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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, November 6, 2014
9:30 a.m.
Trial Volume 28

BEFORE: THE HONORABLE THOMAS C. WHEELER

Josett F. Whalen, RMR-CRR, Reporter

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	I N D E X				
1					
2					
3	WITNESS:	DIRECT	CROSS	REDIRECT	RECROSS VOIR
4	WILLUMSTAD		6476	6525	
5	SCHREIBER	6531	6685		
6					
7					
8	EXHIBITS	FOR ID	IN EVID		
9	Plaintiffs'				
10	Number578		6669		
11	Number601		6690		
12	Number1060		6478		
13	Number1408		6482		
14					
15	Defendant's				
16	Number212		6552		
17	Number233		6570		
18	Number242		6587		
19	Number255		6576		
20	Number296		6591		
21	Number337		6599		
22	Number338		6605		
23	Number383		6602		
24					
25					

1	EXHIBITS	FOR ID	IN EVID
2	Defendant 's		
3	Number711		6629
4	Number723		6640
5	Number1418		6540
6	Number1452		6608
7	Number1503		6618
8	Number1558		6643
9	Number1561		6633
10	Number1563		6645
11	Number1919		6528

12

13 Joint

14 (none)

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16

17

18

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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 for day
5 number 28 in the trial of Starr International Company
6 versus the United States.

7 Good morning, gentlemen.

8 MR. GARDNER: Good morning, Your Honor.

9 I just have a very -- or a couple of very brief
10 housekeeping matters before we begin today.

11 THE COURT: Sure. That would be fine.
12 Do you want Mr. Willumstad to step outside?

13 MR. GARDNER: Yes, please. I'm sorry.

14 THE COURT: We'll be with you in a minute, sir.
15 (Whereupon, the witness was not present in
16 open court.)

17 MR. GARDNER: This should hopefully be quick. And
18 the first we can do while he's walking out.

19 We have made the photographs of
20 Defendant's Demonstrative 037, and I just wanted to be
21 able to hand those up if I could.

22 THE COURT: Okay.

23 MR. GARDNER: May I approach?

24 THE COURT: Sure.

25 Thank you.

1 MR. GARDNER: The second issue, Your Honor, I
2 spoke to Mr. Boies about this right before we began
3 today, and I think it may make sense, being on the cusp
4 of a fairly long, what, I guess five-day weekend or so,
5 to sort of talk scheduling going forward. I think the
6 good news is both parties think we're closer to the end
7 than the beginning, which is very, very good news.

8 But because we still have a bit of our case in
9 chief to present and we're trying to do some very
10 complicated scheduling because almost the entirety of the
11 government's case in chief are third parties and we're
12 trying not to inconvenience anyone, we wanted to get a
13 sense from the Court as to end dates and things like
14 that.

15 I spoke to Mr. Boies, and with the, you know,
16 Court's obviously views, the schedule we have tried to
17 come up with I think contemplates that we would be able
18 to rest likely on the 21st, that Friday, not the
19 following Friday but the Friday thereafter. I know
20 originally there was sort of a sense that it might be
21 around the 18th, that Tuesday, and then with the extra
22 day and things of that nature.

23 I spoke to Mr. Boies, and I don't want to speak
24 for him, but I understand from Mr. Boies that he believes
25 he might have about four hours of a rebuttal case.

1 Obviously the government at this juncture isn't
2 acquiescing that rebuttal is even appropriate at this
3 juncture, but it seemed that -- and I'm not trying to --
4 I don't think we need to address that now obviously. But
5 for scheduling purposes going forward, we do want to get
6 a sense from the Court as to whether or not going to that
7 Friday, the 21st, was something that the Court would find
8 to be appropriate.

9 THE COURT: I think that will work fine. Yeah. I
10 think if you can finish by then, I think that will work
11 well.

12 I can tell you, just from my own observations, I
13 think we're perhaps reaching a point of diminishing
14 returns on the facts. I think I have a pretty good idea
15 of what the facts are, and there's no sense to be
16 cumulative or redundant.

17 MR. GARDNER: And I can represent to Your Honor
18 completely, you know, 100 percent that the government is
19 making every effort to triage the case.

20 I think just to give the Court some perspective of
21 what you're going to see going forward from the
22 government, one thing you have not heard from plaintiffs'
23 case in chief at all is from the AIG board itself, other
24 than Mr. Liddy, who wasn't there on the 16th, and now
25 from Mr. Willumstad, so it is our expectation that you

1 will hear from one or more additional board members.

2 In addition, you really haven't heard
3 much in the way of fact testimony about the
4 January 2011 recapitalization. You've heard some expert
5 testimony from Dr. Kothari on that issue.

6 THE COURT: 2011?

7 MR. GARDNER: Correct.

8 THE COURT: Okay.

9 MR. GARDNER: Yeah. And that becomes --

10 THE COURT: You're right, from the mere fact I had
11 a question about the date.

12 MR. GARDNER: Exactly. But that is obviously
13 significant because Dr. Kothari is monetizing the E and F
14 shares, which are directly related to that.

15 So just to give you a bit of a preview, and then I
16 think you'll -- I don't think -- you will hear from the
17 government's experts, which obviously those tend to take
18 a little more time than the fact witnesses. But we are
19 making every effort to streamline the case and make sure
20 that we are not presenting cumulative testimony.

21 THE COURT: Sure. Streamlining is encouraged.

22 MR. GARDNER: I understand.

23 THE COURT: No. But I think what you're proposing
24 should work well.

25 MR. GARDNER: Great. Thank you, Your Honor. I

1 appreciate it.

2 THE COURT: The absolute problem I want to avoid
3 is I don't want to get in really to the week before
4 Thanksgiving. Traveling becomes a problem for anybody
5 coming from out of town.

6 MR. GARDNER: I completely understand.

7 THE COURT: And if you start conflicting with the
8 other events that I have scheduled -- you may not find
9 this believable, but I do have other cases.

10 MR. GARDNER: That's shocking to me, Your Honor,
11 shocking.

12 THE COURT: And if we start getting into a
13 situation where we're talking about three hours here, two
14 hours there, that's just not going to work for a case
15 like this.

16 MR. GARDNER: And we are doing everything in our
17 power to prevent having gaps in the schedule.

18 Very candidly, the one gigantic challenge the
19 government has had is making sure that there aren't gaps
20 between witnesses on the one hand but not inconveniencing
21 a number of out-of-town witnesses to cool their heels in
22 a room only not to testify.

23 In fact, we're concerned that even today there may
24 be that problem of having two witnesses both who have to
25 go today and trying to get them in, and we are going to

1 do everything in our power to be efficient to present
2 them, and I know Mr. Boies is going to do everything in
3 his power to make sure the witnesses get on and off as
4 well.

5 But those are the kind of conflicting challenges
6 we're having, and I appreciate the Court's
7 understanding.

8 THE COURT: I understand. Yes.

9 So I'm glad you raised this subject and I think
10 what you're proposing will work.

11 MR. GARDNER: Thank you, Your Honor.

12 MR. BOIES: The only clarification I would add,
13 Your Honor, is that I told him that I anticipated my
14 rebuttal case, assuming we are entitled to a rebuttal
15 case, would be about four hours of my examination. That
16 didn't count his cross-examination. I think I will keep
17 my rebuttal case very short.

18 THE COURT: Okay. Very well.

19 MR. BOIES: Thank you, Your Honor.

20 (Pause in the proceedings.)

21 (Whereupon, the witness was present in
22 open court.)

23 THE COURT: Good morning, Mr. Willumstad.

24 THE WITNESS: Good morning, Judge.

25 THE COURT: I hope you had a good rest since

1 yesterday, and you understand that you're still under
2 oath in these proceedings?

3 THE WITNESS: I do.

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

5 - - - - -

6 Whereupon --

7 ROBERT WILLUMSTAD

8 a witness, called for examination, having been previously
9 duly sworn, was examined and testified further as
10 follows:

11 CROSS-EXAMINATION

12 BY MR. BOIES:

13 Q. Good morning, Mr. Willumstad.

14 A. Good morning, Mr. Boies.

15 Q. We have given you and I'm now handing up to the
16 Court two binders. They are thankfully not as extensive
17 as the government's binders. But one binder contains
18 excerpts from various documents that I'm going to use,
19 and the other binder contains a deposition that you have
20 given that I may reference.

21 The document binder, as I said, contains excerpts
22 just to keep it small. However, if at any time you want
23 to see the entire document, we have the entire document
24 here in court, and we're happy to furnish it for you to
25 look at it for context or for any other purpose you'd

1 like.

2 A. Thank you.

3 Q. I want to cover with you this morning sort of
4 three areas. One is the period leading up to
5 September 8, second is from September 8 up to
6 September 16, and then the third period is September 16.
7 And I'm going to begin chronologically with the period of
8 2006 and 2007.

