with the SEC in which it
27 admitted budgeting \$57 million in "retention" pay for employees expected to be "terminated."

28 143. On March 18, 2009, Defendant Liddy appeared before a Congressional
committee. While Liddy admitted that the bonuses were "distasteful," he reiterated AIG's
position that it was obligated to pay them.

1 144. On March 27, 2009, the Wall Street Journal reported that New York Attorney
2 General Cuomo had expanded his investigation into AIG to include questions about the CDO
3 contracts, how its AIGFP unit was unwinding its CDO business, and the expertise needed of
4 employees to do so, amidst reports that AIG had effectively paid many of its investors 100 cents
5 on the dollar to unwind certain trades. The Journal has also reported that the same banks that
6 received government-funded payouts to settle CDO contracts with AIG also turned to the insurer
7 to help cut their income taxes in the United States and Europe. The tax deals were reportedly
8 structured by AIGFP, and the IRS is now challenging the deals for failing to show that they have
9 “sufficient economic substance and business purpose” to justify tax benefits.

10 **IV. FUTILITY OF PRE-FILING DEMAND**

11 145. Plaintiff brings this action derivatively in the right and for the benefit of the
12 company to redress the Defendants’ breaches of fiduciary duties, corporate mismanagement,
13 abuse of control, as well as the aiding and abetting thereof.

14 146. Plaintiff is currently an owner of AIG stock, has continuously held AIG
15 stock at all times relevant hereto, and has standing to bring this derivative action.

16 147. Plaintiff will adequately and fairly represent the interests of the Company
17 and its shareholders in enforcing and prosecuting its rights.

18 148. The law requires directors and members of senior management of AIG to
19 safeguard the interests and assets of the corporation and imposes a duty of care and a duty of
20 loyalty on such persons.

21 149. As a result of the facts set forth herein, plaintiff has not made any demand
22 on the AIG Board to institute this action against the Defendants. Such demand is excused
23 because making a demand would be a futile and useless act. The AIG Board is incapable of
24 making an independent and disinterested decision to institute and vigorously prosecute this
25 action since they were the persons responsible for the alleged decisions and transactions that
26 form the basis for this action, including the approval and/or implementation of the retention plan
27 payments discussed herein.

1 150. Defendants cannot be relied upon to reach an independent decision regarding
2 whether to commence an action against themselves because, among other things, the AIG Board
3 is currently dominated by the Defendants on the Board who were personally involved in the acts
4 of mismanagement alleged herein. Such dominance renders the Board incapable of reaching an
5 independent decision whether to accept any action by plaintiff to address the wrongs detailed
6 herein.

7 151. At the time this action was filed, AIG's Board was composed of eleven members:
8 Defendants Bollenbach, Dammerman, Liddy, Johnson, Orr, Rometty, as well as Martin Feldstein,
9 George Miles, Morris Offit, Michael Sutton, and Edmund Tse. Six of the eleven Board members
10 are defendants in this action. All six were members of the Compensation Committee during the
11 relevant period or, in the case of Liddy, an attendee at Compensation Committee meetings and
12 personally involved in the approval of retention bonus payments .

13 152. Pursuant to AIG's Compensation Committee Charter, as amended on January 16,
14 2008, the Committee, in consultation with senior management, oversees the administration of
15 AIG's compensation programs, determines and approves the compensation of the Chief
16 Executive Officer ("CEO") in accordance with AIG's by-laws, approves the compensation of
17 other senior executives under its purview, oversees AIG's employee compensation programs
18 below the senior executive level, makes recommendations with respect to the compensation
19 programs applicable to senior executives and other employee compensation, oversees AIG's
20 management development and succession planning programs and produces a Committee report
21 on executive compensation for inclusion in AIG's annual proxy statement in accordance with
22 SEC rules. The Committee also has the duty to present a summary of the actions taken at each
23 Committee meeting to the full Board, as well as an annual evaluation of its performance. Under
24 its Charter, the Committee shall have direct access to, and complete and open communications
25 with, senior management and advisors.

26 153. In approving and implementing the retention plan, and in excluding AIGFP losses
27 from financial metrics applied to compensation decisions, as discussed above, the Director
28 Defendants failed to exercise reasonable business judgment and wasted corporate assets –

1 including funds received from US taxpayers – without any corresponding need or benefit to AIG.
2 There was and can be no business justification for approving and a “retention” plan, let alone
3 paying “retention” based bonuses to executives and employees to remain at AIG, given the
4 performance of these executives and employees prior to the payments and their contribution to
5 AIG’s financial condition, the substantial (and artificially inflated) payments and bonuses that
6 they already received and stood to receive under AIG’s existing compensation structure, the state
7 of the job market and recognized standards of compensation, and the fact that the only reason
8 AIG executives and employees even had jobs to “retain” was due to the injection of \$170 billion
9 in US taxpayer funds to keep AIG in business.

10 154. Moreover, any claim that AIG was contractually obligated to pay “retention”
11 bonuses following the injection of US taxpayer funds, lacks legal or business support. As a legal
12 matter, all contracts can be modified or cancelled altogether by the contracting parties, and the
13 Director Defendants failed to determine whether executives and employees would agree to such
14 modification or cancellation, which plainly would have been in their interest to negotiate. Even
15 without consent of the other contracting party, any contract can be voided for grounds such as
16 mistake, illegality, impossibility, impracticability, and frustration of purpose. The Director
17 Defendants’ determination that their “hands were tied,” or that they had no other option other
18 than paying hundreds of millions of dollars as “retention” bonuses to executives and employees,
19 when the only reason the executives and employees even had jobs to retain was due to the
20 injection of taxpayer funds, is absurd and unjustifiable on its face. Plainly, the entire purpose of
21 the retention plan – i.e., to prevent employees from leaving by paying them more funds from the
22 Company’s coffers – was frustrated, and the very object of the contract rendered impracticable
23 and impossible, by AIG’s financial insolvency absent receipt of taxpayer funds. Further, the
24 Director Defendants failed to reasonably whether retention payments were even necessary, based
25 on the value already conferred on employees under AIG’s existing compensation plans, including
26 the basis for payments based upon financial metrics that the Director Defendants knew were not
27 based upon the profitability of the Company and, in many cases, were virtually impossible to
28 quantify since they were dependent upon the performance of its CDO portfolio.

1 155. Making a demand on the Board of Directors is excused if there is reasonable
2 doubt that the challenged transactions were the product of a valid exercise of business judgment
3 and, therefore, are entitled to the protection of the business judgment rule. To benefit from the
4 protection of the business judgment rule, a director must be informed of all material information
5 reasonably available and, being so informed, the director must act with requisite care in
6 discharging his or her duties. To meet the standard of care, in light of the information which the
7 directors knew, they were obligated to take actions in the best interests of the Company, to the
8 exclusion of the directors' personal pecuniary interests, conduct full and adequate investigation
9 into decisions affecting the Company and its assets, and ensure that the Company is in
10 compliance with applicable laws and regulations.

11 156. Because the Director Defendants engaged in acts of misconduct and
12 wrongdoing, as described above, those acts were not the product of a valid exercise of business
13 judgment and not entitled to the protections of the business judgment rule. The directors failed
14 to act to protect the interests and business assets of AIG. Failure to take such protections could
15 not have been a valid exercise of business judgment. Further, the AIG Director Defendants face
16 a substantial likelihood of liability for their individual conduct and, thus, are incapable of making
17 a disinterested decision about whether to pursue the claims asserted herein.

18 157. Accordingly, demanding that the directors take action before this lawsuit was filed
19 would have been futile and, therefore, the demand requirement is excused.
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1 **V. CAUSES OF ACTION**

2 **FIRST CAUSE OF ACTION**

3 **CORPORATE WASTE**

4 **(Primary and Secondary Liability Against all Defendants)**

5 158. Plaintiff hereby incorporates by reference the allegations above as though fully set
6 forth hereinafter.

7 159. The Defendants, and each of them, wrongfully and intentionally diverted AIG's
8 corporate assets, including cash funds, equity, and personnel, for improper and unnecessary
9 purposes, which acts constitute corporate waste and gift.

10 160. In return for such wrongful diversion of corporate assets, AIG received no
11 consideration or consideration so disproportionately small as to lie beyond the range at which any
12 reasonable person might be willing to accept, rendering the transactions in effect a gift.

13 161. The conduct of Defendants, and each of them, was not in good faith, nor did
14 Defendants make any judgment, in the exercise of good faith, that based on the circumstances of
15 which they were fully aware the transaction was worthwhile to the AIG.

16 162. Defendants, and each of them, aided and abetted, encouraged and rendered
17 substantial assistance to each other in accomplishing the wrongful conduct, acts and omissions
18 and wrongful goals complained of herein. In aiding and abetting and substantially assisting the
19 commission of these wrongful acts, each of the Defendants realized that his conduct would
20 substantially assist the accomplishments of the wrongful conduct, wrongful goals, and
21 wrongdoing.

22 163. As a result of the Defendants' wrongful conduct, and the wrongful conduct of
23 each of them, AIG has suffered and continues to suffer economic losses and non-economic
24 losses, such as loss of funds, reputation and goodwill. AIG has also suffered other general and
25 specific damages, all in an amount to be determined according to proof at the time of trial. AIG
26 is also entitled to disgorgement of the compensation which would not have been paid but for
27 Defendants' wrongful conduct.

28 WHEREFORE, plaintiff derivatively on behalf of AIG prays for relief as set forth below.

1 specific damages, all in an amount to be determined according to proof at the time of trial. AIG
2 is also entitled to disgorgement of the compensation which would not have been paid but for
3 Defendants' wrongful conduct.

4 WHEREFORE, Plaintiff derivatively on behalf of AIG prays for relief as set forth below.

5 **FOURTH CAUSE OF ACTION**

6 **UNJUST ENRICHMENT AND IMPOSITION OF CONSTRUCTIVE TRUST**

7 **(Primary and Secondary Liability Against all Defendants)**

8 175. Plaintiff hereby incorporates by reference the allegations stated above as through
9 fully set forth hereinafter.

10 176. By their wrongful acts and omissions, Defendants, and each of them, were
11 unjustly enriched at the expense of and to the detriment of AIG, either through the receipt of
12 retention payments or bonuses or Board compensation to which they were not entitled, while
13 AIG was unjustly deprived, and said Defendants, and each of them, hold any and all such funds
14 as constructive trustees on behalf of AIG and for the benefit of AIG.

15 177. Plaintiff, on behalf of AIG, seeks restitution from Defendants, and each of
16 them, and seeks an order of this Court disgorging all profits, benefits, and other compensation
17 obtained by Defendants, and each of them, from their wrongful conduct and breaches of fiduciary
18 duty.

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VI. PRAYER FOR RELIEF

1. Compensatory and general damages according to proof;
2. Special damages according to proof;
3. Restitution according to proof;
4. Prejudgment interest at the maximum rate;
5. Punitive and exemplary damages according to proof;
6. Costs of the proceedings herein;
7. Reasonable attorneys fees; and
8. All such other and further relief as the Court deems just and proper.

VII. DEMAND FOR JURY TRIAL

Plaintiff demands a trial by jury.

Dated: March 31, 2009

COTCHETT, PITRE & McCARTHY

By: 
MARK C. MOLUMPHY

Attorneys for Derivative Plaintiff John J. Bible

EXHIBIT A

ELIJAH E. CUMMINGS
7TH DISTRICT, MARYLAND

COMMITTEE ON
TRANSPORTATION AND INFRASTRUCTURE
CHAIRMAN, SUBCOMMITTEE ON COAST
GUARD AND MARITIME TRANSPORTATION
SUBCOMMITTEE ON HIGHWAYS AND TRANSIT
SUBCOMMITTEE ON RAILROADS,
PIPELINES AND HAZARDOUS MATERIALS

COMMITTEE ON
GOVERNMENT REFORM
SUBCOMMITTEE ON DOMESTIC POLICY
SUBCOMMITTEE ON FEDERAL WORKFORCE,
POST OFFICE AND THE DISTRICT OF COLUMBIA

COMMITTEE ON ARMED SERVICES
SUBCOMMITTEE ON READINESS

JOINT ECONOMIC COMMITTEE

SENIOR WHIP

Congress of the United States
House of Representatives

Washington, DC 20515

December 1, 2008

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FAX: (410) 685-9399

754 FREDERICK ROAD
CATONSVILLE, MD 21228-4604
(410) 719-8777
FAX: (410) 488-0110

8267 MAIN STREET
ROOM 102
ELLCOTT CITY, MD 21043-9903
(410) 488-8269
FAX: (410) 488-8740

www.house.gov/cummings

Mr. Edward M. Liddy
Chief Executive Officer
American International Group, Inc.
70 Pine Street
New York, NY 10270

Dear Mr. Liddy:

I write today to request that American International Group (AIG) fully disclose to the public the extent of the payments being made to senior company executives under your employee "retention program." The limited information that is currently available to the public about this program is insufficient to constitute the level of disclosure that the American taxpayers, who have bailed out this firm repeatedly in recent weeks, have the right to expect.

