

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

IN THE UNITED STATES COURT OF FEDERAL CLAIMS

STARR INTERNATIONAL COMPANY,)
INC., Individually and on)
Behalf of All Others)
Similarly Situated,)
Plaintiffs,) Case No. 11-779C
vs.)
UNITED STATES OF AMERICA,)
Defendant.)
-----)

Courtroom 4

Howard T. Markey National Courts Building

717 Madison Place, N.W.

Washington, D.C.

Thursday, October 16, 2014

9:30 a.m.

Trial Volume 13

BEFORE: THE HONORABLE THOMAS C. WHEELER

Josett F. Whalen, RMR-CRR, Reporter

1 APPEARANCES:

2

3 ON BEHALF OF THE PLAINTIFF:

4 DAVID BOIES, II, ESQ.

5 Boies, Schiller & Flexner, LLP

6 333 Main Street

7 Armonk, New York 10504

8 (914) 749-8201

9 dboies@bsfllp.com

10 and

11 AMY J. MAUSER, ESQ.

12 ABBY L. DENNIS, ESQ.

13 Boies, Schiller & Flexner, LLP

14 5301 Wisconsin Avenue, N.W.

15 Washington, D.C. 20015

16 (202) 237-2727

17 amauser@bsfllp.com

18 adennis@bsfllp.com

19

20

21

22

23

24

25

1 APPEARANCES: (continued)

2

3 ON BEHALF OF THE PLAINTIFF:

4 ROBERT J. DWYER, ESQ.

5 ALANNA C. RUTHERFORD, ESQ.

6 CRAIG WENNER, ESQ.

7 Boies, Schiller & Flexner, LLP

8 575 Lexington Avenue, 7th Floor

9 New York, New York 10022

10 (212) 446-2300

11 rdwyer@bsfllp.com

12 arutherford@bsfllp.com

13 cwenner@bsfllp.com

14 and

15 JOHN L. GARDINER, ESQ.

16 Skadden, Arps, Slate, Meagher & Flom LLP

17 4 Times Square

18 New York, New York 10036

19 (212) 735-2442

20 john.gardiner@skadden.com

21

22

23

24

25

1 APPEARANCES: (continued)

2

3 ON BEHALF OF THE DEFENDANT:

4 BRIAN A. MIZOGUCHI, ESQ.

5 MATTHEW SCARLATO, ESQ.

6 SCOTT AUSTIN, ESQ.

7 JOHN TODOR, ESQ.

8 KENNETH DINTZER, ESQ.

9 CLAUDIA BURKE, ESQ.

10 JOSHUA GARDNER, ESQ.

11 VINCENT D. PHILLIPS, ESQ.

12 MARIANA ACEVEDO, ESQ.

13 U.S. Department of Justice - Civil Division

14 Post Office Box 480

15 Ben Franklin Station

16 Washington, D.C. 20044

17 (202) 305-3319

18 brian.mizoguchi@usdoj.gov

19

20

21

22

23

24

25

Starr International Company, Inc. v. USA

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

I N D E X

WITNESS:	DIRECT	CROSS	REDIRECT	RECROSS
DAHLGREN		2871	2929	2985
LIDDY	2999			

EXHIBITS FOR ID IN EVID

Plaintiff's

Number173	3038
Number182	3056
Number206	3079
Number429	2904
Number461	2961
Number462	2959
Number471	3006
Number515	2931
Number516	3066
Number1616	2939
Number2109	3017
Number2773	2953
Number2774	2955
Number2806	2949

1 EXHIBITS FOR ID IN EVID
2 Defendant 's
3 Number754 2906

4
5 Joint
6 (none)

7
8
9
10
11
12
13
14
15
16
17
18
19
20
21

22 *All exhibits premarked for identification prior to
23 trial.

24 *See full attached list of admitted exhibits following
25 transcript.

1 P R O C E E D I N G S
2 - - - - -
3 (Proceeding called to order, 9:31 a.m.)

4 THE COURT: We're on the record in
5 Starr International Company versus the United States,
6 day 13 of our trial.

7 Good morning, Ms. Dahlgren.

8 THE WITNESS: Good morning.

9 THE COURT: Do you understand that you're still
10 under oath?

11 THE WITNESS: I do.

12 THE COURT: All right. Let's go ahead.

13 MS. ACEVEDO: Thank you, Your Honor.

14 - - - - -

15 Whereupon --

16 SARAH DAHLGREN
17 a witness, called for examination, having been previously
18 duly sworn, was examined and testified further as
19 follows:

20 CROSS-EXAMINATION (continued)

21 BY MS. ACEVEDO:

22 Q. Good morning, Ms. Dahlgren.

23 A. Good morning.

24 Q. I want to begin where we left off yesterday, where
25 we were talking about a potential bankruptcy of AIG in

1 October of 2008. Do you recall that?

2 A. Yes.

3 Q. What would have happened to shareholders if AIG
4 went bankrupt in October 2008?

5 A. The shareholders would have been wiped out.

6 Q. I want to direct you to a document in your binder,
7 PTX 270.

8 Is it not in your binder? It may be in
9 plaintiffs' binder. I'm sorry. Do you have that there,
10 the black binder? Oh, I can hand it up as well.

11 I can hand it up.

12 A. I have it here.

13 Q. You do.

14 A. Yes, I do have it.

15 THE COURT: In the black binder?

16 MS. ACEVEDO: In the black binder, yes.

17 BY MS. ACEVEDO:

18 Q. And as a preliminary matter, can you just identify
19 this document for the Court.

20 A. It's an e-mail that I sent to Chris McShea at the
21 top, and then at the bottom is an update that I sent to
22 Tim, Tom and Mike Silva.

23 Q. And if I can direct you to page 2 of the document,
24 this is something Mr. Boies asked you about yesterday.

25 A. Yes.

1 Q. If I can direct you to four lines up from the
2 bottom of the page beginning with "she also indicated."

3 Do you see that?

4 A. Yes, I do.

5 Q. Okay. And you write there that you told the
6 agency you were calling as a creditor and equity
7 shareholder in the company. Do you recall that?

8 A. Yes.

9 Q. Okay. Why did you say that?

10 A. So at this point we were concerned about the
11 rating agencies, what they knew and what they were
12 planning to do. We had understood that they were
13 planning to downgrade the company. When she said that
14 she didn't normally talk to rating -- governmental
15 agencies, I needed to get her attention because this was
16 an immediate issue, and so I, you know, in a shorthand
17 way said I'm calling as the largest creditor and the
18 80 percent equity holder, so I was trying to get her
19 attention.

20 Q. And did you in fact think that the bank was an
21 80 percent equity holder in the company?

22 A. No.

23 Q. And if you look at the next page, in the paragraph
24 that begins "A.M. Best," the second paragraph there?

25 A. Yep.

1 Q. If I can direct you to the sentence in that
2 paragraph that starts with "they asked that."

3 And you write there that you would have AIG
4 notify the agency that it had permission to speak with
5 you.

6 Do you see that?

7 A. Yes, I do.

8 Q. And why did you say that?

9 A. That as I understood it and as A.M. Best
10 expressed, they don't normally talk to people outside of
11 the company, and so they were concerned in having the
12 conversation and wanted to make sure that there was
13 permission given by AIG, the client, to talk to
14 somebody.

15 Q. And did you obtain that permission?

16 A. I am sure I went back to AIG. I do not know
17 whether they sent the permission along, but at this point
18 it didn't -- wasn't necessary because we joined the
19 company in future conversations.

20 Q. And that's actually something that I wanted to
21 follow up on as well.

22 You mentioned in your testimony yesterday that on
23 occasion you spoke to the agencies in AIG's absence. Why
24 was that?

25 A. Most of the time it was because the agency had

1 called me, and so I was the only one on the phone as they
2 were asking me questions.

3 Q. Okay. And going back to the October-November time
4 frame of 2008, did the rating agencies downgrade AIG in
5 November?

6 A. No, they did not.

7 Q. Did you have an understanding as to why the
8 agencies did not downgrade AIG in November?

9 A. In November and leading up to November, we had a
10 series of discussions with the company and the rating
11 agencies talking about all of the actions that would be
12 taken that would address the rating agency concerns. And
13 based on those sets of actions that were taken, the
14 rating agencies all ended up confirming the ratings of
15 the company.

16 Q. What was AIG's third quarter result for 2008?

17 A. So third quarter was a year-to-date loss of
18 \$40 billion.

19 Q. At a high level, without going into the specifics
20 of all the elements, what were the components of the
21 November restructuring?

22 A. So there were two special-purpose vehicles created
23 to address two big issues in the company. Those were
24 Maiden Lane II which addressed the second lending
25 portfolio and Maiden Lane III which addressed the CDS on

Starr International Company, Inc. v. USA

1 CDO portfolio up at FP.

2 And the Treasury made a \$40 billion equity
3 investment, and that then reduced the Fed credit line
4 down to 60 billion, so they paid off a portion of the
5 outstanding facility.

6 And then we adjusted some terms of the facility,
7 including reducing the interest rate and lengthening the
8 tenor.

9 Q. And you mentioned just now that Treasury made an
10 equity contribution.

11 To what were you referring there?

12 A. This was the \$40 billion TARP investment that was
13 made in November.

14 Q. Okay. And just so that the record is clear, what
15 did AIG do with the \$40 billion in TARP funds?

16 A. So the \$40 billion was used to pay down the
17 current outstandings on the Fed loan.

18 Q. And I want to focus now on a couple components of
19 the restructuring that you mentioned, one being the
20 ML III component.

21 Did AIG benefit from ML III?

22 A. So the creation of Maiden Lane III was designed to
23 address one of the ongoing potential liquidity drains at
24 the company, and so by removing it from AIG's balance
25 sheet we didn't have to -- AIG would not suffer further

1 losses over -- once the exposures were removed.

2 Q. And you were asked about some language in an
3 e-mail referring to locking in losses.

4 How does locking in losses affect that conclusion?

5 A. So at the time, there -- that the transfer was
6 made, so that as Maiden Lane III was created, there were
7 estimates about if AIG could hold on to these -- the CDOs
8 for -- or the CDS for a length of time, so for, let's
9 say, a year or two years, markets would get better,
10 things would improve, and the value would come back up.

11 But there wasn't that amount of time for AIG to be
12 able to hold on to this exposure, so because there was a
13 great likelihood that things would continue to get worse,
14 that exposure was removed from AIG and AIG suffered no
15 more losses, but they also wouldn't benefit two years,
16 three years, however many years out the ultimate recovery
17 of those assets.

18 Q. Do you know who suggested the structure that
19 eventually became ML III?

20 A. So the title ML III was something that came about
21 sooner than I think anybody thought because we had a
22 Maiden Lane I, so the idea that there would be a
23 special-purpose vehicle seemed to emanate, but there was
24 a lot of different discussions among all of the advisors,
25 both AIG's advisors, AIG, the Fed and our advisors, about

1 what would actually solve the issue up at FP.

2 It ultimately ended up being the special-purpose
3 vehicle that was known as Maiden Lane III, but I'd say it
4 was an agglomeration of a whole bunch of different ideas
5 that were bantered about through the late September,
6 early October time frame.

7 Q. And speaking of the late September time frame, do
8 you know who initially suggested the framework which
9 ultimately developed into Maiden Lane III?

10 And by "who" maybe I should be a little more
11 specific. Was it somebody at the New York Fed? Was it
12 somebody at AIG? Was it somebody at Treasury? Do you
13 know?

14 A. We had -- we had experience with a special-purpose
15 vehicle. I don't remember who exactly said let's do that
16 again, but it was -- it was something we were familiar
17 with, and so it came about that way. I don't know
18 whether -- where it actually came from.

19 Q. Okay. Perhaps I can refresh your recollection.

20 A. Sure.

21 (Pause in the proceedings.)

22 MS. ACEVEDO: Permission to approach, Your Honor?

23 THE COURT: Sure.

24 BY MS. ACEVEDO:

25 Q. Ms. Dahlgren, I've just handed you something

1 that's labeled PTX 564 and if I can just direct your
2 attention to the pages that are numbered 210 and 211.

3 If you can just read -- I'll direct your attention
4 to the last paragraph on 210 and the first paragraph on
5 211. If you can just read those paragraphs and let me
6 know when you're done, that would be great.

7 (Pause in the proceedings.)

8 Does that refresh your recollection as to who
9 proposed the structure that ultimately evolved into
10 ML III?

11 A. Can you redirect me to the paragraphs to read
12 because I don't --

13 Q. Sure. I'm sorry.

14 So if you look at the page that's numbered
15 page 210?

16 A. Uh-huh.

17 Q. There are three paragraphs on that page. And if
18 you look at the last paragraph there --

19 A. Uh-huh.

20 Q. -- and the next paragraph that begins on
21 page 211.

22 (Pause in the proceedings.)

23 I'm sorry. You know what? I think it's the wrong
24 pages there. And we'll come back to this. I'll get
25 copies made of the correct pages.

1 A. Okay.

2 Q. Now, you were asked about whether the Fed assisted
3 in counterparty negotiations --

4 A. Uh-huh.

5 Q. -- with respect to ML III. Do you recall that?

6 A. Yes.

7 Q. Did the Fed assist in counterparty negotiations?

8 A. So the Fed, you know, encouraged AIG, all the way
9 up through the weekend before the November restructuring,
10 to do as much as they could to reduce the size of the
11 exposure. Once AIG basically ended up concluding that
12 they couldn't make any more progress, they asked us to
13 take over the negotiations on the weekend before the
14 transaction was completed, and at that point the
15 New York Fed did step in with the counterparties.

16 Q. And did you have any involvement in that effort in
17 those negotiations?

18 A. No, I did not.

19 Q. Now, speaking of ML III and the counterparties,
20 plaintiffs questioned you about the decision not to
21 reveal their identities. Do you recall those
22 conversations?

23 A. Yes.

24 Q. Why was their identity not revealed?

25 A. So at the initial inception, it was not part of

1 sort of market practice, so we were I think being
2 consistent with market practice.

3 There was also a concern about revealing the
4 counterparty names to this transaction. A, it would be
5 unusual. And B, there was a concern both by AIG and by
6 us that if counterparty names were revealed,
7 counterparties in the future wouldn't want to do business
8 with AIG because all of their transactions, based on that
9 disclosure, they thought might be revealed again, and so
10 there was a concern that counterparties would not want to
11 transact with AIG going forward.

12 Q. Now, going back to the restructuring as a whole
13 and the package deal, do you have an understanding of
14 what would have happened to AIG in the absence of that
15 package of support?

16 A. So absent the package of support, the rating
17 agencies told us they would downgrade the company. And
18 downgrading the company would then likely lead to further
19 collateral calls and other impact on the company, and the
20 company would not have been able to meet all those
21 collateral calls. They didn't have sufficient room
22 within the credit facility, likely would have defaulted
23 on those obligations and likely then would have ended up
24 in bankruptcy.

25 Q. And how, if at all -- you mentioned it likely

1 would have ended up in bankruptcy.

2 How, if at all, did the shareholders of AIG
3 benefit from the November 2008 restructuring?

4 A. So the November restructuring ensured that AIG
5 remained a going concern, remained an operating company,
6 and the shareholders continued to have value based on
7 that. Absent that, they would have been wiped out in a
8 bankruptcy.

9 Q. Now, staying in your black binder there, I want to
10 ask you about a document that Mr. Boies asked you about.
11 It's PTX 327.

12 And on the second page of this document, there is
13 a reference there to the timing of an earnings release.

14 Do you see that?

15 A. Yes.

16 Q. Why did the Fed and Treasury have a preference
17 with respect to the timing of the earnings release?

18 A. So we were trying to time both the earnings
19 release when the company would announce a \$40 billion
20 loss with the package of solutions that the rating
21 agencies were looking for, and so the timing was
22 important that those two things happen together, and so
23 this was reflecting that we wanted to be able to time
24 those things together.

25 Q. If I can direct you to another document in your

1 black binder there, PTX 275.

2 I'm sorry. This is the wrong document. Let me
3 just ask you the question.

4 There was a question relating to not releasing a
5 PowerPoint deck. Do you recall that?

6 A. Yes.

7 Q. That Ed Liddy had prepared?

8 A. Yes.

9 Q. Why was it not wise to release that PowerPoint
10 deck?

11 A. The PowerPoint deck laid out a plan, if I recall
12 correctly, of about how -- how the company would pay back
13 the outstanding on the Fed loan, which at that time was
14 north of 40-50 billion dollars. I think there was a lot
15 of concern -- this was two weeks into the AIG loan -- a
16 lot of concern about the realistic assumption that the
17 company in that period of time could execute on
18 everything that it said it would within that PowerPoint
19 deck, and so there was concern about getting that much
20 information out into the market that might have been
21 misunderstood.

22 Q. Okay. And if you can put the exhibit back up,
23 Charles.

24 In the last paragraph -- I found the reference
25 now. It's in the last paragraph of the document. It

1 says "won't be releasing the PowerPoint deck that it had
2 originally intended to release."

3 Do you see that?

4 A. Yes.

5 Q. Is that the PowerPoint deck to which you just
6 referred?

7 A. Yes. It looks like it.

8 Q. Okay. Was the additional support provided by the
9 New York Fed and Treasury in the fall of 2008 sufficient
10 to stabilize the company?

11 A. No, it was not.

12 Q. Did the New York Fed provide additional assistance
13 to AIG in 2009?

14 A. Yes, it did.

15 Q. When did it do that?

16 A. In March 2009.

17 Q. In determining what assistance to provide, what
18 did you do and why?

19 A. So the company, as we found out in January, would
20 be announcing a \$60 billion fourth quarter loss, a
21 hundred billion dollars for the year, so the largest loss
22 in corporate history ever, and so that immediately,
23 you know, was getting the attention and concern that the
24 rating agencies again would consider downgrading the
25 company.

1 One of the concerns that the rating agencies had
2 was they hadn't seen any of the asset sales happen that
3 the company had said that would pay back the loan, so one
4 of the things that was part of the package was
5 effectively accelerating some of those asset sales by
6 creating two new special-purpose vehicles, holding two of
7 the entity shares in there, so AIA and ALICO, two of the
8 subsidiaries of AIG, and the Fed swapping some of its
9 exposure for preferred shares in those two
10 special-purpose vehicles.

11 That then accelerated in the rating agencies eyes
12 the disposition process. It also was part of bringing
13 down the exposure of the loan between AIG and the Fed.
14 And then the Treasury at that point in time also made an
15 additional commitment.

16 Q. I want to direct you to an exhibit in your white
17 binder now -- so many binders -- DX 735.

18 It appears to be an e-mail attaching a document?

19 A. Yes.

20 Q. Can you identify this document for the Court?

21 A. This is a PowerPoint presentation that we
22 developed to discuss systemic risk of the bankruptcy of
23 AIG.

24 Q. And at the bottom of the first page there,
25 there's an e-mail which appears to be from you; is that

1 right?

2 A. Yes, it is.

3 Q. Okay. And it references, "Following up on the
4 discussion with UST/Board staff last week, they have
5 asked us to revive the bankruptcy deck."

6 Do you see that?

7 A. Yes, I do.

8 Q. Can you elaborate on the thinking at the time with
9 respect to providing additional assistance to AIG?

10 A. So coming back in January and sharing with both
11 the board staff and the Treasury staff that AIG was going
12 to be reporting a hundred-billion-dollar yearly loss, the
13 policymakers were pushing back on, you know, what -- what
14 and why would we do more for AIG, and so they wanted us
15 to go back again and look at, you know, a whole set of
16 options. They wanted to understand, you know, again the
17 consequences of bankruptcy, and so this was a piece of
18 those discussions back and forth to help clarify for them
19 what a bankruptcy would look like.

20 Q. And in the next line on your e-mail here, you say,
21 "I've attached Marshall's original excellent work on the
22 subject."

23 Who is Marshall?

24 A. I believe this is referring to Marshall Huebner,
25 who was one of our Davis Polk attorneys.

1 Q. Okay. And let's look at the first attachment
2 there.

3 Can you identify this for the Court?

4 A. This is -- looks like it's a draft of a -- the
5 presentation that was used in those discussions on the
6 implications of an AIG bankruptcy.

7 Q. Okay. If I can -- is this Marshall's original
8 work?

9 A. This looks like it is because this is -- this is
10 on Fed PowerPoint, so it looks like it's ours, but it
11 would include both input from Marshall and input from
12 Morgan Stanley and input from E&Y, so all of -- I mean,
13 we had lots of discussions, so it would have included the
14 input from all of our advisors on views around
15 bankruptcy.

16 Q. And do you recall when this presentation was
17 prepared? Was it prepared in the fall of 2008 or the
18 spring?

19 A. We -- so we started -- we had discussions, ongoing
20 discussions, back and forth definitely in the fall, but
21 the -- this presentation was designed to be informative
22 at that point in time, so this one looks like it was
23 pulled together in January.

24 Q. Okay. Let's take a look at page 6.

25 The first bullet point there says "Probability of

1 repayment on the facility drops significantly."

2 A. Yes.

3 Q. How, if at all, did that inform your understanding
4 of the riskiness of the loan?

5 A. In bankruptcy, the loan probably would not have
6 been paid back, certainly not in full.

7 Q. Let's turn to page 8.

8 The second bullet point there references --

9 MR. BOIES: Your Honor, I'm going to object to
10 reading the document that's not in evidence. I don't
11 usually do that, but I don't think this particular
12 document will get into evidence, and so I do object to it
13 until it's offered.

14 MS. ACEVEDO: I would offer DX 735, move to admit
15 DX 735.

16 MR. BOIES: Objection, Your Honor.

17 With respect to the attachment here, it is
18 hearsay, and I don't believe that they can establish a
19 foundation for it. They certainly have not through this
20 witness.

21 It says, in the cover e-mail, "I've attached
22 Marshall's original excellent work on the subject,"
23 Marshall being Marshall Huebner from Davis Polk. If that
24 is accurate, then this is his work product.

25 If, as the witness indicates, it is a composite of

1 the work product of E&Y and a variety of others, it is
2 still hearsay. But either way, it is hearsay.

3 THE COURT: Ms. Acevedo?

4 MS. ACEVEDO: I don't believe it's hearsay,
5 Your Honor. I believe this is something that she
6 reviewed at the time, and she mentioned it was on Fed --
7 New York Fed PowerPoint stationery, so to speak, and
8 that she has knowledge of the document and its contents.
9 And it's certainly something she would have seen at the
10 time contemporaneous, so even assuming that it were
11 hearsay, I think it should be admitted not for its truth
12 but for the impression that it had on Ms. Dahlgren and
13 how it caused the Fed to act, for present sense
14 impression.

15 THE COURT: I'm going to sustain the objection
16 and not admit this document, but I think that you can
17 certainly ask questions about these subjects, but I
18 would not refer to the document in asking those
19 questions.

20 MS. ACEVEDO: Thank you, Your Honor.

21 BY MS. ACEVEDO:

22 Q. Ms. Dahlgren, if you can just put that document
23 aside.

24 Going back to this time frame, to late January of
25 2009, did you have an understanding as to what insurance

1 regulators would have done if AIG declared bankruptcy?

2 A. So based on the discussions that we had with our
3 advisors and a bit of experience as we understood it
4 over Lehman weekend, we believed that the insurance
5 regulators would likely seize the operating
6 subsidiaries.

7 Q. And why did you believe that?

8 A. Both the experience that the advisors had shared
9 with us and evidence that they had shown us, but also
10 the discussions that we understood had occurred over
11 Lehman weekend where at least one or two of the
12 insurance regulators had threatened to seize the
13 operating subsidiaries that weekend.

14 Q. And what would have been the effect of a seizure,
15 if you know, in terms of personnel at the subsidiaries?

16 A. So based on what had been described to us, the
17 operating subs would have been seized. The, you know,
18 policyholders would maybe wait for a long time to get
19 paid out over time. And it's likely that the operating
20 subs -- that the people actually working there wouldn't
21 want to be working for a seized company and may -- they
22 may have difficulty actually continuing to operate.

23 Q. And how might a seizure have affected investors
24 and creditors of the subsidiaries?

25 A. So the creditors of the subsidiaries would have

1 waited in line as the policyholders were paid off, and
2 investors in AIG would have seen this and to the extent
3 that they would have viewed their -- the investments
4 deteriorating.

5 Q. Let's take a look at the next document in your
6 white binder. It's DX 737.

7 Can you identify this document for the Court?

8 A. It's an e-mail attaching briefing notes for a
9 meeting held in early February.

10 Q. And if I can direct you to page 39 of the
11 document.

12 A. 31?

13 Q. 39.

14 A. Oh, 39.

15 Q. There's a heading there that says
16 "Significant Economic Consequences of Bankruptcy"?

17 MR. BOIES: Objection, Your Honor. Again, I
18 don't think this document is yet in evidence and I don't
19 think it will come into evidence, so I object to its
20 use.

21 THE COURT: I'm also confused -- we'll get to your
22 response. I'm also confused by the fact that it says
23 PX 946 at the bottom.

24 MS. ACEVEDO: I believe it's a deposition exhibit
25 number.

1 THE COURT: Oh, that's a deposition exhibit
2 number?

3 MS. ACEVEDO: PX references are to the deposition
4 exhibit numbers. Yes.

5 MR. BOIES: That is correct, Your Honor. That
6 would have been a designation during the deposition phase
7 of the case.

8 THE COURT: Okay. Okay.
9 Well, we have a hearsay objection.

10 MS. ACEVEDO: Sure.

11 BY MS. ACEVEDO:

12 Q. Ms. Dahlgren, let's go to the second page of the
13 document.

14 You can see there there's a reference to
15 Morgan Stanley.

16 Do you see that?

17 A. Yes.

18 Q. And we talked a little bit about this yesterday.

19 For whom was Morgan Stanley working at this time?

20 A. Morgan Stanley was working for us, for the
21 New York Fed.

22 Q. And were they working in connection with your work
23 on the monitoring team?

24 A. Yes, they were.

25 Q. Okay. And what role was Morgan Stanley playing

1 with respect to the monitoring team at this time in
2 February of 2009?

3 A. So Morgan Stanley was part of the team that was
4 helping us look through different alternatives leading
5 into March, so they were providing, you know, advice on
6 different structures, different ways of thinking about
7 the issues at AIG. They had, as I indicated earlier,
8 provided us their input on what bankruptcy would look
9 like from their experiences, and so -- and they often
10 helped pull together decks like this to help guide
11 discussions that we would have.

12 Q. And you say they often helped pull together decks
13 like this.

14 Would you have reviewed this deck at the time?

15 A. Yes. Absolutely.

16 MS. ACEVEDO: Your Honor, I would still move to
17 admit DX 737.

18 THE COURT: Ms. Acevedo, I have a problem with
19 these sorts of documents in this sense.

20 We spoke a few days ago when the plaintiff offered
21 reports that were prepared for the government by some of
22 the outside consultants, and I think I observed at the
23 time that those kinds of documents are deemed to be
24 really prepared on behalf of the government and can be
25 used against the government because you have sort of an

1 agency relationship with the contractor.

2 But I have some pause in a situation where the
3 government is trying to use one of these documents in
4 support of its own case. There, the distinction is not
5 so clear, so, Mr. Boies, do you have further thoughts
6 about this?

7 MR. BOIES: Only in the sense of what the Court I
8 think has just said, which is that a document such as
9 this is like one of their own documents. We can use it
10 because it is an admission of a party, but a party cannot
11 use its own admissions and cannot use the admissions of
12 its own agent. That is stereotypical hearsay,
13 Your Honor.

14 MS. ACEVEDO: May I respond to that, Your Honor?

15 THE COURT: Sure.

16 MS. ACEVEDO: You know, it also falls under the
17 present sense impression exception to the hearsay rule.
18 And what I'm trying to do is elicit the effect that this
19 information had in terms of the relief that was
20 ultimately provided in March of 2009 and how this
21 information influenced -- I'm trying to lay a foundation
22 for how this information influenced, if at all, the
23 New York Fed's decision to lend in March of 2009.

24 MR. BOIES: Your Honor, that could only be
25 relevant if this witness' state of mind was a relevant

1 issue to this proceeding. This witness' state of mind
2 with respect to this issue has no relevance to this -- in
3 this case.

4 MS. ACEVEDO: This witness' state of mind was
5 relevant for about seven hours during Mr. Boies'
6 questioning of her, and her actions and the reasons for
7 them were certainly called into question and relevant
8 then and I believe they're relevant now.

9 THE COURT: Well, in essence you're trying to
10 have Ms. Dahlgren say -- and I'm sure she believes
11 this -- that bad things would have happened if AIG had
12 filed bankruptcy, filed for bankruptcy. But the fact
13 that Morgan Stanley said it doesn't make it so.

14 If the objective ultimately is to establish the
15 truth of what Morgan Stanley had to say about this
16 without a Morgan Stanley preparer being on the witness
17 stand, I don't think that's appropriate.

18 These state-of-mind questions, I guess possibly
19 those could fly, but I think just on the basis of the
20 document itself I'm going to sustain the objection.

21 MS. ACEVEDO: Thank you, Your Honor.

22 BY MS. ACEVEDO:

23 Q. Ms. Dahlgren, if you can just set that document
24 aside.

25 We talked a moment ago about the potential for

1 regulatory seizures of subsidiaries. Do you recall
2 that?

3 A. Yes.

4 Q. How would seizures have affected the value of the
5 subsidiaries of the company? Do you know?

6 A. So seizure would have likely reduced the value of
7 the subsidiaries.

8 Q. And how might seizures have affected the ability
9 of the subsidiaries to develop new business?

10 A. They would likely not have been able to develop
11 new business. Being in -- you know, taken over by their
12 regulators, clients likely would not have gone to them
13 for business.