9 You've testified to some extent about actions that
10 you took after you became the CEO on June 15, 2008. Do
11 you recall that?

12 A. I do.

13 Q. Even prior to the time that you became CEO, AIG
14 recognized that there were possible liquidity issues and
15 had begun work to try to make sure that AIG behaved in a
16 prudent way; correct?

17 A. Correct.

18 Q. And one of the things was that AIG established
19 a company-wide liquidity risk committee in 2007;
20 correct?

21 A. Correct.

22 Q. And the purpose was to try to build liquidity
23 starting in 2007; correct?

24 A. Yes.

25 Q. Let me show you or ask you to look at in your

1 binder Plaintiffs' Trial Exhibit 1060.

2 And this is an AIG credit risk management memo.

3 Do you see that?

4 A. I do.

5 Q. And it says it had been approved by the AIG credit
6 risk committee on October 23, 2007.

7 Do you see that in the top right-hand corner?

8 A. Yes.

9 Q. And there's a signature of the chairman of the
10 credit risk committee, and could you identify that
11 person.

12 A. It appears to be Kevin McGinn.

13 Q. And then in the very first line there it talks
14 about an October 1, 2007 presentation to the credit risk
15 committee concerning the AIG Securities Lending
16 portfolio.

17 Do you see that?

18 A. I do.

19 MR. BOIES: Your Honor, I would offer
20 Plaintiffs' Trial Exhibit 1060.

21 MR. ROBERSON: No objection, Your Honor.

22 THE COURT: Plaintiffs' Trial Exhibit 1060 is
23 admitted.

24 (Plaintiffs' Exhibit Number 1060 was admitted into
25 evidence.)

1 BY MR. BOIES:

2 Q. Let me ask you to look down at the bottom of the
3 page where it says "Cash Collateral Investment."

4 Do you see that?

5 A. Yes.

6 Q. And do you understand that to refer to cash that
7 is kept in the form of cash in the collateral investment
8 pool?

9 A. Yes.

10 Q. And it says, in the first bullet, "Collateral pool
11 cash on hand accounted for 15 percent of the overall pool
12 as of September 19, 2007. It currently stands at
13 19 percent and is projected to reach 20 percent in the
14 near future. The absolute level of overnight cash
15 investments increased from over \$2 billion at August 1,
16 2007 to \$18 billion as of September 28, 2007."

17 Do you see that?

18 A. I do.

19 Q. I don't expect you to have memorized or even
20 perhaps known those exact numbers, but does that
21 generally reflect one of the things that AIG was doing in
22 order to build liquidity?

23 A. Well, based on this memorandum, which I've never
24 seen before, I would agree with that.

25 Q. Let me ask you to look at Plaintiffs' Trial

1 Exhibit 1679.

2 And this says that it is an AIG domestic
3 securities lending update for state insurance departments
4 as of September 29, 2008.

5 Do you see that?

6 A. I do.

7 Q. Now, this was after you had left AIG; correct?

8 A. Correct.

9 Q. Were you aware, during the time that you were at
10 AIG, of work that AIG was doing with state insurance
11 departments to reduce the size of AIG's securities
12 lending operation?

13 A. Yes.

14 Q. And when did that start?

15 A. I don't recall when it started. I know I had
16 discussed it after I became CEO as to what the status
17 was, and I was told that there was a conscious effort to
18 reduce the size of the securities lending program.

19 Q. And is it fair to say that started, even though
20 you don't recall exactly when, that started before you
21 became CEO?

22 A. Yes.

23 Q. Now, you became aware of the possibility of
24 counterparty collateral calls with respect to AIG's CDS
25 business in 2007; correct?

1 A. Correct.

2 Q. And at that time did you and the AIG board
3 consider it a relatively small issue relative to the size
4 of AIG?

5 A. That's correct.

6 Q. And how was AIG doing overall as a company in
7 2006 and early 2007?

8 A. It had exceptional results.

9 Q. Exceptionally good results; correct?

10 A. Yes.

11 Q. And in the August-September 2007 time frame, did
12 you believe that AIG was well-capitalized and properly
13 reserved?

14 A. Yes.

15 Q. As part of the attempt to increase potential
16 liquidity reserves, AIG raised \$20 billion in capital in
17 May of 2008; correct?

18 A. Correct.

19 Q. And insofar as you were aware, that was the
20 largest private capital raise in history as of that time;
21 correct?

22 A. I think that's correct.

23 Q. Let me ask you to look at Plaintiffs' Trial
24 Exhibit 1408.

25 This is an AIG liquidity review finance committee

1 presentation on July 16, 2008; correct?

2 A. Correct.

3 MR. BOIES: Your Honor, I would offer
4 Plaintiffs' Trial Exhibit 1408.

5 MR. ROBERSON: No objection, Your Honor.

6 THE COURT: Plaintiffs' Trial Exhibit 1408 is
7 admitted.

8 (Plaintiffs' Exhibit Number 1408 was admitted into
9 evidence.)

10 BY MR. BOIES:

11 Q. Were you present at this finance committee
12 presentation?

13 A. I believe so.

14 Q. Let me ask you to look on page 2 of the exhibit
15 where it says "Executive Summary."

16 Do you have that?

17 A. I do.

18 Q. And opposite the heading Liquidity it says,
19 "Approximately \$12.3 billion remains from the capital
20 raise and, when combined with other sources of
21 liquidity, provides a cushion except in the most extreme
22 scenarios."

23 Do you see that?

24 A. I do.

25 Q. And did you and the members of the AIG board

1 believe that as of the middle of July 2008?

2 A. We did.

3 Q. Now, is it the case that nevertheless AIG, in July
4 and beginning in July, undertook to raise still
5 additional capital and liquidity?

6 A. What time frame are you referring to, please?

7 Q. I'm referring to the period in July of 2008.

8 A. There was a capital raise -- I don't recall
9 whether it was July or August -- for three or four
10 billion dollars.

11 Q. And is it the case that through July and August of
12 2008 you and AIG worked to further strengthen AIG's
13 balance sheet to be prepared in case a crisis arose in
14 addition to the three or four billion dollar capital
15 raise that you identified?

16 A. Yes.

17 Q. Did you identify certain nonstrategic businesses,
18 retain financial advisors and begin the process of
19 selling those businesses to raise cash?

20 A. Yes.

21 Q. To conserve cash, did you stop discussion relating
22 to a number of acquisitions that you had been
23 contemplating?

24 A. Yes.

25 Q. Did you develop and implement an aggressive plan

1 to further reduce expenses?

2 A. Yes.

3 Q. And did you begin to attempt to negotiate
4 transactions with other private parties to raise
5 additional capital or liquidity?

6 A. That was in September.

7 Q. And one of those private parties that you retained
8 was JPMorgan; correct?

9 A. Correct.

10 Q. Let me turn to a related subject for a moment, and
11 that is mark-to-market accounting.

12 A. Yes.

13 Q. Which you're very familiar with; correct?

14 A. Yes.

15 Q. And is it the case that when the market for the
16 underlying bonds that were protected by CDSs that AIG had
17 issued froze, the accounting rules required AIG to
18 "mark-to-market" the value of its swaps?

19 (Pause in the proceedings.)

20 Did you respond to that?

21 A. I'm sorry. Was that a question?

22 Q. Yes.

23 A. Oh. Yes.

24 Q. And that happened toward the end of 2007;
25 correct?

1 A. Correct.

2 Q. And the problem is that the market was not
3 functioning, and so there really wasn't a mark-to-market
4 price; correct?

5 A. There was no market. That's correct.

6 Q. And the way the accounting rules were applied was
7 applying them in an unprecedented situation; correct?

8 A. Correct.

9 Q. And applying the accounting rules in this
10 unprecedented situation forced AIG to recognize tens of
11 billions of dollars in accounting losses in the first
12 quarter of 2007 and the first two quarters of 2008;
13 correct?

14 A. I'm sorry. Can you give the time frames again?

15 Q. Sure.

16 In the first quarter of -- first two quarters of
17 2008 and the last quarter of 2007 --

18 A. Yes, that's correct.

19 Q. -- AIG was forced to recognize tens of billions of
20 dollars of accounting losses; correct?

21 A. Correct.

22 Q. And the reason that AIG was forced to recognize
23 these tens of billions of dollars in accounting losses
24 was the application of the mark-to-market accounting
25 rules to AIG's business; correct?

1 A. Correct.

2 Q. And AIG was forced to recognize these accounting
3 losses even though, as far as you were aware, AIG had
4 made very few payments on any of the credit default swaps
5 it had written; correct?