In form 8-K dated September 22, 2008, and filed with the Securities and Exchange Commission (SEC), AIG disclosed the following: "On September 22, 2008, a retention program of American International Group, Inc. ("AIG") became effective. The program applies to approximately 130 executives and consists of cash awards payable 60 percent in December 2008 and 40 percent in December 2009."

AIG has recently indicated that it will not provide performance bonuses in 2008. However, in what appears to be a disingenuous "slight of hand," AIG has announced its intention to continue to provide the retention program payments (commonly known as retention bonuses) previously announced in September – albeit some executives have apparently opted to delay receipt of these payments (but not to forgo them). Thus, in form 8-K dated November 24, 2008, and filed with the SEC, AIG disclosed the following: "On November 24, 2008, the Executive Officers of American International Group, Inc. ("AIG") who participate in its previously disclosed retention program, including Chief Financial Officer David Herzog and Executive Vice President Jay Wintrob, volunteered to delay payments thereunder, with the first installment being delayed from December 2008 until April 2009 and the second installment being delayed from December 2009 until April 2010. Chairman and Chief Executive Officer Edward M. Liddy does not participate in this program."

Page 2

Mr. Edward M. Liddy

December 1, 2008

In September of this year (and several days prior to the SEC filing announcing the "retention program"), the U.S. taxpayers provided a bailout loan of \$85 billion to keep AIG afloat; in return, the federal government received an ownership stake in the firm. Subsequent actions increased the total size of the bailout to more than \$150 billion – and restructured some of the initial loans provided to the firm. Without taxpayer intervention, AIG would have ceased to exist and, to be blunt, all of its employees would have lost their jobs.

Against this background – and given the massive layoffs occurring at other major financial entities, such as Citibank – the American taxpayers have a right to know why senior executives at AIG, who are frankly lucky to still have jobs, need to receive additional bonus payments of any kind to retain them at AIG. To that end, I request that AIG disclose to the public the following information:

1. Which executives in which AIG divisions are receiving the retention payments – and how much is each executive receiving? What are the base salaries of the executives receiving the retention payments?
2. Are all executives delaying receipt of these payments until April 2009 – or, if any executive is not delaying receipt of the payments, which executive or executives is/are receiving payments in December 2008 and how much is each executive receiving?
3. Why is it necessary for any AIG executive to receive a retention payment – and why is it necessary that these be scheduled for April 2009 and April 2010?
4. What will be the source of the retention payments provided in 2009 and 2010?

AIG has previously claimed in correspondence to me that it is working "to create a transparent, accountable culture to regain the trust of the American people." The disclosure of the information requested here will be a first step toward providing the kind of transparency that the American people have the right to expect from a private firm to which they have provided more than \$150 billion in financial assistance.

Sincerely,


Elijah E. Cummings
Member of Congress

EXHIBIT B

AMERICAN INTERNATIONAL GROUP, INC.
70 PINE STREET
NEW YORK, N.Y. 10270

EDWARD M. LIDDY
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER



December 5, 2008

Dear Congressman Cummings,

Thank you for the opportunity to address the important issues that were raised in your letter of December 1, 2008.

Your staff has been extremely generous with its time, and I want to thank Lucinda Lessley and Danielle Grote for meeting with our Executive Vice President, General Counsel, and Senior Regulatory and Compliance Officer Anastasia Kelly and our Executive Vice President and Chief Financial Officer David Herzog earlier this week. We are cognizant of the complexity of the information we have disclosed and we look forward to continuing our dialogue with you and other leaders to ensure that AIG continues its efforts to be transparent across the company and provide helpful information.

At the outset, let me detail the important mission that AIG is now undertaking – and why it is critical for our team to succeed. As you wrote in your letter, we are indeed fortunate to have benefited from the assistance extended to us by the U.S. government and we are grateful for the support of American taxpayers. Consequently, our primary mission is to repay every penny – with interest. That is why I am here.

Currently, AIG is undertaking one of the largest asset divestiture processes in the history of American commerce. Our plan is to sell businesses that constitute almost 65 percent of our company and employ approximately 70,000 people. We have already sold interests in three businesses, and I want to assure you that we expect the pace of this process will only increase in the months ahead. We are moving prudently but with dispatch on our path forward to pay back the American taxpayers and to get the maximum value for these unique assets.

Insurance companies have two main ingredients: capital and people. AIG, as the largest insurance company in the U.S. and one of the largest in the world, has a well-deserved reputation for having some of the most talented people in the insurance industry with deep experience, extremely valuable business relationships, and unique ties to the many local communities where they live and work. Our employees are the leading reason why AIG's insurance businesses continue to be solid and secure. Maintaining the health of those businesses – and retaining our employees – is essential for us to repay the taxpayers.

We would be doing a disservice to the taxpayer – and would place AIG's asset divestiture plan at risk – if we did not act decisively to ensure that our key employees remain with the company. Our competitors understand how valuable our top executives are, and we are acutely aware that they would like to siphon off our most talented leaders. Additionally, the leadership of our key employees is an important component of the value of the business we are selling. To allow our competitors to more easily recruit our best people would result in significantly less proceeds from asset sales, and less money available to repay our obligations to the government. It is also important to note that for employees across AIG who own our stock, those holdings are now nearly valueless.

A key to the successful execution of our restructuring plan is the maintenance of our current credit ratings. While many of our ratings were recently affirmed, most of them remain on "watch." According to S&P: "The ratings on AIG and its property/casualty subsidiaries remain on CreditWatch with negative implications. We expect to resolve the CreditWatch status of these ratings in 2009, when we will likely get a better picture of the company's efforts to price and retain its business. Standard & Poor's expects some loss of business lines and personnel. If those losses are significant and threaten future business prospects, we could lower the ratings further. However, if such potential declines were modest, we could affirm the ratings." AIG's credit rating, and therefore our ability to repay the taxpayers, is inextricably linked to our success in retaining critical employees.

Recently, some reinsurers have begun requesting provisions which would allow them to cancel reinsurance contracts upon the departure of critical AIG employees. Having appropriate reinsurance coverage in place is essential to the risk control for AIG's operations. Without appropriate reinsurance cover, the magnitude of losses on catastrophic events would seriously injure the financial strength of the company. In addition, AIG plays a vital role in providing risk coverage to many institutions around the world. AIG's risk appetite would be severely impacted without appropriate reinsurance.

All of our efforts with respect to our retention program have been made in the light of day and subsequently filed with the Securities and Exchange Commission (SEC) and accessible via their public database. On September 18, 2008, AIG's Compensation Committee of the Board of Directors approved retention payments for 168 employees – which included approximately 130 employees, plus an additional 38 who were subsequently added based on authority granted by the Committee. These individuals were selected to participate based on their individual performance, the importance of their position to the organization, key client relationships that are crucial to retaining our client base, potential for organizational advancement, degree of position difficulty, degree of flight risk, and their ability to recruit others if they were to depart.

Specifically, 13 of the employees who are receiving retention payments have agreed to delay receipt of the first part of this payment until April of 2009. These 13 individuals are executive officers of the company. The agreement by these 13 executives was an important element in the Treasury Department's latest agreement with AIG. The timetable for these payments is designed to keep our employees onboard during this critical period.

The base salaries for those involved in these retention payments range from \$160,000 per year to \$1,000,000 per year, and the retention awards range from \$92,500 to \$4,000,000. These retention payments will be made in two installments over a 12 month period.

These employees are highly specialized and/or are part of businesses that control billions of dollars of revenue and value that will be needed to repay the U.S. taxpayer. Their years of experience with the company and understanding of the vast marketplace makes them critical to our success going forward. In fact, AIG's compensation levels for key positions are already below companies of smaller size and less complexity.

We at AIG are certainly mindful of the economic hardships facing Americans today and we share in those burdens. Accordingly, I and other leaders of AIG have committed to the following, as announced last month:

- I will receive an annual base salary of \$1 for 2008 and 2009. My basic compensation will consist entirely of equity grants and I will not receive an annual bonus in those years, although I will be eligible for a special bonus for extraordinary performance payable in 2010. I am also not eligible for severance payments.

- Paula Rosput Reynolds, Vice Chairman and Chief Restructuring Officer, who joined AIG in October, will receive no salary or bonus in 2008. In 2009 and beyond, other than her base salary, any other compensation she receives will be tied directly to the progress of the restructuring efforts.
- The other five members of AIG's top-seven-officer Leadership Group will not receive annual bonuses for 2008 or salary increases through 2009. Executive Vice President of Retirement Services Jay Wintrob and Executive Vice President and Chief Financial Officer David Herzog are included in this group. Also, David Herzog did not accept a raise when he became the company's Chief Financial Officer. In addition, this group has agreed to defer retention payments that were due to them in December, and they also agreed that they would not be eligible for both unpaid retention and severance payments.
- The Leadership Group, and an additional 10 executive officers, have also agreed to defer their retention payments due to them in December 2008 and also agreed they would not be eligible for both unpaid retention and severance payments.
- There will be no salary increases through 2009 for approximately 40 other top executives who are part of this retention pool.

Ms. Kelly and Mr. Herzog also committed at their meeting with your staff members this week to answer questions and to provide follow-up information that you may need. AIG has steep challenges ahead but we are making progress. We are proud of the work we've done – and recognize the enormity of the task ahead. Our goals are straightforward – repay our loan from the government, preserve as many of the 116,000 AIG jobs as possible, and emerge from this process with a vibrant and ongoing business. To achieve this goal, we hope to have your help, and indeed the help of all members of Congress, in executing this extraordinary effort that clearly has the potential to help America's economic recovery.

Sincerely,

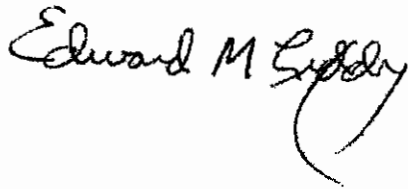
Handwritten signature of Edward M. Liddy in cursive script.

EXHIBIT C

ELIJAH E. CUMMINGS
7TH DISTRICT, MARYLAND

COMMITTEE ON
TRANSPORTATION AND INFRASTRUCTURE
CHAIRMAN, SUBCOMMITTEE ON COAST
GUARD AND MARITIME TRANSPORTATION
SUBCOMMITTEE ON HIGHWAYS AND TRANSIT
SUBCOMMITTEE ON RAILROADS,
PIPELINES AND HAZARDOUS MATERIALS

COMMITTEE ON
GOVERNMENT REFORM
SUBCOMMITTEE ON DOMESTIC POLICY
SUBCOMMITTEE ON FEDERAL WORKFORCE,
POST OFFICE AND THE DISTRICT OF COLUMBIA

COMMITTEE ON ARMED SERVICES
SUBCOMMITTEE ON READINESS

SENIOR WHIP

Congress of the United States House of Representatives

Washington, DC 20515

December 9, 2008

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FAX: (410) 468-0110

8267 MAIN STREET
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ELLCOTT CITY, MD 21043
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www.house.gov/cummings

Mr. Edward M. Liddy
Chief Executive Officer
American International Group, Inc.
70 Pine Street
New York, NY 10270

Dear Mr. Liddy:

Thank you for your letter of December 5, 2008, and for providing information on the retention payments that American International Group (AIG) approved for its employees on September 18, 2008. The information you provided indicates that (1) 168 people are to receive the retention payments; (2) that the base salaries of those receiving the retention payments range from \$160,000 per annum to \$1,000,000 per annum; and (3) that the retention payments range in size from \$92,500 to \$4,000,000. The letter further indicates that only 13 individuals scheduled to receive the retention payments have agreed to delay the receipt of their first payments from December 2008 to April 2009.