14 Q. And what might have been the effect of seizures on
15 the policyholders?

16 A. So based on what our advisors shared with us,
17 policyholders would have been paid off over time and may
18 not have been paid off in whole.

19 Q. And how, if at all, did the potential for
20 regulatory seizures influence or otherwise affect the
21 New York Fed's decision to provide additional assistance
22 in March 2009?

23 A. So the impact of bankruptcy and then seizure of
24 the operating subsidiaries would have, again, meant that
25 the loan was not paid back to the Fed and the Treasury.

1 The TARP investment likely would have been also
2 compromised in some way.

3 Q. What was AIG's fourth quarter loss for
4 2008 reported in March of 2009?

5 A. \$60 billion for the quarter, a hundred billion
6 dollars for the year.

7 Q. And I believe you testified earlier that the
8 New York Fed and Treasury provided additional assistance
9 to AIG in March 2009. Do you recall that?

10 A. Yes.

11 Q. What was that assistance?

12 A. So as I described earlier, the New York Fed
13 swapped preferred shares for some of the debt, so
14 exchanged some of the credit facility for shares in AIA
15 and ALICO, preferred shares in AIA and ALICO.

16 Another important piece was the Treasury provided
17 a close to \$30 billion capital commitment to the company
18 that they could draw down on. And I think we made a
19 slight adjustment on the terms of the loan, I think
20 eliminating the floor.

21 Q. Did you have an understanding as to what would
22 have happened to AIG in the absence of that support?

23 A. So in the absence of that support, again, the
24 dialogue with the rating agencies, you know, had
25 indicated to us that they were -- because they remained

1 concerned about the company, were considering downgrades
2 again. And absent an additional show of support from the
3 Fed and the Treasury, the rating agencies had indicated
4 they would downgrade the company.

5 Q. And how, if at all, did AIG's shareholders benefit
6 from the March restructuring?

7 A. So, again, the rating agencies affirmed ratings
8 post the March restructuring, which meant that, you know,
9 AIG was not downgraded, continued as, you know, a going
10 concern, and shareholders continued to have value in the
11 company at that point.

12 Q. I want to switch gears and talk about the trust
13 and the trustees. You were asked several questions about
14 those yesterday. Do you recall that?

15 A. Yes.

16 Q. When was the trust created?

17 A. In January 2009.

18 Q. Did you have any role in the selection of the
19 trustees?

20 A. No, I did not.

21 Q. Can you describe the nature of your communications
22 with the trustees.

23 A. So once the trustees were on board, we met with
24 them periodically to provide them information updates on
25 what we were doing at the company, what we were seeing at

1 the company, again, just giving them sort of a broad
2 brush, bringing them up to speed. And then as things
3 were occurring, we would provide them information.

4 So leading up to the restructuring in March, for
5 example, we would have interactions with them to let them
6 know both how things were going but what the set of
7 solutions were intended.

8 THE COURT: Excuse me, Ms. Acevedo.

9 I have a question for you, Ms. Dahlgren.

10 Do you have knowledge of how the trustees were
11 selected?

12 THE WITNESS: Yes.

13 THE COURT: Can you tell me what your knowledge
14 is.

15 THE WITNESS: So my understanding is, Tom Baxter
16 had worked through sort of some ideas on who he --
17 you know, should be picked for the trustees. He
18 identified them. I knew that there was, you know, at
19 least one -- I knew a couple of the trustees' names
20 because I had worked with them in the past.

21 There was another trustee that Tom had, you know,
22 hoped to bring in that he wanted me to sit in on a
23 meeting on, and I never was able to sit in on the meeting
24 with that potential trustee.

25 So that was the process as I understood it.

1 THE COURT: So was the selection of the trustees a
2 Federal Reserve Bank of New York decision?

3 THE WITNESS: I don't know like -- I don't know
4 legally what it was. I understood that the trustee
5 process was generally run from New York, but I don't know
6 whether there wasn't other input.

7 THE COURT: As far as you know, were the people
8 involved in the selection of trustees all from the
9 Federal Reserve Bank of New York?

10 THE WITNESS: As far as I know, yes.

11 THE COURT: Okay. Thank you.

12 BY MS. ACEVEDO:

13 Q. Do you know whether the trustees met with AIG's
14 management or its directors without the New York Fed?

15 A. Yes, they did.

16 Q. What asset did the trust hold?

17 A. The trust held the shares.

18 Q. And when you say "the shares," can you be more
19 specific?

20 A. The preferred shares that were issued into the
21 trust after it was created.

22 Q. And what was your understanding of the role of the
23 trustees?

24 A. The trustees would vote the shares in the trust,
25 so vote the proxy in the spring.

1 Q. Did you ever discuss with the trustees topics on
2 which they were entitled to vote the trust's shares?

3 A. No. Other than providing information about what
4 we were doing relative to the company, we didn't have
5 interactions on what they would be voting on.

6 Q. And did you ever instruct the trustees how to vote
7 on a particular issue?

8 A. No.

9 Q. Now, I want to direct you to an exhibit in your
10 black binder. It's PTX 429.

11 And you were asked some questions about this
12 document yesterday.

13 A. Okay.

14 Q. Can you just identify this document for the
15 Court.

16 A. It's an e-mail exchange at the top with
17 Doug Foshee, who was one of the trustees, from me.

18 Q. Can you please read the paragraph beginning
19 "Second" on the first page.

20 A. Out loud?

21 Q. Oh, I'm sorry. To yourself. Not out loud. And
22 let me know when you're done.

23 (Pause in the proceedings.)

24 A. Okay.

25 Q. Okay. Do you see there that there's a reference

1 to discussions with the rating agencies?

2 A. Yes.

3 Q. It says "gave us the go-ahead to begin discussions
4 with the rating agencies on the range of tools"?

5 A. Yes.

6 Q. And did you in fact talk with the rating agencies
7 at this time?

8 A. We did once we had the go-ahead that there was a
9 commitment to do the set of actions that we had
10 proposed.

11 Q. And again, why did you do that? Why did you talk
12 with the rating agencies?

13 A. So the rating agencies were concerned about what
14 additional assistance or help that the New York Fed and
15 the Treasury were prepared to do, and they needed to hear
16 the commitment from us so that they could take that into
17 account as they thought through whether they were going
18 to downgrade the company or not.

19 Q. Let's take a look at the second page of the
20 document to the paragraph beginning "Fourth."

21 A. Okay.

22 Q. There's a reference there to Ed reinforcing that
23 the solution was needed to prevent a downgrade.

24 Do you see that?

25 A. Yes.

1 Q. Why was government assistance needed to prevent a
2 downgrade?

3 A. So again, the rating --

4 MR. BOIES: Objection, Your Honor. The document
5 says "solution." Counsel is asking about government
6 assistance.

7 MS. ACEVEDO: I'm sorry. Perhaps I misspoke. I
8 don't know what I said, but the document says "Ed
9 reinforcing that the solution set was needed to prevent
10 the downgrade." I didn't intend to misstate the
11 document. My apologies, Your Honor.

12 THE COURT: All right.

13 MR. BOIES: Your Honor, could I inquire whether
14 this is actually admitted? Counsel said it was admitted.
15 It may have been, but my notes indicate it wasn't.

16 MS. ACEVEDO: Perhaps I'm mistaken, Your Honor. I
17 do think that it was, yes.

18 THE COURT: We don't think it was admitted. I was
19 just doing some head signals with my law clerk here. I
20 don't think it's been admitted.

21 MS. ACEVEDO: Okay. Your Honor, I move for the
22 admission of PTX 429. My apologies.

23 MR. BOIES: No objection, Your Honor.

24 THE COURT: Plaintiffs' Trial Exhibit --

25 MS. ACEVEDO: We must have looked --

1 THE COURT: -- 429 is admitted.
2 (Plaintiffs' Exhibit Number 429 was admitted into
3 evidence.)

4 MS. ACEVEDO: We must have looked at fifty
5 documents yesterday. I made a mistake.

6 BY MS. ACEVEDO:

7 Q. Looking at the paragraph beginning "Fourth," do
8 you see there that there is a reference to "Ed
9 reinforcing that the solution set was needed to prevent
10 the downgrade"?

11 A. Yes.

12 Q. Why was the solution set needed to prevent the
13 downgrade?

14 A. So again, the rating agencies had set out some of
15 their concerns, and they were concerns that they felt
16 needed to be addressed in order for them to maintain the
17 ratings, and so the set of solutions that had been
18 developed would address what the rating agencies were
19 concerned about, and so in order to prevent the
20 downgrade, we needed to execute on that set of
21 solutions.

22 Q. And the set of solutions that's being referred to
23 here, what is that?

24 A. This is the two special-purpose vehicles that
25 held the two insurance subs that would be swapped out

1 debt for equity with the New York Fed and an additional
2 equity commitment from the -- capital commitment from the
3 U.S. Treasury.

4 Q. Thank you.

5 If you could please set aside your black binder,
6 I'm going to direct you now to a document in your white
7 binder, DX 754.

8 Can you identify this document for the Court?

9 A. It looks like an agenda for a meeting with the
10 trustees at the New York Fed in late February.

11 Q. And if I can direct you to the agenda item
12 beginning 8:30, can you read that item?

13 A. Uh-huh.

14 MS. ACEVEDO: Your Honor, I would like to move for
15 the admission of DX 754.

16 MR. BOIES: I don't have any objection,
17 Your Honor, although I think we admitted the same
18 document as a plaintiffs' trial exhibit earlier.

19 MS. ACEVEDO: It's PTX 441. It was attached to an
20 e-mail. We can -- if you would rather use the
21 plaintiffs' exhibit, we could use that one instead.

22 THE COURT: As you probably know, I prefer to
23 avoid duplication of exhibit numbers for the same
24 document. It makes it confusing when it comes time to
25 prepare a decision in this case.

1 MS. ACEVEDO: The reason I'm using this exhibit,
2 Your Honor, is because it was unclear from the e-mail
3 attached to PTX 441, the one that Mr. Boies asked
4 Ms. Dahlgren about yesterday, as to whether it was a
5 draft or the final agenda, and the DX that I'm referring
6 to, DX 754, I believe is the final agenda.

7 THE COURT: Well, that's okay. You can use it.

8 MS. ACEVEDO: Thank you.

9 I'd like to move to have it admitted.

10 THE COURT: All right. Defendant's Exhibit 754 is
11 admitted.

12 (Defendant's Exhibit Number 754 was admitted into
13 evidence.)

14 BY MS. ACEVEDO:

15 Q. Okay. So going --

16 THE COURT: We'll avoid my policy consideration
17 this once.

18 MS. ACEVEDO: Thank you, Your Honor.

19 BY MS. ACEVEDO:

20 Q. Going back to the item on the first -- at 8:30 on
21 DX 754, the first bullet point there?

22 A. Yes.

23 Q. It indicates that the trustees met amongst
24 themselves and their lawyers.

25 Do you see that?

1 A. Yes, I do.

2 Q. Why did they do that?

3 A. The trustees had their own business and had their
4 own lawyers, and so I imagine they were meeting to sort
5 through issues.

6 Q. And when they met amongst themselves and their
7 lawyers, that was done without the New York Fed present;
8 is that correct?

9 A. Correct.

10 Q. And let's take a look at the 9:00 a.m. agenda item
11 there. It says trustees met with representatives of
12 Spencer Stuart.

13 Do you see that?

14 A. Yes.

15 Q. Who is Spencer Stuart?

16 A. Spencer Stuart was the firm that the trustees --
17 and I don't whether they had hired them at this point or
18 whether they were interviewing them at this point, but
19 ultimately they were hired by the trustees to help them
20 identify potential board candidates.

21 Q. And why were the trustees looking to identify
22 potential new board candidates?

23 A. They were interested in bringing in new directors
24 for AIG.

25 Q. And why were they interested in bringing in new

1 directors?

2 A. There was a need to strengthen the board and to
3 ensure that they had the right kind of expertise and
4 skill on the board, and so the trustees -- and this was
5 something that was very important for them -- were
6 looking to bring on a stronger board.

7 Q. And a moment ago you referenced that AIG's
8 fourth quarter results for 2008, which was reported in
9 March of 2009, was a hundred billion on the year. Do you
10 recall that?

11 A. Yes.

12 Q. What effect, if any, if you know, did that
13 financial result have on the need for new board
14 directors?

15 A. So one of the sets of discussions that were held
16 were what are the -- with and among the trustees together
17 with the Fed and the Treasury, what are the sets of
18 things coming out of such a huge loss and likely
19 diminishment of confidence in the company, what are the
20 sets of things that might need to be done to set the
21 company on a better course.

22 Leadership of the company was one of them with the
23 directors being something that was important to make sure
24 that the public, that the markets viewed the company as
25 being well-governed with a strong board, and so that was

1 a piece of the thinking going into it.

2 Q. If you look at the next agenda item there,
3 10:00 to 11:00, it says, "Sarah Dahlgren and Tom Baxter
4 discuss developments from the last two weeks."

5 Why did you do that?

6 A. This was part of the routine that we had, which
7 was advising and sharing with the trustees what was going
8 on, what we were doing, what we were seeing at the
9 company, to help them with whatever decision-making that
10 they had to do, and so this was one of those regular
11 updates with them.

12 Q. And you see at the noon -- in the noon time frame
13 there, at 12:30 to 1:00 there is a meeting with
14 Ed Liddy.

15 A. Yes.

16 Q. Mr. Boies asked you about that yesterday.

17 Did you attend that meeting?

18 A. No, I did not.

19 Q. Now, if you can take a look quickly at your black
20 binder again -- I'm sorry we're going back and forth, but
21 it can't be helped -- to PTX 513, there is another agenda
22 that you were asked about yesterday.

23 And I'd like to direct you to page 3 of that
24 document.

25 A. Yes.

1 Q. And if you look at the 4:30 to 5:30 time period,
2 there are a bunch of individuals identified there.

3 Do you see that?

4 A. Uh-huh. Yes, I do.

5 Q. And let's take a look at Stasia Kelly.

6 Was she an AIG employee at this time?

7 A. Yes, she was.

8 Q. And how about Ed Liddy? Obviously he was an AIG
9 employee at this time; right?

10 A. Yes.

11 Q. And how about Paula Reynolds?

12 A. Yes, she was.

13 Q. And how about Lee Sachs?

14 A. No. He was a Treasury employee.

15 Q. Okay. You can set that aside.

16 Do you recall Ed Liddy testifying before Congress
17 in March of 2009?

18 A. Yes.

19 Q. What do you recall about your interactions with
20 Mr. Liddy on or about the time frame during which he
21 testified to Congress?

22 A. This was an incredibly difficult period of time.
23 The company was under a lot of pressure. This was around
24 the compensation issues.

25 Ed personally was feeling both a lot of pressure,

1 but the public reaction to the issues was severe, and so,
2 you know, my interactions with Ed were both a combination
3 of how are we going to take things forward, but,
4 you know, how are you doing and hang in there.

5 Q. And you were asked about conversations that you
6 had with Mr. Liddy with respect to compensation of AIG's
7 executives. Do you recall that?

8 A. Yes.

9 Q. What were the issues relating to compensation at
10 this time?

11 A. So there was a lot of outrage about the
12 compensation particularly of individuals up at
13 Financial Products, which was one of the big issues at
14 AIG and where a lot of the losses were had, that anyone
15 at Financial Products would get paid anything, much less
16 the kinds of bonuses that were scheduled to be paid.

17 Q. And how did the dynamics of dealings between the
18 government and AIG in the area of compensation compare to
19 the dealings between the New York Fed and AIG in other
20 areas and why?

21 A. So compensation was one of the things that was
22 covered. Under the TARP investment, there were certain
23 restrictions placed on the company around compensation.
24 And then leading into the spring of 2009, there were
25 additional constraints, including the implementation at

1 one point, at some point that spring, of a compensation
2 czar at Treasury whose job was to basically approve
3 compensation of the top, you know, 25 to 50 employees at
4 AIG and other companies.

5 Q. Let's take a look at a document again in your
6 black binder. It's another document that plaintiffs
7 asked you about, PTX 485.

8 If you look at the third paragraph, beginning
9 "He indicated," do you see that?

10 A. Yes.

11 Q. There's a reference there to the board's role
12 being unclear.

13 Why do you say that?

14 A. So this is in the time frame that I just talked
15 about where compensation was just a huge issue.
16 You know, the directors and Ed were, you know, feeling
17 like they didn't have any decision-making because
18 compensation decisions had essentially been -- for the
19 top officials at AIG had been taken out of their hands,
20 and you know, that's the sort of the unclear role issue,
21 is around compensation.

22 Q. And you see in the next paragraph, there's a
23 reference to Ed.

24 Is that Ed Liddy?

25 A. Yes, it is.

1 Q. Okay. And you say "he has no decision-making
2 authority."

3 Do you see that?

4 A. Yes.

5 Q. "And is paralyzed at this point by the USG's
6 role"?

7 A. Yes.

8 Q. You were asked about this language?

9 A. Yes.

10 Q. Why did you say that? What did you mean when you
11 wrote that?

12 A. So, as I described earlier, this was a really
13 hard time for the company, a really hard time for Ed and
14 for Ed personally, and the level of frustration, the --
15 at this time the lack of total clarity about what the --
16 how the compensation decisions would be made by the
17 government, so being paralyzed by not entirely
18 understanding what the government was going to do and how
19 it was going to work, this is what I'm expressing here,
20 is that, you know, Ed was extremely frustrated at this
21 point.

22 Q. And as a general matter, who had decision-making
23 authority with respect to AIG's business matters?

24 A. Ed, senior management team and board of directors.

25 Q. Now, staying in your black binder, I want to ask

1 about some exhibits that Mr. Boies asked you about,
2 starting with PTX 293.

3 Do you recall this exhibit?

4 A. Yes, I do.

5 Q. And you gave some testimony about a PowerPoint
6 presentation you gave in October of 2008. Do you recall
7 that?

8 A. Yes.

9 Q. So let me direct you to page 13.

10 A. Yes.

11 Q. Is this that presentation?

12 A. Yes, it is.

13 Q. Okay. If I can direct you to page 15 of the
14 exhibit.

15 There's a reference in the second bullet point to
16 outstanding on the facility was 65 billion?

17 A. Yes.

18 Q. Had AIG drawn 65 billion on October 10, 2008 on
19 the credit facility?

20 A. At that point in time, the outstanding was
21 65 billion, yes.

22 Q. Okay. And let's take a look at page 19.

23 And Mr. Boies asked you about the first bullet
24 point there with respect to ongoing daily meetings with
25 key corporate managers. Do you recall that?

1 A. Yes.

2 Q. And you were also asked about interactions with
3 Mr. Liddy?

4 A. Yes.

5 Q. The third bullet point there?

6 A. Yes.

7 Q. Why were you having ongoing daily meetings with
8 key corporate managers at this time?

9 A. So this was, you know, post the initial loan but
10 leading into the November restructuring and all of the
11 issues that we needed to deal with on a daily basis
12 related to what are the steps that need to be taken to
13 prevent the downgrade, so daily interactions with key
14 corporate managers were a part of that ongoing dialogue
15 to identify the issues, what needed to be done and what
16 are the sets of solutions that need to be created.

17 Q. And similarly, with respect to multiple daily
18 interactions with Mr. Liddy, why were you having multiple
19 daily interactions with Mr. Liddy at this time?

20 A. So it would be the same thing, was both providing
21 him with what we were seeing, what we were doing, and
22 where we thought things were going relative to, you know,
23 what the government might be able to do, so the daily
24 interactions were check-ins on both sides.

25 Q. And taking a look at the next page, there is a

1 reference there to a presentation at the NAIC, N-A-I-C,
2 fall national meeting September 23.

3 Do you see that?

4 A. Yes.

5 Q. Why did you attend the NAIC conference in
6 September 2008?

7 A. So this would be an opportunity early on for the
8 New York Fed to describe the actions that were taken on
9 September 16 to the wide range of insurance regulators,
10 state the insurance regulators, that would be interested
11 in what we were doing.

12 Q. You were -- you can set that document aside.
13 Thank you.

14 You were also asked about a punch list on
15 September 16, 2008, which referenced a punch list for
16 taking control of AIG. Do you recall that?

17 A. Yes.

18 Q. What did you mean when you said "a punch list for
19 taking control of AIG" on September 16, 2008?

20 A. So, you know, there were a set of things that we
21 knew we needed to do once we got on the ground in AIG,
22 including getting somebody in the wire room to watch the
23 funds move, making sure that we understood liquidity and
24 funding positions, so that's what the punch list was.
25 What I meant by "taking control" I don't know.

1 Q. Take a look at PTX 387.

2 This is a document that Mr. Boies asked you about
3 yesterday?

4 A. Okay.

5 Q. It references a speech --

6 A. Right.

7 Q. -- that Mr. Liddy was to give. Do you recall
8 that?

9 A. Yes.

10 Q. If I can direct you to page 3 of the document, can
11 you identify what's shown here?

12 A. This is the text of a speech that Ed was going to
13 give on December 11.

14 Q. Okay. And if you take a look at the page that's
15 marked 5 of 10, I want to direct you to the language
16 under the heading what was the government's response.

17 Does this describe the terms of support that were
18 provided to AIG at this time by the government?

19 A. In broad sweeping terms, yes.

20 Q. Do you recall why you would have been reviewing
21 this particular speech?

22 A. It referenced interactions in the relationship
23 with the New York Fed and the Treasury, and in that
24 regard we would want to make sure that it was accurate.

25 Q. I want to direct you now to PTX 112 in your black

1 binder.

2 Mr. Boies asked you some questions about this
3 document. Do you recall that?

4 A. Yes.

5 Q. And there's a reference there to final talking
6 points.

7 Do you see that?

8 A. Yes, I do.

9 Q. For whom were these talking points prepared?

10 A. So Ed had asked us, the night before when I was on
11 the phone with him with Dan Jester, to prepare for him
12 some talking points that he might be able to use in his
13 first interactions with the company.

14 Q. And did you in fact provide Mr. Liddy with these
15 talking points at his request?

16 A. Yes, we did.

17 Q. Let's take a look at PTX 231. You were asked
18 about this document. It's not in your binder,
19 unfortunately. It would be one of the loose ones.

20 A. I'll just use this (indicating).

21 Q. Sure.

22 A. Okay.

23 Q. It's a document from the September 2008 time
24 frame?

25 A. Yep.

1 Q. That Mr. Boies showed you yesterday?

2 A. Yep.

3 Q. I want to direct your attention to point 1 under
4 "The Federal Reserve will" at the bottom of the page.

5 A. Right.

6 Q. It references providing guidance with respect to
7 reviewing communications, "discussing the terms of our
8 deal."

9 Do you see that?

10 A. Yes.

11 Q. Was that consistent with your understanding with
12 respect to what was reviewed at this time?

13 A. Yes, it is.

14 Q. And thereafter?

15 A. Yes, it is.

16 Q. You were also asked about PTX 97, a document that
17 was written by Mr. Christopher Calabia. That's also a
18 loose document.

19 Do you see there in the front in the top e-mail
20 there he says, "We own AIG, essentially"?

21 A. Yes.

22 Q. Do you recall that, you were asked about that?

23 A. Yes.

24 Q. What was Mr. Calabia's role, if any, in the
25 decision to lend?

1 A. He did not have a role.

2 Q. Now, going back to ML III for just a moment, I
3 tried to refresh your recollection earlier. By mistake,
4 I had the wrong pages, so I hope I've got the correct
5 ones this time.

6 Permission to approach, Your Honor?

7 THE COURT: Yes.

8 BY MS. ACEVEDO:

9 Q. I had asked you earlier with whom the structure
10 which ultimately evolved into ML III originated, and I
11 showed you this document to refresh your recollection and
12 unfortunately had the wrong pages. It was a
13 typographical mistake.

14 So if I can direct you to pages 215 and 216 of
15 this document. If you can read the paragraphs beginning
16 "On September 30" --

17 A. Uh-huh.

18 Q. -- going to 216 to the end of that paragraph which
19 follows from the previous page --

20 A. Okay.

21 Q. -- and let me know when you're done, that would be
22 great.

23 A. Okay.

24 (Pause in the proceedings.)

25 Q. Does that refresh your recollection as to with

1 whom the structure which ultimately evolved into
2 Maiden Lane III originated?

3 A. So yes.

4 Q. Okay. I have to take the document back.
5 Permission to approach?

6 THE COURT: Sure.

7 BY MS. ACEVEDO:

8 Q. Thank you.

9 With whom did the structure originate?

10 A. So it was AIG's advisors, AIG. They'd already
11 been thinking through the issues and had identified the
12 possibility of doing a special-purpose vehicle of some
13 kind as one of the -- one way to address the issues up at
14 FP.

15 Q. And who is Elias Habayeb?

16 A. Elias was -- I think he was the CFO at FP.

17 Q. And what role, if any, did he have in the
18 origination of that structure?

19 A. Elias was a participant in all of the
20 discussions, and you know, he together with advisors and
21 others would have been in those discussions where they
22 outlined some of the options that they had thought
23 through.

24 Q. Now, I want to talk just for a second about the
25 credit agreement again. We talked about that very

1 briefly yesterday.

2 Once the credit agreement was executed, do you
3 know, was there a provision for adding new collateral for
4 future drawdowns?

5 A. I don't know the ins and outs of the credit
6 agreement about additional collateral in the credit
7 agreement.

8 Q. Do you know if there was a provision in the credit
9 agreement for adding collateral beyond what AIG had
10 already pledged?

11 A. My understanding was that the credit agreement
12 covered everything, pledged and unpledged, "pledged"
13 being more of a legal term at least the way I understand
14 it.

15 Q. Do you know if there was a process or procedure
16 pursuant to which following the execution of the credit
17 agreement, collateral could be pledged in connection with
18 drawdowns on the facility?

19 A. I don't know about process for pledging.

20 Q. Okay. We'll move on then.

21 Let's talk about AIG's board composition.

22 You were asked a series of questions relating to
23 the composition of AIG's board of directors yesterday.
24 Do you recall that?

25 A. Yes.

1 Q. Okay. How many AIG directors resigned from the
2 board and were replaced by new directors between the
3 execution of the credit agreement on September 22, 2008
4 and when the trustees were in place and in possession of
5 the trust's shares in March of 2009?

6 A. You're testing me.

7 So Fred Langhammer resigned. Ginni Rometty
8 resigned.

9 And I don't remember the other resignations and
10 whether those happened before the trust or after the
11 trust leading up to the proxy.

12 Q. Okay. Well, let's talk about Mr. Langhammer's
13 resignation.

14 Do you know why Mr. Langhammer resigned?

15 A. When or why?

16 Q. Why.

17 A. No.

18 Q. Let's look at, in your black binder, PTX 310.

19 Now, I want to focus on the question of when
20 Mr. Langhammer resigned.

21 Do you recall when he resigned?

22 A. So it was early on, and this e-mail says that Ed
23 had his resignation in hand, and I don't know when that
24 makes it effective, but this was mid-October.

25 Q. And there is a reference there to a

1 Dennis Dammerman in this exhibit.

2 Do you see that?

3 A. Yes.

4 Q. Who is that?

5 A. Dennis eventually became a director at AIG.

6 Q. Were other AIG directors later replaced?

7 A. Yes.

8 Q. Okay. And when did that replacement happen?

9 A. When the proxy was voted on in the spring, a new
10 slate of directors were voted in, and so that's -- that's
11 when the kind of big shift in the board occurred.

12 Q. Okay. Focusing on Mr. Langhammer for the moment,
13 did you or anyone else from the New York Fed or the
14 government tell Mr. Langhammer to resign?

15 A. Not to my knowledge, no.

16 Q. And having looked at this e-mail, has it jogged
17 your memory at all with respect to why he resigned? Do
18 you know why he resigned?

19 A. This doesn't jog my memory about why he resigned,
20 no.

21 Q. Okay. Now, Mr. Boies showed you some e-mails from
22 October of 2008 and 2009 about board composition, and he
23 elicited your testimony that you personally believed that
24 the board should have some, quote-unquote, new blood. Do
25 you recall that?

1 A. Yes.

2 Q. Did you or anyone else from the New York Fed or
3 the government take any steps to remove or obtain the
4 resignations of AIG's directors at any time before the
5 trustees were in place?

6 A. Not to my knowledge, no.

7 Q. What role did the New York Fed play in the
8 selection of AIG's directors?

9 A. So there was interaction in the fall of 2008 --
10 and it's referenced in e-mails like this -- that talked
11 about potential director candidates and people that we
12 thought would be well-qualified. Once the trustees were
13 in place, there was no interaction on director issues.
14 That was the trustees' role.

15 Q. Speaking of the trustees' role with respect to
16 directors, you were asked about the proxy that was filed
17 for the June slate. Do you recall that?

18 A. Yes.

19 Q. Please turn in your white binder now to JX 221.
20 Can you identify this document for the Court?

21 A. It looks like it is the 2009 annual shareholders
22 proxy, covering e-mail from Eric Litzky.

23 Q. If I could direct you to page 2, there's a notice
24 there.

25 Do you see that?

1 A. Yes.

2 Q. I want to direct you to the first sentence of the
3 notice.

4 There's a reference there to nominees for
5 directors.

6 Do you see that?

7 A. Under number 1?

8 Q. Yes.

9 A. Yes.

10 Q. Could you describe in general terms your
11 involvement, if any, in this -- in the identification of
12 directors for this proxy.