6 A. Correct.

7 Q. And the vast majority of securities underlying
8 those swaps were still paying and still rated investment
9 grade or better by the rating agencies; correct?

10 A. Correct.

11 Q. Are you aware that there came a time in 2009 --
12 and I know that you had left AIG by that time, but
13 nevertheless you continued to be involved in the
14 financial markets; correct?

15 A. Yes.

16 Q. And are you aware that sometime in 2009 the
17 mark-to-market accounting rule was modified?

18 A. That, I'm not aware of.

19 Q. As of February of 2008, AIG believed that any
20 credit impairment losses realized over time by AIGFP
21 would not be material to AIG's consolidated financial
22 condition; correct?

23 A. I'm going to -- when you say "realized," you mean
24 accounting losses or actual losses?

25 Q. Rather than me try to interpret this, I'm going

1 to ask you to look at Joint Exhibit 9 that's in your
2 book.

3 And if you want to look at it just for
4 context, if you would turn to page 33 of your
5 October 15, 2013 deposition, where you also discussed
6 this issue.

7 MR. ROBERSON: Your Honor, I don't believe that's
8 a proper use of the deposition testimony. If he had
9 testified and it was inconsistent, then I think it would
10 be appropriate to bring in the deposition testimony, but
11 to simply put the deposition testimony in front of him
12 and then ask him if it was consistent with what he's now
13 going to say I don't think is appropriate.

14 THE COURT: Mr. Boies?

15 MR. BOIES: I don't need to use the deposition. I
16 can go from the document. I just wanted the witness to
17 have the opportunity to know that he talked about it
18 before.

19 THE COURT: Okay.

20 MR. BOIES: But I can set the deposition aside.

21 THE COURT: Okay. We'll set the deposition
22 aside.

23 BY MR. BOIES:

24 Q. Let me direct your attention to Joint Exhibit 9,
25 page 5.

1 And in the third paragraph, five lines down, do
2 you see a sentence that begins, "Based upon its most
3 current analyses, AIG believes that any credit impairment
4 losses realized over time by AIGFP will not be material
5 to AIG's consolidated financial condition"?

6 Do you see that?

7 A. Yes.

8 Q. And was that the view of yourself and the AIG
9 board at the time that this SEC filing was made?

10 MR. ROBERSON: Your Honor, I object that he read a
11 portion of that sentence. And for completeness, could
12 the rest of the sentence be read?

13 THE COURT: You want him to read the rest of the
14 sentence? All right. Let's do that.

15 BY MR. BOIES:

16 Q. It says "although it is possible that realized
17 losses could be material to AIG's consolidated results of
18 operation for an individual reporting period."

19 Do you see that?

20 A. I do.

21 Q. Now, let me go back to my question.

22 Based upon its most current analyses as of the
23 time of this SEC filing that is represented by
24 Joint Exhibit 9, did you and the board agree that any
25 credit impairment losses realized over time by AIGFP

1 would not be material to AIG's consolidated financial
2 condition?

3 A. Yes.

4 Q. And go to the next sentence, where it says,
5 "Except to the extent of any such realized credit
6 impairment losses, AIG expects AIGFP's unrealized market
7 valuation losses to reverse over the remaining life of
8 the super senior credit default swap portfolio."

9 And is that something that you and the AIG board
10 believed was true at the time that JX 9 was filed?

11 A. Yes.

12 Q. And at some point AIG had retained BlackRock;
13 correct?

14 A. Correct.

15 Q. And BlackRock believed that if AIG continued to
16 hold its positions through maturity, AIG would be
17 financially better off than if it sold them at the then
18 current market prices; correct?

19 A. Correct.

20 Q. Let me turn to the securities lending business,
21 and in that connection let me begin by asking you to look
22 at Plaintiffs' Trial Exhibit 1679.

23 Oh, that's the one I already showed you. You
24 don't have to look at that.

25 Is it the case that AIG did not face significant

1 cash demands from securities lending counterparties until
2 on or around Monday, September 15, or possibly Friday,
3 September 12?

4 A. Correct.

5 Q. And the week of September 8 was a very volatile
6 week for financial markets generally; correct?

7 A. Correct.

8 Q. At the beginning of that week, reports began to
9 circulate that Lehman was in trouble and might have to
10 file for bankruptcy; correct?

11 A. Correct.

12 Q. And that, is it fair to say, roiled the financial
13 markets?

14 A. It did. But it was also in conjunction with
15 Fannie Mae and Freddie Mac being taken over, if you will,
16 by the federal government.

17 Q. And then later in the week, reports began to be
18 circulated that Merrill Lynch was in trouble; correct?

19 A. Correct.

20 Q. And is it fair to say that the crisis that
21 required AIG to seek assistance from the Federal Reserve
22 was not limited to AIG; it was a market-wide crisis of
23 confidence that affected the entire financial industry
24 and the American and global economy?

25 A. Correct.

1 Q. Let me turn now to the week of September 8.

2 On or about Labor Day of 2008, you had retained
3 JPMorgan; correct?

4 A. Correct.

5 Q. And they had been working with you beginning
6 around Labor Day and continuing during the week of
7 September 8, 2008 to try to raise additional capital for
8 AIG; correct?

9 A. Correct.

10 Q. And Saturday of that week was September 13;
11 correct?

12 A. Correct.

13 Q. And on Saturday, you came to the view that
14 Lehman Brothers, who had been the subject of news reports
15 earlier in the week, would probably go into bankruptcy;
16 correct?

17 A. That's right.

18 Q. And you also found out over that weekend that
19 Bank of America was going to acquire Merrill; correct?

20 A. I only found out about that I think it was Sunday
21 evening when it was announced publicly.

22 Q. And the combination of Lehman and Merrill
23 developments led you to conclude that AIG would need
24 additional capital because the markets would react very
25 negatively; correct?

1 A. That's correct.

2 Q. Now, on Saturday, September 13, you had a morning
3 telephone call with representatives of the
4 Federal Reserve System; correct?

5 A. I don't know that I had a phone call.

6 Q. Did you participate in a telephone call with
7 Jacob Frenkel?

8 A. Oh, yes. Yes. That's correct.

9 Q. And Jacob Frenkel was a member of the AIG board?

10 A. He was not.

11 Q. He was not.

12 What was Jacob Frenkel's position?

13 A. He was a senior executive inside the company.

14 Q. A senior executive inside AIG?

15 A. Yes.

16 Q. And did Mr. Frenkel arrange a call for you and
17 himself and others from AIG with representatives of the
18 Federal Reserve System, including Mr. Donald Kohn?

19 A. Yes. That was a call with -- I believe with
20 Don Kohn and members of the Fed from Washington.

21 Q. And in that call, you told the representatives of
22 the Federal Reserve that although you were still trying
23 to make progress with private investors, you believed
24 that there would be a time when you could need bridge
25 financing or a guarantee from the government; correct?

1 A. Correct.

2 Q. And by "a guarantee" you were talking about a
3 credit guarantee that would guarantee the backing of
4 asset sales; correct?

5 A. Correct.

6 Q. And then in the afternoon on Saturday,
7 September 13, you had a meeting; correct?

8 A. Correct.

9 Q. And who attended that meeting?

10 A. I'm sorry. We had a meeting?

11 Q. You had a meeting with representatives of the
12 Federal Reserve Bank of New York.

13 A. New York, yes, that's correct.

14 Q. And that took place at the Federal Reserve Bank's
15 headquarters in New York; correct?

16 A. Correct.

17 Q. And in that meeting, you told them that you needed
18 bridge financing or a guarantee to get beyond the ratings
19 downgrade and allow you to sell assets in an orderly
20 fashion; correct?

21 A. Correct.

22 Q. And again, you said you needed either bridge
23 financing or a credit guarantee, and when you referred to
24 a credit guarantee, you told them you meant a guarantee
25 that would back the sale of assets; correct?

1 A. Correct.

2 MR. ROBERSON: Your Honor, I'd just object to the
3 continuing leading questions about what he said and what
4 he didn't say. He's giving specific statements as to --
5 in his question about what the witness actually said.

6 THE COURT: Well, I'm --

7 MR. ROBERSON: It's a leading question objection.

8 THE COURT: A leading question objection? This is
9 cross-examination.

10 MR. ROBERSON: I'll stand by your directive,
11 Your Honor, but I didn't understand that he was a
12 hostile witness to the government -- I mean to the
13 plaintiff.

14 THE COURT: Well, I think AIG is a nonparty to the
15 case. You had direct examination and now it's
16 cross-examination.