I remain concerned, as do many American taxpayers, that these retention payments are simply bonuses by another name. We have all heard the story that top AIG executives are forgoing promised salary and bonus payments while the company gets back on its feet (in large measure by selling off operating units), but I am interested in knowing whether these same executives who have announced they are forgoing compensation are receiving "retention" payments to make up the salaries they are forgoing. Is anyone who has publicly agreed to forgo a salary and/or bonus(es) going to receive a retention payment?

I think we could all benefit from some clarity as to the difference between the amount of compensation that AIG would have paid under normal circumstances to those receiving retention payments and the amount these 168 individuals are now expected to receive in compensation. Please provide me with (1) a breakdown on what each of the 168 individuals scheduled to receive the retention payments received in 2007 in total compensation (including salaries, bonuses, and any other types of compensation) and (2) a breakdown showing what these 168 individuals will now be receiving in 2008 through their combined base salaries and retention bonuses. Please also identify any other compensation of any type from any source that the 168 individuals receiving the retention bonuses will receive in 2008. Further, please show what these individuals' targeted

Page 2

Mr. Edward M. Liddy

December 9, 2008

compensation levels were expected to be in 2008 prior to the collapse of AIG. Please specify the units within AIG for which the individuals receiving the retention bonuses work – and what the status of these units is (e.g., pending sale, expected to be retained by AIG, etc.). Finally, please provide me with a breakdown of what would have been spent in total by AIG in 2008 on salaries, bonuses and retention payments had the firm not collapsed – and please also show what is now projected to be the firm's total expenditure on salaries, bonuses, and retention payments in each of 2008 and 2009.

My staff informs me that your General Counsel and Chief Financial Officer indicated that the Treasury and the Federal Reserve exerted significant oversight authority in negotiating the terms under which AIG was permitted to award retention payments. I think shedding light on this process will make great strides in assuring American taxpayers that their tax dollars are being used judiciously. Can you please provide me with details on the terms you negotiated with these government authorities regarding these retention payments? What assurances have you given the Treasury and the Federal Reserve that these retention payments will result in their intended effect? What other specific terms have you negotiated regarding both the specific executive compensation limits that will be put in place at AIG as well as how these limits will be enforced?

Additionally, there is frankly a lack of clarity regarding how all of the bailout funding – particularly the first \$85 billion in bailout funding – has actually been spent. Please provide detailed information that explains the specific expenditures that have been made by AIG from the federal funding provided to it.

Finally, I have yet to receive a response to a letter that I sent to you on November 11; a copy is enclosed with this letter for your reference. In addition to the questions raised in that letter, you had indicated to me in an earlier telephone call that there were no AIG executives in attendance at the event in Phoenix, Arizona, held in early November 2008 – but media reports seem to confirm that there were at least some AIG executives in attendance at that event. Please specify exactly which executives attended that event and the full amount of any costs associated with the event borne by AIG.

Thank you for your attention to these matters.

Sincerely,


Elijah E. Cummings
Member of Congress

EXHIBIT D

Chairman Towns and Ranking Member Iserl
December 16, 2008
Page 2

In a letter I sent to AIG on December 1, 2008, I posed the following questions to AIG's Chief Executive Officer, Edward M. Liddy, regarding the retention payments.

- Which executives in which AIG divisions are receiving the retention payments -- and how much is each executive receiving? What are the base salaries of the executives receiving the retention payments?
- Are all executives delaying receipt of these payments until April 2009 -- or, if any executive is not delaying receipt of the payments, which executive or executives were receiving payments in December 2008 and how much is each executive receiving?
- Why is it necessary for any AIG executive to receive a retention payment -- and why is it necessary that these be scheduled for April 2009 and April 2010?
- What will be the source of the retention payments provided in 2009 and 2010?

Responding to my letter, AIG provided only the following information in a letter dated December 5, 2008.

- The Compensation Committee of AIG's Board of Directors approved retention payments for 168 employees, including the 130 employees announced in September and 38 additional individuals who were selected based on subsequent authority granted by the Compensation Committee.
- The base salaries of those receiving the retention payments range from \$160,000 per annum to \$1,000,000 per annum.
- The retention payments range from \$92,500 to \$4,000,000.
- Thirteen individuals scheduled to receive the retention payments had agreed to delay the receipt of their first payments from December 2008 to April 2009.

I then wrote to AIG on December 9 and requested, in addition to other information, that AIG answer the following questions:

- Is any AIG executive who has publicly agreed to forgo a salary and/or bonus(es) going to receive a retention payment?
- For each of the 168 individuals scheduled to receive the retention payments, what is the difference in total compensation between 2007, actual compensation in 2008 (from all sources -- including retention payments), and the level of compensation these individuals could have anticipated in 2008 had 2008 been a normal year (in other words, what was each person's target compensation level in 2008)?
- What is now projected to be the firm's total expenditure on salaries, bonuses, and retention payments in each of 2008 and 2009 -- and what was the firm's projected expenditure on compensation in 2008 before the firm's collapse?

Chairman Towns and Ranking Member Issa

December 16, 2008

Page 3

Now a Bloomberg story authored by Hugh Son dated December 12 suggests that AIG is actually giving retention payments to at least 2,000 employees -- rather than the 168 employees AIG had identified in correspondence to me (or the 130 employees disclosed to the SEC in September). Additionally, the story indicates that those to whom the payments were offered were required to keep the payments secret; if the payments were revealed, those individuals receiving the payments could apparently be required to forfeit them.

At this time, I believe that the Committee should compel Mr. Liddy to testify under oath so that he can fully and completely explain AIG's compensation policies and expenditures, including the extent to which bonuses of any kind are being awarded in 2008 (and unanticipated for award in 2009), and the full extent of the retention payment program announced by AIG.

Additionally, I note that AIG executives have stated to my staff that the firm has negotiated conditions with federal officials regarding its compensation policies. I think it is critical that the Committee seek to understand (1) whether AIG has revealed the full extent of its compensation policies to officials with either the Department of the Treasury or the Federal Reserve and (2) whether, if the Federal Reserve and/or the Department of the Treasury are fully aware of AIG's compensation policies, either or both has approved AIG's issuance of retention payments (or any other type of bonuses) as part of the firm's compensation package. For that reason, I would urge that officials from these entities should also be called to testify at a hearing that examines AIG's compensation policies.

Further, I am extremely concerned with ongoing reports that AIG continues to host luxury jarkets on the taxpayer's dime. In an Oversight and Government Reform Committee hearing in October 7, I expressed deep concern over a \$443,343 executive retreat hosted by the company. In response to my questioning, Mr. Liddy sent a letter on October 30 indicating that AIG was canceling more than 160 corporate events. Unfortunately, media reports in the same time period told a different story. Specifically, I am deeply troubled by reports of a corporate event in early November at Squaw Peak Hotel in Phoenix, Arizona, where the company took deliberate steps to remove its name from any signs at the event in an effort to "maintain a low profile." Media reports indicate that the event in Phoenix cost about \$343,000 but AIG has claimed it covered only about \$23,000 of this cost, with "corporate sponsors" financing the difference. Yet, at least one of these "corporate sponsors" is an AIG subsidiary company.

I am also extremely concerned that in a telephone call with me as well as on a national television interview with CNN's Larry King, Mr. Liddy insisted that no AIG executives attended the Phoenix event -- but the media reports make it clear that at least eight AIG executives were in attendance. These executives reportedly spent the majority of their time on non-business-related activities, and they were reported to fly out days before registration even began. I am very interested in getting some clarity on this matter.

Chairman Towns and Ranking Member Iserl

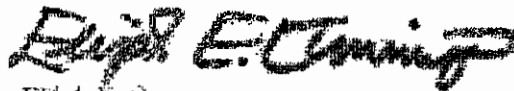
December 16, 2008

Page 4

Documents provided by AIG to the Oversight Committee indicate that expenditures on AIG corporate functions totaled \$138 million from the first of the year to November 6. Events have continued to occur since the first bailout. They range in size from \$100 to several million dollars and they have been staged all over the world. Several of these events present a cause for concern, including an October 3 "Pheasant Hunt" event at the Plumbar Manor in Dorset, England which cost approximately \$92,255 and is listed as a "client/broker meeting" with 3 employees present and 21 total attendees. Any ongoing investigation into AIG should include an assessment of these events.

U.S. taxpayers now own a nearly 80 percent stake in AIG -- and yet there is essentially no information available either to the Congress or to the U.S. public regarding how exactly AIG has expended the taxpayer funding provided to it. As representatives of the taxpayers that are literally keeping AIG afloat, Congress has the right and indeed the duty to demand from AIG a full accounting of the funds provided to it. Therefore, I strongly urge you to convene a hearing as soon as possible in the 111th Congress to continue the Committee's inquiry into AIG's use of taxpayers' money. Thank you for your consideration of this request. If I can provide any additional information about this matter, please do not hesitate to contact me or my staff member, Danielle Grote, at 202-225-4741.

Sincerely,



Elijah E. Cummings
Member of Congress

EXHIBIT E

AMERICAN INTERNATIONAL GROUP, INC.
70 PINE STREET
NEW YORK, N.Y. 10270

EDWARD M. LIDDY
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER



March 14, 2009

The Honorable Timothy F. Geithner
United States Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Mr. Secretary:

Thank you for the open and frank conversation on Wednesday regarding the compensation arrangements at AIG Financial Products and AIG generally. I admit that the conversation was a difficult one for me.

I do not participate in any AIG bonus or retention program, have never attended a single AIG sales event or conference and, before September, did not have any relationship with AIG. I was asked to serve by your predecessor in connection with the acquisition by the government of almost 80% of AIG's outstanding shares. My only goals are to have AIG repay, with interest, to the maximum extent possible, the assistance the American taxpayers have given it and to continue AIG's main insurance companies as strong, thriving businesses and contributors to the economy. My only stake is my reputation.

In the first quarter of 2008, prior management took significant retention steps at AIG Financial Products. These arrangements were designed at a time when AIG Financial Products was expected to have a significant, ongoing role at AIG, and guaranteed a minimum level of pay for both 2008 and 2009. (Due to losses at AIG Financial Products, a senior manager will receive about 43% of his 2007 expected level for 2008.) Some of these payments are coming due on March 15, and, quite frankly, AIG's hands are tied. Outside counsel has advised that these are legal, binding obligations of AIG, and there are serious legal, as well as business, consequences for not paying. Given the trillion-dollar portfolio at AIG Financial Products, retaining key traders and risk managers is critical to our goal of repayment. This is all discussed in more detail in the attached "white paper."

Needless to say, in the current circumstances, I do not like these arrangements and find it distasteful and difficult to recommend to you that we must proceed with them. With the benefit of hindsight, I would have designed

these differently and at significantly lower levels. I am committed, however, to working within the existing arrangements to get the most out of them for AIG's constituencies. Honoring contractual commitments is at the heart of what we do in the insurance business. I cannot have our clients lose faith in our desire and ability to do just that.

We believe that there will be considerably greater flexibility to reduce contractual payments in respect of 2009, and AIG intends to use its best efforts to do so. It is expected that, over the course of the year, AIG Financial Products will sell certain businesses, employees will leave voluntarily or be terminated for cause and certain downsized employees will find new employment. In the first two cases, employees are no longer entitled to retention amounts from AIG; in particular, if AIG Financial Products sells certain books of business as planned, the employees related to these books will go with the sold businesses, and we intend to require the buyer to assume going-forward compensation payments. In the case of downsized employees who find new employment, their payments are reduced by earnings from their new employer. In addition, in foreign jurisdictions, AIG will have greater ability to negotiate with employees who are downsized.