13 A. We didn't play a role in identifying nominees for
14 directors. The trustees worked with Spencer Stuart to
15 identify, interview and select the nominees. We spent
16 some time with Harvey Golub to convince him to be
17 chairman, but that was after the trustees had already
18 selected him as the nominee.

19 Q. And when you say "we," are you referring to the
20 New York Fed?

21 A. We, Bill Dudley and I, both New York Fed.

22 Q. Do I understand your testimony to be then that the
23 New York Fed did not play any role with respect to the
24 identification of directors that are referenced here in
25 the June slate?

1 A. That's correct.

2 Q. Who identified the candidates for nomination?

3 A. Some combination of the trustees and
4 Spencer Stuart.

5 Q. Could you describe your understanding of the
6 trustees' process for identifying new board members.

7 A. I think they largely leveraged Spencer Stuart and
8 Spencer Stuart's ability to identify potential director
9 candidates for board seats at AIG.

10 Q. And did you ever discuss with the trustees -- did
11 you ever discuss the trustees' efforts to identify new
12 board members with them?

13 A. They would have provided updates through the
14 process, how they were doing, how hard it was to convince
15 people to become directors, but other than that, we
16 didn't talk about much more.

17 Q. And why did you discuss those matters with them?

18 A. It was part of the back-and-forth that we would
19 have in terms of our sharing of information with the
20 trustees, our desire to make sure that the company had a
21 good board, and they would have shared with us, you know,
22 the process that they were going through and the
23 challenges that they were facing.

24 Q. Did the New York Fed ever suggest any particular
25 candidates to the trustees for the June slate?

1 A. Not that I'm aware of, no.

2 Q. Now, please take a look at point number 4 on the
3 notice. There's a reference there to the reverse stock
4 split.

5 Do you see that?

6 A. Yes.

7 Q. What role, if any, did the New York Fed have with
8 respect to the reverse stock split proposal?

9 A. We didn't have any role. The company had
10 indicated to us that it felt it needed to do this in
11 order to stay listed.

12 Q. Now, plaintiffs have suggested that the AIG
13 monitoring team controlled AIG. Do you recall those
14 discussions?

15 A. Yes.

16 Q. Do you agree?

17 A. No.

18 Q. Why not?

19 A. So a couple of things. We, you know, as the
20 Federal Reserve Bank of New York, didn't have the skills,
21 ability, et cetera, to run a company. We were very
22 careful I think in executing our responsibilities to
23 monitor what was going on, to work with the company to
24 develop solutions to all of the sets of problems that
25 they had that needed to be addressed in order for the

1 company to continue as a going concern.

2 They had skilled managers, CEO, could make
3 decisions, lots of experience. There was no way that I
4 or anyone on my team could replace that, so the idea that
5 we would actually control the company from where we sat
6 really is incongruous with how we carried out our
7 responsibilities.

8 MS. ACEVEDO: Your Honor, may I have a moment?

9 THE COURT: Well, sure.

10 (Pause in the proceedings.)

11 MS. ACEVEDO: Your Honor, I have no further
12 questions at this time.

13 THE COURT: All right. Thank you, Ms. Acevedo.

14 Maybe we can take our morning break now and then
15 we'll have redirect.

16 MR. BOIES: Thank you, Your Honor.

17 THE COURT: We'll reconvene at 11:10.

18 (Court in recess.)

19 THE COURT: All right. Mr. Boies, let's begin
20 redirect.

21 MR. BOIES: Thank you, Your Honor.

22 - - - - -

23 REDIRECT EXAMINATION

24 BY MR. BOIES:

25 Q. Good morning, Ms. Dahlgren.

1 A. Good morning.

2 Q. Just before the break, you told counsel for the
3 defendant that the New York Fed didn't have any role in
4 the reverse stock split. Do you recall that?

5 A. Yes, I do.

6 Q. Do you know what role Davis Polk played in
7 drafting the papers for the reverse stock split?

8 A. I don't know, no.

9 Q. You do know that Davis Polk was the
10 Federal Reserve Bank's lawyers.

11 A. Yes, they were.

12 Q. Do you know what the purpose of the reverse stock
13 split was?

14 A. As it was shared with me, they wanted to do the
15 stock split so that the company could maintain its
16 listing on the New York Stock Exchange.

17 Q. And that could be done if you had a reverse stock
18 split of both the authorized and the issued shares;
19 correct?

20 A. That's beyond anything I would understand.

21 Q. Did you understand that the reverse stock split
22 that was actually implemented was a reverse stock split
23 that split the issued shares but not the authorized
24 shares?

25 A. No, I didn't.

1 Q. Can you think of any reason that's related to
2 keeping the AIG stock listed that would be served by
3 reverse-stock-splitting the issued shares but not the
4 authorized shares?

5 A. No, I don't.

6 Q. You also told counsel just before the break that
7 once the trustees were in place, the Federal Reserve
8 didn't play any role in the composition of the AIG board.
9 Do you recall that?

10 A. In the selection, yes.

11 Q. And in that connection let me ask you to look at
12 Plaintiffs' Trial Exhibit 515, which I would offer.

13 MS. ACEVEDO: We have no objection, Your Honor.

14 THE COURT: Plaintiffs' Trial Exhibit 515 is
15 admitted.

16 (Plaintiffs' Exhibit Number 515 was admitted into
17 evidence.)

18 BY MR. BOIES:

19 Q. These are minutes of the meetings of the trustees;
20 correct?

21 A. I don't actually know. I'd have to look at it.

22 Yes, that looks like it's something that was
23 submitted.

24 Q. And just to be clear, this is a package of
25 material that was submitted to you and Tom Baxter on

1 behalf of the trustees; correct?

2 A. Yes.

3 Q. And these were reports and documents that the
4 trustees were obligated to provide to the Federal Reserve
5 Bank of New York pursuant to the trust agreement;
6 correct?

7 A. Yes.

8 Q. And this is something that you would have reviewed
9 at or about the time you received it; correct?

10 A. I might have reviewed it, I might not have, but I
11 did receive it.

12 Q. Let me ask you to look at page 61 of this exhibit.

13 And in particular, I'm interested in the second
14 paragraph on page 61, but just for context, these are the
15 minutes of a meeting that took place at the
16 Federal Reserve Bank of New York on March 27, 2009;
17 correct?

18 A. Yes. That's what it looks like.

19 Q. And the second paragraph on page 61 is headed
20 Meeting with Sarah Dahlgren and Tom Baxter.

21 Do you see that?

22 A. Yes, I do.

23 Q. And it says, "The trustees met in a closed-door
24 session with Sarah Dahlgren and Tom Baxter of the
25 Federal Reserve Bank of New York to discuss issues

1 relating to the overall strategic plan for AIG and the
2 composition of the board of directors of AIG going
3 forward."

4 Do you see that?

5 A. Yes, I do.

6 Q. And is that an accurate description of what
7 happened?

8 A. Yes. We discussed what was needed to take the
9 company forward and what I saw as the weaknesses at the
10 board.

11 Q. And let me ask you to look at Defendant's
12 Exhibit 754 that is in your white book.

13 And this is the agenda of a meeting held at the
14 Federal Reserve Bank of New York February 27, 2009.

15 Do you see that?

16 A. Yes.

17 Q. And the last agenda item, one that counsel for the
18 defendants did not direct your attention to, is a session
19 from 2:00 p.m. to 4:00 p.m.

20 Do you see that?

21 A. Yes, I do.

22 Q. And that says, "Sarah Dahlgren discusses corporate
23 governance issues"?

24 A. Yes.

25 Q. Do you see that?

1 A. Yes.

2 Q. And did that include issues with respect to the
3 composition of the board?

4 A. It included discussions about the strengths and
5 weaknesses of the board of directors. Yes.

6 Q. And was anyone from AIG present during this
7 2:00 p.m. to 4:00 p.m. session?

8 A. I don't believe so. No.

9 Q. And was anyone from AIG present at the
10 closed-door session on March 27, 2009 that we referred
11 to earlier?

12 A. I would imagine not.

13 Q. You told counsel for the defendant that the
14 directors were replaced pursuant to a proxy in the spring
15 of 2009. Do you recall that?

16 A. Yes.

17 Q. Prior to the time that proxy was prepared, all of
18 the directors who were going to be replaced had already
19 agreed to resign; correct?

20 A. I think so, but I don't know for sure.

21 Q. And all of the directors that were going to
22 replace the resigning directors had already been selected
23 before the proxy was prepared; correct?

24 A. In preparation for the proxy, yes, I guess that's
25 the timing.

1 Q. And how many of AIG's directors that were
2 directors on September 22, 2008 had already agreed to
3 resign prior to the appointment of the trustees?

4 A. I don't know exactly who had agreed and who
5 hadn't. I know the two that had resigned, and I don't
6 recall the timing of the others.

7 Q. Can you tell me approximately how many directors
8 had agreed to resign but not yet actually resigned, until
9 their replacement was selected, prior to the time that
10 the trustees were selected?

11 A. At least two or so, but I don't -- I really don't
12 remember exactly.

13 Q. You said that the role of the trustees was to
14 vote. Do you recall that?

15 A. Yes, I do.

16 Q. And they voted to approve certain directors that
17 had been nominated; correct?

18 A. Yes, they did.

19 Q. And they voted to approve certain shareholder
20 resolutions that had been drafted; correct?

21 A. That's my understanding.

22 Q. Did anyone from the trustees participate in the
23 drafting of the shareholder resolutions that were
24 presented to them to vote on?

25 A. I don't know.

1 Q. You said that the AIG shareholders would have been
2 wiped out if AIG had filed for bankruptcy in October of
3 2008; correct?

4 A. Yes.

5 Q. You're not a bankruptcy expert; correct?

6 A. That's correct.

7 Q. Do you have any experience with any bankruptcy
8 involving insurance companies?

9 A. Personal experience, no.

10 Q. Do you have any experience with bankruptcies where
11 the parent goes into bankruptcy, but the subsidiaries do
12 not?

13 A. No personal experience, no.

14 Q. Are you aware of instances in which the parent
15 goes into bankruptcy, but the subsidiaries do not?

16 A. I don't know.

17 Q. Are you aware that there are instances in which
18 the parent goes into bankruptcy, but the subsidiaries do
19 not and the subsidiaries continue to operate?

20 A. I believe that we understood that through the
21 discussions we had with our advisors.

22 Q. Let me ask you to look at Plaintiffs' Trial
23 Exhibit 616, which is I believe in the binder we gave
24 you, which I like to refer to as the blue binder,
25 although counsel for the defendant keeps referring to it

1 as the black binder, but it is a dark binder.

2 A. It is black.

3 THE COURT: It's like not all copies of the
4 Blue Book are actually blue.

5 MR. BOIES: Right.

6 THE WITNESS: 616?

7 BY MR. BOIES:

8 Q. Yes. It is in the binder.

9 A. PTX 616?

10 Q. Yes.

11 A. I have PTX 612 and then I have PTX 1607.

12 Q. 1616. I'm sorry. I apologize. It is Plaintiffs'
13 Trial Exhibit 1616.

14 This is a Federal Reserve Bank of New York office
15 memorandum, dated September 19, 2008, concerning
16 accounting for the AIG transaction.

17 Do you see that?

18 A. Yes, I do.

19 Q. And if you look on page 3, at the top there is
20 reference to the authors of this memorandum having had
21 discussions with you about the proposed loan transaction
22 to AIG.

23 Do you see that?

24 A. Yes.

25 MR. BOIES: Your Honor, I would offer Plaintiffs'

1 Trial Exhibit 616 -- I'm sorry -- 1616. I apologize.

2 MS. ACEVEDO: Your Honor, we believe this is
3 beyond the scope of our examination and we would object
4 to having this exhibit offered at this time.

5 THE COURT: How is this within the scope,
6 Mr. Boies?

7 MR. BOIES: Your Honor, she talked about how,
8 after the original loan was made, conditions deteriorated
9 and they had to do all of these additional things for
10 AIG. And this is the first step in countering that, and
11 what I'm going to do is show what was said on
12 September 19 and then what I'm going to do is show what
13 the Federal Reserve said at the time that this
14 restructuring was being done.

15 THE COURT: All right. I'll overrule the
16 objection. Please go ahead.

17 MS. ACEVEDO: Thank you, Your Honor.

18 BY MR. BOIES:

19 Q. Did you in fact tell the accounting personnel for
20 the Federal Reserve Bank of New York that the bank
21 considered the AIG loan transaction as being similar to a
22 debtor-in-possession transaction?

23 A. At this point, that might have been something that
24 I used to describe it. Yes.

25 THE COURT: I should have said, by the way, in

1 response to your objection, in addition to it being
2 overruled, Plaintiffs' Trial Exhibit 1616 is admitted.

3 MS. ACEVEDO: Thank you, Your Honor.

4 (Plaintiffs' Exhibit Number 1616 was admitted into
5 evidence.)

6 MR. BOIES: May I have just a moment, Your Honor?

7 THE COURT: Sure.

8 MR. BOIES: I'm trying to locate that.

9 BY MR. BOIES:

10 Q. Let me ask you to look next at Plaintiffs' Trial
11 Exhibit 489, which is also in your book. And this is
12 already in evidence.

13 And this is an analysis as of March 31, 2009 by
14 Federal Reserve Bank's auditors and accountants Deloitte;
15 correct?

16 A. Yes, it is.

17 Q. And if you would look at page 10, the first
18 paragraph, the second sentence, it states, "Although it
19 is widely understood that A" -- and "A" there is AIG;
20 correct?

21 A. That's what it looks like.

22 Q. "Although it is widely understood that AIG
23 continued to experience financial difficulty" -- and
24 "continued to experience" is in bold; correct?

25 A. Yes.

1 Q. -- "the Federal Reserve Bank does not believe that
2 AIG's financial condition has deteriorated since the
3 extension of the original facility."

4 Do you see that?

5 A. Yes, I do.

6 Q. And the last sentence says, "Further, the
7 Federal Reserve has indicated that on the eve of the
8 modification transaction, they did not believe that the
9 threat of an imminent bankruptcy filing by AIG continued
10 to exist."

11 Do you see that?

12 A. Yes, I do.

13 Q. And was that your understanding as of March 31,
14 2009?

15 A. That on the eve of the transaction, because of all
16 of the things that had been done, the bankruptcy filing
17 wouldn't have occurred, that's right.

18 Q. When you say on the eve of the transaction
19 because of what had already occurred, the transaction
20 that's being referred to here is the AIG loan
21 modification --

22 A. Uh-huh.

23 Q. -- correct?

24 A. I don't know. This is not my memo, so I don't
25 really know all the whos and whats are pointing to.

1 Q. When was the AIG loan modification, as you
2 understand it?

3 A. There was one element that was modified in the
4 March restructuring, and I think the date was March 2 and
5 that that's what that is referring to.

6 Q. Let me ask you to look at page 7.

7 And at the top, on page 7, the first sentence
8 says, "As noted in the background section, AIG's
9 financial difficulties were severe at the date of
10 origination of the initial Federal Reserve Bank of
11 New York loan as evidenced by both AIG's agreement to
12 surrender approximately 79.9 percent of their common
13 equity stake to the trust for the benefit of the
14 U.S. Treasury and the punitive terms of the revolving
15 loan."

16 Do you see that?

17 A. Yes, I do.

18 Q. It goes on to say, "If the FRBNY had not taken
19 action, AIG would have likely entered into bankruptcy."

20 Do you see that?

21 A. Yes, I do.

22 Q. And you would agree with those first two
23 sentences; correct?

24 A. Yes.

25 Q. It then goes on to say, "Based on engagement team

1 discussions with Sarah Dahlgren, FRBNY senior loan
2 supervisor of AIG, this loan was viewed as 'Debtor in
3 Possession' financing (e.g., lending to an institution
4 after it enters into bankruptcy) thus supporting the
5 contention that AIG was troubled at origination."

6 Do you see that?

7 A. Yes, I do.

8 Q. And then it goes on to say, "In addition, we
9 believe that the Federal Reserve Bank of New York did not
10 modify their line of credit with AIG due to deterioration
11 in AIG's financial condition."

12 Do you see that?

13 A. Yes, I do.

14 Q. And was that your understanding at the time?

15 A. Of what whoever wrote this memo thought that we
16 did? I don't know.

17 Q. Let me ask you to go to the very last sentence in
18 that paragraph, which says, "The decrease in the
19 effective borrowing rate was part of the overall
20 arrangement to be more equitable to AIG in light of other
21 financial institution's similar difficulties and to
22 better meet the Federal Reserve's public policy
23 considerations."

24 Do you see that?

25 A. Yes, I do.

1 Q. As you understand it, was that an accurate
2 statement?

3 A. I would not have said it in that way. No.

4 Q. Do you think the substance of that is accurate?

5 A. To be more equitable to AIG doesn't ring a bell to
6 me as something that we were aiming to do, but it did
7 better meet the public policy considerations given that
8 we wanted to make sure that AIG didn't get downgraded.

9 Q. But the public policy considerations here you
10 obviously don't know what they meant by when they wrote
11 this.

12 A. No, I don't.

13 Q. If you go up to eleven lines from the bottom,
14 there's a sentence that begins, "A quick disposition of
15 assets"?

16 A. Yes.

17 Q. Do you see that?

18 It says, "A quick disposition of assets from AIG
19 would be contrary to Federal Reserve Bank of New York's
20 overall mission of financial stability and would only add
21 to pricing compression."

22 Do you see that?

23 A. Yes, I do.

24 Q. And you understand what "pricing compression"
25 means, don't you?

1 A. More or less.

2 MS. ACEVEDO: Your Honor, may I be heard for a
3 moment?

4 We would object to Ms. Dahlgren continuing to
5 testify to this document. She's already -- as I
6 indicated to Your Honor yesterday when the document was
7 discussed, this exact document was discussed, this is a
8 Deloitte & Touche memo to FRBNY Working Papers.

9 There's nothing that ties Ms. Dahlgren to the
10 document, and she has in fact testified just a few
11 moments ago that she's not familiar with the document,
12 she hasn't reviewed it, and she doesn't know what was
13 meant by the people that did. And I think eliciting
14 further testimony on this document is inappropriate given
15 that it's hearsay.

16 THE COURT: But there are references in the
17 document to statements that she purportedly made.

18 MS. ACEVEDO: But he's not asking her about those
19 references.

20 MR. BOIES: Your Honor, it's cross-examination,
21 and I'm putting to the witness statements that at least
22 might be viewed as contrary to some of her prior
23 testimony.

24 THE COURT: I'm going to allow it. The objection
25 is overruled.

Starr International Company, Inc. v. USA

1 MS. ACEVEDO: Thank you, Your Honor.

2 BY MR. BOIES:

3 Q. Let me just go on and I'll direct your attention
4 just to one more sentence.

5 The next sentence, which is the first sentence of
6 the following paragraph, says, "Based on the above, we do
7 not believe that AIG's financial condition had
8 deteriorated from September 22 to November 10."

9 Do you see that?

10 A. Yes, I do.

11 Q. Now, with respect to the end of October and early
12 November, you talked about Maiden Lane III, and you said
13 that AIG had asked the New York Fed to take over the
14 ML III negotiations the weekend before the transaction
15 was completed. Do you recall telling that to counsel for
16 the defendant?

17 A. Yes, I do.

18 Q. First, what was the weekend before the transaction
19 was completed?

20 A. So I think that weekend was like the 6th, 7th,
21 8th, 9th, something like that, of November. I think the
22 10th was Monday, 9, 8, 7, so the 6th was Thursday, so --
23 I think.

24 Q. And so when you say that AIG asked the Fed to take
25 over the negotiations, that would have been the weekend

Starr International Company, Inc. v. USA

1 before the 6th?

2 A. No. I -- it was the weekend before the -- the
3 November 10 restructuring, so I think it was that weekend
4 the 6th, 7th, 8th, 9th, so Thursday was a -- I believe it
5 was at that period of time going into that weekend.

6 Q. So it's your testimony that going into the weekend
7 of the -- as you call it, the 6th, 7th, 8th and 9th, that
8 is, Thursday, Friday, Saturday and Sunday, that that was
9 when AIG asked the Fed to take over negotiations; is that
10 correct?

11 A. Yes. It was roughly at that time.

12 Q. You also said that up to that point in time, that
13 is, up to the weekend of the 8th and the 9th if you
14 consider the weekend to be Saturday and Sunday or the
15 6th, 7th, 8th and 9th if you consider the weekend to
16 start on Thursday, the Fed encouraged AIG to continue to
17 negotiate the ML III transaction with counterparties. Do
18 you recall that?

19 A. We encouraged AIG to continue to try to tear up as
20 much as they could in advance of the Maiden Lane III
21 transaction.

22 Q. And the tear-ups involved negotiations with
23 counterparties; correct?

24 A. Correct.

25 Q. And you were testifying that the Fed encouraged

1 AIG all the way up throughout that weekend before the
2 restructuring to continue to do that.

3 A. Yes.

4 Q. Were you aware of any instructions from the
5 New York Fed to AIG to stop negotiation and to stand
6 down?

7 A. No, I was not.

8 Q. Let me ask you to look at a document that has been
9 marked as Plaintiffs' Trial Exhibit 2806, which I would
10 offer.

11 MS. ACEVEDO: Your Honor, we're going to object to
12 the admission of this exhibit. This is not on their
13 exhibit list, although it is labeled as an exhibit.

14 And further, I object to the fact that there's
15 handwriting on the document. It has been marked with
16 stars and underlining and indications, and I think it's
17 inappropriate to be showing this to the witness.

18 MR. BOIES: Two things, Your Honor.

19 THE COURT: Yes.

20 MR. BOIES: First, the order on the exhibits
21 expressly excludes rebuttal exhibits. This is directly
22 designed to rebut what the witness has testified to.

23 Second, my understanding is that those marks were
24 on the document as it was produced to us. I inquired
25 about that this morning because I saw those marks as

1 well, and I am informed that those marks were on the
2 document when it was produced. If it turns out that that
3 is incorrect, obviously we ought to substitute a clean
4 exhibit. But my present understanding is that those
5 marks were on the document, and I will report back to the
6 Court after the break to confirm that one way or the
7 other.

8 THE COURT: Ms. Acevedo, does that answer your
9 concerns?

10 MS. ACEVEDO: With respect to the marks,
11 Your Honor.

12 However, we still object to the admission of the
13 exhibit on the grounds that it is not an exhibit. It was
14 not identified by them. They had a second chance to
15 identify what exhibits they wanted. They had months to
16 come up with their list. They came up with the list, and
17 we negotiated a certain set of limited number of exhibits
18 that the parties could subsequently identify if there
19 were things left off, and they had two bites at the apple
20 already.

21 THE COURT: But this is -- whoa, whoa, whoa. This
22 is a rebuttal exhibit. Isn't it? Isn't this a rebuttal
23 exhibit?

24 MS. ACEVEDO: That what he's claiming it is, but I
25 don't believe it's appropriate.

1 THE COURT: The objection is overruled. I'll
2 allow it.

3 MS. ACEVEDO: Thank you.

4 THE COURT: Plaintiffs' Trial Exhibit 2806 is
5 admitted.

6 (Plaintiffs' Exhibit Number 2806 was admitted into
7 evidence.)

8 BY MR. BOIES:

9 Q. Now, this is an exhibit that is dated November 4,
10 2008; correct?

11 A. Yes, it is.

12 Q. And paragraph numbered 1 there says, "Last Friday,
13 the Federal Reserve Bank of New York told AIGFP to stop
14 all conversations with counterparties about tear-ups."

15 Do you see that?

16 A. Yes, I do.

17 Q. And that would have been on October 31; correct?

18 A. I think we have the dates right.

19 Q. And it's your testimony that you were unaware of
20 that direction?

21 A. Yes.

22 Q. Who is it that you believe asked the
23 Federal Reserve Bank to take over the negotiations with
24 the counterparties?

25 A. I thought Ed did, but I -- I know that there was

1 some sort of communication either -- written in some form
2 to the Fed about that. I think it was Ed, but I'm not
3 positive.

4 Q. Now, this written communication, when did you last
5 see that written communication?

6 A. The written communication from AIG asking the Fed
7 to take over? I don't remember seeing it at all.

8 Q. Who told you that a written communication
9 existed?

10 A. I heard from others on the team that we had
11 gotten the go-ahead, and you know, going into that
12 weekend, we were going to start in earnest with the
13 discussions with the counterparties.

14 Q. Do you know whether that written request that you
15 describe came after the Federal Reserve Bank had already
16 instructed AIG to stand down?

17 A. I don't know when -- I mean, this -- we didn't
18 tell them to stand down until they gave us the go-ahead
19 to engage with the counterparties directly so we could
20 get Maiden Lane III done that weekend, and that was the
21 focus.

22 Q. When you say "so we could get Maiden Lane done
23 that weekend," you're now talking about the weekend of
24 November 6, 7, 8 and 9.

25 A. Correct.

1 Q. It's clear from Plaintiffs' Trial
2 Exhibit 2806 that before that weekend, at least a week
3 before that weekend, AIG had already been told to stop
4 all conversations with counterparties about tear-ups;
5 correct?

6 A. That's what it says, yes.

7 Q. And you have no reason to doubt that this
8 happened, do you?

9 A. I don't know. I don't recall this and it was not,
10 you know, what the plan was, but I don't -- I don't
11 remember.

12 Q. Do you remember the document we talked about
13 yesterday where your deputy was described as asking AIG
14 to stand down on all discussions with counterparties on
15 tearing up or unwinding the ML III securities?

16 A. Yes, I recall that document.

17 Q. And that document was also dated October 31, 2008;
18 correct?

19 A. I think -- I'll take your word for it.

20 Q. It's Plaintiffs' Trial Exhibit 333.

21 And do you see that on the first page there is the
22 e-mail from somebody who you've identified as the CFO of
23 AIGFP, saying "I spoke to Manzari this morning. He asked
24 me to stand down on all discussions with counterparties"?

25 A. Yes, I see that.

1 Q. The first belief that you have as to when AIG
2 asked for the FRBNY to take over the negotiations or help
3 in the negotiations was a week later, at least a week
4 later, that is, it was the 8th or 9th of November;
5 correct?

6 A. It might have been Thursday going into Friday, but
7 it was after what this e-mail suggests.

8 Q. Okay. And do you know that what had happened was,
9 after AIG had already been told to stand down on these
10 negotiations, there was an effort to get a paper trail
11 that AIG was actually asking for this?

12 A. I'm not familiar with what -- I mean, I just -- I
13 don't recall.

14 Q. Let me ask you to look at Plaintiffs' Trial
15 Exhibit 2773, which I would offer.

16 MS. ACEVEDO: Your Honor, we're going to object to
17 the admission of this exhibit on two grounds. Again, it
18 is not on plaintiffs' exhibit list, and there's no
19 indication here that ties Ms. Dahlgren to this document.
20 She, as far as I can tell, is not referenced or a
21 recipient of the document, and it's hearsay.

22 MR. BOIES: I believe it is not a document that
23 she is referenced as receiving. However, it is a series
24 of e-mails, all between Federal Reserve personnel on the
25 subject of ML III, and that -- those personnel include

1 people that she has identified and Mr. Baxter.

2 MS. ACEVEDO: May I be heard, Your Honor?

3 THE COURT: Sure.

4 MS. ACEVEDO: Those personnel include Tom Baxter
5 and Alex LaTorre, who plaintiff had many, many hours of
6 testimony from in this case. And if they made a mistake
7 and forgot to get a document in with one of them that
8 they wanted to use, that's too bad, so sad. They should
9 not be allowed to do so with Ms. Dahlgren. It's highly
10 inappropriate.

11 THE COURT: I'm going to overrule the objection.

12 Plaintiffs' Trial Exhibit 2773 is admitted. I
13 view it as a Federal Reserve Bank of New York document
14 regarding AIG and Maiden Lane III, which you asked the
15 witness about for some time, so we're going to let it in.

16 (Plaintiffs' Exhibit Number 2773 was admitted into
17 evidence.)

18 MS. ACEVEDO: Thank you, Your Honor.

19 THE COURT: And I think it's a rebuttal exhibit.

20 BY MR. BOIES:

21 Q. Let me ask you, Ms. Dahlgren, to look at the
22 e-mail at the bottom of the first page of this exhibit.

23 This is an e-mail from James Bergin to Mr. Baxter
24 with copies to Joyce Hansen and two other Federal Reserve
25 personnel.

1 Do you see that?

2 A. Yes, I do.

3 Q. And in the second paragraph, Mr. Bergin writes,
4 "My understanding is that the Federal Reserve Bank of
5 New York will have bilateral discussions with the
6 counterparties without AIG. I asked Marshall Huebner
7 whether he felt we should get some direction from AIG
8 that we could have these conversations (I understand that
9 you mentioned this idea to HaeRan)."

10 Mr. Bergin then continues that Mr. Baxter felt
11 that it was -- I'm sorry -- that Mr. Huebner "felt that
12 it was a good idea to get an e-mail, but he felt that we
13 didn't need anything more than that. His analysis was
14 basically that we are already very pregnant, so lender
15 liability concerns can't be at the front of our concerns
16 but that some paper trail would be nice to have."

17 Do you see that?

18 A. I do see that.

19 Q. And is that anything that anybody told you about
20 at the time?

21 A. Not that I recall.

22 Q. Let me show you one more document, and that is
23 Plaintiffs' Trial Exhibit 2774, which I would offer.

24 MS. ACEVEDO: No objection, Your Honor.

25 THE COURT: All right. Plaintiffs' Trial

1 Exhibit 2774 is admitted.

2 (Plaintiffs' Exhibit Number 2774 was admitted into
3 evidence.)