17 MR. ROBERSON: Fair enough, Your Honor.

18 THE COURT: On top of which, he's not even AIG
19 anymore.

20 MR. ROBERSON: True.

21 BY MR. BOIES:

22 Q. And what did Mr. Paulson and Mr. Geithner tell you
23 at this meeting on the afternoon of Saturday,
24 September 13, about whether there was any chance that
25 they would provide a bridge loan or a guarantee?

1 A. Both Mr. Paulson and Mr. Geithner were quite clear
2 that there was going to be no support from the
3 government.

4 Q. And so what did you do after that?

5 A. Well, we returned back to AIG's headquarters and
6 continued to work with the potential investors that we
7 had on the premises to see whether we could continue to
8 find a solution.

9 Q. And on Sunday, September 14, did you continue to
10 have meetings?

11 A. With -- I'm sorry. Meetings?

12 Q. Trying to find a private source of investment for
13 AIG.

14 A. Yes.

15 Q. And then did there come a time on Sunday,
16 September 14, when you attended a meeting that
17 Mr. Geithner was present at, at least for a portion of
18 it, and other Federal Reserve and Treasury personnel were
19 present?

20 A. Yes.

21 Q. And where did that take place?

22 A. At the New York Federal Reserve.

23 Q. And did you tell them at that time again that
24 while you would continue to do whatever you could, there
25 was not going to be a private solution without some

1 action by the government?

2 A. That's correct.

3 Q. And what did they say in response to that?

4 A. A similar response to the day before, which was
5 that there was going to be no government assistance.

6 Q. Now, the evening of Sunday, September 14, did you
7 receive a telephone call from the Fed, asking that AIG's
8 bankers and a few lawyers go back over to the
9 Federal Reserve headquarters?

10 A. I don't know if that -- I don't recall that call
11 came to me, but yes, we received a call at AIG to do
12 that.

13 Q. And you and other AIG business executives were not
14 invited to that meeting; correct?

15 A. Correct.

16 Q. Indeed, you were specifically not invited;
17 correct?

18 A. That's correct.

19 Q. You were told not to come; correct?

20 A. Correct.

21 Q. And you questioned that decision; correct?

22 A. I did.

23 Q. Did you ever receive any rational explanation for
24 why you and other AIG executives were being excluded from
25 that meeting?

1 A. No.

2 Q. There was then a meeting on Monday morning at the
3 Federal Reserve; is that correct?

4 A. Correct.

5 Q. The first feedback that you received about the
6 meeting on Sunday night from which you were excluded was
7 a Monday morning telephone call from Mr. Geithner;
8 correct?

9 A. Correct.

10 Q. And Mr. Geithner told you that he wanted to have
11 JPMorgan and Goldman Sachs try to come up with a private
12 sector consortium solution to AIG's liquidity needs;
13 correct?

14 A. Correct.

15 Q. And he asked you whether you would agree that
16 JPMorgan, who had previously represented AIG, could
17 undertake that assignment from the Federal Reserve;
18 correct?

19 A. Correct.

20 Q. Do you know how or why Mr. Geithner selected
21 JPMorgan and Goldman Sachs to try to come up with a
22 private sector liquidity solution for AIG?

23 A. No.

24 Q. Did you have any role in organizing that private
25 sector consortium or any role in choosing its leaders

1 other than giving your consent to Mr. Geithner's
2 request?

3 A. No.

4 Q. Now, do you know if that private sector consortium
5 ever prepared a term sheet?

6 A. Not to my knowledge.

7 Q. You at least never saw such a term sheet; is that
8 correct?

9 A. I did not.

10 Q. And no one else ever told you from AIG that they
11 saw such a term sheet; correct?

12 A. Correct.

13 Q. At the time that we've been talking about
14 generally, in other words, the week of
15 September 8 leading up to the weekend that we've just
16 been talking about, AIG's stock price was, on
17 September 8 or 9, \$19 or \$20 a share; correct?

18 A. I think that's correct.

19 Q. And at that time you believed that the stock was
20 trading meaningfully below its intrinsic value; correct?

21 A. Correct.

22 Q. And that was a view that other people in the
23 financial markets had also stated or reported; correct?

24 A. Yes.

25 Q. Let me ask you to look at Plaintiffs' Trial

1 Exhibit 617.

2 This is an interview that you gave to the
3 Financial Crisis Inquiry Commission, and that interview
4 was transcribed; correct?

5 A. That's what it says. Yes.

6 Q. And this interview, for the Court's information,
7 is on the FCIC's Web site in audio form, and this
8 transcript was a transcript we prepared from that audio.

9 Let me ask you to look at page 5 of this
10 transcript. And what I'm interested in is your answer
11 that begins at line 24, but for context, you're being
12 asked for your opinion of what went wrong, what were the
13 causes of the company's financial problems that led to
14 the government's assistance in September of 2008.

15 Do you see that?

16 A. I do.

17 THE COURT: Hang on a second.

18 Mr. Roberson?

19 MR. ROBERSON: Your Honor, this is clearly a
20 hearsay document, so we'd object to the discussion of a
21 hearsay document.

22 THE COURT: Mr. Boies?

23 MR. BOIES: It is the witness' statement, and
24 since we prepared this transcript, what I'm going to do
25 is ask him whether this is in fact what he said and

1 believed at the time.

2 MR. ROBERSON: Your Honor, I don't think there's
3 any indication here that he was under oath, so it
4 wouldn't even have the gravitas of a deposition
5 transcript. And again an interview being the sort of
6 situation if you want to try to impeach, that's one
7 issue, but to actually structure an examination using a
8 hearsay document that, again, I don't believe it has
9 a -- the gravitas of an oath, we would object to that,
10 Your Honor.

11 THE COURT: Well, once again, applying my
12 yardstick of indicia of reliability, I'm going to
13 overrule the objection and allow the examination.

14 BY MR. BOIES:

15 Q. Let me ask you, as a predicate, Mr. Willumstad,
16 what is your view as to what the major event was that was
17 the cause of AIG's financial problems that led to the
18 government assistance in September of 2008?

19 A. Well, there were obviously a series of events, but
20 I would say the overriding factor was the decline in the
21 housing market and the state of the U.S. economy at that
22 time.

23 Q. And in September of 2008, would you say that the
24 major event that took place was the downturn in the
25 markets and crisis that ensued after Lehman filed for

1 bankruptcy?

2 A. Correct.

3 Q. There was testimony yesterday that on September 9,
4 2008 you had made a request for access to the
5 Primary Dealer Credit Facility. Do you recall that
6 generally?

7 A. Yes, I do.

8 Q. And you were shown a document that was a two-page
9 document that I think that you said you had left with
10 Mr. Geithner. Do you recall that?

11 A. I do.

12 Q. Let me ask you to look at Joint Exhibit 42 that is
13 in evidence.

14 And this has a cover e-mail, and then there is a
15 six-page document that is headed Fed Talking Points?

16 A. Yes.

17 Q. And am I correct that these were proposed or, as
18 it says here, revised talking points for your proposed
19 meeting the following week with Mr. Geithner on the
20 primary dealer initiative?

21 A. Yes.

22 THE COURT: Mr. Roberson?

23 MR. ROBERSON: I know it's a joint exhibit,
24 Your Honor, and so I just want to alert the Court to the
25 fact that it is an incomplete document as evidenced by

1 the fact that the talking points on page -- what is known
2 as -- shown as page 1 actually begins as "Fed talking
3 points - continued" and it starts at paragraph 4. And I
4 am aware that there is another page to this, but -- but I
5 understand it's a joint exhibit. I just want to alert
6 the Court of that fact.

7 THE COURT: Well, do you know where the other
8 missing page is?

9 MR. ROBERSON: Your Honor?

10 THE COURT: Do you know where the missing page
11 is?

12 MR. ROBERSON: Yes, I do.

13 MR. BOIES: If they'll give it to us --

14 MR. ROBERSON: But I'd have to confer with my
15 counsel whether, you know, it's a document we want to
16 introduce. I just want to alert the Court to the fact
17 that there's this --

18 THE COURT: I mean, a joint exhibit is something
19 you both agreed to.

20 MR. ROBERSON: I acknowledge that.

21 THE COURT: We'll do the best we can I guess.

22 MR. BOIES: And this is the way we got it from
23 them, and if there is another page, we'd like to have it
24 if they'll gave it to us and we'll soon add it to the
25 document.

1 THE COURT: Sure.

2 All right. Let's go ahead.

3 BY MR. BOIES:

4 Q. If you look at page 2 of the exhibit, the first
5 line says, "The very availability of access to additional
6 liquidity as a primary dealer under various
7 Federal Reserve programs is likely to help prevent
8 liquidity pressures from arising."

9 Do you see that?

10 A. I do.

11 Q. First, did you agree with that as of September of
12 2008?

13 A. Yes.

14 Q. And can you explain why you agreed with that.

15 A. Well, again, the Fed window would be available for
16 primary dealers, and that would allow AIG, if we had
17 access to it, to borrow.