With all of these actions and other creative restructuring solutions, AIG hereby commits to use best efforts to reduce expected 2009 retention payments by at least 30%. We are also taking other significant steps to limit overall compensation at AIG Financial Products where we can. The 25 highest-paid active contract employees at AIG Financial Products have agreed to reduce their remaining 2009 salary to \$1. Salaries for this group range up to \$500,000, and the average salary is in excess of \$270,000. The remaining 2009 salary of all other officers – that is, anyone with a title of associate vice president or higher – will be reduced by 10% (subject to local law requirements). In addition, other forms of non-cash compensation will be reduced or eliminated. Finally, AIG also is committed to seeking other ways to repay the American taxpayers for AIG Financial Products retention payments.

You have also asked AIG to rethink our 2008 corporate bonus proposals. The proposals AIG originally submitted to you are part of a deliberate process, recommended by me and supported by the independent compensation committee of AIG's board of directors. We started with the additional compensation limits that AIG had already committed to – limits that were more extensive than those at any other recipient of TARP funds at the time – and weighed a variety of considerations appropriate to the goal of repayment and AIG's unique circumstances.

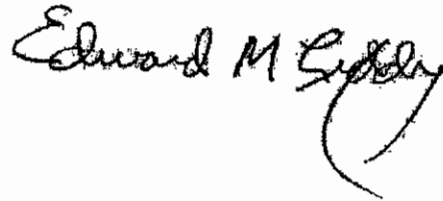
Nevertheless, in response to your request, we are now proposing further changes to the 2008 corporate bonus proposals for Senior Partners that will better align their interests with AIG's restructuring efforts and the goal of repayment. As before, our Leadership Group (including me) will receive no 2008 year-end bonus.

I would not be doing my job if I did not directly advise you of my grave concern about the long-term consequences of the actions we are taking today. On the one hand, all of us at AIG recognize the environment in which we operate and the remonstrations of our President for a more restrained system of compensation for executives. On the other hand, we cannot attract and retain the best and brightest talent to lead and staff the AIG businesses – which are now being

operated principally on behalf of the American taxpayers – if employees believe that their compensation is subject to continued and arbitrary adjustment by the U.S. Treasury.

My team and I will stand ready to do everything we can to work together with you to reach a resolution that is in the best interests of AIG and its stakeholders.

Sincerely,

A handwritten signature in black ink that reads "Edward M. Liddy". The signature is written in a cursive style with a large, sweeping flourish at the end of the name.

Edward M. Liddy
Chairman and Chief Executive
Officer

(Attachments)

cc: Anastasia D. Kelly
James Hennessy

AIGFP Employee Retention Plan

Executive Summary

AIG is contractually obligated to pay a total of about \$165 million of previously awarded retention pay to AIGFP employees (in respect of 2008). This amount is due pursuant to a retention plan entered into in early 2008. About \$55 million of retention pay was previously paid around December, and about \$93 million of additional retention pay will be eliminated because of losses at AIGFP (in accordance with the terms of the plan). AIG is also obligated to pay about \$6 million of guaranteed pay to AIGFP employees under contractual obligations outside of the retention plan.

AIG is required to make these payments on or before March 15 by the terms of the retention plan or individual contract guarantees, all of which pre-date TARP and AIG's current Chief Executive Officer. Outside counsel has advised that AIG is legally obligated to pay and, under applicable law, risks a doubling of the amount owed as a penalty. In addition to this and other legal obstacles, business requirements necessitate payment.

AIG has also attempted to develop acceptable alternatives to restructure guaranteed amounts owed. However, efforts have not been successful for payments in respect of 2008 in light of the employees' contractual rights to receive these payments combined with new tax limits under Section 409A of the Internal Revenue Code that limit the ability of employers and employees to alter payment dates for deferred compensation. However, AIG has committed to use its best efforts to reduce the amounts AIG owes in respect of 2009. This will be accomplished through voluntary acts such as salary reductions, through negotiations when we sell businesses and through other arrangements over time. We believe that guaranteed payments at AIGFP for 2009 can be reduced by at least 30%.

Details Regarding Retention Plan

In the first quarter of 2008, AIGFP adopted a retention plan for about 400 employees that provided guaranteed payments to employees if they worked through specified payment dates (or either resigned for good reason or was terminated without cause before the relevant dates). At the time, AIGFP was expected to have a valuable, on-going role at AIG. The plan was implemented because there was a significant risk of departures among employees at AIGFP, and given the \$2.7 trillion of derivative positions at AIGFP at that time, retention incentives appeared to be in the best interest of all of AIG's stakeholders. The program was evidenced by a written plan distributed to employees and by individual agreements executed by them.

For senior management the plan provides that 2008 and 2009 compensation will be 75% of 2007 expected compensation levels. Other participants are set at the full 2007 level. This resulted in a \$313 million total for 2008 and a \$327 million total for 2009 (because some employees who had other guaranteed compensation for 2008 were excluded for that year). The 2008 awards range from \$1,000 to slightly less than \$6.5 million. Only seven employees will receive more than \$3 million.

The total for each year is divided into two components. The first is required to be paid on or before March 15 of the following year (this is \$220 million for 2008), and the second is retained by AIGFP, serves as part of AIGFP's capital structure and is at risk for losses (this is about \$93 million for 2008). The division between current pay and at-risk pay is

highest for the most senior employees – up to almost half. This is how AIGFP has traditionally structured its compensation.

Of the \$220 million, about \$165 million is required to be paid on or prior to March 15, 2009 and about \$55 million was previously paid. In light of the large losses incurred last year, current and former employees will see their deferred compensation accounts reduced to the point where they will have negative balances. As a consequence there is no immediate prospect that employees will receive any payout of the at-risk piece for 2008 (about \$93 million) or the remaining approximately \$582 million in at risk pay earned from prior years.¹ A senior AIGFP manager therefore worked in 2008 for about 43% of his 2007 expected level.

An additional \$6 million is guaranteed to employees for 2008 pursuant to contractual arrangements outside of the retention plan. To avoid any confusion, the information in this section is specific to the retention plan.

Details Regarding Legal Obligation to Pay

AIG has been advised by outside counsel that a breach of the retention plan would subject it to claims for not only the contractually owed payments, but also penalties and fees under the Connecticut Wage Act.² The Wage Act provides for the recovery of double damages and attorneys' fees when wages are improperly withheld and the employer's refusal to pay wages lacks a good faith basis. (Conn. Gen. Stat. §31-72.)³ In addition, individual managers who decide to withhold wages that are due are individually liable for violation of the Wage Act.⁴

"Wages" are defined as "compensation for labor or services rendered by an employee, whether the amount is determined on a time, task, piece, commission or other basis of calculation." (Conn. Gen. Stat. §31-71a.) The courts have concluded that guaranteed bonuses constitute wages under the statute when "the payment is premised upon work or services the employee has performed as opposed to the general success of the company or

¹ Over the longer-term, AIGFP's deferred compensation plans provide for the adoption of a plan for restoring reductions to at risk pay, but only after all creditors (including the Federal Reserve and Treasury) have been repaid.

² The retention plan is governed by Connecticut law. (Section 4.04) Because the plan mandates the application of Connecticut law, it is likely that Connecticut substantive law will apply to claims related to the plan brought in the United States, the UK, France, Hong Kong or Japan. Under Connecticut law, the payments are legally enforceable contractual obligations of AIGFP. In addition, the payments are guaranteed by AIG. (Section 3.03)

³ *Schoonmaker v. Lawrence Brunoli, Inc.*, 828 A.2d 64 (Conn. 2003)(double damages appropriate for "bad faith, arbitrariness or unreasonableness").

⁴ *Butler v. Hartford Technical Inst., Inc.*, 704 A.2d 222 (Conn. 1997).

the whim of management.”⁵ Here, the retention payments are fixed payments that compensate for services rendered in 2008 and 2009.

In addition to claims for breach of contract and violation of the Wage Act, employees denied their contractually guaranteed payments could likely claim constructive discharge, allowing them to resign immediately and sue to recover the guaranteed payments for 2008 and 2009. We have also been advised that AIGFP employees in foreign jurisdictions, including France, Japan, the United Kingdom and Hong Kong, could bring valid claims for unfair constructive dismissal in those jurisdictions.

We have been advised that the bonus provisions of the American Recovery and Reinvestment Act of 2009 prohibiting certain bonuses specifically exclude bonuses paid pursuant to pre-February 11, 2009 employment contracts.

Details Regarding Business Impact of Failure to Pay

AIGFP's derivatives portfolio stands at about \$1.6 trillion and remains a significant risk. Failure to pay the required retention payments therefore could have very significant business ramifications.

For example, AIGFP is a party to derivative and structured transactions, guaranteed by AIG, that allow counterparties to terminate in the event of a “cross default” by AIGFP or AIG. A cross default in many of these transactions is defined as a failure by AIGFP to make one or more payments in an amount that exceeds a threshold of \$25 million.

In the event a counterparty elects to terminate a transaction early, such transaction will be terminated at its replacement value, less any previously posted collateral. Due to current market conditions, it is not possible to reliably estimate the replacement cost of these transactions. However, the size of the portfolio with these types of provisions is in the several hundreds of billions of dollars and a cross-default in this portfolio could trigger other cross-defaults over the entire portfolio of AIGFP.

There are also substantial risks related to the hedging of AIGFP's various books. Although we view the large-market risk books at AIGFP as generally well hedged, the hedging is dynamic – that is, it must be monitored and adjusted continuously. To the extent that AIGFP were to lose traders who currently oversee complicated though familiar positions and know how to hedge the book, gaps in hedging could result in significant losses. This is driven to some extent by the size of the portfolios. In the interest rate book, for example, a move in market interest rates of just one basis point – that is 0.01% or one-100th of one percent – could result in a change in value of \$700 million dollars if the book were not hedged. It has virtually no impact on the hedged book. There are similar exposures in the foreign exchange, commodities and equity derivatives books.

AIGFP's books also contain a significant number of complex – so-called bespoke – transactions that are difficult to understand and manage. This is one reason replacing key traders and risk managers would not be practical on a large scale. Personal

⁵ See, e.g., *Feilbogen v. AIG Trading Group, Inc.*, No. 3:03CV1624 (DJS), 2006 U.S. Dist. LEXIS 29184 at *26-27 (D. Conn. May 15, 2006) (holding that whether guaranteed retention bonus payments were wages was an issue of fact).

knowledge of the trades and the unique systems at AIGFP will be critical to an effective unwind of AIGFP's businesses and portfolios.

In this current environment, any perceived disruption in AIGFP's ability to conduct business, such as one that would result from the departure of a number of key employees, could also cause parties to limit or cease trading with AIGFP. Obviously, this would adversely affect its ability to continue to cost-effectively hedge its positions.

Departures also have regulatory ramifications. As an example, the resignation of the senior managers of AIGFP's Banque AIG subsidiary would allow the Commission Bancaire, the French banking regulator, to appoint its own designee to step in and manage Banque AIG. Such an appointment would constitute an event of default under Banque AIG's derivative and structured transactions, including the regulatory capital CDS book (\$234 billion notional amount as of December 31, 2008), and potentially cost tens of billions of dollars in unwind costs. Although it is difficult to assess the likelihood of such regulatory action, at a minimum the disruption associated with significant departures related to a failure to honor contractual obligations would require intensive interactions with regulators and other constituents (rating agencies, counterparties, etc.) to assure them of the ongoing viability of AIGFP as well its commitment to honoring counterparty contracts and claims.

Details Regarding Progress of Wind-down

The team that remains at AIGFP has made significant progress in bringing down the risks and winding down the portfolio. Since October of 2008, they have reduced the number of trades by over 25% and AIG believes they have reduced most risks commensurately. They have focused initially on reducing complex and difficult to manage positions, so several risk measurements have been disproportionately reduced.

From another perspective, late last year AIG divided the risks at AIGFP into 22 separate risk businesses or "books". Progress has been made on assessing and managing the risk in all books, and five books are almost completely wound down.

From the personnel side, AIGFP has gone from about 450 employees in five locations in early 2008 to about 370 employees today. AIGFP is scheduled to close two locations, Tokyo and Hong Kong, this year.

Details Regarding 2009 Fiscal Year

Under the retention plan, \$327 million is due for 2009. Of that, \$97 million constitutes at risk pay that will be eliminated by AIGFP's losses. An additional \$7.6 million is guaranteed to employees for 2009 pursuant to contractual arrangements outside of the retention plan.