4 BY MR. BOIES:

5 Q. These are e-mails being exchanged between your
6 deputy, Mr. Manzari, and a lawyer at Davis Polk; correct?

7 A. That's what it looks like.

8 Q. And on November 6, 2008, your deputy wrote to
9 Ethan James at Davis Polk, saying, "What do we have to do
10 to paper the AIG authority to let us negotiate on their
11 behalf for ML III?"

12 Do you see that?

13 A. Yes, I do.

14 Q. And then there was a reply from Mr. James: "I
15 spoke to Stasia about this last night. She gets the
16 point. I will follow up with her this morning, but don't
17 think that needs to slow you down."

18 Do you see that?

19 A. Yes, I do.

20 Q. And were you aware of those communications with
21 your deputy on or about November 6, 2008?

22 A. No.

23 Q. Let me turn to your testimony about ML III that
24 said that ML III removed AIG's exposure to the CDSs that
25 were the subject of ML III.

1 Do you recall that testimony?

2 A. Yes.

3 Q. Now, AIG's total exposure to the CDSs that were
4 part of ML III was \$62.1 billion; correct?

5 A. I don't remember.

6 Q. Well, does \$62.1 billion sound about right?

7 A. It's on that chart over there. I assume that it's
8 right.

9 Q. The chart is a demonstrative exhibit,
10 Plaintiffs' Trial Exhibit 5011.

11 You do recall that the way the \$62.1 billion of
12 notional value was satisfied was with \$32.8 billion of
13 collateral that AIG had already posted, \$5 billion of new
14 equity that AIG put into ML III, and a \$24.3 billion loan
15 that the Fed made to ML III; correct?

16 A. That sounds about right.

17 Q. The \$37.8 billion that AIG contributed to this,
18 32.8 billion that it already posted and 5 billion of new
19 equity, that exposure was not eliminated; correct?

20 A. That was what was put into Maiden Lane III, so
21 that exposure moved to Maiden Lane III.

22 Q. And the \$24.3 billion loan that the Fed made,
23 that loan sat in first position, that is, it got paid
24 back first out of all of the proceeds from ML III;
25 correct?

1 A. That's my recollection, vaguely.

2 Q. And there was never a time at the time that this
3 was done or at any time thereafter where the Fed's
4 estimate of the value of the Maiden Lane III CDOs was
5 less than \$24.3 billion; correct?

6 A. I don't know.

7 Q. Did you ever check that?

8 A. I don't remember, but yes, it was checked. The
9 people who managed Maiden Lane III did regular work on
10 it, but once it was -- the transaction was done, it was
11 managed somewhere else, not by us.

12 Q. And did you ever inquire as to whether the value
13 of the CDOs ever dropped down below 24.3?

14 A. I don't remember. I just don't remember the
15 interactions.

16 Q. Unless the value of the CDOs dropped below 24.3,
17 the entire exposure for the \$62.1 billion was AIG's;
18 correct?

19 A. I'm not sure how you just characterized it. I'm
20 sorry. I just don't understand the question.

21 Q. Let me try to break it down.

22 AIG was potentially exposed to \$62.1 billion of
23 potential exposure with respect to these CDOs; correct?

24 A. Sounds about right.

25 Q. And AIG paid \$37.8 billion that went to the

1 counterparties; correct?

2 A. So in purchasing the CDOs, they landed in
3 Maiden Lane III and that there was a transaction giving
4 the collateral, yes.

5 Q. So the answer to my question is yes.

6 A. I think so.

7 Q. And the \$24.3 billion that the Fed put up was
8 recovered from the very first proceeds from those CDOs;
9 correct?

10 A. The loan was in first position, as you
11 characterize it.

12 Q. You also testified about who was concerned about
13 ML III disclosure. Do you recall that?

14 A. Yes.

15 Q. And did I understand your testimony to counsel for
16 the defendants to be correct that it was your testimony
17 that AIG was interested in restricting disclosure?

18 A. There were discussions early on about that, and I
19 understood it to be a concern that we all had about
20 disclosure.

21 Q. I understand that there were discussions, and I
22 understand that those discussions included people from
23 the Fed and people from AIG.

24 But my question is, in those discussions, as you
25 understand it, did anyone from AIG ever say that they

1 wanted to keep some of that information confidential or
2 not to disclose it?

3 A. That's my recollection, that there was concern on
4 AIG's part about disclosure.

5 Q. Let me ask you to look at Plaintiffs' Trial
6 Exhibit 462, which I would offer.

7 MS. ACEVEDO: We have no objection, Your Honor.

8 THE COURT: All right. Plaintiffs' Trial
9 Exhibit 462 is admitted.

10 (Plaintiffs' Exhibit Number 462 was admitted into
11 evidence.)

12 BY MR. BOIES:

13 Q. The e-mail in the middle of the page is an e-mail
14 from Kathleen Shannon, who's a lawyer at AIG; correct?

15 A. Yes.

16 Q. To the general counsel of AIG, and then that is
17 forwarded on to you; correct?

18 A. Yes, that's correct.

19 Q. And what Ms. Shannon says: "In order to make only
20 the disclosure that the Fed wants us to make, which we
21 understand to be to not include the CUSIPs or Tranche
22 names and give the amounts by counterparty on a total
23 rather than a transaction-by-transaction basis, we need
24 to have a reasonable basis for believing and arguing to
25 the SEC that the information we are seeking to protect is

1 not already publicly available."

2 Do you see that?

3 A. Yes, I do.

4 Q. Now, does that indicate to you that AIG
5 considered this to be something that the Fed wanted, not
6 AIG?

7 A. So at this point in time, this was after
8 Maiden Lane III had closed and was owned by the
9 Maiden Lane -- it was -- Maiden Lane III was not AIG's
10 substantively.

11 Q. Does that mean that at this point in time it was
12 the Fed and not AIG that wanted to limit disclosure and
13 not reveal certain information?

14 A. At this point in time revealing the CUSIPs and
15 tranche names it was believed would be detrimental to the
16 success of Maiden Lane III.

17 Q. My question right now is not why you wanted to not
18 reveal this information, although I will come to that.
19 My question now is who wanted to conceal this
20 information.

21 It was the Fed, not AIG; correct?

22 A. At this point in time, the discussions were
23 between the Fed and AIG, how much would be disclosed, and
24 we were concerned about disclosure of the CUSIPs and the
25 tranches, which it appeared that AIG may have wanted to

1 disclose without understanding why they wanted to
2 disclose it.

3 Q. Let me ask you to look at Plaintiffs' Trial
4 Exhibit 461, which I would offer.

5 MS. ACEVEDO: We have no objection, Your Honor.

6 THE COURT: All right. Plaintiffs' Trial
7 Exhibit 461 is admitted.

8 (Plaintiffs' Exhibit Number 461 was admitted into
9 evidence.)

10 BY MR. BOIES:

11 Q. This is an e-mail at the top from Mr. Bergin of
12 the Fed to you, dated March 12, 2009 at 10:48 p.m., with
13 copies to a significant number of people.

14 Do you see that?

15 A. Yes, I do.

16 Q. And that is in response to an e-mail that you'd
17 sent earlier; correct?

18 A. Yes. That's what it looks like.

19 Q. And the second sentence of Mr. Bergin's e-mail
20 refers to a company, and that company is AIG; correct?

21 A. Yes.

22 Q. And it says AIG "was a little leery of not
23 disclosing everything at this point -- including CUSIP
24 and tranche names -- but are willing to redact that at
25 our wishes."

1 Do you see that?

2 A. Yes, I do.

3 Q. And does that clarify that at least at this point
4 in time, the desire to redact was something that came
5 from the Fed and that AIG, although leery about it, was
6 prepared to do at your request?

7 A. We did not want the CUSIPs and tranche names
8 revealed, that's correct.

9 Q. And AIG -- and this is all I'm asking, is AIG was
10 only doing that because you were asking them to;
11 correct?

12 A. Jim is indicating that there was conversation and
13 that they would be willing to redact. Yes.

14 Q. Even though they were leery about it.

15 A. That's what this e-mail says, yes.

16 Q. Let me turn to your testimony that you understood
17 that at least two of the insurance regulators had
18 threatened to seize insurance subsidiaries over the
19 Lehman weekend. Do you recall that testimony?

20 A. Yes, I do.

21 Q. First, the insurance subsidiaries that were being
22 threatened to be seized, were those Lehman subsidiaries
23 or AIG subsidiaries?

24 A. Those were AIG insurance subsidiaries.

25 Q. Which insurance regulators threatened to seize AIG

1 insurance subsidiaries over the Lehman weekend?

2 A. Based on what I was told, there had been
3 conversations from Texas and one other, and I don't
4 recall the other.

5 Q. Well, first you say based on what you were told.

6 Who told you this?

7 A. I wasn't there that weekend and was informed
8 about various discussions, and I don't recall who told me
9 that.

10 Q. Your testimony that at least two insurance
11 regulators threatened to seize AIG's subsidiaries over
12 the Lehman weekend was based on conversations that you
13 had with somebody whose name you do not now remember; is
14 that correct?

15 A. That's correct.

16 Q. And did this person tell you that the Texas
17 insurance regulator had actually threatened to seize the
18 insurance subsidiaries?

19 A. That is what was relayed to me.

20 Q. Did the person who was relaying this information
21 to you actually have a conversation with anybody from
22 Texas?

23 A. I don't recall. It was likely I was talking to
24 the New York State Insurance Department.

25 Q. You're not suggesting that Mr. Dinallo told you

1 this, are you?

2 A. I don't recall who told me this. No. I don't
3 remember.

4 Q. You never saw anything in writing that suggested
5 that there had been any threat to seize AIG's
6 subsidiaries that weekend, did you?

7 A. I don't recall seeing anything in writing, no.

8 Q. Let me ask you to look at Plaintiffs' Trial
9 Exhibit 485, which you were asked about. Do you recall
10 testifying about this to defendant's counsel?

11 A. Yes.

12 Q. And she directed your attention first to the third
13 to last paragraph, where you had written "it's unclear
14 what role the board of directors," referring to AIG,
15 "really can play in this situation -- if it can't make
16 comp decisions or most other decisions, then what does
17 the board really do?"

18 Do you recall her directing your attention to
19 that?

20 A. Yes, I do.

21 Q. And do you recall telling her that this related to
22 the fact that this was a time when there was a lot of
23 controversy about compensation decisions and this related
24 to the fact that the board didn't feel it could control
25 compensation?

1 A. Yes.

2 Q. Now, in fact what you wrote here is, if the board
3 can't make comp decisions or most other decisions, then
4 what does the board really do; correct?

5 A. That's what it says here, yes.

6 Q. And when you wrote this in March of 2009, you were
7 not referring just to comp decisions, you were referring
8 to most other decisions as well as comp decisions;
9 correct?

10 A. That's what it says here.

11 Q. And in the next sentence, where you had written
12 back in March of 2009, quote, not to state the obvious,
13 but the same is true for Mr. Liddy, he has no
14 decision-making authority and is paralyzed at this point
15 by the U.S. government's role, do you see that?

16 A. Yes, I do.

17 Q. And you again told counsel for the defendant that
18 that related to comp decisions. Do you recall that?

19 A. Yes, I do.

20 Q. There's no reference here to comp decisions in
21 what you actually wrote; correct?

22 A. No, there's not.

23 Q. And in fact, what you wrote is that Mr. Liddy had
24 no decision-making authority; correct?

25 A. That's what it says.

1 Q. Let me turn to Joint Exhibit 105 and Defendant's
2 Exhibit 415.

3 Joint Exhibit 105 -- and both of these are in the
4 white book -- was an Ernst & Young analysis, and
5 Defendant's Exhibit 415 were Morgan Stanley -- was a
6 Morgan Stanley analysis, both in mid-September of 2008;
7 correct?

8 A. So this is an -- this is the E&Y document and this
9 is the memo from Rob Patalano.

10 Q. That is, the Joint Exhibit 105 is an Ernst & Young
11 analysis; is that correct?

12 A. Yes, it is.

13 Q. And Defendant's Exhibit 415 is from
14 Morgan Stanley; is that correct?

15 A. It's a memo written -- at least the exhibit that I
16 have is a memo written by an analyst that summarizes some
17 analysis. Morgan Stanley is referenced in there. But
18 it's not a Morgan Stanley document.

19 Q. But this is a memo that was prepared based on the
20 Morgan Stanley evaluation or valuation of AIG; correct?

21 A. That is a piece of the analysis.

22 Q. Now, you were aware that both Morgan Stanley and
23 Ernst & Young updated these analyses; correct?

24 A. Throughout the work that we did, we got periodic
25 updates on asset valuations.

1 Q. And indeed, you asked for those, did you not?

2 A. Likely, yes.

3 Q. Because you wanted to be sure that although
4 Morgan Stanley and Ernst & Young had initially told you
5 that there was enough collateral, you wanted to be sure
6 that that continued to be the case; correct?

7 A. That sounds right.

8 Q. And they -- in response to that kind of request,
9 they continued to give you analyses, both in
10 later 2008 and in 2009 and 2010; correct?

11 A. Sounds right.

12 Q. And each one of those analyses by both
13 Ernst & Young and Morgan Stanley always said that the
14 extension of credit to AIG was fully and indeed
15 overcollateralized; correct?

16 A. I don't recall each and every analysis.

17 Q. Do you recall whether there was ever an analysis
18 by either Ernst & Young or Morgan Stanley that said that
19 the credit then outstanding was not fully secured?

20 A. We were often presented with analyses that showed
21 highs and lows, and in some scenarios the lows would not
22 have covered the complete outstanding, but the -- the
23 average, if you will, or the median was sufficient.

24 Q. In each one of these cases, Ernst & Young or
25 Morgan Stanley would give you what they thought was their

Starr International Company, Inc. v. USA

1 best judgment; correct?

2 A. Correct.

3 Q. And in each case, Ernst & Young or
4 Morgan Stanley's best judgment was that the outstanding
5 balance was fully secured; correct?

6 A. Correct.

7 Q. You referred a number of times, in testimony to
8 counsel for the defendant, to an \$85 billion loan. Do
9 you recall that?

10 A. Yes.

11 Q. Now, in fact, there never was an \$85 billion loan;
12 correct?

13 A. I'm not sure what you're asking.

14 Q. Well, AIG never borrowed \$85 billion on this
15 credit facility; correct?

16 A. Not specifically on the credit facility, but they
17 did have other borrowings, yes.

18 Q. By "other borrowings" are you referring to the
19 securities lending?

20 A. So security -- we did do a facility in October, a
21 securities lending facility, yes.

22 Q. And that securities lending facility was a
23 separate facility, and that was fully secured; correct?

24 A. It was a separate facility fully secured.

25 Q. Indeed, do you recall what the securities lending

1 facility from AIG was secured with?

2 A. The securities that they provided to us in that
3 securities lending facility? Secure -- no, I don't
4 remember exactly what they were.

5 Q. Do you recall that the securities that AIG
6 provided you for the securities lending facility were of
7 a substantially higher quality, to put it mildly, than
8 the securities that were being accepted as collateral for
9 the PDCF?

10 A. I don't recall that, no. I don't -- I just don't
11 remember the difference there.

12 Q. Okay. You told counsel for the defendant that you
13 did not recall any instance in which a request for
14 consent from AIG was denied. Do you recall saying that?

15 A. Yes, I do.

16 Q. Do you recall that AIG sought the Fed's consent or
17 approval in order to buy CDOs out of ML III?

18 A. No. I don't remember that.

19 Q. You do recall that at the time that ML III was
20 selling these CDOs, it was AIG's view that the price at
21 which they were being sold was less than what those CDOs
22 were worth. Do you recall that?

23 A. I remember some back-and-forth at some point about
24 AIG wanting to take back some of the ML III assets. I
25 don't recall that there was ever officially requested,

1 but I just don't remember.

2 Q. With respect to the requests for consent that were
3 granted, those were requests for consent that AIG had
4 talked to representatives of the Fed about before they
5 made the requests; correct?

6 A. Generally we were given a heads-up on things that
7 would be coming, particularly larger things that would
8 need more analysis.

9 Q. And if the Fed disagreed with those requests or
10 any of those requests or just said, We think it needs
11 more analysis, AIG did not submit that request until that
12 additional analysis had been done, with a single
13 exception of compensation; is that right?

14 A. I'm not sure what the single exception is.

15 Q. Well, leaving the issue of compensation aside --

16 A. Okay.

17 Q. -- was there any other instance in which the
18 Federal Reserve indicated, before a request for consent
19 was made, that they thought more analysis was needed or
20 they didn't think the request was appropriate that AIG
21 went ahead and put the request in anyway?

22 A. I'm not -- so I'm sure that there were
23 interactions and AIG would have beefed up the analysis as
24 necessary to meet the requirements and then would have
25 submitted, you know, whatever the waiver request was.

1 Q. Let me move on to another subject.

2 You talked about the losses for the fourth quarter
3 of 2008 --

4 A. Yes.

5 Q. -- that AIG announced?

6 How much of those losses were due to CDOs that
7 were the subject of ML III or ML II?

8 A. I do not remember.

9 Q. Approximately?

10 A. I don't remember.

11 Q. Counsel for the defendant showed you
12 Plaintiffs' Trial Exhibit 259. Do you recall that?

13 A. No. I'm sorry.

14 Q. Well, let me ask you to look at it. And it's
15 entirely understandable that you don't recall all these.

16 A. Oh, now I do.

17 Q. Okay. And counsel I think directed your attention
18 to a statement on page 7 in which there was an AIG
19 objective of repaying the Federal Reserve by December 31,
20 2009.

21 Do you see that?

22 A. Yes.

23 Q. And counsel for defendant asked you whether that
24 actually had happened, and you said it had not. Do you
25 recall that?

1 A. Correct.

2 Q. What was the balance on the AIG credit facility as
3 of December 31, 2009?

4 A. I don't remember.

5 Q. Approximately.

6 A. I don't -- seriously, I have no idea. I don't
7 remember.

8 Q. It was pretty small; right?

9 A. I don't know. I really don't.

10 Q. Okay.

11 A. Sorry.

12 Q. And that's okay.

13 Counsel also asked you to look at

14 Joint Exhibit 96, which is in the white book.

15 And you said that the reference to AIG having
16 issued a warrant was not accurate because no warrant had
17 then been issued. Do you recall that?

18 A. Yes, I do.

19 Q. It also said that it was subject to shareholder
20 approval.

21 Do you see that?

22 A. Yes.

23 Q. Now, was that something that the Fed asked AIG to
24 change?

25 A. That was something that was inconsistent with what

1 had been issued on the 16th, and so that would have been
2 something that needed to be changed.

3 Q. Now, when you say "issued on the 16th," issued by
4 whom?

5 A. So the -- so what my reference was was the press
6 release that was issued describing the transaction that
7 had occurred on Tuesday night.

8 Q. This is a press release issued by the
9 Federal Reserve Bank; correct?

10 A. Correct.

11 Q. AIG had not issued anything on September 16 that
12 was inconsistent with shareholder approval; correct?

13 A. I don't know. I'd have to read this again. I
14 don't remember.

15 Q. Now, the press release that the Federal Reserve
16 Bank issued did not say anything one way or the other
17 about shareholder approval; correct?

18 A. That's correct.

19 Q. And you are aware that the term sheet that was
20 considered by the Board of Governors when they approved
21 the loan expressly referred to shareholder approval;
22 correct?

23 A. I don't remember seeing the term sheet at that
24 time.

25 Q. Did you participate in any way in asking AIG to

1 change its 8-K with respect to the provision for
2 shareholder approval?

3 A. So this 8-K, in response to this 8-K, I made a
4 phone call over to AIG Friday morning asking them to make
5 corrections to make sure that the transaction was
6 described in an appropriate way.

7 Q. Other than telling them to describe it in an
8 appropriate way, did you tell them what you thought an
9 appropriate way was?

10 A. I don't recall doing that, but I don't -- I don't
11 remember.

12 Q. Did anybody tell you, that is, anybody in the Fed
13 tell you what they thought an appropriate way was to
14 describe this transaction?

15 A. What I recall was being told what was wrong and
16 that it needed to be fixed. I don't recall the specifics
17 or a discussion on the specifics.

18 Q. Was one of the things that you were told was wrong
19 the requirement for shareholder approval?

20 MS. ACEVEDO: Your Honor, asked and answered.
21 He's asked this three times now.

22 THE COURT: Overruled. We'll try one more time.

23 THE WITNESS: Can you ask the question again?

24 BY MR. BOIES:

25 Q. Sure.

1 Was one of the things that you were told was
2 wrong with the original 8-K from AIG the requirement for
3 shareholder approval? That's a yes, no, or I don't
4 know.

5 A. I -- I imagine it was. I don't know. I mean,
6 I -- that paragraph was wrong, and I -- it was what we
7 wanted to have addressed in reissuing the 8-K.

8 Q. I'll move on to another subject.

9 You were asked about Mr. Liddy's
10 March 2009 testimony to Congress. Do you recall that?

11 A. Yes.

12 Q. And you were asked about, in that connection,
13 certain TARP restrictions on compensation. Do you recall
14 that?

15 A. Yes.

16 Q. The TARP restrictions on compensation applied to
17 AIG; correct?

18 A. Correct.

19 Q. In addition to that, there were additional, more
20 stringent limitations on compensation at AIG than at
21 other TARP recipients; correct?

22 A. There was additional legislation. Something
23 occurred in the beginning of 2009 that put additional
24 restrictions on certain compensation.

25 Q. Certain compensation at AIG.

1 A. I don't recall that it was AIG-specific or whether
2 it was broader to other similarly situated.

3 Q. That's really my question. My question is
4 whether, as a result of the credit agreement or
5 otherwise, there were more stringent restrictions on
6 AIG's compensation than there were on other TARP
7 recipients.

8 A. I don't recall that it was at all related to the
9 credit facility. I recall that the first TARP injection
10 and then the second TARP came along with it, you know,
11 additional restrictions.

12 Q. So you don't recall any restriction on AIG
13 compensation that was different than the restrictions
14 provided in the TARP legislation; is that your
15 testimony?

16 A. I -- I don't recall. I remember there were lots
17 of conversations around compensation, and I don't know
18 how many of them were directly related to TARP and/or
19 not.

20 Q. All right. Let me ask you to look at
21 Plaintiffs' Trial Exhibit 387. It is in our book I
22 believe.

23 This is a document that counsel for the defendant
24 asked you about. It is Mr. Liddy's Hong Kong speech. Do
25 you recall that?

1 A. Yes.

2 Q. And you said that this had been reviewed because
3 you wanted to be sure it was accurate. Do you remember
4 that?

5 A. Yes.

6 Q. And counsel for defendant directed your attention
7 to the bottom of page 5 of the document?

8 A. Yes.

9 Q. And I'd like to direct your attention to the top
10 of page 6 and particularly the second sentence, where
11 Mr. Liddy says that the November 10 action "reflects a
12 profound understanding on the part of the fiscal and
13 monetary officials of the United States government that
14 AIG is too significant to counterparties around the world
15 to be allowed to fail."

16 Do you see that?

17 A. Yes, I do.

18 Q. And who were those counterparties around the world
19 to whom AIG was so significant that the government could
20 not allow AIG to fail?

21 A. This is Ed's speech, so I imagine he would be able
22 to describe that. I don't --

23 Q. But this was something that you reviewed to be
24 sure it was accurate; correct?

25 A. We didn't review everything, every word, and that

Starr International Company, Inc. v. USA

1 in fact didn't -- may not have been something we
2 reviewed. I don't know. I can guess who the
3 counterparties are.

4 Q. You certainly know who critical counterparties
5 were that would have been severely harmed if AIG had
6 failed; correct?

7 A. Yes.

8 Q. So let me ask you just for that knowledge without
9 asking you what Mr. Liddy may or may not have had in
10 mind.

11 Who were the significant United States
12 counterparties who would have been severely harmed if AIG
13 had been allowed to fail?

14 A. So it says "counterparties around the world," and
15 I would include in that --

16 Q. Could I ask you to answer my question.

17 MS. ACEVEDO: Excuse me, Your Honor. She is
18 answering his question. I think that's inappropriate.
19 He needn't take that tone with Ms. Dahlgren. Thank you.

20 THE COURT: All right. Thank you.

21 Go ahead.

22 THE WITNESS: So counterparties around the world,
23 I would include both --

24 THE COURT: That's not --

25 THE WITNESS: -- financial institutions --

1 THE COURT: That's not the question.

2 THE WITNESS: I'm sorry. What was the question?

3 THE COURT: The question had to do with
4 counterparties in the United States.

5 MR. BOIES: Yes, Your Honor.

6 THE WITNESS: So the range of counterparties and
7 customers in the United States would include, you know,
8 large financial institutions. It would include a lot of
9 nonfinancial institutions. It would include teacher
10 pension funds. It would include lots of retirement
11 funds, et cetera.

12 So that's I think what he was trying to convey
13 here is the significance.

14 BY MR. BOIES:

15 Q. My question --

16 A. I'm sorry.

17 Q. -- expressly asked you for your views unrelated to
18 what you thought Mr. Liddy meant because you told me --

19 A. Oh, I'm sorry.

20 Q. -- you couldn't tell what was in Mr. Liddy's mind,
21 and I accepted that. And then I said, so separate from
22 whatever Mr. Liddy may or may not have meant, I want to
23 have your understanding. Okay?

24 And you've testified that it was your
25 understanding that if AIG had been allowed to file for

1 bankruptcy, that would have had a severely damaging
2 effect on American counterparties; correct?

3 A. I don't think I used the word "American
4 counterparties," so there -- it would have had a damaging
5 effect on businesses in the U.S. and globally, including
6 those that do business with AIG, those that get insurance
7 from AIG, the teachers and others who get pensions from
8 AIG.

9 Q. Let me ask what I hope is a clear question, and if
10 it's not, let me know, and I'll rephrase it.

11 As you understand it, would an AIG bankruptcy
12 filing have had a severely damaging effect on
13 United States counterparties to AIG?

14 A. An AIG bankruptcy would have had damaging impact
15 on U.S. counterparties.

16 Q. What are some of the most significant U.S.
17 counterparties that would have been damaged by an AIG
18 bankruptcy filing, in your view?

19 MS. ACEVEDO: Your Honor, this has been asked and
20 answered. She just said what those were.

21 THE COURT: No, it hasn't.

22 THE WITNESS: So a range of financial institutions
23 had exposures to AIG, which they would not -- AIG would
24 not have been able to meet their obligations, and those
25 counterparties were financial institutions and in some

1 cases nonbank institutions as well.

2 THE COURT: I understood the question as wanting
3 names of entities. Isn't that what we're after here?

4 MR. BOIES: Yes, Your Honor.

5 THE WITNESS: Oh, you must be kidding me. I don't
6 know. Like I can go down and I can state Goldman Sachs,
7 JPMorgan Chase. It was a whole range of them. I can't
8 identify all of them.

9 THE COURT: So you don't know any of them?

10 THE WITNESS: Goldman was one.

11 THE COURT: Okay.

12 THE WITNESS: JPMorgan Chase was one.

13 THE COURT: Now we're getting somewhere.

14 MR. BOIES: Yes. Yes.

15 BY MR. BOIES:

16 Q. And Citi was one; correct?

17 A. I think so. Yes.

18 Q. And Morgan Stanley was one; correct?

19 A. I believe so. Yes.

20 Q. Let me ask you to look at Plaintiffs' Trial
21 Exhibit 112 that counsel for defendant asked you to look
22 at.

23 And these are the talking points that were
24 prepared for Mr. Liddy. And my question is really
25 perhaps a relatively small one.

1 But the cover e-mail says "attached are the final
2 talking points."

3 Do you see that?

4 A. Yes.

5 Q. Did these talking points go through drafts?

6 A. I would guess that they did if they're referred to
7 as final, but I don't -- I don't recall completely.

8 Q. Who had an opportunity to comment on the drafts?

9 A. I don't remember.

10 Q. Let me ask you to look at Plaintiffs' Trial
11 Exhibit 564. I think this was one of the loose ones.

12 Do you have it?

13 A. It must be up here somewhere.

14 Q. Yeah.

15 It has a cover that says "The Federal Bailout of
16 AIG, Hearing before the Committee on Oversight and
17 Government Reform"?

18 A. Oh, okay. 564?

19 Q. Yes.

20 A. Yes.

21 Q. And this was a document that was used to refresh
22 your recollection?

23 A. Yes.

24 Q. And counsel for the government directed your
25 attention to a portion of this in which the person who

1 was speaking said that on September 30, 2008, a number
2 of people presented various options for addressing the
3 liquidity and mark-to-market losses. Do you recall
4 that?

5 A. Yes.

6 MS. ACEVEDO: Your Honor, I actually did not
7 elicit testimony on the substance of the document for a
8 reason, which is that it's hearsay. It's an out-of-court
9 statement. I used it to refresh her recollection without
10 eliciting the substance on the record. And I just want
11 to have a standing objection to the fact that I think
12 that's an improper use of refresh recollection.

13 THE COURT: Mr. Boies?

14 MR. BOIES: I'm not introducing it for any
15 substantive purpose. That is, I'm not introducing it for
16 the truth of the matter asserted. I'm simply trying to
17 direct the witness' attention to what she used to refresh
18 her recollection.

19 MS. ACEVEDO: And he can do so as I did by
20 directing her to material and having her read it but not
21 eliciting substantive testimony with respect to it on the
22 record.