18 Q. And let me go down to the next bullet, where it
19 says, "Our internal analysis shows AIG has \$11 billion to
20 \$21 billion of non-insurance Fed eligible collateral that
21 could be used in connection with the current Fed programs
22 available to primary dealers."

23 Do you see that?

24 A. I do.

25 Q. And was that something that you understood to be

1 the fact --

2 A. Yes.

3 Q. -- in September?

4 A. Yes.

5 Q. Were you aware that after this document was
6 prepared on August 31, 2008, about two weeks later, the
7 Federal Reserve had modified the Primary Dealer Credit
8 Facility to expand the kind of collateral that could be
9 used to borrow? Were you aware of that or not?

10 A. I don't think so.

11 Q. Okay. Let me ask you to look at the next bullet.

12 It says, "Even if the Fed's current programs are
13 revised or terminated next year, we would expect that
14 AIG's status as a primary dealer should help in
15 maintaining market confidence."

16 Do you see that?

17 A. I do.

18 Q. And did you agree with that?

19 A. Yes.

20 Q. And was maintaining market confidence important?

21 A. Of course -- yes.

22 Q. And can you explain why.

23 A. Well, obviously the rating agencies, the market in
24 general, the availability to raise capital was based on
25 market confidence that AIG would eventually be able to

1 repay any liquidity requirements.

2 Q. Now, the next point says, "Obviously we do not
3 want to file an application that would not be approved
4 and we would not want to proceed much further with the
5 process if there would not be receptivity at the Fed."

6 Do you see that?

7 A. I do.

8 Q. And did you agree with that?

9 A. I'll say yes in general.

10 Q. Did you believe that if it became known that you
11 had applied to become a primary dealer but had been
12 turned down that that would have a negative market
13 reaction?

14 A. Yes.

15 Q. Now, let me ask you to go to page 4 of the
16 exhibit.

17 And that's headed "AIG FP has a substantially
18 bigger asset base compared to some primary dealers."

19 Do you see that?

20 A. I do.

21 Q. And what you've done or what the author of this
22 has done is to compare AIG's FP's total company assets to
23 those of other primary dealers; correct?

24 A. Correct.

25 Q. And is this consistent with your understanding as

1 of June of 2008?

2 A. Yes.

3 Q. Now, when you met with Mr. Geithner to seek
4 Primary Dealer Credit Facility status, you told
5 Mr. Geithner that AIG was already a significant player in
6 the U.S. rates market; correct?

7 A. Correct.

8 Q. And you told him that AIG had counterparties
9 across its business lines that included virtually every
10 major financial institution in the world.

11 A. Correct.

12 Q. And at the end of your meeting, Mr. Geithner said
13 he'd get back to you; correct?

14 A. That's correct.

15 Q. Did he ever get back to you?

16 A. No.

17 Q. Let me turn to another subject.

18 You talked about conversations that AIG was having
19 with Travelers with respect to the possible sale of
20 assets. Do you recall that?

21 A. I do.

22 Q. Let me ask you to look at Plaintiffs' Trial
23 Exhibit 77 that is in evidence.

24 This is an e-mail at 9:37 in the morning on
25 September 16, 2008 to Mr. Geithner from an executive at

1 Travelers.

2 Do you see this?

3 A. I do.

4 Q. And do you know who that executive is?

5 A. I do not.

6 Q. This is sent on behalf of Jay Fishman, as you can
7 see from the second page?

8 You know who Mr. Fishman is; correct?

9 A. I do, yes.

10 Q. And Mr. Fishman was the chairman and CEO of
11 The Travelers Companies at that time; correct?

12 A. Correct.

13 Q. And he was one of the people with whom you and
14 others at AIG were talking; correct?

15 A. Correct.

16 Q. And this note begins, "Tim - I want to reiterate
17 that my team and I are prepared to engage immediately to
18 address the situation at AIG. We believe that we can be
19 a positive force in developing and anchoring a solution."
20 And then it goes on and it is signed "Sincerely,
21 Jay Fishman."

22 Do you see that?

23 A. Yes.

24 Q. Did Mr. Geithner or anyone at the New York Fed
25 convey to you on September 16 that they had received this

1 inquiry from Mr. Fishman at Travelers?

2 A. No.

3 Q. Let me ask you to look at Plaintiffs' Trial
4 Exhibit 89, which is also in evidence.

5 And I will represent that the author of this,
6 Taiya Smith, is someone from the Department of Treasury.

7 And the second sentence says, "CIC is prepared to
8 make a big investment in AIG, but would need Hank to call
9 Wang Qishan."

10 Do you see that?

11 A. I do.

12 Q. And you know what CIC is; correct?

13 A. Yes.

14 Q. And that's the Chinese Investment Corporation;
15 correct?

16 A. Correct.

17 Q. Did anyone from Treasury or the Fed ever tell you
18 on September 16 that they had been informed that CIC was
19 prepared to make a big investment in AIG?

20 A. No.

21 Q. Let me ask you to look at Plaintiffs' Trial
22 Exhibit 423 that is already in evidence.

23 And I'm going to ask you to look at page 16, but
24 just for context, if you look at page 14, you see that
25 the person speaking to Mr. Paulson and others that's

1 reported here is Ms. Smith.

2 Do you see that?

3 A. I do.

4 MR. ROBERSON: Objection, Your Honor. Again, this
5 is -- A, it's hearsay. B, it's not under oath. C,
6 there's no foundation with this witness whatsoever. This
7 is an interview of a person by Henry Paulson. It's on
8 February 10, 2009. There's no indication it's under
9 oath. It's hearsay, Your Honor.

10 THE COURT: Well, since this is cross-examination,
11 let's see what the witness knows about it. The witness
12 can always say, "I don't know."

13 MR. BOIES: And Your Honor, this is already in
14 evidence. I'm -- and Ms. Smith -- and I think part of
15 the basis for it being admitted into evidence is these
16 were admissions by Treasury personnel.

17 THE COURT: Yes.

18 MR. BOIES: But in any event, all I'm doing is
19 asking him, as I have previously, whether he was aware or
20 whether anybody told him what was going on.

21 THE COURT: Yes. Please go ahead.

22 BY MR. BOIES:

23 Q. Let me ask you to look at what Ms. Smith says at
24 lines 12 to 19.

25 THE COURT: What page are we on?

1 MR. BOIES: On page 16.

2 BY MR. BOIES:

3 Q. And I'm going to particularly focus on
4 lines 17 through 19, which you see here Ms. Smith is
5 talking about the call that she got that she recorded in
6 her e-mail about CIC and others being interested in
7 investing in AIG.

8 Do you see that?

9 A. Yes.

10 Q. And she says "they," referring to CIC, "were
11 actually willing to put up a little bit more than the
12 total amount of money required for AIG."

13 Do you see that?

14 A. I do.

15 Q. Did anyone from the government ever tell you on
16 September 16 that the Chinese had indicated that they
17 were willing to put up a little bit more than the total
18 amount of money required for AIG?

19 A. No.

20 MR. ROBERSON: Objection to form, Your Honor.

21 THE COURT: Overruled.

22 BY MR. BOIES:

23 Q. Is that something you would have hoped they would
24 have told you?

25 A. That certainly could have been helpful. Yes.

1 Q. You were asked whether on September 15 AIG had had
2 trouble rolling over its commercial paper. Do you recall
3 that?

4 A. Yes.

5 Q. And you said that you had?

6 A. Yes.

7 Q. Were other companies on September 15 having
8 trouble rolling over their commercial paper?

9 A. I don't know.

10 Q. You did know that the commercial paper market
11 generally was freezing up as of September 15; correct?

12 A. Correct.

13 Q. And AIG's counterparties were not honoring their
14 obligations to AIG; correct?

15 A. Correct.

16 Q. And do you believe it is accurate to describe what
17 was happening on September 15 as a tidal wave disrupting
18 the financial markets generally?

19 A. Yes.

20 Q. Now, you were asked some questions about whether
21 the amount of liquidity that AIG thought it needed had
22 increased over the course of the period from
23 September 12 through September 16. Do you recall that?

24 A. I do.

25 Q. And is it the case that until the markets opened

1 on Monday, September 15, and the collapse in the markets
2 drove down the value of all of the securities in the AIG
3 portfolio that the value of what was needed escalated?

4 A. Correct.

5 Q. Now let me turn to September 16.

6 As of September 16, AIG's insurance subsidiaries
7 were strong and well-capitalized, in your view; correct?

8 A. Correct.

9 Q. And let me ask you to look at Plaintiffs' Trial
10 Exhibit 2762 that is in evidence.

11 And this is a news release.

12 MR. ROBERSON: I'm sorry. I don't know that I
13 have that.

14 MR. BOIES: Oh, it's not in the binder. I'm
15 sorry, Your Honor.

16 (Pause in the proceedings.)