AIG has taken significant steps to limit overall compensation at AIGFP where it can and has committed to doing more. The 25 highest paid active contract employees have agreed to reduce their remaining 2009 salaries to \$1. Salaries for this group ranged up to \$500,000, and the average salary was in excess of \$270,000. (There are apparently legal limits that may complicate the implementation of this and AIG will likely implement the lowest salary levels we can equitably put in place across the relevant jurisdictions.) The remaining 2009 salary of all other officers - anyone with a title of associate vice president

or higher – is being reduced by 10% (subject to compliance with local law requirements). In addition, other forms of non-cash compensation will be reduced or eliminated.

We also believe that there will be considerably greater flexibility to reduce contractual payments in respect of 2009, and AIG intends to use its best efforts to do so. AIGFP intends to sell some of its books of business during the year. The employees related to these books will go with the sold businesses, and we intend to require the buyer to assume going-forward compensation payments. It is also expected that, over the course of the year, employees will leave voluntarily or be terminated for cause and will therefore no longer be entitled to retention amounts from AIG. Because the plan was designed to provide security for employees, including protection against terminations without cause, AIG is required to pay the amounts owed to employees who are downsized. However, if a downsized employee finds new employment, retention amounts will be reduced by the earnings from the other employer. In addition, for employees in foreign jurisdictions who are not U.S. taxpayers, to whom the limits of Section 409A do not apply, AIG will have the ability to negotiate with employees who are downsized. With all of these actions and other creative restructuring solutions, AIG hereby commits to use best efforts to reduce expected 2009 retention payments by at least 30%.

Plans Complex

The preceding constitutes only a summary of the terms and operation of the AIGFP retention plan. It is necessarily incomplete and was produced quickly, in light of applicable time constraints. AIG has provided additional, more detailed information that is relevant to an understanding of, and should be considered with, the summary information in this document.

EXHIBIT F

Atlanta
Beijing
Brussels
Chicago
Frankfurt
Hong Kong
London
Los Angeles
Milan
New York
Orange County
Palo Alto
Paris
San Diego
San Francisco
Shanghai
Tokyo
Washington, DC

(212) 318-6405
patrickshea@paulhastings.com

March 16, 2009

Thomas C. Baxter, Jr.
General Counsel
Federal Reserve Bank of New York
33 Liberty Street
New York, New York 10045

Re: AIG Financial Products Corp.'s Employee Retention Plan

Dear Mr. Baxter:

We were retained by AIG Financial Products Corp. ("AIGFP") and American International Group, Inc. ("AIG") months ago to, among other things, conduct an extensive legal review and analysis of AIGFP's compensation plans, including the AIGFP Employee Retention Plan ("ERP") adopted in early 2008. In particular, we have analyzed whether the Guaranteed Retention Awards ("GRAs") under the ERP constitute a legally enforceable contractual obligation of AIGFP and AIG, as well as the risks associated with a failure to pay GRAs under the Connecticut's Wage Act ("Wage Act") and the availability of expedited relief to remedy any such failure.

We believe that there is a clear contractual obligation on the part of AIGFP -- which is guaranteed by AIG -- to pay GRAs to participants who have not been terminated for cause, resigned without good reason, or (with respect to the GRA for 2009) been terminated for failure to meet performance standards in calendar year 2008. The failure to pay GRAs would expose AIGFP and AIG to double damages and attorneys fees under the Wage Act. Further, in the event of a breach, expedited relief would likely be available to participants in four of the five jurisdictions where AIGFP employees work.¹

ANALYSIS

Breach of Contract Claims

Under Connecticut common law, which governs the ERP (Section 4.08), the ERP would be considered a unilateral contract enforceable according to its terms. *Torosyan v. Boehringer Ingelheim Pharmaceuticals, Inc.*, 234 Conn. 1, 13 n.4 (1995) (a unilateral contract in an employee handbook is one in which the offeror invites acceptance of his promise not by a reciprocal promise, but by performance); *Schreiber v. Connecticut Surgical Group, P.C.*, 96 Conn.App. 731, 738 n.5 (Conn. App. 2006) (termination letter stating that salary and

¹ Such relief would likely be available in the United States, the United Kingdom, France and Japan, but not likely in Hong Kong.

Thomas C. Baxter, Jr.
March 16, 2009
Page 2

benefits would continue until end of 90-day notice period constituted a complete and unambiguous express unilateral contract, which the employee accepted by performance); *Feilbogen v. AIG Trading Group, Inc.*, No. 3:03CV1624 (DJS), 2006 U.S. Dist. LEXIS 29184, at *17-26 (D. Conn. May 15, 2006) (no dispute at summary judgment stage that oral promise of guaranteed retention bonus satisfied prima facie elements of a contract claim). Moreover, in this case, the plan was distributed to all participants in early 2008 and participants were asked to execute confirmations acknowledging and agreeing to the terms of the ERP, which all participants did. Further, management confirmed to employees in writing, on multiple occasions, that the company would honor its contractual commitments under the ERP.

Under the ERP there is a clear and unambiguous obligation to pay participants the GRAs unless a participant is 1) terminated for cause, 2) resigns without good reason, or 3) with respect to the GRA for 2009, is terminated for failure to meet performance standards during calendar year 2008.² Except for terminated participants in these three categories, the obligation to pay participants is mandatory. See ERP Sections 3.04 and 3.05. The ERP also prohibits any amendments that would reduce or delay required payments. See ERP Section 4.03.

The obligation to pay the GRAs is expressly guaranteed by AIG pursuant to the AIG General Guarantee Agreement. ERP Section 3.03. The terms of that guarantee extend to any "monetary obligation or liability [of AIGFP]." On its face, this would include the obligation to pay GRAs.

We have considered whether the defense of impossibility and/or illegality would be available in the event of a failure to pay. Recent executive compensation pay cap legislation does not appear to apply to the ERP. Section 111 of the Emergency Economic Stabilization Act, as amended, ("EESA") provides that such restrictions do not apply to bonus payments required to be paid pursuant to a written employment contract executed on or before Feb. 11, 2009. 12 U.S.C. § 5221. Based on the plain language of the statute, the ERP falls within this exception because each of the requirements specified in the statute is satisfied by the ERP.³ We do not believe there is a basis for asserting a defense of illegality or impossibility.

² Cause means "intentional wrongdoing, fraud, dishonesty, gross negligence, material breach of the AIG Code of Conduct or other policies of AIGFP or AIG, or conviction of or entry of plea of guilty or no contest to a criminal offense." ERP Section 3.04(b). Good reason means "a material reduction in base salary, a material reduction in title, duties or responsibilities, or transfer to a geographic location that is more than 50 miles from the Covered Person's current location." ERP Section 3.04(a).

³ The GRAs are "bonus" payments, "required" to be paid, pursuant to a "written employment contract" executed on or before February 11, 2009. The statute authorizes the Secretary of the Treasury to issue regulations and to make determinations as to what constitutes "valid employment contracts." Although the Secretary has not yet issued regulations, we do not see a basis for declaring that the executed written agreements with respect to the ERP fall outside this grandfathering provision.

Thomas C. Baxter, Jr.
March 16, 2009
Page 3

Because AIGFP is contractually obligated to pay the GRAs, its failure to do so would excuse further performance by the employee if such failure were deemed a material breach. See *Bernstein v. Nameyer*, 213 Conn. 665, 672 (1990). A “material breach” affects the substantive rights of the parties, “touches the fundamental purpose of the contract and defeats the object of the parties in making the contract.” *Fishman v. Smart.serv Online*, No. X05CV0172810S, 2003 Conn. Super. LEXIS 338, at *24 (Conn. Super. Ct. Feb. 11, 2003). If the GRAs were not paid, we believe this would constitute a material breach that would relieve participants of their obligation to perform (i.e., to continue their employment at AIGFP.) *Bogley v. Pikula*, 33 Conn. Supp. 592, 595 (Conn. Super 1976) (finding that trial court did not err in determining that plaintiff had terminated his employment “justifiably” because the defendant refused to pay him a commission he had earned). Thus, in the event of a failure to pay, employees could resign and still sue to recover GRAs for both 2008 and 2009.⁴

The Connecticut Wage Act

Moreover, failure to pay GRAs would subject AIGFP and AIG to a substantial risk of double damages under the Wage Act, which provides for the recovery of double damages and attorneys fees when wages are improperly withheld. Conn. Gen. Stat. §31-72. Double damages are generally available in cases in which an employer's refusal to pay wages lacks a good faith basis. *Schoonmaker v. Lawrence Brunoli, Inc.*, 265 Conn. 210, 269 (2003) (double damages appropriate for “bad faith, arbitrariness or unreasonableness”).

The Wage Act defines the term “wages” as “compensation for labor or services rendered by an employee, whether the amount is determined on a time, task, piece, commission or other basis of calculation.” Conn. Gen. Stat. §31-71a. Courts have concluded that guaranteed bonuses constitute wages under the statute when “the payment is premised upon work or services the employee has performed as opposed to the general success of the company or the whim of management.” *Feilbogen*, 2006 U.S. Dist. LEXIS 29184, at *26-28 (denying summary judgment and finding that plaintiff might be able to prove that his guaranteed retention bonus constituted unpaid wages).

The GRAs for most participants represent a fixed amount that is a large portion of their compensation for 2008. In addition, the GRAs are guaranteed retention payments suggesting that the payments are related to participants' contributions to the company. Viewed from this perspective, the GRAs appear to be “wages.” But GRAs are also payable to participants who resign for good reason or who are terminated without cause. In this sense, GRAs are more like severance payments, which Connecticut courts have

⁴ The ERP provision allowing resignation for good reason does not authorize a resignation based on a reduction in GRA payments. Conceivably, AIGFP could argue that this was intended as a matter of contract to supersede the material breach principles discussed above. However, the good reason provision covers only contingencies—material reduction in salary, title or job duties or relocation—that would not constitute a breach of the ERP. This would make it difficult to claim that this provision was also intended to insulate AIGFP from the established consequences flowing from a material breach of the ERP.

Thomas C. Baxter, Jr.
March 16, 2009
Page 4

generally found to fall outside the protection of the Wage Act.⁵ Thus, current employees have a potentially stronger claim than terminated employees that the GRAs are wages.

If the GRAs are deemed to be wages, it is unlikely that AIGFP could establish a good faith legal basis for withholding payment, and it would therefore likely be required to pay double damages.⁶

Expedited Remedies

In the event of a breach, plan participants will also likely successfully obtain expedited relief from courts in most of the various jurisdictions where they are employed.

a. **Connecticut:** In Connecticut, plan participants could seek a pre-judgment remedy to attach assets of AIG and AIGFP sufficient to satisfy any judgment. Such remedies are granted upon a showing of probable cause, which is not a high standard for plaintiffs to meet.⁷ Probable cause is a “*bona fide* belief in the existence of the facts essential under the law for the action and such as would warrant a man of ordinary caution, prudence and judgment, under the circumstances, in entertaining it.” *Three S. Development Co. v. Santore*, 193 Conn. 174, 175 (1984); *Amgimon v. Debis Fin. Servs.*, No. CV02391470S, 2003 Conn. Super. LEXIS 9, at *8-9 (Conn. Super. Ct. Jan. 3, 2003)

⁵ See *Stoddard v. WBM Plaza, LLC*, No. CV054007856, 2006 Conn. Super. LEXIS 895, at *13 (Conn. Super. Ct. Mar. 20, 2006) (“The statutory definition of ‘wages’ as used in § 31-72 is limited on its face and makes no mention of severance pay.”); *Mangiofiso v. McKevey*, No. CV044000609S, 2005 Conn. Super. LEXIS 1075, at *8-9 (Conn. Super. Ct. Apr. 18, 2005) (finding that the severance pay promised to the plaintiffs did not constitute wages for the purposes of § 31-72); *Justin v. AMA, Ltd.*, No. CV92 29 33 60, 1993 Conn. Super. LEXIS 1516, at *6 (Conn. Super. Ct. June 8, 1993) (Conn. Super. 1993) (finding that any agreement between the parties concerning the payment of severance pay to the plaintiff would not be an agreement “for payment of wages” within the meaning of § 31-72); *Wurtb v. Sebott Electronics, Inc.*, No. CV91 03 64 06S, 1992 Conn. Super. LEXIS 846, at *3 (Conn. Super. Ct. Mar. 12, 1992) (“The Connecticut Supreme Court and the United States District Court for Connecticut have both held that severance pay does not constitute wages. . . . severance is an additional payment above and beyond compensation for labor or services rendered.”) (citations omitted).