23 THE COURT: I don't know. Is there a question
24 pending right now? I'm not sure if there is or not.

25 MR. BOIES: There's not a question pending,

1 Your Honor.

2 THE COURT: So let's have a new question.

3 BY MR. BOIES:

4 Q. As you recall, there were a number of options that
5 were presented to the New York Fed and its financial
6 advisors on September 30, 2008; correct?

7 A. Yes.

8 Q. And those options included guarantees; correct?

9 A. I believe so.

10 Q. And they included guarantees of different kinds;
11 correct?

12 A. I believe so.

13 Q. And one of the options presented you've testified
14 was a special-purpose vehicle; correct?

15 A. Yes.

16 Q. And was the option that was presented on
17 September 30 an option that would have required AIG to
18 make any additional payment beyond the collateral that
19 had already been posted?

20 A. I don't recall.

21 Q. You do recall that ML III split the profits
22 two-thirds to the Fed and one-third to AIG.

23 A. Correct.

24 Q. Was the option that was presented on
25 September 30 an option that would have left all of the

1 profits with AIG?

2 A. I don't recall.

3 MR. BOIES: Your Honor, I pass the witness.

4 THE COURT: All right. Do you have any recross,
5 Ms. Acevedo?

6 MS. ACEVEDO: I do. Just a few minutes,
7 Your Honor.

8 THE COURT: Okay. This will be in your benefit to
9 finish before lunch, because if we take a lunch break,
10 you know what happens then.

11 THE WITNESS: I do.

12 THE COURT: All right. Let's go ahead then.

13 Can you do this in ten minutes?

14 MS. ACEVEDO: I will certainly try, Your Honor.
15 Yes.

16 THE COURT: All right.

17 - - - - -

18 RECROSS-EXAMINATION

19 BY MS. ACEVEDO:

20 Q. Good afternoon now, Ms. Dahlgren.

21 A. Good afternoon.

22 Q. If you could take a look at PTX 489.

23 A. Yes.

24 Q. What's the date of this document?

25 A. The memo looks like it's dated March 31, 2009.

1 And I can't read the cover sheet.

2 Q. And if I can direct you to page 7.

3 Mr. Boies asked you about some language at the
4 bottom of the page there with respect to whether AIG's
5 financial condition had deteriorated from September 22 to
6 November 10.

7 Do you see that?

8 A. Yes.

9 Q. Can you briefly describe for the Court the
10 assistance that the New York Fed provided to AIG in
11 October of 2008.

12 A. So in October, there were two things that AIG
13 participated in. One was, we set up a securities lending
14 facility which, you know, allowed AIG to give us
15 securities and us to give them cash so that they didn't
16 have to continue to borrow from the credit facility.

17 The second thing was that they ended up putting
18 several programs of their commercial paper into the
19 Commercial Paper Funding Facility, which again meant that
20 they didn't have to borrow on the credit facility and
21 could take advantage of this other facility.

22 Q. Do you agree with the statement by
23 Deloitte & Touche that AIG's financial condition had not
24 deteriorated during that time period?

25 A. I don't know what -- short of actually reading

1 what their analysis was, I don't know what they're
2 referring to in terms of AIG's financial condition. AIG
3 as of September 30 had a \$40 billion year-to-date loss.
4 Did something else happen between then and November 10?
5 Probably.

6 Q. And was Deloitte analyzing the potential
7 consequences of a rating downgrade?

8 A. I don't -- I don't know what they were doing here.
9 This is an accounting memo, so I don't know whether they
10 were talking about a downgrade or not.

11 Q. You can set that aside.

12 Now, you were asked about PTX 5011. Do you
13 recall that? It's this demonstrative that's on the chart
14 here?

15 A. Uh-huh.

16 Q. Okay. The chart says that AIG put up
17 \$37.8 billion.

18 Do you see that?

19 A. Yes.

20 Q. What was the source of those funds? Do you know?

21 A. Those were the CDOs -- those -- that's what --
22 that was the collateral that AIG had posted for the
23 exposure on the CDS.

24 Q. Okay. So the \$37.8 billion represented collateral
25 posted by AIG as required pursuant to its CDS contracts;

1 is that right?

2 A. Correct.

3 Q. And can you --

4 MR. BOIES: Objection. I think -- I know it was
5 entirely inadvertent, but the 37.8 is actually a
6 combination of 32.8, which is the posted collateral, and
7 the \$5 billion.

8 THE COURT: It was also a blatantly leading
9 question.

10 MS. ACEVEDO: Sorry, Your Honor.

11 THE COURT: Which, you know, we've had a few of
12 those, but --

13 MS. ACEVEDO: I'm trying to lead for the purpose
14 of -- I'm modest leading for the purpose of facilitating
15 the exam and getting it done in a timely fashion.

16 THE COURT: Well, that was more than modest, and I
17 really want this witness to testify and not you.

18 MS. ACEVEDO: Certainly. Of course.

19 THE COURT: Sure.

20 BY MS. ACEVEDO:

21 Q. Do you know what the source of the then
22 \$32.8 billion figure is, the source of the funds?

23 A. That was collateral that had already been posted
24 by AIG in response to calls on the -- relative to the CDS
25 contracts.

1 Q. And do you know where those funds came from,
2 whether they were borrowed funds or whether they were
3 funds that originated with AIG?

4 A. So they would have originated with AIG, and some
5 of that amount may have been amounts that were pulled
6 from the credit facility to meet the collateral calls.

7 Q. Let's take a look in your binder at PTX 515 or I
8 guess -- whoops, it may not be in your -- it should be
9 in your binder. No? It may have been -- I'm sorry. It
10 may have been one of the ones that was handed out. It
11 was. I'm sorry. It was a document that was handed out.

12 A. Yes.

13 Q. Okay. You were asked some questions about this
14 document?

15 A. Yes.

16 Q. I'm going to direct you to the page that you were
17 asked about, if I can find it here.

18 THE COURT: Page 61.

19 MS. ACEVEDO: Yes. Thank you, Your Honor.

20 BY MS. ACEVEDO:

21 Q. Before we focus on this document, when were the
22 trustees put in place?

23 A. The trust was early January, so it was sometime
24 shortly thereafter.

25 Q. And when were the shares issued to the trust?

1 A. In March of 2009.

2 Q. And Mr. Boies asked you about a reference on
3 page 61 with respect to a meeting that you and
4 Tom Baxter had relating to the composition of board of
5 directors.

6 Do you see that?

7 A. Yes.

8 Q. When was that meeting?

9 A. It says March 27, 2009.

10 Q. You can set that aside.

11 If you can turn to PTX 441 in your binder, just
12 for ease of reference. This is also DX 754.

13 A. Oh, okay.

14 Q. Mr. Boies asked you about discussions that are
15 identified between 2:00 and 4:00 there -- do you see
16 that -- on corporate governance issues?

17 A. Yes.

18 Q. Why did you have those discussions with the
19 trustees?

20 A. So one of the things that, you know, I had spent
21 my time on was considering the corporate governance at
22 the company. That was part of the credit agreement, and
23 that's why I sat in on board meetings.

24 And so this would have been filling them in on my
25 observations about how the board was functioning, how the

1 board was functioning relative to senior management, and
2 sharing with them any concerns I had at this point in
3 time about how things were working within the company,
4 including thinking through the challenges ahead for the
5 company and what time -- what type of corporate
6 governance we would expect to see.

7 Q. Now, did the New York Fed ever ask any of AIG's
8 directors to resign?

9 A. Not to my knowledge.

10 Q. You were asked about AIG and its potential --
11 potential consequences associated with bankruptcy. Do
12 you recall that?

13 A. Yes.

14 Q. Did AIG ever communicate to you its thoughts as to
15 what would have happened, how a bankruptcy might have
16 unfolded?

17 A. Yes.

18 Q. What did they say?

19 MR. BOIES: I'm going to object on hearsay
20 grounds, Your Honor.

21 THE COURT: Ms. Acevedo, I think that's right. I
22 think we'll sustain the objection.

23 MS. ACEVEDO: I'll move on.

24 BY MS. ACEVEDO:

25 Q. You were asked a lot about ML III. Do you recall

1 that?

2 A. (Witness nodding.)

3 Q. Again, what was your involvement, if any, in the
4 ML III transaction?

5 A. So my involvement was, as part of the team,
6 leading up to November, working through solutions. I was
7 involved in various conversations about ML III. But as
8 we approached the actual November restructuring, we had a
9 team who was responsible for making sure that everything
10 got done that needed to get done, including the
11 counterparty negotiations, and so at some point they were
12 really mostly focused on that, and I was focused on other
13 pieces of what needed to get done.

14 Q. Once the CDOs were moved to ML III, once the
15 structure was completed, what was AIG's risk of loss
16 associated with those CDOs?

17 A. So what Maiden Lane III did was remove the future
18 risk from AIG absent the equity investment, so they still
19 had a little bit of risk relative to the new equity that
20 they put into Maiden Lane III. But beyond that, that
21 was the limit of their future exposure to those
22 securities.

23 Q. Please turn in plaintiffs' binder to PTX 462.

24 There was a great deal of discussion about
25 tranche names and CUSIP numbers, so let's back up for a

1 moment.

2 Could you tell the Court what a tranche name is.

3 A. Securities have different levels in them, and they
4 come in tranches, and so that's what the tranche names
5 are, different tranches of a single security.

6 Q. What is the relationship, if any, between a
7 tranche name and the name of the counterparty associated
8 with the security?

9 A. So the tranche names -- the way the documents
10 work, the tranche names would be part of a single
11 security that would have the counterparty related to
12 them.

13 Q. How about CUSIPs? What's a CUSIP?

14 A. A CUSIP is an identifying number for different
15 tranches.

16 Q. And when you were asked about this document, you
17 mentioned that it was -- there was a belief that
18 revealing CUSIPs and tranche names would have been
19 detrimental. Do you recall that?

20 A. Yes.

21 Q. Why was that? Why was there that belief that
22 revealing those tranche names and CUSIP numbers would
23 have been detrimental?

24 A. So the securities were owned by Maiden Lane III,
25 and revealing that level of detail about what was owned

1 in Maiden Lane III would have, it was believed, impaired
2 the ability of the Maiden Lane III people who were
3 responsible for managing that, would have impaired their
4 ability to eventually sell the securities by releasing
5 that much information into the market.

6 Q. And you were also asked about the ML III tear-ups.
7 Do you recall that?

8 A. Yes.

9 Q. Did AIG attempt to negotiate counterparty
10 tear-ups?

11 A. Yes. Through the fall and, you know, late
12 September and October into -- leading up into the
13 November restructuring, AIG continued to try to get
14 concessions from counterparties to tear up the
15 transactions, and they, you know, worked hard to do that
16 through the fall.

17 Q. And you say "through the fall."

18 Do you know when AIG began attempting to negotiate
19 those tear-ups?

20 A. I don't know the beginning point. I can't imagine
21 that they hadn't started before the September 16 time
22 frame. I just simply don't know. But certainly as we
23 were understanding FP, they were doing it as we -- as we
24 became familiar with the company, so at the beginning of
25 our interaction with AIG.

1 Q. And do you know why AIG was not successful in
2 negotiating those tear-ups?

3 A. I think a couple of things. One is that the
4 counterparties had no incentives to do -- to actually
5 tear up because they knew that the, you know,
6 Federal Reserve facility was standing behind and would be
7 there to provide whatever incentives that the
8 counterparties wanted, so the counterparties didn't have
9 incentive to actually tear up because AIG's threat to
10 default on it wouldn't -- wasn't actually a valid threat
11 in their eyes.

12 And I think that's, you know, substantively --
13 they just couldn't get the counterparties to move.

14 Q. And finally, you were asked some questions with
15 respect to the amount that AIG borrowed. And we talked
16 earlier today about several different types of
17 assistance, financial assistance, that AIG received from
18 the government, first in September with the credit
19 facility, then in October just now you mentioned the CPFF
20 and the secured borrowings facility, the November
21 restructuring and the March restructuring. Do you recall
22 that?

23 A. Yes.

24 Q. What was the total amount of relief that was
25 provided to AIG?

1 A. I think the number eventually came \$185 billion
2 all in total between Treasury and the Fed actions.

3 MS. ACEVEDO: May I have a moment, Your Honor?

4 THE COURT: Sure.

5 (Pause in the proceedings.)

6 MS. ACEVEDO: I have no further questions,
7 Your Honor.

8 THE COURT: All right. Ms. Dahlgren, we've
9 reached the end. Thank you very much for your testimony
10 in this matter. You are excused.

11 THE WITNESS: Thank you.

12 THE COURT: We'll take a lunch break and we will
13 reconvene at 2:00 p.m.

14 (Whereupon, at 12:59 p.m., a lunch recess was
15 taken.)

16

17

18

19

20

21

22

23

24

25

1 THE COURT: Okay. The plaintiff has not met with
2 him to prepare for this testimony?

3 MR. BOIES: We've not met with him to prepare for
4 his deposition or for his testimony here either.

5 THE COURT: Mr. Todor?

6 MR. TODOR: Your Honor, we believe that Mr. Liddy
7 should be regarded as a neutral witness and not adverse
8 to either side. He was the CEO of AIG, which is not
9 adverse to either party. He was confirmed by the board.
10 Mr. Liddy has his own counsel from Weil Gotshal.

11 It is also our understanding that Mr. Liddy's counsel
12 offered to plaintiffs' counsel as well as to counsel for
13 the defense the opportunity to meet with Mr. Liddy prior
14 to his testimony. I don't know whether plaintiffs'
15 counsel took Mr. Liddy's counsel up on the offer or not,
16 but in any event, Mr. Liddy is a neutral witness from our
17 perspective.

18 THE COURT: Did you all meet with him to help him
19 review documents and prepare his testimony?

20 MR. TODOR: We did, Your Honor.

21 THE COURT: Well, I think the best approach is to
22 have the plaintiff establish that he's adverse if it's
23 not otherwise apparent or absent an agreement of the
24 parties, so we'll take it a little bit at a time.

25 MR. BOIES: I agree, Your Honor.

1 THE COURT: All right. Let's go. He can come in
2 now.

3 MR. BOIES: While he's coming in, may I hand up to
4 the Court the volumes, and I apologize for its heft.

5 THE COURT: Thank you.

6 Please come forward, sir.

7 THE WITNESS: Where would you like me?

8 - - - - -

9 Whereupon --

10 EDWARD LIDDY

11 a witness, called for examination, having been first duly
12 sworn, was examined and testified as follows:

13 DIRECT EXAMINATION

14 BY MR. BOIES:

15 Q. Good afternoon, Mr. Liddy.

16 A. Mr. Boies.

17 Q. We met at your deposition; correct?

18 A. Correct.

19 Q. And other than at your deposition, we have not
20 otherwise met or spoken; correct?

21 A. Correct.

22 Q. What did you do to prepare for this trial
23 testimony?

24 A. I reviewed my deposition. I spent time with my
25 lawyers. The government joined us at some point in time

1 and had me review a few documents. And I think we
2 extended an offer I would do the same thing with you all,
3 but I don't think we did that.

4 Q. And who do you think extended that offer?

5 A. I don't know. I just relied upon my counsel to do
6 that, so I don't know who within the firm would have done
7 it.

8 Q. Did your counsel tell you that such an offer had
9 been extended?

10 A. I believe so. Yes.

11 Q. Who at your counsel told you that?

12 A. Rob Carangelo, my attorney.

13 Q. How many times did you meet with counsel to
14 prepare for this testimony?

15 A. I spent time with them yesterday, and I've
16 been and waiting today to take the stand, and then in
17 addition to that, in Chicago about maybe three months
18 ago.

19 Q. And at what meeting or meetings were
20 representatives of the defendant present?

21 A. Representatives of what?

22 Q. The defendant.

23 THE COURT: The United States.

24 THE WITNESS: Yes. Yes.

25 The government attorneys joined us yesterday for a

1 portion of the meeting, at the end of the meeting, and
2 similarly in Chicago.

3 BY MR. BOIES:

4 Q. And they were also present in Chicago?

5 A. They were.

6 Q. When you took the position as chairman and CEO of
7 AIG in 2008, you viewed your position as a public
8 service; correct, sir?

9 A. No. I viewed my position as the chairman and CEO
10 of a public company by the name of AIG.

11 Q. Did you take that position because you felt the
12 need to help your country?

13 A. I took that position for a number of reasons. I
14 believed I could help AIG out of what was a very
15 difficult situation. I believed I could help resolve the
16 difficult situation that the capital markets and
17 liquidity around the world were, and I thought I could
18 help the economy and help the country. All of the above.

19 Q. When you were first asked to consider becoming CEO
20 of AIG, you were asked whether you would be willing to
21 help the United States and become the leader of AIG;
22 correct, sir?

23 A. It was one portion of what was a longer ask.

24 Q. Let me ask you to look at your deposition, the
25 first volume.

1 You have up at the witness stand three tabs in
2 your deposition binder. The first two tabs represent
3 days that you were deposed in this litigation. The third
4 tab represents a deposition that you gave in what is
5 referred to as the Brookfield litigation.

6 A. Sorry, Mr. Boies. So I have two books in front of
7 me. One is witness binder. The other is deposition
8 transcript. You want me to go to the deposition
9 transcript?

10 Q. I do. And I want you to understand that in the
11 deposition transcript binder you have three tabs, one for
12 the first day of your deposition in this case, one for
13 your second day of deposition in this case, and one for
14 your deposition in the Brookfield case.

15 A. I understand.

16 Q. And you recall being deposed two days in this
17 case?

18 A. I do.

19 Q. And you recall being deposed in the Brookfield
20 case?

21 A. I do.

22 Q. Let me turn your attention to page 8 of your
23 deposition, the first day in this case.

24 A. I have page 8.

25 Q. And you see at the bottom you're asked who first

1 contacted you, and you said you were contacted first by a
2 gentleman by the name of Mr. Chris Cole.

3 Do you see that?

4 A. I do.

5 Q. And now I direct your attention to
6 page 9 beginning at line 1:

7 "QUESTION: And what did Mr. Cole tell you at that
8 time?

9 "ANSWER: He said that after the weekend failure
10 of -- bankruptcy of Lehman Brothers, there were a number
11 of large financial institutions that were in trouble.
12 The government was being very selective in who they
13 extended help to.

14 "They were considering making an investment in AIG
15 to keep it afloat. As part of that investment, they were
16 going to make a change in the management. They wanted
17 somebody who understood both insurance and the complex
18 world of financial markets and capital markets. Would I
19 be willing to help the United States and become the
20 leader of AIG."

21 You gave that testimony under oath; correct, sir?

22 A. I did.

23 Q. And you meant it to be truthful and complete and
24 accurate testimony in response to my question at that
25 time, did you not?

1 A. Yes.

2 Mr. Boies, I just want to -- I'm sorry. What I'm
3 struggling with is how you get from there to the public
4 servant concept.

5 Q. Do you recall the last question I asked you, sir,
6 and the thing that led us to this was I asked you
7 whether you had taken this job at AIG to help your
8 country?

9 A. Yes.

10 Q. That's how we got to this.

11 Now, let me ask you to look next at Plaintiffs'
12 Trial Exhibit 471, which I would offer.

13 A. We're going by page numbers? Oh, you're in the
14 other book.

15 THE COURT: I think we're in the other book right
16 now and you should look for the tab that indicates
17 Plaintiffs' Trial Exhibit 471. I'm sure you'll become
18 accustomed to this before too long.

19 THE WITNESS: Yes, I have it.

20 MR. TODOR: Your Honor, we object on the grounds
21 of hearsay. Mr. Liddy was not a government official when
22 he was testifying, and therefore, it does not qualify
23 under 801(d)(2)(A) and the testimony is otherwise
24 hearsay.

25 THE COURT: Mr. Boies?

1 MR. BOIES: I'm simply directing his attention to
2 his own testimony, Your Honor, and I would limit the
3 offer to his own testimony.

4 MR. TODOR: Your Honor, may I be heard in
5 response?

6 THE COURT: Sure.

7 MR. TODOR: There is no question pending as to
8 what Mr. Liddy's testimony is and no basis for him to be
9 impeached with this for use as a prior inconsistent
10 statement. Without any such foundation, this is simply
11 hearsay, and any questions about what he said at some
12 earlier point in time are simply asking him about hearsay
13 at this point.

14 THE COURT: Well, I'm going to allow both sides
15 the opportunity to ask this witness about statements that
16 he made at some time in the past. The events, as you
17 know, are six -- five or six years old, and I think it's
18 a fair approach to how we're going to proceed here.

19 So I will overrule the objection.

20 MR. TODOR: Thank you, Your Honor.

21 MR. BOIES: And is, Your Honor, Plaintiffs' Trial
22 Exhibit 471 admitted for that limited purpose?

23 THE COURT: Yes. I'm sorry.

24 Plaintiffs' Trial Exhibit 471 is admitted for the
25 limited purpose of examining the witness about his own

1 statements.

2 (Plaintiffs' Exhibit Number 471 was admitted into
3 evidence.)

4 BY MR. BOIES:

5 Q. Mr. Liddy, let me ask you to look at page 61 of
6 this exhibit. The page numbers are at the bottom of the
7 page. When you have it, please let me know.

8 A. I have it.

9 Q. Do you see the second paragraph of your statement,
10 where you say, "My name is Edward Liddy. Six months ago,
11 I came out of retirement to help my country. At the
12 government's request, I have had the duty and the
13 extraordinary challenge of serving as chairman and chief
14 executive officer of American International Group or
15 AIG"?

16 Do you see that?

17 A. I do.

18 Q. And that was your statement to Congress?

19 A. It was.

20 Q. And this was given March 18, 2009; correct?

21 A. It was.

22 Q. While you were chairman and chief executive
23 officer of AIG, you worked closely with people from the
24 Federal Reserve and Treasury; is that correct?

25 A. Yes, it is.

1 Q. Representatives of the New York Fed and the
2 Treasury had their advisors engage with various AIG
3 officers every day; correct?

4 A. They were -- they were heavily involved after --
5 after the credit agreement was taken and \$85 billion was
6 extended, the Federal Reserve and Treasury were heavily
7 involved.

8 Q. And you viewed the Fed and Treasury as AIG's
9 partners; correct?

10 A. I did.

11 Q. And you didn't do anything without reviewing it
12 with the Federal Reserve and Treasury; correct?

13 A. I could have, Mr. Boies. I just chose not to. I
14 thought having them as partners and having them
15 understand AIG, developing a trust and a relationship
16 with me would accrue to the benefit of AIG, which it
17 did.

18 MR. BOIES: Your Honor, could I ask the Court to
19 ask the witness to the extent he can to answer my
20 questions directly.

21 THE COURT: Yes. We're off to a good start I
22 think, but in the course of Mr. Boies' examination and
23 indeed that of the government as well, it's important to
24 listen carefully to the question that's being asked of
25 you and to provide a responsive answer to the best of

1 your ability.

2 As you probably know from other judicial
3 proceedings or perhaps not, but I'm going to tell you,
4 this is not an opportunity for you to expound on subjects
5 that may come into your mind. The point is to have
6 counsel ask questions and for you to answer that
7 question.

8 THE WITNESS: Yes, Your Honor.

9 THE COURT: Okay.

10 BY MR. BOIES:

11 Q. You didn't do anything without reviewing it with
12 the Federal Reserve and Treasury while you were CEO and
13 chairman of AIG; correct, sir?

14 A. In general, that is true.

15 Q. And the Federal Reserve was at your board
16 meetings; correct?

17 A. For a portion of our board meetings, yes.

18 Q. At your compensation committee meetings; correct?

19 A. Yes.

20 Q. At various meetings on strategy; correct?

21 A. Yes.

22 Q. And they had the ability to weigh in either yea or
23 nay on anything that you decided; correct?

24 A. Yes.

25 Q. And not only were they present at your board

1 meetings, but they were a significant participant at your
2 board meetings and in other significant meetings in terms
3 of reviewing policy; correct?

4 A. In some meetings, yes.

5 Q. Let me ask you to look at Plaintiffs' Trial
6 Exhibit 471.

7 And this is a hearing on March 18, 2009.

8 Do you see that?

9 A. I do.

10 Q. And we referred to this I think just a little
11 while ago. I'd now like to direct your attention to
12 page 75.

13 And near the bottom of the page, maybe about a
14 third of the way up, there's a question by Mr. Castle.

15 Do you see that? Where he says, "And the
16 Federal Reserve has been a participant"?

17 A. You're on page 75.

18 Q. Yes.

19 A. Of 471 and a question by Mr. Castle? I'm sorry.
20 Is that what you said?

21 Q. Twenty-one lines from the bottom of the page.

22 A. Okay.

23 Q. Do you see where Mr. Castle says, "And the
24 Federal Reserve has been a participant at your board
25 meetings"? Do you see that?

1 A. Yes.

2 Q. And he says, "I'm not sure they have a vote, but
3 they have been a participant at your board meetings and
4 in other significant meetings in terms of reviewing
5 policy since that time in October?"

6 And you answered, "Yes. Absolutely yes. And it
7 goes well beyond that. It goes to participation in all
8 the things that lead up to board meetings or committee
9 meetings."

10 Do you see that?

11 A. Yes.

12 Q. And that was truthful, accurate and complete
13 testimony at the time you gave it to Congress; correct,
14 sir?

15 A. Yes, it was.

16 Q. And while you were chief executive officer and
17 chairman of AIG, you did not do a single thing of
18 strategic import without making certain that you had
19 talked to the Federal Reserve about it and given them an
20 opportunity to weigh in on it; correct?

21 MR. TODOR: Objection, Your Honor. Leading.

22 THE COURT: Overruled. I'm going to allow leading
23 questions.

24 MR. TODOR: Thank you, Your Honor.

25 THE WITNESS: Yes.

1 BY MR. BOIES:

2 Q. Leaving compensation and the payment of bonuses
3 aside --

4 THE COURT: Excuse me. I'm not sure the
5 court reporter got the answer to the last question.

6 Oh, yes, I see it. I'm sorry. There was a slight
7 delay there, but I see the answer. I'm sorry to
8 interrupt. Go ahead.

9 MR. BOIES: Thank you, Your Honor.

10 BY MR. BOIES:

11 Q. Leaving the payment of bonuses aside, were there
12 any instances in which AIG advised the government that it
13 planned to do something, the government objected, and AIG
14 went ahead and did it anyway?

15 A. Yes.

16 Q. When did you first recall such instances?

17 A. I suppose the first one that I can recall sitting
18 here would have been the elevation of and the title of
19 chief financial officer being given to David Herzog to
20 replace Mr. Steven Bensinger.

21 Q. Can you think of any other instances in which the
22 AIG advised the government that it planned to do
23 something, the government objected, and AIG went ahead
24 and did it anyway?

25 A. The continued service of board members, the --

1 Morris Offit was an outstanding board member. I very
2 much wanted him to continue on. I don't know that that
3 was consistent with the government's point of view. I
4 don't think it was.

5 Q. Okay. So the government told you they wanted to
6 remove Morris Offit as a director; is that what you're
7 saying?

8 A. Well, at some point in time in the process, the
9 government wanted to bring in new directors and remove
10 some of the old ones. One of those that they thought
11 should not continue to serve was Morris Offit. I
12 disagreed with that.

13 Q. When did the government tell you that they wanted
14 to replace some of the existing directors with new
15 directors?

16 A. Oh, I believe those discussions started around
17 the time that proxy statements are prepared, so
18 February-ish.

19 Q. That would have been February of 2009, according
20 to your testimony?

21 A. Correct.

22 Q. Is it your testimony that prior to February of
23 2009 you had not had any conversations with the
24 government about replacing members of the AIG board?

25 A. No.

1 MR. TODOR: Objection. Vague. To the term
2 "government" in this context.

3 THE COURT: Do you want to clarify, Mr. Boies?

4 MR. BOIES: The witness used the word "government"
5 several times, and I was simply trying to use his
6 terminology.

7 THE COURT: I think that's fair. I'm overruling.
8 If he doesn't understand, he can say so.

9 MR. TODOR: Thank you, Your Honor.

10 BY MR. BOIES:

11 Q. When was the first time that the government -- and
12 if there are particular parts of the government that did
13 this, tell me -- first informed you that they wanted to
14 replace certain members of the board?

15 A. I don't remember the exact timing, Mr. Boies. It
16 probably commenced in -- early in the process, but it
17 gained more intensity and more seriousness in that
18 February-ish time frame.

19 Q. As best you can recall as you sit here now, when
20 was the first time that the government told you that the
21 government wanted to replace AIG directors?

22 A. I simply do not remember.

23 Q. Was it in September of 2008?

24 A. I don't remember if it was -- there was so much
25 going on then and so many conversations, I simply don't

1 have a recollection of it.

2 Q. Was it in October of 2008?

3 A. I don't remember.

4 Q. Do you recall meeting with Sarah Dahlgren about
5 replacing members of the AIG board of directors?

6 A. Yes. Over time Sarah and I would have had several
7 conversations about that.

8 Q. And do you recall having conversations with
9 Sarah Dahlgren about replacing members of the AIG board
10 of directors in October of 2008?

11 A. I don't remember the exact timing, Mr. Boies.

12 Q. Let me go back now to my question.

13 I'd asked you for any instances other than bonuses
14 where AIG advised the government that it planned to do
15 something, the government objected, and AIG went ahead
16 and did it anyway, and you gave me the example of giving
17 Mr. Bensinger the CFO title and continuing Morris Offit
18 on the board.

19 Are there any other examples?

20 A. Mr. Boies, the first answer I gave you was giving
21 Mr. Herzog the position and title of CFO, replacing
22 Mr. Bensinger. I'm sure there were more. If I sat here
23 and thought about them, I'm sure we could come up with
24 more, but...