17 BY MR. BOIES:

18 Q. This is a news release of the National Association
19 of Insurance Commissioners on September 16, 2008. Do you
20 recall that?

21 A. I'm sorry?

22 Q. I said, this is a news release of the
23 National Association of Insurance Commissioners on
24 September 16, 2008; correct?

25 A. Yes.

1 Q. Was this something that you saw on September 16?

2 A. I don't believe so.

3 Q. Let me ask you just to look at the second
4 paragraph, where the insurance commissioners say that "If
5 you have a policy with an AIG insurance company, they are
6 solvent and have the capability to pay claims."

7 Do you see that?

8 A. I do.

9 Q. Was that your understanding as of September 16,
10 2008?

11 A. Yes.

12 Q. Now, the morning of September 16, you had a
13 telephone call with Mr. Geithner; correct?

14 A. Correct.

15 Q. And you told Mr. Geithner that AIG was preparing
16 for bankruptcy; correct?

17 A. Correct.

18 Q. And Mr. Geithner replied, Don't do that; correct?

19 A. Correct.

20 Q. And you also told him that you were going to draw
21 down bank lines; correct?

22 A. Correct.

23 Q. And Mr. Geithner asked you not to do that;
24 correct?

25 A. Correct.

1 Q. And you said he'd have to give you some reason not
2 to do that; correct?

3 A. Correct.

4 Q. And he did not give you that reason in that
5 telephone call; correct?

6 A. That's correct.

7 Q. Later that morning, around 11:00 a.m. or 11:30,
8 Geithner called you back; correct?

9 A. That's correct.

10 Q. And he told you that while there were no
11 assurances yet, but there was a meeting in Washington to
12 discuss providing some financial help for AIG; correct?

13 A. Correct.

14 Q. And he asked you in light of that to rescind the
15 decision to pull back the -- or pull down the bank lines;
16 correct?

17 A. Correct.

18 Q. And you agreed to that request; correct?

19 A. Well, I made an attempt to execute that. Yes.

20 Q. And indeed, in that telephone call, he gave you
21 enough of an indication of possible help that you agreed
22 to withdraw the request for the bank lines; correct?

23 A. That's correct.

24 Q. And what you found is that some of the bank lines
25 had already been drawn down; correct?

1 A. Correct.

2 Q. But not all of the bank lines; correct?

3 A. Correct.

4 Q. And with respect to the bank lines that had
5 already been drawn down, there was nothing you could do
6 about it, but with respect to the bank lines that had
7 not been drawn down, you rescinded those drawdowns;
8 correct?

9 A. Correct.

10 Q. You testified yesterday that you, in the afternoon
11 of September 16, had been given a two-page term sheet.
12 Do you recall that?

13 A. I do.

14 Q. Was that two-page term sheet shown to the board at
15 its meeting later that day?

16 A. No.

17 Q. Was any term sheet shown to the board at its
18 meeting on September 16?

19 A. No.

20 Q. Were the terms of the government proposal orally
21 described to the board?

22 A. Yes.

23 Q. Let me turn now to that board meeting, which the
24 minutes for which you were shown yesterday, and it's
25 Joint Exhibit 74 I believe.

1 First, counsel for the United States correctly
2 pointed out that these minutes are actually minutes for
3 meetings on September 14, September 15, and September 16;
4 correct?

5 A. Correct.

6 Q. And I want to turn your attention to the second
7 full paragraph on page 2.

8 And it says there that Ms. Kathleen Shannon,
9 secretary of the corporation, recorded the minutes of the
10 meetings held on September 14 and September 15.

11 Do you see that?

12 A. Yes.

13 Q. And that was Ms. Kathleen Shannon's job to do
14 that, to record minutes of board meetings; correct?

15 A. That's correct.

16 Q. And while you were chairman, she had done that
17 consistently; correct?

18 A. Correct.

19 Q. Now, it says that Mr. Gamble recorded the minutes
20 of the portion of the meeting held on September 16.

21 Do you see that?

22 A. Yes.

23 Q. And Mr. Gamble was an outside lawyer with
24 Simpson Thacher; correct?

25 A. Correct.

1 Q. And who made the decision to have Mr. Gamble
2 record the minutes on the 16th?

3 A. I did.

4 Q. And why did you do that?

5 A. My recollection was that Ms. Shannon was not
6 available.

7 Q. Did Mr. Gamble take notes?

8 A. I -- I assume so, but I can't say I saw him taking
9 notes.

10 Q. Ms. Shannon always took notes; correct?

11 A. Yes.

12 Q. Now, did you ever see a draft of these minutes?

13 A. No.

14 Q. Do you know whether drafts were prepared?

15 A. I have no idea.

16 Q. Do you know when these minutes were actually
17 prepared in the form that they appear as
18 Joint Exhibit 74?

19 A. No.

20 Q. Do you know that it was months after the meeting?

21 A. I do not know that.

22 Q. You don't know when it was at all.

23 A. I have no idea.

24 Q. What was the reaction of the members of the board
25 to the terms of the government's proposal?

1 A. I think the board reaction was that they were very
2 onerous terms.

3 Q. And you and other members of the board believed
4 that they were exorbitant; correct?

5 A. Correct.

6 Q. Let me ask you to look at Plaintiffs' Trial
7 Exhibit 228.

8 THE COURT: I'm not sure it's in the book.

9 MR. BOIES: Yes.

10 BY MR. BOIES:

11 Q. This is a series of e-mail exchanges on
12 September 22, 2008 and September 23, 2008 between
13 Dr. Frenkel, who you've identified, and Oakley Johnson.

14 Do you know who Oakley Johnson is?

15 THE COURT: I don't have this exhibit in my book.

16 MR. BOIES: Oh, I apologize, Your Honor.

17 It might be right behind the tab for
18 Plaintiffs' Trial Exhibit 129.

19 THE COURT: Oh, okay. I see it.

20 BY MR. BOIES:

21 Q. Do you know who Mr. Oakley Johnson is?

22 A. My recollection was he was a person from -- for
23 government relations.

24 Q. At AIG.

25 A. At AIG, yes.

1 Q. Let me ask you to look at the e-mail at the bottom
2 of the page from Dr. Frenkel.

3 THE COURT: Mr. Roberson?

4 MR. ROBERSON: Your Honor, there's no foundation
5 with this witness in the first instance.

6 Secondly, it's on September 23, which he's left
7 AIG by then, so I'm going to object on foundation with
8 this witness.

9 MR. BOIES: Your Honor, I haven't offered the
10 document.

11 MR. ROBERSON: No. But having discussed the
12 document obviously without offering it is effectively the
13 same thing, so...

14 MR. BOIES: Your Honor, I've not offered the
15 document and I've not discussed the substance of the
16 document. All I've done is identify so far the two
17 people, and my next question is going to be asking him to
18 read something to himself.

19 THE COURT: Let's go ahead.

20 BY MR. BOIES:

21 Q. I'm going to direct your attention to the e-mail
22 at the bottom of page 1 of the exhibit, from Dr. Frenkel
23 on September 22, 2008 at 10:25 p.m.

24 Do you see that?

25 A. I do.

1 Q. Would you read that four-line e-mail to yourself.

2 (Pause in the proceedings.)

3 A. Yes.

4 Q. Were you aware of executives at AIG who believed
5 what Mr. Frenkel says here?

6 A. No.

7 MR. ROBERSON: Your Honor, I'm going to object for
8 the same reasons, foundation. It's after he left. He
9 wasn't on the e-mail.

10 THE COURT: Overruled.

11 BY MR. BOIES:

12 Q. Were you aware of members of the board saying
13 statements like this?

14 A. No.

15 Q. You personally believed that on September 16 the
16 AIG board was presented with two bad choices; correct?

17 A. Yes.

18 Q. And at the AIG board's direction, you and others
19 went back to the government to attempt to renegotiate the
20 interest rate; correct?

21 A. Correct.

22 Q. But you were told that that was not negotiable;
23 correct?

24 A. That's correct.

25 Q. You were told it was take-it-or-leave-it;

1 correct?

2 A. Correct.

3 Q. And you also went back to try to negotiate the
4 equity that was being required; correct?

5 A. Correct.

6 Q. And again you were told that that was
7 nonnegotiable?

8 A. Correct.

9 Q. And again you were told that that was
10 take-it-or-leave-it.

11 A. Correct.

12 Q. And you also asked whether they would agree that
13 if AIG could raise capital to repay whatever AIG had
14 borrowed from the government in a short period of time
15 whether the government would unwind the credit facility;
16 correct?