⁶ In the alternative, in the event that the GRAs are not found to be “wages,” participants could bring claims of intentional breach of contract. Connecticut courts recognize an “intentional breach of contract” where the conduct underlying the breach of contract was “wanton and malicious” or displayed a reckless disregard for the plaintiff’s rights. *Tamborino v. Velocity Express, Inc.*, No. FSTCV0505000234S, 2008 Conn. Super. LEXIS 1527, at *28-29 (Conn. Super. Ct. June 6, 2008). Such a claim would subject AIGFP and AIG to punitive damages, which under Connecticut law are limited to the participants’ attorneys’ fees. *Id.*

⁷ An applicant for a pre-judgment remedy is not required to plead exigent circumstances to show why the funds for an award might not be available by the time of judgment. Connecticut courts have opined that the purpose of § 52-278 is simply to “put teeth” behind a plaintiff’s power to sue. See *Town of New Hartford v. Conn. Rsr. Recovery Auth.*, No. X02CV040185580S, 2007 Conn. Super. LEXIS 749, at *10-11 (Conn. Super. Ct. Feb. 22, 2007) (“If the plaintiffs have the power to sue, they should have the power to attach. The pre-judgment remedy statute does not exempt such an attachment. If this court were to rule otherwise, the power to sue [a defendant] would be reduced to the legal equivalent of a paper tiger.”).

Thomas C. Baxter, Jr.
March 16, 2009
Page 5

(granting pre-judgment remedy to secure claim for short-term incentive compensation in amount of \$1,250,000.00 after finding that plaintiff presented sufficient evidence to establish probable cause that defendant failed to deal with him in good faith when it fired him and ended his opportunity to participate in the long-term incentive plan); *Nofs v. Gemini Network, Inc.*, No. CV020818599S, 2003 Conn. Super. LEXIS 316, at *23-28 (Conn. Super. February 4, 2003) (granting pre-judgment remedy for amount of lost wages and a bonus, a third of the restricted shares which had vested and an attachment for a third of plaintiff's outstanding stock where plaintiff showed probable cause of wrongful discharge).

b. **United Kingdom:** In the United Kingdom, participants could seek summary judgment from the High Court, and in the absence of any substantial defense could likely be awarded judgment as early as eight to ten weeks after the filing of the complaint (any appeal from such a judgment would not automatically stay the obligation to pay). Even if no summary judgment was awarded, the court could order an expedited trial which could be heard and determined within six months of filing of the complaint. If an expedited trial was ordered, there would be a substantial risk that AIGFP would be required to pay a sum into court equal to the potential liability as a condition of allowing it to defend the claim; alternatively, participants could secure some other interim remedy, such as a freezing injunction restraining AIGFP from dealing with assets.

c. **France:** In France, participants could initiate a summary proceeding that could result in an award in their favor in as little as two months from the filing of the complaint.

d. **Japan:** In Japan, participants could seek a provisional attachment similar to the remedies available elsewhere. A complaint may be heard in as little as three to four months, but an appeal would take much longer, and there is no obligation to pay until the appeal is resolved.

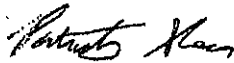
e. **Hong Kong:** In Hong Kong there is no provision for expedited hearings and disputes can take years to resolve.

Thomas C. Baxter, Jr.
March 16, 2009
Page 6

Conclusion

There is a clear contractual obligation on the part of AIGFP -- which is guaranteed by AIG --to pay GRAs to participants who have not been terminated for cause, resigned without good reason, or (with respect to the GRA for 2009) been terminated for failure to meet performance standards in calendar year 2008. The failure to pay GRAs would expose AIGFP and AIG to double damages and attorneys fees under the Wage Act.

Sincerely,



Patrick W. Shea
of PAUL, HASTINGS, JANOFSKY & WALKER LLP

PWS:baf

EXHIBIT G

AIG FINANCIAL PRODUCTS CORP.
2008 EMPLOYEE RETENTION PLAN

AIG FINANCIAL PRODUCTS CORP.

2008 EMPLOYEE RETENTION PLAN

Effective December 1, 2007

INTRODUCTION

This document sets forth the terms of the AIG Financial Products Corp. 2008 Employee Retention Plan, effective December 1, 2007 (the "Plan"). The Plan sets out the 2008 and 2009 Guaranteed Retention Awards to be provided hereunder to certain employees and consultants of AIG-FP (which term includes subsidiaries).

The objectives of the Plan are:

1. To provide incentives for AIG-FP's employees and consultants to continue developing, promoting and executing AIG-FP's business;
2. To recognize the uncertainty that the unrealized market valuation losses in AIG-FP's super senior credit derivative and originally-rated AAA cash CDO portfolios have created for AIG-FP's employees and consultants;
3. To ensure that AIG-FP's and its employees' and consultants' interests continue to be aligned with those of AIG and AIG's shareholders;
4. To continue to build and maintain the formation of capital in AIG-FP; and
5. To show the support by AIG of the on-going business of AIG-FP by implementing a meaningful employee retention plan.

SECTION 1

DEFINITIONS

For purposes of this AIG Financial Products Corp. 2008 Employee Retention Plan:

1.01. "Additional Return Payment" shall have the meaning ascribed thereto under the Deferred Compensation Plan.

1.02. "AIG" shall mean American International Group, Inc.

1.03. "AIG-FP" shall mean AIG Financial Products Corp., including all subsidiaries thereof.

1.04. "AIG General Guarantee Agreement" shall mean the General Guarantee Agreement of AIG, dated December 4, 1995, in favor of each holder of a monetary obligation or liability of AIG Financial Products Corp.

1.05. "Beneficiary" shall mean such person or trustee as may be designated by a Covered Person in his or her Confirmation and Acknowledgement.

1.06. "Board" shall mean the Board of Directors of AIG Financial Products Corp.

1.07. "Bonus Pool" shall have the meaning ascribed thereto in Section 3.02(a) of the Plan.

1.08. "Buy-Out Amount" shall mean the portion of any Previous Guarantee payable to a Covered Person that was intended to offset compensation from a previous employer that the Covered Person forfeited upon joining AIG-FP.

1.09. "Capped Realized Losses" shall have the meaning ascribed thereto in Section 3.07(a) of the Plan.

1.10. "CDO Portfolio" shall mean the existing multi-sector collateralized debt obligation ("CDO") portfolio of AIG-FP, including both super senior derivatives and originally-rated AAA cash CDO bonds.

1.11. "Committee" shall mean a committee consisting of the Chief Executive Officer of AIG Financial Products Corp., the Chief Administrative Officer of AIG Financial Products Corp., the Chief Financial Officer of AIG Financial Products Corp., and the Secretary of AIG Financial Products Corp.

1.12. "Compensation Year" shall mean the 12-month period beginning on December 1st of each calendar year and ending on November 30th of the following calendar year. The first Compensation Year under this Plan shall be the Compensation Year beginning on December 1, 2007 and ending on November 30, 2008 (the "2008 Compensation Year"); and the second Compensation Year under this Plan shall be the Compensation Year beginning on December 1, 2008 and ending on November 30, 2009 (the "2009 Compensation Year").

1.13. "Confirmation and Acknowledgement". The written confirmation and acknowledgement described in Section 3.01(e) of the Plan that is executed by each Covered Person.

1.14. "Covered Persons" shall mean all employees and certain designated consultants of AIG-FP as of March 31, 2008 (excluding any employees or consultants who have notified AIG-FP of their intent to resign on or prior to such date) who received

discretionary incentive compensation, or had a Previous Guarantee, in respect of the 2007 Compensation Year or who have a Previous Guarantee in respect of the 2008 Compensation Year. Covered Persons shall receive a Confirmation and Acknowledgement from AIG Financial Products Corp., as described in Section 3.01(e).

1.15. "Deferred Compensation Plan" shall mean, collectively, the AIG Financial Products Corp. Deferred Compensation Plan, as amended and restated effective March 18, 2005, and the AIG Financial Products Corp. Deferred Compensation Plan - Certain Banque AIG, Tokyo Branch Employees/Secondees, dated as of November 25, 2005, as amended, as each may be amended in the future.

1.16. "Distributable Income" shall have the meaning ascribed thereto under the Deferred Compensation Plan.

1.17. "Excess Deferral Amount" shall mean, in respect of any Covered Person for any Compensation Year, the amount of the Total Award deferred pursuant to the terms of the Deferred Compensation Plan that is in excess of \$650,000 (as determined pursuant to Schedule A to the Deferred Compensation Plan).

1.18. "Guaranteed Retention Awards" shall mean the amounts guaranteed to be awarded to Covered Persons pursuant to Section 3.01 of the Plan for the 2008 Compensation Year and the 2009 Compensation Year.

1.19. "Japanese Plan" shall mean any retirement plan in which members of AIG-FP's Tokyo office participate in lieu of participating in the Deferred Compensation Plan.

1.20. "Notional Bonus Amount" shall have the meaning ascribed thereto under the Deferred Compensation Plan.

1.21. "Plan" shall mean the AIG Financial Products Corp. 2008 Employee Retention Plan, as set forth herein and as hereinafter amended from time to time.

1.22. "Previous Guarantee" shall mean, in respect of any Covered Person, any right of the Covered Person to receive guaranteed compensation (which, for the avoidance of doubt, does not include salary paid periodically during the term of employment) pursuant to a written letter or agreement with AIG-FP executed on or prior to March 31, 2008.

1.23. "Realized Losses" shall have the meaning ascribed thereto in the attached Schedule 2.

1.24. "Senior Management Team" shall mean the fourteen (14) Covered Persons whose status as a member of the Senior Management Team is so indicated on each such individual's Confirmation and Acknowledgement.

1.25. "Share Amount" shall mean the number of shares of AIG common stock into which a Stock-Indexed Deferral is translated pursuant to Section 3.05(c)(i) of the Plan, as

adjusted by the Committee to the extent necessary, in its reasonable good faith discretion, to take into account stock splits, stock dividends, spin-offs, reorganizations, recapitalizations, share combinations, mergers, consolidations, or other corporate actions with respect to AIG common stock.

1.26. "SIP" shall mean the AIG Financial Products Corp. 2007 Special Incentive Plan, dated January 20, 2008, as it may be amended in the future.

1.27. "Stock-Indexed Deferrals" shall mean the deferred amounts of 2008 Total Awards or 2009 Total Awards that are indexed to shares of AIG stock, as described in Section 3.05(b) of the Plan.

1.28. "Total Award" shall mean, for any Covered Person for either the 2008 Compensation Year or the 2009 Compensation Year, the Guaranteed Retention Award for such Covered Person for such Compensation Year plus any discretionary incentive compensation award in excess thereof for such Compensation Year.

1.29. "2007 Total Economic Award" shall mean for each Covered Person, the sum of (a) and (b), where (a) is the amount of the discretionary incentive compensation or Previous Guarantee awarded to such Covered Person in respect of the 2007 Compensation Year, before taking into account any deferrals of such compensation under, or contributions of amounts to, the Deferred Compensation Plan or any Japanese Plan, or payments of amounts under the Deferred Compensation Plan or any Japanese Plan in respect of previous Compensation Years, and (b) is the amount, if any, of the SIP Credit credited to such Covered Person under Section 3.01(a) of the SIP, excluding the amount of such SIP Credit, if any, received in lieu of an Additional Return Payment under the Deferred Compensation Plan (or as the equivalent for Covered Persons who participate in a Japanese Plan in lieu of participating in the Deferred Compensation Plan).

SECTION 2

PARTICIPATION

2.01. Participation.

(a) Participation by Covered Persons. Each Covered Person shall be entitled to participate under this Plan, subject to (i) AIG Financial Products Corp. determining that the Covered Person meets the requirements to be a Covered Person and delivering to such person the Confirmation and Acknowledgement referenced in Section 3.01(e), and (ii) such person executing such document and returning it to AIG Financial Products Corp.