25 Q. Do you have any more that you have in your mind as

1 you sit here now?

2 A. I don't.

3 Q. Now, the two examples that you've given me of
4 giving the CFO title to Mr. Herzog and permitting
5 Mr. Offit to continue to serve on the board, when did
6 you first recall that those two things had happened?

7 Is that something that came out of your
8 preparation with counsel for this trial testimony?

9 A. I don't remember whether it was part of my
10 original deposition or part of the preparation for this.
11 I just don't remember, Mr. Boies.

12 Q. Let me ask you to look at page 360 of your
13 deposition.

14 A. Which section are we in?

15 Q. The very first day.

16 When you have it, please let me know.

17 A. Yes.

18 Q. Beginning at line 5:

19 "QUESTION: My question is very simple. Were
20 there any instances in which AIG advised the government
21 that it planned to do something, the government objected,
22 and AIG went ahead and did it anyway?

23 "ANSWER: I put the payment of bonuses in that
24 category.

25 "QUESTION: I'll come back to the payment of

1 bonuses. Anything other than the payment of bonuses?

2 "ANSWER: Not that I can recall."

3 Do you see that?

4 A. I do.

5 Q. And that was testimony that was as truthful,
6 complete and accurate as you could give it at the time of
7 your deposition; correct?

8 A. It was at that time, yes.

9 Q. While you were chairman and chief executive
10 officer of AIG, you weighed every decision that you made
11 with one priority in mind, will this action help your
12 ability to repay monies back to the government or hurt
13 it; correct, sir?

14 A. Yes.

15 Q. When you joined AIG, you believed that AIG was
16 solvent but had a severe liquidity problem or faced an
17 acute liquidity crisis; correct?

18 A. I wasn't entirely sure what AIG's position was. I
19 didn't have current information. I assumed it was -- it
20 was solvent. There had been no declaration of
21 bankruptcy, but it was in serious jeopardy.

22 Q. After you'd been there for a while, did you come
23 to the conclusion that in September of 2008 AIG was
24 solvent but suddenly faced an acute liquidity crisis?

25 A. I -- I concluded it needed substantial funding

1 from some source to remain solvent.

2 Q. Let me ask you to look at Plaintiffs' Trial
3 Exhibit 2109, which I would offer.

4 A. Would you give me the number again, please,
5 Mr. Boies.

6 Q. 2109.

7 A. Yes.

8 MR. TODOR: Your Honor, there's been no
9 foundation laid with the witness thus far, but from what
10 the document is captioned, it appears to be a transcript
11 of something said at an AIG shareholder meeting and as
12 such is hearsay. And therefore, we object for that
13 reason.

14 THE COURT: Overruled. I'm going to allow the
15 exhibit.

16 Plaintiffs' Trial Exhibit 2109 is admitted.

17 (Plaintiffs' Exhibit Number 2109 was admitted into
18 evidence.)

19 BY MR. BOIES:

20 Q. And this is in fact from the annual meeting of
21 shareholders on Tuesday, June 30, 2009 at 10:00 a.m.;
22 correct, sir?

23 A. I have no reason to doubt that.

24 Q. Let me ask you to look at page 4, and from
25 page 3 you can see that this is a statement by you;

1 correct?

2 A. Yes.

3 Q. And the second full paragraph here is a paragraph
4 in which you state, "It is important to note that,
5 throughout this crisis and right up to today, our
6 principal insurance businesses have been fundamentally
7 strong (sic). Nevertheless, the continued valuation
8 losses in our credit default swap portfolio and
9 securities lending operations resulted in a reduction in
10 AIG's bond rating in September, just after the collapse
11 of Lehman -- a time when credit markets were locked up.
12 That downgrade triggered additional collateral calls and
13 cash requirements of more than \$20 billion. Although
14 solvent, AIG suddenly faced an acute liquidity crisis."

15 Do you see that?

16 MR. TODOR: Objection, Your Honor. Misstates the
17 document. Counsel read that the businesses have been
18 fundamentally strong. The document says "fundamentally
19 sound."

20 THE COURT: I think you're right about that, so we
21 can amend the statement to include that correction.

22 MR. TODOR: Thank you, Your Honor.

23 MR. BOIES: I apologize. I misread that,
24 Your Honor.

25 THE WITNESS: So I'm sorry, Mr. Boies. What was

1 your question?

2 BY MR. BOIES:

3 Q. Without reading this again into the record --

4 A. No. I agree.

5 Q. -- the second full paragraph that I just read,
6 that was a statement that you made in June of 2009, and
7 at that time you believed that that was as truthful,
8 complete and accurate as you could make it; correct?

9 A. I do, but I would also read it in conjunction with
10 the next sentence, "the U.S. government stepped in to
11 prevent an uncontrolled failure of AIG."

12 Q. It says, "After we failed" -- I think that's
13 fair. After -- you then go on to say, "After we failed
14 to achieve a private equity solution, the United States
15 government stepped in to prevent an uncontrolled failure
16 of AIG and a certain global financial calamity";
17 correct?

18 A. Correct.

19 Q. And that, too, was something that you believed was
20 truthful and accurate and complete at the time that you
21 made it; correct?

22 A. It was. I'm just -- I'm just trying to be
23 responsive and helpful.

24 So prior to September 16, I think the world
25 believed AIG was -- was solvent. After September 16,

1 there were real questions about it. And it was the
2 government loan which kept it solvent.

3 Q. Now, sir, you don't say anywhere in what we've
4 just talked about AIG not being solvent, do you?

5 A. No. The uncontrolled failure of AIG would be
6 tantamount to being insolvent.

7 Q. If you have a company that's solvent, but it is
8 totally illiquid, that could lead to the failure of the
9 company; correct?

10 A. Correct.

11 Q. And is it your testimony when you said, "Although
12 solvent, AIG suddenly faced an acute liquidity crisis,"
13 you were talking about AIG prior to September 16 but not
14 on September 16? Is that your testimony?

15 A. My testimony is that AIG's assets exceeded its
16 liabilities, so under one definition of bankrupt, it was
17 not. From the standpoint of being able to pay its
18 bills, it was able to do that until September 16, when
19 the company realized it lacked sufficient cash to pay
20 the bills that were due, and that, if that situation
21 wasn't corrected, it would have led to an uncontrolled
22 failure.

23 Q. Throughout the time that you were chief executive
24 officer and chairman of AIG, you believed that AIG always
25 had sufficient assets to repay what it owed the

1 Federal Reserve; correct?

2 A. Mr. Boies, there were times when I worried about
3 that greatly, but on balance, I generally concluded, if
4 we stuck with the plan that we had, the answer to your
5 question would be yes. And if we were able to execute
6 it.

7 Q. Was there ever a time when you believed it might
8 be necessary for AIG to sell all of its businesses in
9 order to repay the government?

10 A. No. I don't believe I ever -- I don't believe I
11 ever reached that conclusion. I didn't think the
12 situation got that desperate.

13 Q. So you believed that even without selling all of
14 your businesses that you would be able to have
15 sufficient assets to repay what was owed the government;
16 correct?

17 A. Mr. Boies, it is correct. And again, I don't want
18 to be argumentative. What I worried about was, the
19 marketplace was in turmoil, so the value of assets
20 continued to decline, and I worried greatly about would
21 we get to a point where we couldn't get sufficient value
22 for assets that had to be sold to repay the government.

23 Q. Let me ask you to turn to your deposition in the
24 Brookfield case to page 45. When you have it, let me
25 know.

1 A. I have it.

2 Q. Line 19:

3 "QUESTION: --

4 THE COURT: What page?

5 MR. BOIES: Page 45, Your Honor.

6 This is the Brookfield deposition.

7 THE COURT: Correct.

8 BY MR. BOIES:

9 Q. "QUESTION: Was there ever a time when you
10 believed it might be necessary for AIG to sell all of its
11 businesses in order to repay the government?

12 "ANSWER: I don't believe so. The question covers
13 a long period of time, and the worst of the financial
14 markets wasn't until the end of 2008 and the first couple
15 of months of 2009. We always had, even -- I believe even
16 under those -- even on the worst of times, we always had
17 sufficient assets to repay our debt. The question was
18 would we have enough to take care of the equity portions
19 that the Federal Reserve might take or the
20 Treasury Department might take."

21 Do you see that?

22 A. I do.

23 Q. And at the time you gave that testimony --

24 MR. TODOR: Objection. Improper impeachment.

25 The testimony counsel has not established is

1 inconsistent with the witness' response to counsel's
2 initial question.

3 THE COURT: Overruled. I think that it did.

4 MR. TODOR: Thank you, Your Honor.

5 BY MR. BOIES:

6 Q. And the testimony that you gave that I've just
7 quoted was testimony that at the time you gave it you
8 believed was as truthful, accurate and complete as you
9 could make it at the time; correct?

10 A. It was.

11 Mr. Boies -- and Your Honor, I'm sorry. I don't
12 mean to frustrate the Court.

13 I don't think we ever reached a point in time
14 where the assets weren't greater than the liabilities.
15 What I worried about was the potential for that to occur
16 because asset values were dropping so quickly.

17 So we never got there, thank God, we never got
18 there. But I worried about what we would do if we did
19 get there because asset values were so -- so soft and so
20 difficult to ascertain.

21 Q. And that particular view you did not express in
22 response to questions at your deposition in the
23 Brookfield case; correct, sir?

24 A. I did not.

25 Q. Let me turn to how you got recruited for the

1 position.

2 You said earlier or I quoted a portion of your
3 deposition earlier where you said that the first contact
4 to you about recruiting you for the position came from
5 Mr. Cole. Do you recall that?

6 A. I do.

7 Q. And Mr. Cole called you at your home in Illinois;
8 correct?

9 A. Correct.

10 Q. And he called you the morning of September 16,
11 around 9:00 or 10:00 in the morning; correct?

12 A. Correct.

13 Q. Mr. Cole at that time was somebody that you knew;
14 correct?

15 A. Yes. I had known him for twenty-plus years.

16 Q. And he was chairman of the Investment Banking
17 Division of Goldman Sachs; correct?

18 A. I'm not sure if he was chairman or vice chairman.

19 Q. Didn't he become chairman of the
20 Investment Banking Division of Goldman Sachs while you
21 were a member of the Goldman Sachs board?

22 A. I just don't remember.

23 Q. You were a member of the Goldman Sachs board from
24 beginning in what year, sir?

25 A. Middle of 2003 I believe.

1 Q. And Mr. Cole became chairman of the
2 Investment Banking Division of Goldman Sachs in 2004;
3 correct, sir?

4 A. I don't remember. He had a rising-star career at
5 Goldman Sachs, so I just don't remember at what position
6 on that zenith he was when this all occurred.

7 Q. Purely for purposes of refreshing your
8 recollection, let me ask you to look at Plaintiffs' Trial
9 Exhibit 2809, which is a news article, and I do not offer
10 it, but I ask you just to look at the first sentence
11 under Background where it describes Mr. Cole's position
12 since December 2004.

13 Do you see that?

14 A. I do.

15 Q. Does that refresh your recollection that Mr. Cole
16 became chairman of investment banking for Goldman Sachs
17 in December of 2004?

18 A. That's definitely what this says.

19 Q. And that was while you were on the board of
20 Goldman Sachs; correct?

21 A. It was.

22 Q. Were you chairman of the Goldman Sachs audit
23 committee at that time?

24 A. What's the date of "that time"?

25 Q. December of 2004.

1 A. I was not.

2 Q. When did you become chairman of the Goldman Sachs
3 audit committee?

4 A. May or June of 2007.

5 Q. Did you think that there was anything unusual or
6 strange about having the chairman of the
7 Investment Banking Division of Goldman Sachs be the first
8 person to call you to ask you if you would become CEO of
9 AIG?

10 A. I did not. I'd known Chris for twenty years. I
11 presumed that what Treasury Secretary Paulson wanted to
12 do is have someone make the initial contact that I knew
13 well.

14 Q. And how did Mr. Paulson know Mr. Cole?

15 A. Mr. Paulson spent his entire career prior to the
16 appointment of the role as secretary of Treasury at
17 Goldman Sachs in one position or another.

18 Q. After your initial conversation with Mr. Cole --
19 in that connection, let me ask you, what did you say to
20 Mr. Cole when he said that they wanted you to do what
21 we've previously described him saying?

22 A. What was the last part? Previously described
23 what?

24 Q. What he was saying.

25 A. Oh, what did I say?

1 Q. In other words, I'm trying to avoid simply --

2 A. No.

3 Q. -- repeating what we said before.

4 A. I got it.

5 I told him I needed time to think about it. It
6 was not a part of my retirement plan to go and become the
7 chairman and CEO of AIG. I wanted to talk to my wife
8 about it. I had been following events, and I did
9 understand the severe liquidity crunch that the global
10 marketplace was in. I told him I would consider it and
11 he should call me back.

12 Q. And did he call you back?

13 A. He did not. Ken Wilson called me back.

14 Q. And who was Ken Wilson?

15 A. Ken Wilson had worked for many years at
16 Goldman Sachs. I don't think he was still at the firm
17 when he made the call to me. I think he was an advisor
18 to Hank Paulson. I don't know if he was an employee at
19 United States Treasury or not. But he had had a similar
20 role at Goldman Sachs as to the one that Chris Cole had.

21 Q. That is, he had been chairman of the
22 Investment Banking Division at some point?

23 A. Again, you'll have to forgive me. I don't
24 remember what the titles were. He may have been
25 vice chairman. I don't know if he was ever chairman.

1 Q. He was a senior --

2 A. Yes. That's a good --

3 Q. -- Goldman Sachs officer.

4 A. -- way to put it. He was a senior -- he was a
5 senior executive at Goldman Sachs.

6 Q. And what did Mr. Wilson tell you?

7 A. Pretty much reiterated what Mr. Cole had said. He
8 said that in fact there were several financial
9 institutions that were in severe jeopardy. The
10 government was going to help AIG where it had not helped
11 Lehman Brothers. As part of that help, they were going
12 to require that a new leader be put in. Would I be -- he
13 understood from my conversation with Chris Cole that I
14 was considering saying yes to that request, and he asked
15 me if I would serve in that capacity.

16 Q. And what did you tell him?

17 A. I told him I would.

18 Q. When was the next time that you had a conversation
19 with someone about becoming chairman of AIG?

20 A. If Mr. Cole's conversation was 9:00 to 10:00,
21 Mr. Wilson's conversation was -- I don't know -- early
22 afternoon, and Mr. Paulson called me later that afternoon
23 like 3:00-ish, 3:00 or 4:00. I don't remember the exact
24 times.

25 Q. And Mr. Paulson told you that he hoped that you

1 would feel the need to help the country; correct?

2 A. Among several things, yes.

3 Q. And you told him that you would; correct?

4 A. Yes.

5 Q. When was the next time that you had any
6 conversations with anyone about becoming chairman of
7 AIG?

8 A. On the morning of the 17th, I believe I had a
9 meeting or maybe a breakfast with Dan Jester, who was an
10 ex-Goldman Sachs employee and was working in some
11 capacity for Secretary Paulson. I'm not exactly sure
12 what. And he explained to me in more vivid detail the
13 crisis which AIG was undergoing and what the government's
14 proposed solution was.

15 Q. Where did you meet or have breakfast with
16 Dan Jester?

17 A. I don't remember.

18 Q. Was it in New York?

19 A. Oh, yes, it was. I presume it was at the hotel.

20 Q. And what hotel were you staying at in New York?

21 A. I was staying at the Ritz in Battery Park.

22 Q. That's the Ritz Carlton?

23 A. Yes.

24 Q. Prior to your breakfast meeting with Dan Jester
25 the morning of the 17th, you had had a telephone call

1 with Dan Jester and Sarah Dahlgren from the New York Fed
2 the evening of September 16; correct?

3 A. No. I don't remember that. I remember meeting
4 Sarah for the first time on the 17th in the evening.

5 Q. Did you ever ask Sarah Dahlgren or anyone in the
6 government to prepare talking points for you with respect
7 to remarks that you might make to AIG management or
8 employees?

9 A. Not that I recall.

10 Q. Did you meet on the 17th with AIG senior
11 management?

12 A. I met with Bob Willumstad, who was the chairman
13 and CEO that I would be replacing. I think it was late
14 in the day on the 17th. I don't believe I met with
15 anyone else from AIG until the morning of the 18th.

16 Q. Now, you say that you remember meeting with
17 Sarah Dahlgren the morning of the 17th; is that right?

18 A. No. No. I think it was the evening of the 17th.

19 Q. You met with Sarah Dahlgren the evening of the
20 17th?

21 A. That's what I recall, yes.

22 Q. Where did you meet with her?

23 A. I don't remember, Mr. Boies.

24 Q. Did you meet at 70 Pine Street with
25 Sarah Dahlgren?

1 A. I just do not remember where we met.

2 Q. Did you have a meeting with Sarah Dahlgren the
3 morning of the 17th followed by a meeting with senior
4 management of AIG?

5 A. No. That was the 18th. I was not appointed
6 chairman or CEO until the 18th, so I don't know that I
7 would have been meeting with senior management before
8 that.

9 Q. You were appointed CEO on September 18.

10 A. Correct.

11 Q. But the fact of the matter is, before you were
12 appointed CEO by the board, you were meeting with AIG
13 senior management and beginning to take control of the
14 company; correct, sir?

15 A. Well, I met with Bob Willumstad, who clearly was a
16 senior manager at AIG. I had a conversation that evening
17 with Steve Bollenbach, who was the chairman of the
18 nominating and governance committee. And I met
19 Sarah Dahlgren someplace in the course of the 17th.

20 I do not remember meeting anybody else from senior
21 management until the 18th after I was duly appointed to
22 the roles of chairman and CEO.

23 Q. Let me show you Plaintiffs' Trial Exhibit 112,
24 which is in your document binder.

25 This is already in evidence. And there is an

1 e-mail and then there is an attachment. There are
2 talking points in the attachment that have been also put
3 into the e-mail.

4 Do you see these talking points?

5 A. I do.

6 Q. Did you ever receive these talking points in
7 September of 2008?

8 A. I don't remember them, Mr. Boies.

9 Q. On the 18th, you gave a speech to AIG employees;
10 correct?

11 A. Yes. I believe we had a town hall meeting. I'm
12 not exactly sure. Yes. We had some sort of a
13 get-together.

14 Q. And when on the 18th was that?

15 A. I -- I -- I'm going to guess it was late in the
16 morning.

17 Q. Prior to the time that you had this morning
18 town hall speech to the employees generally, did you meet
19 with senior management other than Mr. Willumstad?

20 A. I just don't remember that. I thought the first
21 meeting was on the 18th. That's my recollection.

22 Q. At the time that you were confirmed as chairman
23 and CEO on the 18th by the AIG board, you held a
24 considerable amount of Goldman Sachs stock; correct?

25 A. I did.

1 Q. And you continued to hold that Goldman Sachs stock
2 throughout the period of time that you were CEO of AIG;
3 correct?

4 A. I did and I still do. I still own the same amount
5 of Goldman Sachs stock.

6 Q. Let me show you a document to try to see if I can
7 refresh your recollection.

8 Your testimony is that you flew to New York on the
9 16th, you had breakfast with Dan Jester the morning of
10 the 17th, and you don't recall talking to anyone about
11 AIG between getting on that plane to fly to New York and
12 meeting with Mr. Jester; is that correct?

13 A. That's correct.

14 Q. Let me ask you to look at Joint Exhibit 355, which
15 is in evidence.

16 This is an e-mail from Chris Cole to David Ryan.

17 And just as background, do you know who Mr. Ryan
18 is?

19 A. I don't.

20 Q. Mr. Cole writes, on what is stated here to be the
21 morning of 9-17-2008 at 5:59 in the morning -- and I know
22 that there are some issues about the timing of some of
23 these e-mails, and I don't know whether it affects this
24 e-mail or not. But either late on the 16th or early on
25 the 17th, Mr. Cole writes, "Just spent four hours with

1 new CEO. Getting him prepped for his first day on the
2 job."

3 Do you see that?

4 A. I see the words, yes.

5 Q. And does that refresh your recollection that you
6 had a four-hour meeting with Mr. Cole?

7 A. It does not. And in fact, I don't see how it's
8 possible. I took a plane at 7:00 on the 16th, wouldn't
9 have gotten into New York until 10:00 or 10:30 at the
10 hotel. I recall no such discussions.

11 Q. Mr. Cole's e-mail is on the subject of AIG;
12 correct?

13 A. Yes, it is.

14 Q. Is it your testimony that you had no meeting with
15 Mr. Cole after that initial telephone call?

16 No meeting or telephone conversation other than
17 that initial telephone call; is that your testimony?

18 A. No, that's not my testimony.

19 Q. Okay. When -- after your initial telephone call
20 with Mr. Cole, when was your next communication with
21 Mr. Cole?

22 A. I simply do not remember having a next
23 conversation with Mr. Cole. Now, after the 18th and I
24 became chairman and CEO, I would have had conversations
25 with Mr. Cole and his counterparties at Morgan Stanley

1 and Citibank and JPMorgan and a whole host of other
2 companies looking for ideas, but I -- I simply don't
3 remember spending the kind of time that this memo
4 suggests with Mr. Cole.

5 Q. Let me put it this way.

6 Between the first call that you had with Mr. Cole
7 at 9:00 or 10:00 in the morning on the 16th and the time
8 that you were confirmed as chairman and CEO by the AIG
9 board on September 18, did you have any communications
10 whatsoever with Mr. Cole?

11 A. I don't remember it, Mr. Boies, no.

12 Q. Did Mr. Cole ever prep you for your first day on
13 the job at AIG?

14 A. Not that I recall, no.

15 Q. Do you have any explanation as to why he would
16 have written this?

17 A. You know, I don't. I just do not remember this.

18 Q. Let me suggest to you, for purposes of trying to
19 refresh your recollection, that there have been people
20 who have a recollection that on the morning of
21 September 17 you met with Sarah Dahlgren and then had a
22 larger meeting that included Sarah Dahlgren and the
23 senior management team of AIG.

24 MR. TODOR: Objection. Hearsay and
25 rule 615 insofar as counsel is alluding to whatever

1 unnamed people that he's suggesting may have remembered
2 something that may have been testified about in court.

3 THE COURT: Overruled. I think it's proper to
4 refresh almost with anything.

5 MR. TODOR: Yes, Your Honor.

6 THE WITNESS: Mr. Boies, my recollection is that
7 those meetings occurred on the 18th. I don't mean to
8 contradict anybody that testified before me. I just -- I
9 clearly met Sarah. I clearly spent time with
10 Bob Willumstad. I spent time with Dan Jester in the
11 morning. I spent time -- on the 17th. I spent time with
12 Steve Bollenbach.

13 I don't remember other meetings with investment
14 bankers or with management on the 17th. I think those
15 meetings took place on the 18th.

16 BY MR. BOIES:

17 Q. You do understand that one of the issues here is
18 whether you started to exercise functions with respect to
19 AIG before the board had even met you. You understand
20 that that's one of the issues here.

21 A. I do. And that's why it kind of reaffirms my
22 point of view that I thought those sessions took place on
23 the 18th.

24 Q. Let me -- let me ask you when you first were told
25 what the terms were or the proposed terms for the AIG

1 credit facility.

2 A. I think Dan Jester shared that with me on the
3 morning of the 17th.

4 Q. And did Mr. Jester tell you that as part of the
5 consideration for the credit facility, the
6 Federal Reserve was getting warrants for AIG stock?

7 A. I don't recall that specific conversation. No.
8 He simply reviewed the details of the term sheet with
9 me.

10 Q. Well, did the details of the term sheet that he
11 reviewed with you include the statement that as part of
12 the consideration for the credit facility, the
13 Federal Reserve was receiving warrants?

14 A. Mr. Boies, I don't remember the specifics. I
15 don't know if it was a "to be determined." There were a
16 number of yet-to-be-determined pieces of the -- of that
17 credit agreement. That was one of them I believe.

18 Q. Did anyone, prior to your town hall meeting,
19 discuss the fact that the government was getting warrants
20 in connection with this credit facility?

21 A. The primary discussion point as I remember it on
22 that was that the government was taking -- was getting
23 79.9 percent ownership in AIG. I don't remember whether
24 it was warrants or stock or what have you. I just don't
25 recall those specifics.

1 Q. Let me ask you to look at Plaintiffs' Trial
2 Exhibit 173, which I would offer.

3 A. Which you would what?

4 Q. Offer. That's a thing that we do here in court.

5 A. Oh.

6 MR. TODOR: Your Honor, we object to hearsay.
7 Insofar as the Court has previously ruled that
8 Mr. Liddy's own statements can be subject to questioning,
9 we'd note that there appear to be statements from other
10 AIG employees in there. Therefore, insofar as the Court
11 has previously ruled that Mr. Liddy's own statements can
12 be subject for questioning, we request that the document
13 be admitted only for the purposes of examining Mr. Liddy
14 about his own statement and not about the statements of
15 other AIG employees.

16 THE COURT: Mr. Boies, is that acceptable?

17 MR. BOIES: It is, Your Honor.

18 THE COURT: All right. Very well.

19 Plaintiffs' Trial Exhibit 173 is admitted with the
20 noted restriction.

21 (Plaintiffs' Exhibit Number 173 was admitted into
22 evidence.)

23 BY MR. BOIES:

24 Q. Let me ask you to look at the top of page 9 of
25 Plaintiffs' Trial Exhibit 173.

1 A. Yes.

2 Q. And the second or third full sentence on that page
3 at the top, where you say, "We can restore that provided
4 we can get through, pay off the revolver, give the
5 government some sort of a return on its warrants, and
6 then have a company that emerges from this that really is
7 fit to fight."

8 Do you see that?

9 A. I do.

10 Q. Now, does that refresh your recollection that at
11 least as of noon on September 18, you believed that the
12 government was getting warrants in connection with its
13 credit facility?

14 A. No. Mr. Boies, I just don't remember the
15 particulars of this. I know that the private market
16 solutions which AIG tried to put in place all included
17 warrants, and I believe there was an expectation on the
18 part of AIG's legal staff and management that the
19 government would get warrants also, but I just did not
20 concentrate on that specific.

21 Q. Let me ask you to look at Joint Exhibit 94.

22 And do you recognize this as minutes of an AIG
23 board meeting held September 18, 2008?

24 A. I'm sorry. I'm slower than you are.

25 Joint Exhibit 94?

1 Q. Yes.

2 It's in the early part of the document binder.

3 A. I see it, yes.

4 Q. Let me first direct your attention to page 2 of
5 the exhibit and the last sentence, where the minutes
6 reflect, "Both Mr. Beattie and Mr. Bollenbach indicated
7 that they had spoken with Mr. Liddy regarding the role of
8 chairman of the board and Mr. Liddy had stated to both of
9 them that he expected, and he understood the
10 Department of the Treasury and the Federal Reserve Bank
11 of New York to expect, that Mr. Liddy would be both
12 chief executive officer and chairman."

13 Do you see that?

14 A. I do.

15 Q. Did Mr. Beattie and Mr. Bollenbach say that at
16 this board meeting?

17 A. I don't recall it, but it's in the minutes, so I
18 assume they did.

19 Q. Had you told Mr. Beattie and Mr. Bollenbach prior
20 to this board meeting that you expected and understood
21 that the Department of the Treasury and the
22 Federal Reserve Bank of New York expected that you would
23 be both chief executive officer and chairman?

24 A. I think in my conversation with Mr. Bollenbach the
25 night before I indicated that the dual role that

1 Bob Willumstad had as chairman and CEO, that's the role I
2 would step into.

3 Q. Did you tell Mr. Bollenbach that you understood
4 that the Department of the Treasury and the
5 Federal Reserve Bank of New York expected you to be both
6 chief executive officer and chairman?

7 A. I don't recall those words. Again, when I talked
8 to Hank Paulson, it was take the leadership position that
9 exists now. That was chairman and CEO.

10 Q. At the time that you appeared at this board
11 meeting on the morning of September 18, had you had any
12 conversations with anyone from the Federal Reserve Bank
13 of New York?

14 A. I would have had conversations with Sarah Dahlgren
15 on the 17th. Yes.

16 Q. And did Ms. Dahlgren tell you that the
17 Federal Reserve Bank of New York expected that you would
18 be both chief executive officer and chairman?

19 A. Not that I recall.

20 Q. Other than speaking to Ms. Dahlgren, at the time
21 that you appeared at the September 18 AIG board meeting,
22 had you had any conversations or communications with
23 anyone from the Federal Reserve Bank of New York?

24 A. Not that I recall.

25 Q. Let me direct your attention to page 3, the second

1 paragraph, where in the second sentence a statement is
2 made in these minutes, "A question was raised as to
3 whether Mr. Liddy would resign from The Goldman Sachs
4 Group, Inc. board of directors and Mr. Beattie answered
5 that Mr. Liddy would need to do so in order to serve as
6 the corporation's chief executive officer and/or
7 chairman."

8 Do you see that?

9 A. I do.

10 Q. And was that conveyed to you the morning of
11 September 18?

12 A. I don't remember the date and time, but it was my
13 intent. I took the initiative. I knew I had to exit the
14 Goldman Sachs board. I think Mr. Beattie was
15 reemphasizing what I had already told him.

16 Q. Is the answer to my question that this was
17 conveyed to you the morning of September 18, that you had
18 to resign?

19 A. I presume -- I presume it was. Sorry. I didn't
20 mean to interrupt you. I presume it was because it's in
21 the minutes. I guess the point I wanted to make was it
22 was the point I made to Bollenbach and Beattie.

23 Q. Now, between September 18 and September 21, did
24 you have any conversations with any of the members of the
25 AIG board of directors?