17 A. Correct.

18 Q. And you were told that the government refused to
19 agree to that; correct?

20 A. Well, what I was told by Mr. Geithner was that the
21 government -- and I'm paraphrasing -- would be thrilled
22 not to have to do this, not to be in a position to have
23 to make a loan.

24 Q. Yes.

25 But did he say that he'd give back the equity?

1 A. No.

2 Q. And what you wanted is you wanted to have an
3 agreement that if you could raise the money from private
4 sources in some short period of time that the government
5 would unwind the whole transaction and give you back the
6 equity; correct?

7 A. Correct.

8 Q. Mr. Geithner refused to agree to that; correct?

9 A. I don't know that we phrased it exactly that way,
10 but essentially that was the response, yes.

11 MR. BOIES: Thank you.

12 May I have just a moment, Your Honor?

13 THE COURT: Sure.

14 BY MR. BOIES:

15 Q. Now, turning to the subject of your replacement by
16 Mr. Liddy?

17 A. Yes.

18 Q. In the afternoon telephone call at approximately
19 4:40 in the afternoon on September 16 that you and others
20 had with Mr. Paulson and Mr. Geithner, Mr. Paulson, as
21 you testified to counsel for defendant, informed you that
22 as a part of the acceptance of the government's proposals
23 you would have to resign as CEO; correct?

24 A. Correct.

25 Q. And he said that he had already selected a

1 replacement; correct?

2 A. Correct.

3 Q. And he identified that replacement, in response to
4 a question from you, as Mr. Ed Liddy; correct?

5 A. Correct.

6 Q. And at that point in time did you know who
7 Mr. Ed Liddy was?

8 A. No.

9 Q. And indeed, no one on the call from the AIG side
10 knew who Mr. Ed Liddy was; correct?

11 A. Correct.

12 Q. And you found out that Mr. Liddy was the recently
13 retired CEO of Allstate; correct?

14 A. Correct.

15 Q. And how does the complexity of Allstate as an
16 insurance company compare to the complexity of AIG?

17 A. I'm not totally familiar with Allstate, but I
18 would say that its lines of business would be a small
19 piece of what AIG is.

20 Q. And you did not believe that Mr. Liddy had the
21 level of experience to meet the criteria to be CEO of
22 AIG; correct?

23 A. Well, given the -- again, the breadth of
24 complexity of AIG's businesses, based on his experience
25 at Allstate, I didn't think they matched very well. I

1 did not know Ed Liddy and had no real understanding of
2 his background at the time, though.

3 Q. Other AIG board members also expressed views about
4 Mr. Liddy; correct?

5 A. Correct.

6 Q. For example, James Orr expressed views about
7 Mr. Liddy; correct?

8 A. Correct.

9 Q. And he voiced concern that Mr. Liddy didn't have
10 the level of experience that it would take to run AIG;
11 correct?

12 A. Correct.

13 Q. In fact, he said that if you were looking for a
14 CEO for AIG, not only would Mr. Liddy not have been on
15 the short list, he wouldn't have been on the long list;
16 correct?

17 A. Something like that, yes.

18 THE COURT: Mr. Boies, I'll let you finish this
19 if you're close; otherwise, I would suggest a morning
20 break.

21 MR. BOIES: Your Honor, recognizing that breaks
22 always tend to lead to more questions, I'll pass the
23 witness now.

24 THE COURT: All right. Well, we'll take a break
25 then and reconvene at 11:20.

1 (Court in recess.)

2 THE COURT: Do you have redirect, Mr. Roberson?

3 MR. ROBERSON: Yes, I do, Your Honor. Thank you.

4 THE COURT: All right.

5 - - - - -

6 REDIRECT EXAMINATION

7 BY MR. ROBERSON:

8 Q. Mr. Willumstad, do you recall during Mr. Boies'
9 cross he discussed Travelers?

10 A. Yes.

11 Q. And there was some discussion about Travelers'
12 communications on the 16th?

13 A. Correct.

14 Q. Now, had you been -- you'd been in communication
15 with Travelers prior to that, hadn't you?

16 A. I think I testified yesterday that I spoke to
17 Mr. Fishman the 12th or 13th.

18 Q. Was there any impediment for Mr. Fishman to pick
19 up the phone and call you, do you know, on the 16th?

20 A. Not to my knowledge.

21 Q. And -- okay.

22 Do you recall there was a discussion about some
23 talking point -- a talking point memo? It was JX 42?

24 A. Yes.

25 Q. And I just want to ask, that's a several-page

1 document; correct?

2 A. Correct.

3 Q. And that document was not provided to
4 Mr. Geithner; is that fair?

5 A. That's correct.

6 MR. ROBERSON: And what we'd like to do now is
7 to -- I think, Your Honor, I alerted you that there was a
8 complete version of the document, and what we'd like to
9 do is to pass that out now if we could.

10 THE COURT: The missing page?

11 MR. ROBERSON: Yes.

12 THE COURT: Okay.

13 MR. ROBERSON: Well, it is a -- it's a different
14 document because it's the final version of these which
15 includes the missing page. And just to be clear for the
16 record, I think that e-mail is on August 31. This is an
17 e-mail from September 2 attaching essentially the same
18 thing with --

19 THE COURT: Well, it's a different document,
20 though, so maybe --

21 MR. ROBERSON: Well, then we'd like to explore it
22 with the witness then.

23 THE COURT: Okay.

24 MR. ROBERSON: May I approach?

25 THE COURT: Sure.

1 BY MR. ROBERSON:

2 Q. And if you recall, if you look at JX 42, it was an
3 e-mail from Alan Pryor and it was dated August 31, 2008.

4 This is an e-mail from Alan Pryor, dated
5 September 2, and it's forwarding -- the subject matter,
6 it's forwarding primary dealer final talking points. And
7 it says, "Please print 12 copies."

8 And then in the body of it, it says -- and it's
9 from the same person, the body of it, is from
10 Aaron Katzel, and it's to a Mr. Pryor, as was the
11 JX 42 version, and it says, "Attached are the final
12 talking points, reflecting additional comments from Rodge
13 received over the weekend."

14 Can you look at this document for a moment?

15 (Pause in the proceedings.)

16 And on the first page it's talking points to the
17 Fed?

18 A. Yes.

19 Q. And it has one, two, three numbered paragraphs?

20 A. Right.

21 Q. The second page is talking points to the Fed
22 continued beginning at paragraph 4?

23 A. Right.

24 Q. Are these talking points that you received in
25 connection with your preparations for meeting with

1 Mr. Geithner?

2 A. I believe so.

3 MR. ROBERSON: Your Honor, we move to admit
4 DX 1919.

5 MR. BOIES: No objection, Your Honor.

6 THE COURT: Defendant's Exhibit 1919 is admitted.
7 (Defendant's Exhibit Number 1919 was admitted into
8 evidence.)

9 BY MR. ROBERSON:

10 Q. Now, what I'd like to do is -- so just to be
11 clear, these were not presented to Mr. Geithner;
12 correct?

13 A. Well, I'd have to go back and look at the pages we
14 looked at yesterday. Some of these talking points are --
15 some of these points I think are very similar, if not the
16 same, so...

17 Q. Well, let's do that. Let's make sure because I
18 don't want any ambiguity here. Let's look back at that.
19 That was DX 228.

20 (Pause in the proceedings.)

21 This is a document we looked at yesterday, which
22 is the two-page version.

23 A. Right.

24 Q. And this is what you left -- DX 228 is what you
25 left with Mr. Geithner; correct?

1 A. I think so, yes.

2 Q. And you didn't leave what we've identified as
3 DX 1919 with Mr. Geithner.

4 A. No.

5 Q. Okay. Now, I want to ask you a few things about
6 DX 1919.

7 And if you look at paragraph 3, the third bullet
8 point, it says, "FP has many of the existing resources
9 (talent and infrastructure) for establishing a primary
10 dealership."

11 Do you see that?

12 A. I'm sorry. Which one are we at?

13 Q. Going back to DX 1919, talking points to the Fed,
14 first page, that -- DX 1919 is the handout.

15 A. Okay.

16 Q. And I was asking you about paragraph 3, the third
17 bullet point. It says, "FP has many of the existing
18 resources (talent and infrastructure) for establishing a
19 primary dealership."

20 Do you see that?

21 A. Yes.

22 Q. And if you look at paragraph 2, under the bullet
23 points, they're all referring to FP; right? FP's
24 revenues are comparable, FP's asset base is larger, and
25 then it talks about FP's counterparties?

1 A. Correct.

2 Q. And if you turn to page 2 of the document, it
3 discusses -- there's a little bubble there on the
4 right-hand side?