(b) Deferrals. Each Covered Person who participates in the Deferred Compensation Plan and whose 2008 Total Award or 2009 Total Award is in excess of the level referred to in Schedule A of the Deferred Compensation Plan shall be required to defer, under the Deferred Compensation Plan, the portions of such Total Award that are required to be deferred pursuant to such Schedule A, subject, for the avoidance of doubt, to the provisions of Section 3.05 below in respect of Stock-Indexed Deferrals; provided, for the avoidance of doubt, that any payment of a Guaranteed Retention Award to a Covered Person or a Beneficiary shall not be subject to deferral under the Deferred Compensation Plan if such Covered Person or Beneficiary has received a distribution under Section 3.05(a) of the Deferred Compensation Plan. Additional voluntary deferral of any portion of such Total Award shall be permitted only in respect of the portion of such Total Award, if any, that exceeds the respective Guaranteed Retention Award, and shall be subject to the terms and conditions related thereto under the Deferred Compensation Plan, subject, for the avoidance of doubt, to the provisions of Section 3.05 below in respect of Stock-Indexed Deferrals.

(c) Beneficiary. Each Covered Person may designate on his or her Confirmation and Acknowledgement a Beneficiary or Beneficiaries under the Plan in the event he or she should die prior to receipt of all Guaranteed Retention Awards to which he or she is entitled under the Plan; provided that if none is designated, such Beneficiary shall be the Covered Person's estate or as otherwise provided under applicable law. Any payment to a Beneficiary or Beneficiaries shall be made when the respective Covered Person would have received such payment.

SECTION 3

2008 AND 2009 GUARANTEED RETENTION AWARDS

DETERMINATION OF AIG-FP BONUS POOL

3.01. 2008 and 2009 Guaranteed Retention Awards.

(a) Covered Persons Who Are Not Members of the Senior Management Team. Subject to Sections 3.01(c) and 3.01(d), for the 2008 Compensation Year and the 2009 Compensation Year, each Covered Person (other than members of the Senior Management Team) shall be awarded a Guaranteed Retention Award for each of those Compensation Years equal to one hundred percent (100%) of such Covered Person's 2007 Total Economic Award.

(b) Covered Persons Who Are Members of the Senior Management Team. Subject to Sections 3.01(c) and 3.01(d), for the 2008 Compensation Year and the 2009 Compensation Year, each Covered Person who is a member of the Senior Management Team shall be awarded a Guaranteed Retention Award for each of those Compensation Years equal to seventy-five percent (75%) of such Covered Person's 2007 Total Economic Award.

(c) Impact of Previous Guarantees on Amount of Guaranteed Retention Awards.

The Guaranteed Retention Award for a Compensation Year for any Covered Person who has a Previous Guarantee for such Compensation Year will be reduced by the amount of such Previous Guarantee for such Compensation Year. Previous Guarantees will not be affected by this Plan. If (i) a Covered Person has a Previous Guarantee with respect to the 2008 Compensation Year, and (ii) such 2008 Previous Guarantee exceeds such Covered Person's 2007 Total Economic Award, then the Guaranteed Retention Award for such Covered Person for the 2008 Compensation Year shall be zero (by reason of the second preceding sentence), and for the 2009 Compensation Year shall equal the amount of such 2008 Previous Guarantee (reduced by the amount of the Covered Person's Previous Guarantee for the 2009 Compensation Year, if any).

(d) Impact of Buy-Out Amounts on Amount of Guaranteed Retention Awards.

If (i) the Guaranteed Retention Award for a Covered Person is based in whole or in part on a Previous Guarantee for the 2007 Compensation Year or the 2008 Compensation Year, and (ii) a portion of such Previous Guarantee represents a Buy-Out Amount, then the Buy-Out Amount shall be excluded for purposes of calculating the Covered Person's Guaranteed Retention Awards and 2007 Total Economic Award.

(e) Notification of Guaranteed Retention Award Amounts and of Status as a

Member of Senior Management Team. Each Covered Person individually will receive a written confirmation ("Confirmation and Acknowledgement"), in the form of Schedule 1, from AIG Financial Products Corp. of his or her Guaranteed Retention Awards for the 2008 Compensation Year and the 2009 Compensation Year under this Plan. Each Covered Person who has been designated as a member of the Senior Management Team for purposes of determining the Covered Person's Guaranteed Retention Awards has already been informed of such designation, which designation shall also be indicated on the Confirmation and Acknowledgement for such Covered Person.

(f) Currency. All 2008 and 2009 Guaranteed Retention Awards shall be denominated in US dollars.

3.02. Effect of Guaranteed Retention Awards on the Bonus Pool.

(a) General Rule for Bonus Pool Determination. Under the existing arrangement between AIG, AIG-FP, and its employees, Distributable Income of AIG-FP is payable each year on the basis of 70% to AIG and 30% to AIG-FP employees (and consultants) as bonuses (such 30% referred to hereunder as the "Bonus Pool"). The Bonus Pool will continue to equal 30% of Distributable Income of AIG-FP subject to calculation consistent with past practices and the provisions of Sections 3.02(b) and 3.02(c).

(b) Aggregate Amount of Guaranteed Retention Awards for a Compensation Year Equals or Is Less than the Bonus Pool for Such Compensation Year. If the aggregate amount of the Guaranteed Retention Awards for the 2008 Compensation Year or the 2009 Compensation Year is equal to or less than the calculated Bonus Pool for such Compensation

Year, the total amount of the Guaranteed Retention Awards for such Compensation Year will, in the first instance, be paid from the calculated Bonus Pool for such Compensation Year, with any excess remaining in the calculated Bonus Pool for such Compensation Year paid out to AIG-FP employees (and, in the discretion of AIG-FP, consultants) as discretionary incentive compensation with respect to such Compensation Year.

(c) Aggregate Amount of Guaranteed Retention Awards for a Compensation Year Exceeds the Bonus Pool for a Compensation Year. If the aggregate amount of the Guaranteed Retention Awards for the 2008 Compensation Year or the 2009 Compensation Year exceeds the calculated Bonus Pool for such Compensation Year, AIG will cover the shortfall so that Covered Persons are paid their full Guaranteed Retention Awards (subject, for the avoidance of doubt, to deferral pursuant to Section 3.05(a)). Any such Bonus Pool shortfall shall, for purposes of Section 3.07 related to the carry-forward of Capped Realized Losses, be deemed to give rise to a Capped Realized Loss equal to the amount of such shortfall.

3.03. Guarantee by AIG of 2008 and 2009 Guaranteed Retention Awards Under AIG General Guarantee Agreement. The obligation to pay the Guaranteed Retention Awards described under Section 3.01 is guaranteed by AIG pursuant to the AIG General Guarantee Agreement; provided that amounts deferred under the Deferred Compensation Plan (including Stock-Indexed Deferrals) will not, in accordance with the terms of the Deferred Compensation Plan, benefit from the AIG General Guarantee Agreement.

3.04. Forfeiture of 2008 and 2009 Guaranteed Retention Awards as a Result of Termination of Employment of Covered Person. If the employment (or, as applicable, consultancy) of a Covered Person terminates prior to payment of a Guaranteed Retention Award, the Covered Person will forfeit the right to such Guaranteed Retention Award in the following circumstances:

- (a) the Covered Person resigns without good reason ("good reason" means a material reduction in base salary, a material reduction in title, duties or responsibilities, or transfer to a geographic location that is more than 50 miles from the Covered Person's current location); or
- (b) the Covered Person's employment (or, as applicable, consultancy) is terminated by AIG-FP for cause ("cause" means conduct involving intentional wrongdoing, fraud, dishonesty, gross negligence, material breach of the AIG Code of Conduct or other policies of AIG-FP or AIG, or conviction of or entry of a plea of guilty or no contest to a criminal offense); or
- (c) the Covered Person's employment (or, as applicable, consultancy) is terminated by AIG-FP during calendar year 2008 due to the Covered Person's failure to meet performance standards; provided, however, that in the case of a termination of employment (or, as applicable, consultancy) described in this Section 3.04(c), only the Guaranteed Retention Award attributable to the

Covered Person's 2009 Compensation Year will be forfeited, and the Guaranteed Retention Award for the Covered Person's 2008 Compensation Year will remain payable at the same time that Guaranteed Retention Awards are paid to Covered Persons whose employment (or, as applicable, consultancy) is not terminated (subject to deferral pursuant to Section 3.05(a)).

Any Covered Person whose employment (or, as applicable, consultancy) terminates for a reason other than those described in Sections 3.04(a), 3.04(b), and 3.04(c) will receive any subsequent Guaranteed Retention Award at the same time that Guaranteed Retention Awards are paid to continuing Covered Persons (subject to deferral pursuant to Section 3.05(a)); provided that any such Guaranteed Retention Award in respect of the 2009 Compensation Year will be reduced by the amount of any compensation paid to the terminated employee or consultant by another employer in respect of work performed by the terminated employee or consultant during calendar year 2009; and further provided that prior to payment of any Guaranteed Retention Awards to such terminated employees or consultants, the former employee or consultant will be required to confirm in writing whether any such compensation has been received and, if so, the amount thereof.

3.05. Payment of 2008 and 2009 Guaranteed Retention Awards. Subject to the terms of this Plan, Guaranteed Retention Awards will be paid to Covered Persons in respect of each Compensation Year on or prior to the date on which discretionary incentive compensation for such Compensation Year is paid to employees of AIG-FP (subject to deferral as described below); provided, however, that such payment will not be later than March 15th of the calendar year next following the end of such Compensation Year (whether or not any discretionary incentive compensation is paid with respect to such Compensation Year). All payments to a Covered Person hereunder shall be paid to such Covered Person from the company or companies from which such payment represents compensation for services provided by such Covered Person; provided that, where any such company is not AIG Financial Products Corp., AIG Financial Products Corp. shall remain liable for any such payment not paid by such company.

(a) Deferral under Deferred Compensation Plan. The payment of 2008 and 2009 Total Awards to Covered Persons who participate in the Deferred Compensation Plan will be subject to partial mandatory deferral and subsequent payment under the Deferred Compensation Plan in accordance with its terms (in the same manner as discretionary incentive compensation is subject to partial mandatory deferral and subsequent payment under such plan); provided that subsequent payment of any Stock-Indexed Deferrals shall be indexed as described in Section 3.05(c) below for purposes of making payment of such deferrals under Section 3.05 of the Deferred Compensation Plan.

(b) Determination of Amount of Stock-Indexed Deferrals. If the Total Award for a Covered Person who participates in the Deferred Compensation Plan exceeds \$2 million for the 2008 or 2009 Compensation Year, then, notwithstanding any term of the Deferred Compensation Plan to the contrary, fifty percent (50%) of the Excess Deferral Amount for

such Compensation Year will be deemed a Stock-Indexed Deferral under this Plan and, as such, will be indexed to AIG stock and paid as provided in Section 3.05(c) of the Plan.

(c) Indexing of Stock-Indexed Deferrals.

(i) The Stock-Indexed Deferrals will be translated into a number of shares of AIG common stock ("Share Amount"), based on the average daily closing price of a share of AIG common stock during the month of November in the respective Compensation Year.

(ii) Notwithstanding such indexing, the original US dollar value of the unpaid portion of any Stock-Indexed Deferral (without regard to any change in the market price of a share of AIG common stock) will accrue interest pursuant to Section 3.03 of the Deferred Compensation Plan, and shall be included when determining the aggregate amount credited to a Deferred Compensation Plan Participant's Deferred Compensation Account under the Deferred Compensation Plan for purposes of calculating any Additional Return Payments payable to such Participant pursuant to Section 3.04 of the Deferred Compensation Plan. No amount shall be payable to any Covered Person in respect of dividends paid on AIG common stock.