1 A. You know, not that I can recall, but I'm sure I
2 did. I would have reached out to each one of them to the
3 extent time permitted. In some cases this is the first
4 time I met some of them.

5 Q. I understand that you would have done that and
6 probably did do that. My question really is now limited
7 to a specific period of time.

8 There was another AIG board meeting the evening of
9 September 21; correct, sir?

10 A. Correct.

11 Q. And that was the meeting at which the board
12 approved the credit agreement; correct?

13 A. The only reason I'm hesitating, I think the board
14 approved that on the 16th of September. They reaffirmed
15 it on the 21st.

16 Q. On the 16th of September, there was no credit
17 agreement in existence; correct?

18 A. Sorry. You're right. There was a term sheet.
19 And pursuant to the term sheet, the specifics which would
20 go into a credit agreement were to be prepared. But the
21 term sheet was what gave rise to the arrangement between
22 the Federal Reserve and the company.

23 Q. On September 18, did you have a view one way or
24 another as to whether the September 16 term sheet
25 represented a binding agreement?

1 A. I did. I thought it was binding. I thought all
2 parties were acting in that manner because money was
3 flowing from the Federal Reserve to AIG.

4 Q. Well, money was flowing from the Federal Reserve
5 to AIG pursuant to secured demand notes that covered each
6 funding; correct?

7 A. I believe that's correct, yes.

8 Q. And did you understand that those demand notes
9 were binding contractual obligations?

10 A. I understood two things, one that they were
11 binding contractual obligations but that they were also
12 part and parcel of the \$85 billion. It wasn't
13 \$85 billion plus whatever came to us in the form of the
14 demand notes.

15 Q. Did you ever see the term sheet?

16 A. Yes. Dan Jester would have given me a copy of it
17 and Bob Willumstad gave me a copy of it sometime during
18 the 17th when we met.

19 Q. Okay. So you got a copy of a term sheet on
20 September 17; correct?

21 A. I believe that's correct.

22 Q. And you got a copy from Mr. Jester; correct?

23 A. I think so. Yes.

24 Q. And a copy from Mr. Willumstad; correct?

25 A. Correct.

1 Q. And did you read those term sheets?

2 A. I did.

3 Q. Were they the same?

4 A. I just don't remember. I don't remember them
5 being different.

6 Q. Did those term sheets mention warrants?

7 A. I don't remember, Mr. Boies. I keep wanting to
8 respond that there was a TBD. It was to be determined.
9 And I don't know if that was in the term sheet or in the
10 draft of the credit agreement or what have you.

11 Q. Now, you've seen in preparation for your testimony
12 here something that had a TBD in it, correct, or to be
13 determined?

14 A. I have.

15 Q. Back on September 17, 2008, did you ever see
16 anything that said "to be determined"?

17 A. I just don't recall.

18 Q. Do you recall -- well, let me do it this way.

19 Let me ask you to look at Joint Exhibit 63, which
20 is the minutes of the Board of Governors meeting of the
21 Federal Reserve System, September 16, 2008, which is
22 already in evidence.

23 And if you turn to pages 5 through 10 --

24 A. 5 through 10 on the bottom -- on the top pages on
25 the --

1 Q. Where it says "JX-63 Page 5 of 12"?

2 A. Got it.

3 Q. And without asking you to try to remember exactly
4 what the term sheet or sheets that you read on
5 September 17 said, is this the basic format of the
6 term sheets that you saw then?

7 A. It is.

8 Q. I want to direct your attention to the very first
9 portion of this term sheet, where it says, "This
10 Summary of Terms is not intended to be legally binding on
11 any person or entity.

12 Do you see that?

13 A. I do.

14 Q. Was that language included on the term sheets that
15 you saw on September 17?

16 A. I just do not remember, Mr. Boies.

17 Q. We saw a moment ago that on your noon
18 September 18 town hall speech you referred to the
19 government's warrants. Do you recall that?

20 A. I recall you and I just talking about it. Yes.

21 Q. Well, do you recall seeing it in your speech?

22 A. Oh, yes. You showed me the speech and it had
23 warrants in it.

24 Q. Other than the term sheets that Mr. Jester and
25 Mr. Willumstad, according to your testimony, gave you,

1 was there any other source of information that you had as
2 of noon on September 18 as to what the terms were of the
3 proposed credit facility?

4 A. I would have had conversations -- I would have had
5 conversations with Stasia Kelly, who was our general
6 counsel, or Brian Schreiber or Steve Bensinger or
7 David Herzog or Bob Willumstad, and they would have been
8 helping me to understand the term sheet and the
9 arrangement with the Federal Reserve. I don't know that
10 we would have exchanged papers or not.

11 Q. Did any of them tell you what the equity terms
12 were for the credit facility?

13 A. Not that I can recall.

14 Q. Let me ask you to look at Joint Exhibit 355, which
15 is also in evidence.

16 This is the document that we looked at before?

17 A. Yes.

18 Q. And I directed your attention earlier to an e-mail
19 at the top of the page by Mr. Cole.

20 A. Yes.

21 Q. And I now want to direct your attention to a
22 September 17, 2008 at 1:49 p.m. e-mail from Mr. Cole,
23 again on the subject of AIG, the second paragraph of
24 which says, "The Federal Reserve is supplying an
25 \$85 billion senior secured revolving facility, secured by

1 stock in the insurance operating companies. The
2 government will also get warrants on 79.9 percent of the
3 Holding Company stock."

4 Do you see that?

5 A. I do.

6 Q. Did Mr. Cole ever discuss with you the fact that
7 the government was getting warrants in connection with
8 this credit facility?

9 A. Not that I recall.

10 Q. Focusing on the period between the two board
11 meetings, the morning September 18 board meeting and the
12 evening September 21 board meeting, did you have any
13 discussions or communications with any other board member
14 during that period concerning the terms of the proposed
15 credit agreement?

16 A. Not that I recall.

17 Q. During the period between the two board meetings,
18 did you participate in any way in the negotiation of the
19 draft credit agreement?

20 A. I certainly attempted to change some of the terms
21 to make them more favorable to AIG. I did not
22 concentrate on the warrant issue. I concentrated
23 primarily on two years and the interest rate, which I
24 thought were very harsh.

25 Q. When did you express yourself on those two

1 points?

2 A. As soon as I became chairman and CEO, as you can
3 see by the various exhibits you've asked me to look at.
4 That was a busy day, so this board meeting would have
5 ended at 9:30 or 10:00. At 12:00 per the date stamp on
6 the town hall meeting, I would have had a very short
7 period of time to get up to speed on a myriad of issues,
8 so sometime that day I would have started to have a
9 conversation with Sarah Dahlgren about the terms of the
10 credit agreement.

11 Q. Was Sarah Dahlgren the person with whom you
12 negotiated?

13 A. Sarah Dahlgren was the -- a very capable
14 executive. She was the lead assigned from the
15 Federal Reserve Board to the AIG account. That was very
16 clear early on that no -- no headway was going to be made
17 on changing the parameters of the loan agreement. Those
18 decisions were made by the highest levels of the
19 Federal Reserve Board.

20 Q. My question was simply, was Sarah Dahlgren the
21 person with whom you negotiated over the credit
22 agreement?

23 A. Yes. She's the person with whom I talked and in
24 negotiation I didn't get very far.

25 Q. Did you attempt to negotiate or negotiate with any

1 other person from the government over the terms of the
2 credit agreement other than Sarah Dahlgren?

3 A. No.

4 THE COURT: Mr. Boies, maybe we can take an
5 afternoon break?

6 MR. BOIES: Yes, Your Honor.

7 THE COURT: Let's reconvene at 3:45.

8 (Court in recess.)

9 THE COURT: Back on the record.

10 BY MR. BOIES:

11 Q. Mr. Liddy, before the break, we were talking about
12 the terms and negotiation of the September 22 credit
13 agreement. Do you recall that?

14 A. Yes.

15 Q. Now, you understand, because you signed it, that
16 the credit agreement was not actually signed until
17 September 23; correct?

18 A. I don't remember the exact dates. I remember the
19 board reviewing it on the 21st. I don't remember the
20 exact date on which it was signed.

21 Q. You were the person who signed it; correct?

22 A. I believe so. Yes.

23 Q. Now, you say that you remember the board reviewing
24 it on September 21.

25 Did the board have a copy of the credit agreement

1 on September 21?

2 A. I think they did.

3 Q. Did you ever see a copy of the credit agreement
4 before September 23?

5 A. I don't recall, Mr. Boies. All those dates just
6 run together. There was -- there was so much going on.

7 Q. Let me put it this way.

8 Before the board meeting at which time the credit
9 agreement was approved, had you ever seen a copy of the
10 proposed credit agreement?

11 A. I don't remember. I probably saw drafts of it.
12 Whether I saw the finished product I just don't
13 remember.

14 Q. But is it your testimony that you actually
15 personally saw drafts of the credit agreement prior to
16 the September 21 board meeting?

17 A. My testimony is I simply don't remember.

18 Q. Do you know if your general counsel, Ms. Kelly,
19 was furnished with a draft of the credit agreement prior
20 to the September 21 board meeting?

21 A. I don't remember, Mr. Boies.

22 Q. At any time between the September 18 and the
23 September 21 AIG board meetings, did you try to find out
24 what the status was of the credit agreement draft?

25 A. I don't remember.

1 Q. Were you told at some point between the
2 September 21 and the September 18 board meetings that
3 some of the terms that had been in the original term
4 sheet were being changed?

5 A. On -- on September 19 we filed a revised 8-K. It
6 was revised because the one that had been filed on the
7 18th, in error, stated that the form of the equity
8 ownership would be warrants and that point had not been
9 yet agreed with the Federal Reserve.

10 So I wasn't the CEO on the 18th; I was on the
11 19th. I reviewed that 8-K on the 19th, and this is when
12 I first became aware of that particular issue.

13 I don't remember there being many, if any, other
14 changes from the term sheet of the 16th to the term sheet
15 of the 21st.

16 Q. The 8-K that was filed by AIG on September 18, was
17 that 8-K reviewed by the AIG board at the meeting that
18 confirmed your selection as CEO?

19 A. I don't recall that. No.

20 Q. Were you CEO at the time that the 8-K, the
21 original 8-K, was filed on September 18?

22 A. I became the CEO on September 18, as you know, at
23 9:00 or 10:00 in the morning. I don't know what time
24 that -- I know it was filed on the 18th. I guess I don't
25 know what time it was actually filed.

1 Q. Did anybody show you a copy of the original 8-K
2 before it was filed?

3 A. Not that I can recall before it was filed. I was
4 shown it on the 19th when we found out that we needed to
5 issue a correction. And that's when I was the CEO.

6 Q. By the way, who told you that it was necessary to
7 issue a correction?

8 A. I don't remember. Probably Stasia Kelly.

9 Q. Did she tell you how she had found that out?

10 MR. TODOR: Objection, Your Honor. Ms. Kelly was
11 the general counsel of AIG; therefore, to the extent
12 counsel's question called for the substance of legal
13 advice, we object on that basis.

14 THE COURT: Okay. Sir, if you can answer the
15 question without revealing the substance of any legal
16 advice, that would be the way to do this.

17 THE WITNESS: I don't -- I don't remember what the
18 source was. I think it was the Federal Reserve took
19 exception to that, but I don't remember that being the
20 case.

21 BY MR. BOIES:

22 Q. Do you recall that the original term sheet, the
23 one that was first considered by the board on the 16th
24 and which you were shown a copy on the 17th, provided for
25 a shareholder vote?

1 A. I -- I just don't remember the specifics,
2 Mr. Boies. I know this is an important matter to you.
3 There were other parts of that term sheet that I was very
4 worried about to a greater extent than this. I did not
5 concentrate on that.

6 Q. Were you aware, at the time that you signed the
7 credit agreement, that the credit agreement provided for
8 a trust to hold preferred shares of AIG?

9 A. I don't remember it. I think in the course of
10 reviewing these various documents that I saw it, but I
11 don't remember the particulars of it.

12 Q. When you say you think in the course of reviewing
13 these various documents, are you talking about reviewing
14 documents in preparation for this testimony?

15 A. Yes.

16 Q. Other than that, were you aware that the credit
17 agreement included provisions for a trust?

18 A. You know, Mr. Boies, I was aware of the fact that
19 either the Federal Reserve couldn't own equities or
20 couldn't own equities and have insider information. It
21 was -- it was a complicated equation, and as I said, we
22 had great lawyers and great legal advisors who understood
23 this in a substantial more detail than I did.

24 Q. Was your awareness of the fact of the inability of
25 the Federal Reserve to own equities or own equities and

1 have insider information something that came to you from
2 the Federal Reserve or was that a legal analysis that was
3 done by AIG lawyers?

4 A. I don't recall.

5 MR. TODOR: Objection. The question is confusing
6 and compound, referencing "own equities or own equities
7 and have insider information."

8 THE COURT: Do you understand the question,
9 Mr. Liddy?

10 THE WITNESS: I do.

11 THE COURT: You can answer it.

12 BY MR. BOIES:

13 Q. You now know that the credit agreement provided
14 for there to be voting preferred stock provided to the
15 Federal Reserve; correct?

16 A. I do.

17 Q. When was the first time that you found out that
18 the credit agreement provided for voting preferred stock
19 to be given to the Federal Reserve?

20 A. I don't remember the date, Mr. Boies.

21 Q. Did you know that at the time you signed the
22 credit agreement?

23 A. I just do not recall. Again, the mechanics of
24 this were very complicated. I relied upon the lawyers
25 and our advisors to handle it. There were other pieces

1 of the credit agreement I thought were far more
2 pressing.

3 Q. Let me ask you to look at Plaintiffs' Trial
4 Exhibit 182, which I would offer.

5 MR. TODOR: No objection, Your Honor.

6 THE COURT: Plaintiffs' Trial Exhibit 182 is
7 admitted.

8 (Plaintiffs' Exhibit Number 182 was admitted into
9 evidence.)

10 BY MR. BOIES:

11 Q. This is a September 21, 2008 e-mail from Ms. Kelly
12 at 9:27 in the morning, and it goes to a very large
13 number of people.

14 Do you see the first sentence there that says,
15 "All: There has been communication in the past few hours
16 that the Fed agreement is signed. It has NOT" -- and
17 "not" is all capitalized -- "been signed. We have not
18 yet received the equity piece, which is the most
19 important."

20 Do you see that?

21 A. I see those words, yes.

22 Q. Did Ms. Kelly or anyone advise you on
23 September 21 that AIG had still not received notice of
24 what the equity piece that was going to be required by
25 the Federal Reserve was?

1 A. I don't recall that.

2 Q. Do you recall any effort to find out what the
3 equity piece was going to be in the credit agreement?

4 A. I'm sorry. Any effort by?

5 Q. By anybody at AIG.

6 A. I just -- I wouldn't have knowledge of that.

7 Q. Did you make any effort to find out what the
8 equity piece of the credit agreement was going to be
9 prior to the evening of September 21?

10 A. Not that I recall. I relied upon our general
11 counsel and our advisors in this matter.

12 Q. Did you ask them whether they had been informed of
13 what the equity was going to be that was going to be
14 provided to the Federal Reserve as part of this credit
15 facility?

16 A. Not that I recall.

17 Q. You testified that you were aware that there was a
18 "to be determined" aspect of the term sheet at some point
19 in time. Do you recall that?

20 A. I do.

21 Q. And is it your recollection that the "to be
22 determined" issue related to equity?

23 A. I believe it was one. There may have been a
24 couple of other TBDs. I just don't recall. I remember
25 there being one for the equity piece.

1 Q. And you knew sometime on September 18th or 19th or
2 20th that the form of the equity that was going to be
3 provided to the Federal Reserve was to be determined; is
4 that fair?

5 A. Yes.

6 Q. Did that lead you to try to find out what that
7 equity piece was going to be actually?

8 A. I do not recall. Again, I -- I -- I charged our
9 general counsel and our legal advisors to make sure that
10 this got done in the best possible way. I did not keep
11 going back and reviewing it.

12 Q. Without going back and reviewing it, did you try
13 to find out from them whether they had ever found out
14 what the equity piece was?

15 A. I just don't remember, Mr. Boies.

16 Q. Let me turn to the evening of September 21.

17 Prior to the board meeting on the 21st, did you
18 have a meeting with any of your staff to discuss the
19 proposed credit agreement?

20 A. I don't remember, but I'm sure we did. That would
21 have been my style.

22 Q. With whom did you discuss the proposed credit
23 agreement prior to the board meeting?

24 A. I don't recall.

25 Q. Do you recall any of the people that you discussed

1 it with prior to the board meeting?

2 A. Probably would have been our general counsel, our
3 advisors from Sullivan & Cromwell, Bob Reeder and
4 probably Dick Beattie and maybe Rodge Cohen and a whole
5 host of people.

6 Q. Now, Mr. Beattie and Mr. Cohen are at different
7 law firms; correct?

8 A. Yes, they are.

9 Q. When you say "would have," is that your inference
10 that that would have been a logical thing to do or do you
11 recall actually doing that?

12 A. I do not recall it. The way you characterize it
13 is correct. I know the way I do things. I prepare
14 thoroughly for board meetings. I go through material.
15 And the folks that I asked to take care of this, I would
16 have met with them and this -- whether we -- whether we
17 talked about this piece I don't recall.

18 Q. Did you have any meetings or discussions with
19 anyone from the board, prior to the commencement of the
20 board meeting, about the credit agreement?

21 A. Not that I recall.

22 Q. Let me ask you to look at Joint Exhibit 103.

23 And do you recognize these as the minutes --

24 A. Just a second. Just a second.

25 Q. Let me know when you have it.

1 A. 103. Got it.

2 Q. Do you recognize these as the minutes of the AIG
3 board meeting held the evening of September 21, 2008?

4 A. I do.

5 Q. And you participated in this?

6 A. I did. I chaired that meeting.

7 Q. Now, let me ask you to turn to page 2 and the
8 first substantive paragraph in the middle of the page.

9 Do you see that?

10 A. I do.

11 Q. It says, "Mr. Liddy advised the Board that there
12 had been substantial progress in the documentation for
13 the credit facility ('Credit Agreement') with the
14 Federal Reserve Bank of New York (the 'Bank'), and the
15 Corporation will be required by the Bank and the
16 Treasury Department to finalize the documentation and
17 sign the Credit Agreement before the opening of the
18 market the following day."

19 Do you see that?

20 A. I do.

21 Q. Now, does that suggest to you or does that refresh
22 your recollection that at the time of the board meeting
23 you did not actually have a copy of a draft credit
24 agreement?

25 A. You know, not necessarily, Mr. Boies. I mean, we

1 may have had it. It may have had blanks in it. I just
2 don't recall what we had and didn't have.

3 Q. Okay. The minutes then go on to say that
4 Mr. Liddy said that the urgency was because there were
5 indications that the bank was not going to come to the
6 aid of other troubled issuers and turmoil was expected.

7 Do you see that?

8 A. I do.

9 Q. Who had told you that?

10 A. We had very senior advisors from Blackstone and
11 from JPMorgan. The market continued to be in a
12 tremendous state of flux. Some of the large industrial
13 borrowers with hundred-billion-dollar commercial paper
14 programs were having difficulty rolling it over, so there
15 was an expectation that things were going to get worse,
16 not better.

17 Q. Had you made any effort to talk to any
18 representatives of the Federal Reserve Bank or the
19 Treasury Department with respect to what you say here?

20 A. I -- I probably talked to Sarah Dahlgren about it,
21 but I -- I don't remember the specifics of it.

22 Q. But you're telling your board that it's urgent
23 for them to approve something that is not even in final
24 form because there were indications that the
25 Federal Reserve Bank was not going to come to the aid of

1 other troubled issuers.

2 Do you see that?

3 A. I do.

4 Q. And that's what you said; correct?

5 A. Correct.

6 Q. And did you make any effort to find out from the
7 Federal Reserve Bank whether that was true?

8 A. I would have talked to Sarah Dahlgren about it. I
9 don't remember the specifics of the conversation. Sarah
10 was at this point our sole contact with the
11 Federal Reserve.

12 Q. Now, you yourself knew that this was not
13 completely true; correct, sir?

14 A. No.

15 Q. Well, you had just come from a Goldman Sachs board
16 meeting; correct?

17 A. No.

18 Q. On September 21, didn't you attend a Goldman Sachs
19 board meeting in the afternoon and then walk from there
20 to the AIG headquarters where you attended an AIG board
21 meeting?

22 A. No. I plugged in to the Goldman Sachs board
23 meeting telephonically. At the very beginning of that
24 meeting, I got called out to take care of other pressing
25 AIG material, and I was not able to participate in the

1 balance of the meeting.

2 I'm not sure if that was even on the 21st. I
3 remember -- I remember that because it was another
4 indication to me I had to get the resignation letter put
5 together.

6 Q. Let me just follow up on that.

7 As of September 21, you had not yet resigned from
8 Goldman Sachs' board; fair?

9 A. I had not sent the letter.

10 Q. And indeed, you were still at least either calling
11 in to board meetings or attending board meetings;
12 correct?

13 A. Mr. Boies, on the 18th when I became chairman and
14 CEO of AIG, my -- that -- all my energy and focus went
15 there.

16 So yes, I was still on the Goldman board. They
17 knew and I knew that I had to resign from it. I simply
18 didn't have the time, because of all else that was going
19 on, to have prepared that letter, so it was the 21st,
20 after all of this board meeting, that I went back to
21 the -- where I was living and put together the
22 resignation letter and we sent it the next day.

23 Q. You sent what the next day?

24 A. A resignation letter from the Goldman board.

25 Q. On what day?

1 A. I think it was the 22nd.

2 Q. When was the last time you saw that resignation
3 letter?

4 A. When I sent it. I haven't seen it since.

5 Q. Let me ask you to look at Defendant's
6 Exhibit 256 -- I'm sorry -- Plaintiffs' Trial
7 Exhibit 256.

8 A. I have the document.

9 Q. And do you recognize this as a Goldman Sachs press
10 release?

11 A. I do.

12 Q. And this is dated September 26, 2008.

13 A. It is.

14 Q. Does this refresh your recollection that you
15 resigned from the Goldman Sachs board on September 26,
16 effective September 23?

17 A. I read it differently. What it says to me is they
18 got the letter on the 23rd, so I don't know if we sent it
19 over by snail mail post or by e-mail and would have
20 received it on the 23rd. It would have been effective
21 then. They have four days -- there's an SEC requirement
22 that you disclose things. I don't remember what that is.
23 It's three or four days. Within that three or four-day
24 period you have to send it out.

25 Q. Are you suggesting that Goldman Sachs for some

1 reason delayed announcing your resignation after they got
2 it?

3 A. No. They have the time frame to announce it and
4 they have three days or four days, whatever it is.

5 Q. I'm not saying they can't do that legally, but is
6 there any reason that you can think of why they would not
7 have announced it promptly once you actually resigned?

8 A. You know, I have no idea how they reasoned through
9 the date or the time to do it. It's effective
10 September 23, and I'm pretty sure I sent it over on the
11 22nd.

12 Q. And when you say you sent it over on the 22nd, how
13 did you send it over?

14 A. I don't recall, Mr. Boies.

15 Q. You're not suggesting that you just mailed it, are
16 you?

17 A. You know, I'm -- I'm going to -- I just don't
18 remember. My -- my habit would have been to send it over
19 e-mail after I had time to review it and then send a
20 documented signed hard copy.

21 Q. You have been asked previously when you resigned
22 from the board. Do you recall that?

23 A. I don't.

24 Q. Let me show you Plaintiffs' Trial Exhibit 516.

25 These -- which I would offer limited to

1 Mr. Liddy's own statements?

2 THE COURT: All right.

3 MR. BOIES: And the statements of others admitted
4 only for context to understand Mr. Liddy's statements.

5 MR. TODOR: With that understanding, we have no
6 objection, Your Honor.

7 THE COURT: All right. Plaintiffs' Trial
8 Exhibit 516 is admitted subject to the stated
9 restriction.

10 (Plaintiffs' Exhibit Number 516 was admitted into
11 evidence.)

12 BY MR. BOIES:

13 Q. Let me direct your attention to page 57.

14 And these are questions that you were being asked
15 by a congresswoman; is that correct?

16 A. Yes. It appears so.

17 Q. And in the bottom third, there's a paragraph that
18 begins, "But my question in regards to Goldman Sachs."

19 Do you see that?

20 A. I do.

21 Q. And the congresswoman asks you, "Could you clarify
22 your relationship with Goldman Sachs, the largest
23 recipient of these counterparty funds through AIG,
24 \$12.9 billion? What years did you serve as a member of
25 the board of Goldman Sachs, please?"

1 Mr. Liddy: "I was on the board for approximately
2 five and a half years. Don't remember the year exactly I
3 went on, but I exited that relationship as soon as I
4 became the chairman and CEO of AIG back in September
5 2008."

6 Congresswoman: "September 2008. Is there a
7 specific date?"

8 Mr. Liddy: "Tendered my resignation as soon as I
9 could get to it, within a week or ten days of my being
10 appointed."

11 Do you see that?

12 A. I do.

13 Q. And the congresswoman then asks, "Did you leave in
14 early September or late September?"

15 And you say, "It would have been after
16 September 18th, but before September 30th."

17 Do you see that?

18 A. I do.

19 Q. Now, that was your best, truthful and most
20 complete response that you were able to give at that
21 time; correct?

22 A. Correct.

23 Q. What has happened since that time that has enabled
24 you to testify that you signed this letter of resignation
25 on September 22 and sent it over?

1 A. I just think I've had time to think about it,
2 Mr. Boies. You know, what we just talked about was --
3 was a very short section of a very long testimony, so I
4 probably didn't concentrate on it as extensively as I
5 have now.

6 I remembered, when I became chairman and CEO of
7 AIG, I had to exit the board, and the triggering
8 mechanism for that was whatever date the board -- the
9 Goldman Sachs board meeting was that I attended
10 telephonically, that triggered I need to get this done,
11 and so that's when I went home and drafted the
12 resignation letter.

13 Q. This testimony that you gave to Congress was only
14 seven or eight months after September 2008; correct?

15 A. Correct.

16 Q. And it's now been several years; correct?

17 A. Correct.

18 Q. And it is your testimony that without ever seeing
19 this letter of resignation, just thinking about it more,
20 you've been able to remember that you signed this letter
21 of resignation on September 22; is that your testimony?

22 A. Well, you showed me this press release when you
23 took my deposition back about a year ago or so.

24 Q. Right.

25 A. And that -- I just -- I remember it triggered a

1 whole series of things that started with the meeting on
2 the 21st.

3 Q. The press release is a press release as of
4 September 26; correct?

5 A. Yes.

6 Q. And it says that you have resigned effective
7 September 23; correct?

8 A. Correct.

9 Q. And that's not your testimony; correct?

10 A. My testimony is, I believe I sent the letter over
11 on the 22nd, effective the 23rd. Why they published it
12 three or four days later I don't know.

13 Q. Now, you knew that the date of your resignation
14 from Goldman Sachs was going to be an issue here;
15 correct?

16 A. In the context of this courtroom?

17 Q. Yes.

18 A. I did.

19 Q. Prior to coming to testify, did you make any
20 effort to document when you actually resigned?

21 A. I did not.

22 Q. Let me go back to the minutes from the
23 September 21 board meeting.

24 A. Which are in section?

25 Q. It's in Joint Exhibit 103.

1 Before I do that, let me just direct your
2 attention to Joint Exhibit 358.

3 These are minutes of a special meeting of the
4 board of directors of Goldman Sachs.

5 Do you see that?

6 A. I do.

7 Q. And this was a meeting held commencing at
8 4:45 p.m. on September 21, 2008; is that correct?

9 A. That's what this says. Yes.

10 MR. BOIES: Your Honor, could I just have one
11 moment?

12 THE COURT: Sure.

13 MR. BOIES: May I just inquire, through the Court.
14 This was initially designated as confidential. We told
15 Goldman Sachs that we were planning to use it today. But
16 in case there is counsel from Goldman Sachs in the
17 courtroom, I want to give them an opportunity to speak up
18 before I actually use the document.

19 THE COURT: In the courtroom is there counsel for
20 Goldman Sachs?

21 Apparently not.

22 BY MR. BOIES:

23 Q. At this board meeting on September 21, 2008,
24 commencing at 4:45 p.m., Goldman Sachs considered
25 becoming a bank holding company; correct?

1 A. Mr. Boies, I don't recall. As I read the
2 document, yes. Again, I -- I do not remember -- I
3 participated in only a very brief portion of this
4 meeting. Given the time at 4:45 p.m., I'm surprised I
5 plugged in to any portion of it.

6 Q. On September 21, 2008, you were chairman of the
7 Goldman Sachs audit committee; correct?

8 A. I was.

9 Q. And in that capacity, you received regular reports
10 of Goldman Sachs financial issues; correct?

11 A. Yes. Particularly in normal times. In the
12 extraordinary times represented by these, the only
13 updates would have come at board meetings because they
14 happened with such regularity.

15 Q. And did you also have meetings of the audit
16 committee?

17 A. Time frame?

18 Q. In August-September of 2008.

19 A. If there were regularly scheduled audit committee
20 meetings, we would have, yes, we would have held them. I
21 don't recall when they were.

22 Q. Now, you understood in September of 2008,
23 following the Lehman bankruptcy, that Goldman was trying
24 to take actions to improve its liquidity; correct?

25 A. Every financial institution, including Goldman,

1 was doing that.

2 Q. And you were not the chairman of the audit
3 committee of every financial institution, but you were
4 chairman of the audit committee of Goldman, and so you
5 were aware of what Goldman was doing; correct?

6 A. Correct.

7 Q. And one of the options that Goldman was pursuing
8 the week of September 16 was to become a bank holding
9 company; correct?

10 A. It was one of many, many options that were being
11 evaluated.

12 Q. Other than the option of becoming a bank holding
13 company and the option of raising additional private
14 capital, do you recall any other options that Goldman was
15 pursuing?

16 A. Mergers with other financial institutions. The
17 one which you accepted, private capital, was a huge one.
18 It was taking a fair amount of time as I recall.

19 Q. What institutions was Goldman considering merging
20 with?

21 A. I don't recall, Mr. Boies.

22 Q. And is it fair to say that at your deposition you
23 didn't even recall that that was an option that was being
24 pursued?

25 A. Well, I think it's important to get the date

1 sequences correct.

2 So there were a number of telephonic meetings that
3 would have preceded my becoming the chairman and CEO of
4 Goldman Sachs (sic), and a number of alternatives would
5 have been discussed at those meetings. On the 21st, it
6 looks like the sole thing discussed was the conversion to
7 a bank holding company.

8 Q. First, I think you may have misspoke in that last
9 answer. You referred in your last answer to "meetings
10 that would have preceded my becoming the chairman and CEO
11 of Goldman Sachs."

12 A. I'm sorry. Of AIG. Right. Sorry.

13 Q. Let me ask you --

14 A. I would have gotten paid a lot more if I was the
15 chairman of Goldman Sachs.

16 Q. Indeed.

17 Let me ask you to look at your deposition at
18 page 107. This is your first day of depositions in this
19 case.

20 And at line 6, you know, I ask:

21 "QUESTION: And up until the 18th and 19th of
22 September, what actions did you understand Goldman was
23 taking in order to attempt to reduce its risk profile?

24 "ANSWER: There were a whole host of ideas in the
25 hopper. One was the bank holding company. One was an

1 infusion of capital from well-capitalized investors,
2 which I think subsequently happened.

3 "And there were others. I simply don't remember
4 what they were at this time."

5 Do you see that?

6 A. I do.

7 Q. And do I understand that your recollection that
8 there was a merger or potential merger being pursued as
9 another alternative is something that you have recalled
10 based on things that have either been told you or you've
11 seen in preparing for this testimony?

12 A. Yes. And in fact, besides just those three
13 alternatives, I think there were -- there were several
14 more that were being considered. I don't remember all
15 the particulars on that.

16 Q. Now, if you go back to Joint Exhibit 358, which is
17 the Goldman minutes?

18 A. Yes.

19 Q. It talks about "various strategic alternatives" --
20 this is in the fourth paragraph -- "that had been
21 explored and discussed at recent board postings or
22 meetings over the past week."

23 Do you see that?

24 A. I do.

25 Q. How many of those meetings were there, sir?

1 A. I don't recall.

2 Q. Did you attend those meetings?

3 A. Prior to the 18th, I would have attended
4 telephonically.

5 Q. And when was the first time that you recall there
6 being discussion of a possible bank holding company
7 option?

8 A. As a strategic initiative, it was discussed at
9 strategy meetings that went back several years before the
10 liquidity crisis of 2008.

11 Q. When was the first time during the liquidity
12 crisis of 2008 that you recall Goldman Sachs discussing
13 the possibility of becoming a bank holding company?

14 A. And in one of these meetings and postings that are
15 referred to in that fourth paragraph, the chairman of
16 Goldman Sachs would have -- would have gone through a
17 litany of possible solutions and possible alternatives.
18 The bank holding company was one of them.

19 Q. Becoming a bank holding company permitted
20 Goldman Sachs to borrow more money at more attractive
21 terms than it would have been able to do without becoming
22 a bank holding company; correct?

23 A. Yes. They could borrow more money, that's
24 correct.

25 Q. And they could borrow more money on more

1 attractive terms; correct?

2 A. Yes. I believe it gave them access to the -- to a
3 different part of the Fed or increased funding. I don't
4 remember all the -- all the advantages of it.

5 Q. You do remember that Goldman Sachs was approved to
6 become a bank holding company over the weekend of
7 September 20 and September 21; correct?

8 A. No. I remember it being approved to become a bank
9 holding company when it was in the paper after it was
10 approved, which I think was on the 22nd or 23rd.

11 Q. Well, first let me try to find that announcement,
12 but while I'm doing that, is it your testimony that as
13 the chairman of the audit committee of Goldman Sachs, you
14 found out that it had become a bank holding company by
15 reading the newspapers?

16 A. It's my testimony that on September 18 when I
17 became the chairman and CEO of AIG, that got all my
18 attention and focus. I did not participate fully in this
19 meeting that was -- that was done on the 21st, and
20 because I told them I was going to resign, I don't think
21 I got any notification prior to that.

22 Q. When you say you don't believe you got any
23 notification --

24 A. As you say, prior to understanding from the media
25 or -- or maybe someone in the Federal Reserve -- maybe

1 Sarah told me. I don't remember how I found out.

2 Q. I mean, you certainly knew that there was going to
3 be a board meeting on September 21 because you
4 participated in it.

5 A. I did. I got a telephonic notification. I did.

6 Q. And prior to that, had you gotten telephonic
7 notification of a board meeting on September 19?

8 A. I don't remember that, Mr. Boies.

9 Q. Do you recall being informed that Morgan Stanley
10 had advised the Federal Reserve that without federal
11 assistance, Morgan Stanley would not be able to open on
12 Monday?

13 A. I do not recall that. There were -- there were
14 great suspicions to that effect, but I don't recall
15 anybody telling me this is exactly what's going to
16 happen.

17 Q. Let me ask you to look at Plaintiffs' Trial
18 Exhibit 175 that is already in evidence.

19 A. I'm sorry. This is the joint trial exhibit?

20 Q. This is a plaintiffs' trial exhibit.

21 A. 175.

22 Q. And I ask you just to read the first two lines of
23 that to yourself. It's been read into the record a
24 number of times.

25 (Pause in the proceedings.)

1 And when you finish, please let me know.

2 A. I've read it.

3 Q. Does this refresh your recollection that on
4 Friday, September 19, Goldman Sachs was aware that
5 Morgan Stanley had indicated that they would not be able
6 to open the following Monday without government
7 assistance?

8 A. No, it does not. I think it was common knowledge
9 that Morgan Stanley was one of the less well-capitalized
10 investment banks.

11 Q. Was Goldman Sachs also panicked that week?

12 A. I think anyone in the financial world was panicked
13 that week and the weeks that followed. Everyone was
14 panicked about the liquidity crisis.

15 Q. Okay. Let me ask you to look at Plaintiffs' Trial
16 Exhibit 202.

17 MR. TODOR: Your Honor, we do not have a copy of
18 PTX 202 in our binder.

19 THE WITNESS: I don't have a 202, Mr. Boies.

20 MR. BOIES: It's not in the binder, Your Honor. I
21 didn't anticipate this line of difficulty.

22 Let me try a different document.

23 Plaintiffs' Trial Exhibit 202 is a September 21,
24 2008 Goldman Sachs press release.

25 Let me use Plaintiffs' Trial Exhibit 206 that is

1 in the binder, which is a Federal Reserve press release
2 of the same day, which I would offer.

3 MR. TODOR: No objection, Your Honor.

4 THE COURT: Plaintiffs' Trial Exhibit 206 is
5 admitted.

6 (Plaintiffs' Exhibit Number 206 was admitted into
7 evidence.)

8 BY MR. BOIES:

9 Q. And do you see where it says, "The Federal Reserve
10 Board on Sunday approved, pending a statutory five-day
11 antitrust waiting period, the applications of
12 Goldman Sachs and Morgan Stanley to become bank holding
13 companies"?

14 A. I do.

15 Q. And Sunday was September 21; correct?

16 A. Correct.

17 Q. It is the fact, is it not, sir, that at the time
18 of the Goldman Sachs board meeting the afternoon of the
19 21st, Goldman Sachs knew that it had already been
20 approved, that the Federal Reserve had already told it
21 that it was going to be approved as a bank holding
22 company? And that's what was said at the meeting;
23 correct?

24 A. I'm sorry. That's a complicated construction.

25 That's what was said at the meeting. At what

1 meeting? At the AIG meeting?

2 Q. At the Goldman Sachs meeting.

3 A. Oh, okay. Mr. Boies, I don't recall that. As I
4 said, I participated in only the start of that meeting
5 because I had to take care of the business at hand for
6 AIG and our board meeting that followed right on the
7 heels of this one.

8 So I plugged in to that board meeting
9 telephonically. I had to exit very, very quickly.

10 Q. I now have copies of Plaintiffs' Trial
11 Exhibit 202.

12 Did you see this press release at or about the
13 time that it was put out by Goldman Sachs on
14 September 21, 2008?

15 A. Not that I recall.

16 Q. Is it your testimony that on September 21, 2008,
17 you were unaware that Goldman Sachs had been approved to
18 become a bank holding company?

19 A. I simply don't remember it, Mr. Boies. I do not
20 remember that. And I didn't participate in that meeting
21 long enough to have been informed of that by the
22 Goldman Sachs chief executive.

23 Q. How long did that meeting last?

24 A. I have no idea because I stepped outside. I
25 started that meeting telephonically. I got called in to

1 another meeting. I have no idea how long the
2 Goldman Sachs board meeting went.

3 Q. How long were you on the call?

4 A. I can't give you a specific time. It was a very
5 short period of time. I don't -- I don't remember when
6 our board meeting was scheduled to start, but I had a
7 fair amount of work to do to get ready for that, so I
8 stepped out to get ready for that, for the AIG board
9 meeting.

10 Q. When is the first time that you recall being
11 aware that Goldman Sachs had become a bank holding
12 company or had been approved to become a bank holding
13 company?

14 MR. TODOR: Objection, Your Honor. Asked and
15 answered.

16 THE COURT: Overruled.

17 THE WITNESS: I just do not remember.

18 BY MR. BOIES:

19 Q. Did the audit committee need to meet to prepare
20 for Goldman Sachs to become a bank holding company?

21 A. It would have been a full board decision.

22 Q. It would have been a full board decision, but that
23 wasn't my question. My question was whether the
24 Goldman Sachs audit committee had to meet to take certain
25 steps in preparation for Goldman Sachs becoming a bank

1 holding company.

2 A. I don't -- I don't recall that. I don't recall
3 whether they had to or not. I don't know if they did. I
4 don't think they did. I don't remember them doing it.

5 Q. Did you participate in any audit committee
6 meetings on or about September 18, 19 and 20?

7 A. Not to my recollection.

8 Q. When was the last audit committee meeting that you
9 attended or participated in prior to resigning?

10 A. I don't recall, Mr. Boies.

11 Q. Approximately.

12 A. I just have no idea.

13 Q. Was it the week of September 16?

14 A. I don't recall, Mr. Boies.

15 Q. Would you agree with me that if you had known
16 that Goldman Sachs had been approved to become a bank
17 holding company, it would not have been appropriate for
18 you to make the statement that you made to the AIG
19 board?

20 MR. TODOR: Objection. One, hypothetical and
21 beyond the rational perception of the witness. Two,
22 unclear what is referred to by the statement that he made
23 to the AIG board.

24 MR. BOIES: I think the second part is
25 well-taken, Your Honor, and I probably should be

1 clearer.

2 THE COURT: All right. Let's clarify it.

3 BY MR. BOIES:

4 Q. You told the AIG board that there was an urgency
5 to approve the credit agreement even though the credit
6 agreement had not been finally drafted because there
7 were indications that the Federal Reserve Bank was not
8 going to come to the aid of other troubled issuers;
9 correct?

10 A. Correct.

11 Q. And would you agree with me that it would not have
12 been appropriate to tell the board that if you had known
13 that contemporaneously Goldman Sachs was being approved
14 as a bank holding company?

15 A. No, I wouldn't agree with that. There were a lot
16 of other issuers besides Goldman Sachs. The world wasn't
17 uniquely defined by Goldman Sachs. There were a whole
18 host of banks that were in trouble.

19 Q. Do you agree with me that permitting Goldman Sachs
20 and Morgan Stanley to become bank holding companies was
21 coming to the aid of Goldman Sachs and Morgan Stanley?
22 Would you agree with that?

23 A. I would.

24 Q. Okay. And if you had known that the
25 Federal Reserve was coming to the aid of Goldman Sachs

1 and Morgan Stanley, that is something that would have
2 been appropriate for you to tell the AIG board; correct?

3 A. I would have told them if I had known it, but I
4 would have also said, as I just said to you, there's a
5 lot of other financial institutions that are on the
6 cliff. We do not know what the disposition of what help,
7 if any, is going to be provided to them.

8 Q. Did you ever discuss with anybody at AIG the
9 possibility of AIG becoming a bank holding company?

10 A. I did not.

11 Q. Did you know whether AIG had earlier requested the
12 ability to become a bank holding company?

13 A. I do not recall. Bob Willumstad and his team went
14 through a very rigorous process for the -- I don't
15 know -- two or three weeks before I arrived, and I assume
16 that's one of the things they looked at, but I don't know
17 that for a fact.

18 Q. When you became CEO, you were aware that
19 Goldman Sachs was at least considering as one of its
20 options becoming a bank holding company; correct?

21 A. Correct.

22 Q. Did you suggest to anybody that week of
23 September 16 that AIG consider becoming a bank holding
24 company?

25 A. I did not.

1 Two thoughts for you, Mr. Boies. Goldman Sachs
2 and Morgan Stanley were banks, so they changed the type
3 of banks that they were to bank holding companies. AIG
4 was not a bank. It was an insurance company.

5 Second, the arrangement that we struck with the
6 Federal Reserve on September 16 I considered to be a
7 binding arrangement. As I mentioned to you earlier,
8 funds were already flowing from the Federal Reserve into
9 AIG. I considered that to be the arrangement that the
10 Federal Reserve offered us. It was not going to be
11 changed.

12 Q. If you considered the September 16 arrangement as
13 a binding arrangement that was not going to be changed,
14 did you believe that you were able to prevent the
15 Federal Reserve from changing that arrangement?

16 A. I thought we probably had the legal right. And
17 had they changed it, I guess we could have gone to court,
18 but going to court with a -- you know, something of the
19 size, prestige and power of the Federal Reserve would
20 have taken a long time and we would have been -- we would
21 have been bankrupt in the interim.

22 Q. With respect to any of the changes that the
23 Federal Reserve was making to the original term sheet,
24 did you or anyone on behalf of AIG go to the
25 Federal Reserve and say, "We've got a binding

1 arrangement. It's not supposed to be changed"?

2 A. Not the way you framed it because there were
3 pieces of that loan arrangement that were particularly
4 harsh. Boy, they were particularly harsh. Two years to
5 sell the kinds of assets we had to sell and be able to
6 repay the Federal Reserve is a woefully inadequate amount
7 of time, so there were pieces of it that I very much
8 wanted to have changed, so I -- I had to -- it was like
9 walking on eggshells. I wanted to get things changed,
10 but I didn't want to go so far that anybody would think
11 that the original document that was signed on
12 September 16 wasn't binding.

13 Q. You didn't get the two years changed, did you?

14 A. Well, yes, I did.

15 Q. When?

16 A. In November.

17 Q. Well, in November when they restructured it, yes,
18 but --

19 A. Whoa, whoa.

20 Q. -- on September 22, you didn't get anything
21 changed; right?

22 A. I did not. But seven weeks later, eight weeks
23 later, because of all the work that had been done in the
24 interim, we were able to get it changed.

25 Q. And do you know why they changed it?

1 A. When the Federal Reserve --

2 Q. The answer is, do you know why they changed it --
3 the question is, do you know why they changed it?

4 A. Yes, I do.

5 Q. Okay. How did you find that out?

6 A. Well, the change was a negotiated -- why they
7 changed it in November?

8 Q. Yes.

9 A. It was a negotiated process as to what can we do
10 to make things better so that there's a higher
11 probability the Federal Reserve will get repaid.

12 Q. Exactly.

13 The Federal Reserve, as you understood it,
14 concluded that the terms were so onerous on AIG that it
15 was actually counterproductive and it was imperiling
16 their ability to get repaid; correct?

17 A. I think it was much broader than that. Can I
18 explain?

19 Q. Did it include that?

20 A. Yes.

21 Q. Okay.

22 A. Can I explain or are we done with that?

23 Q. Yes. If you have an explanation, go ahead.

24 A. I think when the Federal Reserve went into the
25 company in September, it was -- it was probably

1 irritated and mad that they had to bail it out. I think
2 there's this concept of, you know, moral hazard that's
3 probably been examined in this courtroom at length.

4 But I think as they got to know the company --
5 you know, insurance is regulated on a state-by-state
6 basis. There's no repository in the federal government
7 of how insurance companies work.

8 As they got to know the company, they got to
9 understand it, they got to understand the issues, they
10 had some confidence and trust I think in me and in the
11 board and the management team, they were more willing to
12 consider things.

13 On September 16 after they just signed that
14 agreement, they were not willing to consider any changes
15 to it, but seven weeks later they were.

16 Q. On September 22, they were making changes
17 themselves; correct?

18 A. We were -- we were filling in the blanks. The
19 basic arrangement that was signed on September 16 and the
20 spirit of that agreement continued over into what was
21 agreed by the board on September 21. The particulars of
22 what went into the credit agreement itself, the multi
23 pages, that was still being worked on.

24 Q. The original credit agreement term sheet provided
25 for warrants, the original one; correct?

1 MR. TODOR: Objection. Misstates prior testimony.
2 Assumes facts not in evidence.

3 MR. BOIES: I'll direct the witness' attention to
4 JX 63.

5 THE COURT: I think you said "credit agreement."
6 You may have meant "term sheet"?

7 MR. BOIES: I hope I said "credit agreement term
8 sheet." But I may not have.

9 THE COURT: Oh, you did. Okay. You did.

10 MR. TODOR: Our objection continues, Your Honor.
11 The --

12 THE COURT: I don't understand.

13 MR. TODOR: Counsel has not laid a foundation for
14 the JX 63 version having been approved by AIG.

15 MR. BOIES: A, I think I have. But B, I think
16 that's irrelevant to this question.

17 There is no doubt that this is a term sheet that
18 was approved by the Board of Governors. It's the only
19 term sheet approved by the Board of Governors. And --
20 and if there is an argument that somehow a different term
21 sheet was changed between the Board of Governors meeting
22 and the board meeting, that still doesn't mean that this
23 was not the original term sheet.

24 MR. TODOR: Your Honor, may we be heard in
25 response?

1 THE COURT: Sure.

2 MR. TODOR: This matter may require a discussion
3 of prior testimony, and as such, if the Court would
4 prefer that the witness be excused while we do so, we
5 would agree to that as well.

6 THE COURT: Is that really necessary?

7 MR. TODOR: No, Your Honor. But we just --
8 counsel previously objected to speaking objections while
9 a witness was on the stand. We do not wish to violate
10 that request of opposing counsel.

11 THE COURT: I'm going to overrule the objection.
12 I'll allow the question and answer.

13 MR. TODOR: Thank you, Your Honor.

14 BY MR. BOIES:

15 Q. Let me ask you to just as a predicate look at
16 Joint Exhibit 63 page 6.

17 And this is the term sheet as of the afternoon
18 meeting of the Board of Governors of the Federal Reserve;
19 correct?

20 A. It appears to be. Yes.

21 Q. And it provides for warrants; correct?

22 A. It does.

23 Q. And those warrants would require shareholder
24 approval for conversion into common stock; correct?

25 A. I believe so.

1 Q. And they would require an exercise price;
2 correct?

3 A. I believe so. Yes.

4 Q. And the exercise price, in the absence of a
5 shareholder vote to change the articles of incorporation,
6 would have been more than \$29 billion to get 79.9 percent
7 of the stock; correct?

8 MR. TODOR: Objection. Beyond the witness'
9 perception. Counsel has not established any foundation
10 that the witness either saw this document or considered
11 the question counsel is posing to the witness.

12 THE COURT: Overruled. If he doesn't know the
13 answer, he can tell us that.

14 MR. TODOR: Thank you, Your Honor.

15 THE COURT: He can say he doesn't know.

16 THE WITNESS: I just simply don't know, Mr. Boies.

17 I'd also go back up to your point on the warrants.
18 There were circumstances under which things could be done
19 and you didn't need shareholder approval, the exigent
20 circumstances arrangement, and I think that came into
21 play in this discussion. Shareholder approval,
22 et cetera.

23 BY MR. BOIES:

24 Q. The exigent circumstances is something that if the
25 board and the audit committee activated an exemption to

1 the New York Stock Exchange rules would permit the
2 issuance of the preferred stock without shareholder
3 approval. That's what you're referring to; correct?

4 A. Yes.

5 Q. That does not relate, however, to the requirement
6 under Delaware law that you have shareholder approval to
7 increase the number of shares or to change the par value
8 of those shares; correct?

9 A. Mr. Boies, I just do not know. I did not
10 concentrate on this whole area of warrants or preferred
11 stock. We had great general counsel and great legal
12 advice on it, and they concentrated on it.

13 Q. Did you ask your great general counsel whether she
14 thought the difference between warrants and preferred
15 stock was important?

16 A. Your Honor, am I allowed to take Mr. Boies back to
17 the minutes of September 21, or is that a procedural
18 no-no?

19 THE COURT: If you've suddenly discovered
20 something that will aid your answer, I'd say go ahead.

21 THE WITNESS: I was just -- while Mr. Boies was
22 asking questions, I was just reading this, and on --

23 THE COURT: Sure.

24 THE WITNESS: On page 6 of JX 103, it says, "In
25 response to a director's question, Mr. Beattie stated

1 that the grant of equity rights to the government in the
2 form of preferred stock rather than warrants is
3 consistent with the spirit of the agreement approved at
4 the September 16 meeting."

5 So this item did get discussed amongst the
6 general -- our general counsel and our advisors, was
7 discussed at the board, and most people's reaction I
8 think was similar to mine. There were so many other more
9 pressing aspects of this loan agreement that -- that --
10 that -- that I certainly concentrated on. Mr. Beattie
11 gave us assurance it was the same.

12 BY MR. BOIES:

13 Q. Well, he doesn't say the same, does he? He says
14 "consistent with the spirit of the agreement." And did
15 you ask what he meant by that at the time?

16 A. I don't recall.

17 Q. Did you ask him whether that affected shareholder
18 approval?

19 A. I don't recall what discussions we had around
20 this, this particular item, with Mr. Beattie. I was
21 just trying to be responsive to the question that you
22 raised.

23 Q. Let me ask you to look at Plaintiffs' Trial
24 Exhibit 182, which is Ms. Kelly's September 21 e-mail.

25 Where she says the equity piece, quote, is the

1 most important, do you see that?

2 A. I see it.

3 Q. Did she ever explain to you why she believed the
4 equity piece was the most important?

5 A. No, she didn't. And I would have disagreed with
6 her if she had.

7 Q. Do you recall telling me just a few moments ago
8 that you had a great general counsel and you would rely
9 on them in these areas? Do you remember telling me
10 that?

11 A. I believe what I told you was we had a great
12 general counsel and we had very strong outside advisors
13 and I relied upon them, yes.

14 Q. And Ms. Kelly, who was the author of
15 Plaintiffs' Trial Exhibit 182, was your great general
16 counsel; correct?

17 A. Yes, she was.

18 Q. Continuing on with Joint Exhibit 103, the
19 September 18 board meetings, on page 4, the second
20 paragraph --

21 A. Hold on, Mr. Boies, hold on.

22 Okay. I've got it, page 4.

23 Q. Page 4, the second paragraph, the second sentence,
24 it says, "Mr. Wiseman" -- and that's one of your outside
25 lawyers; correct?

1 A. It is.

2 Q. -- "Mr. Wiseman advised the members that, based on
3 his conversations with the General Counsel of the Bank,
4 he believed that if the Board did not approve the
5 transaction that evening, the likely result would be that
6 the Bank would refuse to fund the Corporation the next
7 day."

8 Do you see that?

9 A. I do.

10 Q. And you informed the board that the corporation
11 had drawn \$37 billion to date; correct?

12 A. I did.

13 Q. And you believed that because of the fact that the
14 bank had drawn \$37 billion pursuant to secured demand
15 notes, AIG was in a materially worse position to consider
16 bankruptcy on the 21st than it had been on the 16th;
17 correct?

18 A. Well, would you -- would you just go over the
19 predicate of that for me one more time?

20 Q. Sure.

21 Between September 16 and September 21, AIG had
22 borrowed \$37 billion from the Fed pursuant to secured
23 demand notes; correct?

24 A. Correct.

25 Q. And you believed that because of that \$37 billion

1 of borrowings pursuant to secured demand notes, AIG was
2 in a worse position to consider bankruptcy on the 21st
3 than it had been on the 16th; correct?

4 A. I don't think I believed that. I think
5 bankruptcy was a -- was a -- was an awful option on
6 either date. I don't know that I qualified it and said
7 it would have been worse on the 21st.

8 I'm not -- I'm not sure -- I just don't get it.
9 I'm not sure why you conclude that.

10 Q. Well, I'm not -- I'm not necessarily concluding
11 that because I don't get to testify, but I was asking you
12 whether you had concluded that.

13 A. No. Bankruptcy was a truly catastrophic
14 alternative on either day. I don't know that you can
15 parse catastrophic.

16 THE COURT: Shall we adjourn there for today?

17 MR. BOIES: Yes, Your Honor.

18 THE COURT: All right. We'll reconvene tomorrow
19 morning at 9:30.

20 (Whereupon, at 5:00 p.m., the proceedings were
21 adjourned.)

22

23

24

25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

CERTIFICATE OF TRANSCRIBER

I, Josett F. Whalen, court-approved transcriber,
certify that the foregoing is a correct transcription
from the official digital sound recording of the
proceedings in the above-titled matter.

DATED: OCTOBER 17, 2014

/S/ Josett F. Whalen

JOSETT F. WHALEN, COURT REPORTER

1			ADMITTED EXHIBITS
2	PX	PAGE	DESCRIPTION
3	173	3038	Email (9/20/2008 9:43 am)
4			From: Nick Ashooh
5			To: AIG Recipients
6			re: Town Hall Transcript
7			Attaching unedited Transcript from September
8			18, 2008 12:00 PM AIG Townhall
9	182	3056	Email (9/21/2008 9:27 am)
10			From: Anastasia Kelly
11			To: Nick Ashooh, William Dooley, Kris Moor,
12			Nicholas Walsh, Steven Bensinger, David
13			Herzog, Oakley Johnson, Win Neuger, Robert
14			Clyde, Charlene Hamrah, Teri Watson, Robert
15			Lewis, Brian Schreiber, Philip Jacobs, Richard
16			Booth, Andrew Kaslow, Sunil Mehta, cc:
17			Kathleen Shannon, Ken Harkins, Paolo Grassi,
18			Jeffrey Hurd, Eric Litzky, Suzanne Folsom,
19			David Saks, Nicholas Kourides, John Cafiero,
20			Rich Merski
21			re: Fed Agreement
22	206	3079	2008.09.21 Federal Reserve Board Press Release
23			re: Approved statutory five-day antitrust
24			waiting period for Goldman Sachs and Morgan
25			Stanley to become bank holding companies

1 429 2904 Email (2/21/2009)
2 From: Doug Foshee
3 To: Sarah Dahlgren
4 re: Re: Update on week's events -- AIG
5 461 2961 Email (3/12/2009)
6 From: James Bergin
7 To: Sarah Dahlgren, cc: Alejandro Latorre,
8 Helen Mucciolo, James Hennessy, Sandy Krieger,
9 Stephanie Heller, Steven Manzari, Zachary
10 Taylor, Joyce Hansen, Michael Nelson
11 re: Re: Just wanted to clear up some things
12 462 2959 Email (3/12/2009 11:56 pm)
13 From: Kathleen Shannon
14 To: Sarah Dahlgren, James Hennessy
15 re: Fw: Counterparties
16 471 3006 March 18, 2009 Hearing before the Subcommittee
17 on Capital Markets, Insurance, and Government
18 Sponsored Enterprises: American International
19 Group's Impact on the Global Economy: Before,
20 During, and After Federal Intervention
21
22
23
24
25

1 515 2931 Email (5/12/2009 5:05 pm)
2 From: Alan Avery
3 To: Sarah Dahlgren, Thomas Baxter, cc: Kevin
4 Barnard, James Hennessy, Stephanie Heller,
5 Charles Gray, Michele Kalstein, David Gross,
6 Karen Ku
7 re: Reports of AIG Credit Facility Trust
8 516 3066 May 13, 2009 Hearing before the Committee on
9 Oversight and Government Reform: AIG: Where is
10 the Taxpayers' Money Going?
11 1616 2939 Memo (9/19/2008)
12 From: Edward Murphy
13 To: Robert Pofsky
14 re: Accounting for the AIG Transaction
15 2109 3017 AIG Notice of Annual Meeting of Common
16 Shareholders to be held June 30, 2009
17 2773 2953 Federal Reserve Bank of New York document
18 regarding AIG and Maiden Lane III
19 2774 2955 Manzari emails to Davis Polk
20 2806 2949 November 4, 2008 document
21
22
23
24
25

1	DX	PAGE	DESCRIPTION
2	754	2906	AIG CREDIT FACILITY TRUST MEETING - FEBRUARY
3			27, 2009 FEDERAL RESERVE BANK OF NEW YORK
4			SEVENTH FLOOR, LEGAL MAIN CONFERENCE ROOM
5			AGENDA
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			