(iii) When a distribution of a Stock-Indexed Deferral (including any installment thereof) would otherwise be payable under Section 3.05 of the Deferred Compensation Plan, Covered Persons will receive, in lieu of receiving such distribution, at AIG's election, either:

(A) a number of shares of AIG common stock equal to the Share Amount for such distribution of the Stock-Indexed Deferral, or

(B) a cash amount equal to the value of such number of shares based on:

(1) in the case of a distribution under Sections 3.05(a) and 3.05(c) of the Deferred Compensation Plan, the closing price of a share of AIG common stock on the date that is five NYSE trading days before the payment date; and

(2) in the case of a distribution under Section 3.05(b) of the Deferred Compensation Plan, the average daily closing price of a share of AIG common stock during the month of November immediately preceding the applicable payment date.

(C) The election made by AIG in this Section 3.05(c)(iii) shall be made as follows:

(1) in the case of a distribution under Section 3.05(a) of the

Deferred Compensation Plan, not later than 15 calendar days prior to the applicable payment date;

(2) in the case of a distribution under Section 3.05(b) of the Deferred Compensation Plan, not later than November 1st immediately preceding the applicable payment date; and

(3) in the case of an early distribution under Section 3.05(c) of the Deferred Compensation Plan, not later than 15 calendar days following the determination to make an early distribution.

The original US dollar value of the applicable unpaid portion of any Stock-Indexed Deferral (without regard to any change in the market price of a share of AIG common stock) shall be paid by AIG-FP to AIG in exchange either for AIG's delivery of stock to AIG-FP pursuant to Section 3.05(c)(iii)(A) or for AIG's payment to AIG-FP of the cash amount provided for pursuant to Section 3.05(c)(iii)(B), as applicable.

(iv) Stock-Indexed Deferrals are not subject to the "Foreign Currency Alternative" provided in Section 3.05(d) of the Deferred Compensation Plan.

(d) Deferred Amounts Represent Subordinated Claims against AIG-FP. To the extent that Guaranteed Retention Awards are deferred under the Deferred Compensation Plan (including any Stock-Indexed Deferrals), such deferred amounts shall represent, in accordance with the terms of the Deferred Compensation Plan, subordinated claims against AIG-FP and shall not be guaranteed by AIG.

3.06. Effect on Bonus Pool of Mark-to-Market and Realized Losses. AIG-FP will continue to monitor and manage the existing CDO Portfolio.

(a) Effect of Mark-to-Market Losses on the Bonus Pool. The Bonus Pool for any Compensation Year beginning with the 2008 Compensation Year will not be affected by the incurrence of any mark-to-market losses (or gains) or impairment charges (or reversals thereof) arising from (i) the CDO Portfolio or (ii) super senior credit derivative transactions that are not part of the CDO Portfolio.

(b) Effect of Realized Losses on Bonus Pool. The Bonus Pool for any Compensation Year beginning with the 2008 Compensation Year will be affected by the incurrence of any Realized Losses (or gains) arising from any source, subject to the limitations set forth in Section 3.07.

3.07. Limitations Related to Realized Losses.

(a) Compensation Year Limit on Reduction to Bonus Pool Attributable to Capped Realized Losses. Notwithstanding any other provision of the Plan, for any Compensation Year beginning with the 2008 Compensation Year, there shall be a \$67.5 million limit per Compensation Year on the extent to which the Bonus Pool can be reduced in the aggregate as

a result of Realized Losses arising from the CDO Portfolio and/or deemed Realized Losses arising as provided in Section 3.02(c) (collectively, "Capped Realized Losses"). Given the 70%/30% split of Distributable Income between AIG and the Bonus Pool described in Section 3.02(a), the Compensation Year limit will be applicable if Capped Realized Losses in respect of any Compensation Year (beginning with the 2008 Compensation Year) exceed \$225 million. Capped Realized Losses for any Compensation Year that are in excess of \$225 million will be carried forward to subsequent Compensation Years for Bonus Pool calculation purposes, subject each year to a per Compensation Year limit on Capped Realized Losses for Bonus Pool calculation purposes of \$225 million (corresponding to the \$67.5 million limit per Compensation Year on reductions to the Bonus Pool due to Capped Realized Losses). Carry-forwards of Capped Realized Losses to subsequent Compensation Years will continue until the aggregate Capped Realized Losses (Capped Realized Losses that reduce Distributable Income for Bonus Pool calculation purposes in the Compensation Year in which realized, plus Capped Realized Losses carried forward to reduce Distributable Income for Bonus Pool calculation purposes in future Compensation Years) are fully absorbed through reductions to Distributable Income for Bonus Pool calculation purposes of up to \$225 million per Compensation Year (corresponding to reductions to the Bonus Pool of up to \$67.5 million per Compensation Year).

(b) Effect of Realized Losses on Current and Future Balances under the Deferred Compensation Plan, Japanese Plans and SIP. Current and future balances under the Deferred Compensation Plan, Japanese Plans and SIP (including the deferred component of 2008 and 2009 Total Awards, including Stock-Indexed Deferrals) will remain subject to reduction as a result of Realized Losses from the CDO Portfolio or otherwise in accordance with the terms of the Deferred Compensation Plan, Japanese Plans and SIP (without reference to any annual limits, which will relate solely to the determination of the Distributable Income for Bonus Pool calculation purposes in the 2008 and subsequent Compensation Years).

SECTION 4

MISCELLANEOUS

4.01. Nonassignability. Subject to Section 2.01(e) of the Plan, no Covered Person or Beneficiary shall have the power to subject any right to receive payments under this Plan to assignment, pledge, sale, attachment, garnishment or any other transfer, alienation or encumbrance, nor shall such rights be subject to the Covered Person's or Beneficiary's debts or to seizure for satisfaction of judgments, alimony or separate maintenance obligations.

4.02. Continuation as Employee or Consultant. Neither this Plan nor the payment of any benefits hereunder shall be construed as giving the Covered Person any right to be retained as an employee or consultant of AIG-FP.

4.03 Amendment and Termination. The Committee may from time to time, with

the approval of the Board, amend these Plan terms in whole or in part; provided, however, that any such amendment may not reduce or delay payment of any Covered Person's benefits and entitlements under the Plan in respect of the Covered Person's 2008 and 2009 Guaranteed Retention Awards or increase the Compensation Year limit or the extent to which Distributable Income for Bonus Pool calculation purposes can be reduced as a result of Capped Realized Losses. Any such amendment shall be effective immediately or as otherwise specified therein and shall be communicated in writing (including e-mail) to all Covered Persons and to AIG.

4.04. Governing Law. The law of the State of Connecticut shall govern the interpretation, application and operation of this Plan document.

4.05. Claims Procedure. Claims for benefits under the Plan shall be filed with the Committee, on forms supplied by the Committee. Written notice of the Committee's disposition of a claim shall be furnished to the claimant within 30 days after the application therefor is filed. In the event the claim is denied the reasons for the denial shall be specifically set forth in writing, pertinent provisions of the Plan shall be cited, and, where appropriate, an explanation as to how the claimant can perfect the claims will be provided. If a Covered Person or Beneficiary has been denied a benefit, each shall be entitled, upon request to the Board, to appeal the denial of the claimed benefit within 90 days following the Committee's determination described in the preceding sentence. Upon such appeal, the Board (or a special committee designated by the Board) shall, as soon as practicable, meet with and hear the position of the claimant. Its decision following such meeting shall be made within 30 days and shall be communicated in writing to the claimant.

4.06. Effect of this Plan on the Deferred Compensation Plan. The terms and operation of the Deferred Compensation Plan are not affected by this Plan; provided that to the extent there is any inconsistency between the terms of this Plan and the terms of the Deferred Compensation Plan with respect to the treatment of Guaranteed Retention Awards, the determination of Distributable Income or the Bonus Pool, or the application of the terms of that plan to Stock-Indexed Deferrals, the terms of this Plan shall govern.

4.07. Compliance with Internal Revenue Code Section 409A. It is intended that amounts awarded under this Plan and/or deferred under the Deferred Compensation Plan will not be taxable under Internal Revenue Code Section 409A. This Plan shall be interpreted and administered, to the extent possible, in a manner that does not result in a "plan failure" (within the meaning of Internal Revenue Code section 409A(a)(1)) of this Plan or any other plan or arrangement maintained by AIG-FP.

SCHEDULE 1

Confirmation and Acknowledgement

Name of Covered Person: _____

Member of Senior Management Team: _____ Yes or No _____

Compensation Year	Previous Guarantee	Buy-Out Amount	Guaranteed Retention Award
2008			
2009			

I acknowledge that I have received, read and understood the AIG Financial Products Corp. 2008 Employee Retention Plan (the "Employee Retention Plan") and that my participation in the Employee Retention Plan, including any payment of a Guaranteed Retention Award to me under the Employee Retention Plan, will be subject to the terms of the Employee Retention Plan, which provide in part that payment of Guaranteed Retention Awards (i) is subject to continued employment to the extent provided pursuant to Section 3.04, and (ii) is subject, if I participate in the Deferred Compensation Plan (as defined in the Employee Retention Plan), to deferral and, to the extent deferred, shall become an unsecured subordinated liability of AIG Financial Products Corp. to me and my Beneficiaries.

I further acknowledge that my right to receive any Guaranteed Retention Award under the Employee Retention Plan is separate from and independent of any Notional Bonus Amount I might receive for 2008 or 2009, as that term is defined in the Deferred Compensation Plan, and that, to the extent the portion of any Guaranteed Retention Award or any additional Notional Bonus Amount is subject to deferral as a Stock-Indexed Deferral, I waive any claim that such deferred amount would be subject to, or payable to me pursuant to, the Deferred Compensation Plan without reference to the terms of the Employee Retention Plan.

In the event that I should die prior to receipt of all Guaranteed Retention Awards to which I am entitled under the Employee Retention Plan, I hereby direct that, pursuant to Section 2.01(c) of the Employee Retention Plan, all amounts due to me under the Employee Retention Plan be distributed as follows:

<u>Proportion</u>	<u>Name of Beneficiary(ies)</u>
_____	_____
_____	_____
_____	_____

Signature of Covered Person

Date

SCHEDULE 2

Realized Losses

- Realized Losses:
 - Losses resulting from the termination or other unwind of a derivative transaction or from the sale of a cash bond position.
 - Realized Loss will be the termination/unwind payment for the derivative transaction, or the difference between par (plus accrued interest) and the sale proceeds for the cash bond position.
 - Losses resulting from a payment default on a cash bond position.
 - Realized Loss will be determined based on an evaluation by AIG-FP and AIG of the facts and circumstances of the underlying portfolio and the likelihood of payment of the defaulted amount, including the quality of the underlying portfolio and rights to control its liquidation. For example:
 - Where there has been a complete liquidation of the underlying portfolio, Realized Losses will equal the amount by which payments received are less than par (plus accrued interest).
 - Where there has been no liquidation of the underlying portfolio (e.g., because of stand-still provisions in the trust indenture), and it is reasonably likely that all amounts on the cash bond position will be paid (e.g., where the bond is still rated investment grade), there would be no Realized Loss.
 - Such a conclusion may apply even where the cash bond has been accelerated and the principal amount declared due and payable (but has not been paid).
 - Losses resulting from a payment default on a reference obligation (or equivalent) underlying a credit default swap (“CDS”) transaction.
 - For CDS that have physical settlement provisions:
 - If the CDS is physically settled, Realized Losses will be determined as described above for the cash bond position that results from the physical settlement.
 - Pending physical settlement of such a CDS, there is no Realized Loss.

- For pay-as-you-go CDS:
 - Any payment under a pay-as-you-go CDS will be a Realized Loss unless (i) AIG-FP has a right to be reimbursed by the protection buyer if the buyer receives payment of the unpaid amount that gave rise to the CDS payment, and (ii) an evaluation by AIG-FP and AIG of the facts and circumstances of the underlying portfolio, including the quality of the underlying portfolio and rights to control its liquidation, indicates such payment is reasonably likely.

- For total return swaps (TRS):
 - To the extent that settlement of the TRS results in AIG-FP acquiring the reference obligation (the most likely circumstance), Realized Losses will be determined as described above for the cash bond position that results.
 - To the extent that settlement of the TRS results in AIG-FP making payment to the protection buyer without acquiring the reference obligation (unlikely), the Realized Loss equals the amount of such payment.
 - Pending settlement of the TRS, there will be no Realized Loss.