5 A. Yes.

6 Q. And it says FP's revenues are comparable?

7 A. Correct.

8 Q. And then the next page is the same bubble --
9 bubble in the same place, says "Compared on total assets
10 AIG FP is bigger than most of the primary dealers in the
11 bottom quintile"; right?

12 A. Yes.

13 Q. The proposal that you made to Mr. Geithner was for
14 FP to become a primary dealer; isn't that correct?

15 A. Correct.

16 MR. ROBERSON: No further questions, Your Honor.

17 Oh, I have one further question.

18 BY MR. ROBERSON:

19 Q. Do you know what FP's GAAP capital was as of
20 September 9?

21 A. I do not.

22 MR. ROBERSON: No further questions.

23 THE COURT: Thank you, Mr. Roberson.

24 MR. BOIES: Nothing further, Your Honor.

25 THE COURT: All right.

1 Mr. Willumstad, thank you very much for your
2 testimony. You are excused.

3 THE WITNESS: Thank you.

4 THE COURT: Good morning, Mr. Dintzer.

5 MR. DINTZER: Good morning, Your Honor.

6 For the next witness we will be calling
7 Brian Schreiber to the stand.

8 THE COURT: Okay.

9 MR. DINTZER: It's going to take a minute for the
10 shift.

11 THE COURT: Okay.

12 (Pause in the proceedings.)

13 THE COURT: Good morning, sir.

14 THE WITNESS: Good morning.

15 - - - - -

16 Whereupon --

17 BRIAN SCHREIBER

18 a witness, called for examination, having been first duly
19 sworn, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. DINTZER:

22 Q. Good morning, sir.

23 A. Good morning.

24 Q. You should have a binder there that we've provided
25 for you. And there's water if you need some.

1 Sir, could you please state your name for the
2 Court.

3 A. Brian Schreiber.

4 Q. And sir, did you work for AIG in 2008?

5 A. I did.

6 Q. And in what position?

7 A. Vice president, strategic planning.

8 Q. And just generally, what were your
9 responsibilities in that position?

10 A. Mergers and acquisitions, various capital-raising
11 activities.

12 Q. Sir, could you describe your education beginning
13 with college.

14 A. Yes. I received my undergraduate degree from NYU
15 in '87 in finance, magna cum laude and the recipient of
16 the university's Founders' Day Award, and then received a
17 master's in business administration from
18 Columbia University in 1992.

19 Q. And if you could briefly describe your work
20 history before you began working at AIG.

21 A. My first job out of college was for the management
22 consulting firm Booz Allen and Hamilton.

23 Following business school, I was an associate in
24 Lehman Brothers' financial institutions group. After
25 that -- I was at Lehman for three years, after that spent

1 two years working for the Bass Brothers in Fort Worth,
2 Texas, after which I came to AIG.

3 Q. And when was that, sir?

4 A. 1997.

5 Q. And if you could walk the Court through your
6 positions at AIG again briefly.

7 A. I started out as a portfolio manager in AIG's
8 investment department, then became vice president of
9 strategic planning and took on more responsibility
10 within the strategic planning role over the years, became
11 senior vice president of strategic planning, then AIG's
12 global treasurer. I was promoted to executive
13 vice president. I had that treasurer role for the last
14 four years or so and about a year ago became deputy chief
15 investment officer.

16 Q. And when you were vice president of strategic
17 planning -- which is the position that you held in 2008;
18 is that right?

19 A. Actually I think I was senior vice president of
20 strategic planning in 2008.

21 Q. If you could just go a little bit deeper into what
22 types of activities you were responsible for.

23 A. In 2008, we were spending a lot of time looking at
24 our portfolio of businesses, looking at ways to
25 streamline the business, find areas to grow, utilize our

1 capital more effectively.

2 Towards the, you know, sort of end of '07 and into
3 '08, as the financial markets became a bit more volatile,
4 much of the focus was on capital raising and potential
5 divestiture activities.

6 Q. Was there a time in 2008 when AIG began a
7 reevaluation of its businesses?

8 A. Yes. We were reevaluating our businesses in
9 2008, as I mentioned earlier.

10 Q. And now, when did Mr. Willumstad become the CEO of
11 AIG?

12 A. I guess June-July of '08. I don't remember for
13 sure.

14 Q. And when he took that position, did he begin any
15 type of a review?

16 A. Yes. He announced a 90-day strategic review of
17 our businesses.

18 Q. And what was the purpose of that strategic
19 review?

20 A. To understand better how and where we were making
21 money, where we were growing, which businesses were
22 requiring or generating capital to figure out how we
23 could better grow and improve returns on capital.

24 Q. What was your role in this review?

25 A. I was overseeing the review.

1 Q. So you led the --

2 A. I led the review.

3 Q. And who else was working on this review?

4 A. I had a team of colleagues within strategic
5 planning that were helping me perform the analysis, as
6 well as others across the businesses and functions of
7 AIG.

8 Q. Was the strategic review ever completed?

9 A. No, it was not completed. It -- towards the end
10 of August and early into September, the strategic review
11 sort of evolved into a strategy for raising capital and
12 liquidity which became more of a -- urgent needs of AIG.

13 Q. And what caused this shift in focus?

14 A. The root cause was continued volatility in the
15 markets that was causing a significant liquidity drain on
16 AIG.

17 Q. Now, did AIG raise money in 2008, in the spring of
18 2008?

19 A. It did.

20 Q. Do you recall how much?

21 A. Approximately 20 billion.

22 Q. Do you have any knowledge as to whether AIG could
23 have raised more money in 2008, in early 2008?

24 A. I think it would have been challenging after
25 raising the 20 billion to raise significantly more

1 capital at that point in time.

2 THE COURT: Mr. Dintzer, I have a question.

3 MR. DINTZER: Yes, Your Honor.

4 THE COURT: This has been a question I've had for
5 a little while. I've heard that -- about AIG raising
6 20 billion in capital in the spring and early summer of
7 2008.

8 How does a company like AIG just go out and raise
9 20 billion?

10 THE WITNESS: That's an excellent question.

11 THE COURT: Wish I could do that.

12 THE WITNESS: Yeah.

13 We raised various forms of capital. It wasn't,
14 you know, just -- you know, just one lump of 20 billion
15 of stuff. We, given our credit rating and our balance
16 sheet, were able to raise additional debt. We had
17 capacity to do that. We also had the ability to raise
18 equity.

19 So what we would normally do is hire a banker or
20 a set of bankers that would go and prepare marketing
21 materials that would then be used to tell the AIG story
22 to the street because people won't just give you
23 \$20 billion, they'll want to know what you're going to do
24 with it. And that process is sometimes referred to as
25 marketing.

1 We and our bankers would go out, meet with
2 investors and would get a sense of the demand in the
3 marketplace and sort of build a book of demand that
4 would hopefully meet or exceed our target for the
5 capital raise. And the tension is always how much you
6 raise versus how much you pay for that capital. And that
7 process can take anywhere from days to weeks or months,
8 depending on the company.

9 THE COURT: Thank you. That's helpful.

10 THE WITNESS: Sure.

11 BY MR. DINTZER:

12 Q. In August, as liquidity concerns arose, was there
13 a liquidity target that AIG was considering?

14 MR. BOIES: Could we have specified what year
15 we're talking about in August?

16 MR. DINTZER: Fair enough. In 2008.

17 THE WITNESS: At that time I recall that our
18 target was somewhere between 15 and 20 billion.

19 BY MR. DINTZER:

20 Q. And how was it -- in August 2008, how was AIG
21 thinking about raising or obtaining the liquidity?

22 A. At that point in time, the precise amount of
23 liquidity needed was somewhat of an elusive number. The
24 markets continued to deteriorate and the target moved
25 around quite a bit.

1 We would need to raise that liquidity in several
2 forms, and we started thinking about asset dispositions.
3 We thought about additional equity raise. We thought
4 about secured borrowing.

5 Q. If -- did -- I mean, in August 2008, did AIG have
6 any advisors assisting it in its effort to consider
7 liquidity?

8 A. We met with several investment banks during
9 August, August, to solicit their views on the, you know,
10 most effective ways AIG could both raise liquidity and
11 stem the underlying problems of the liquidity drain with
12 respect to, for the most part, AIG Financial Products and
13 the credit default swap book.

14 Q. Did one specific bank end up getting an
15 arrangement with AIG to work on this project?

16 A. Yes. That was JPMorgan.

17 Q. Had AIG worked with them before this project?

18 A. JPMorgan was one of AIG's principal bankers. They
19 participated in our credit facility. They provided
20 Treasury services to us. They distributed AIG products
21 for our insurance companies.

22 So it was a very sort of multifaceted
23 relationship.

24 Q. What was JPMorgan's assignment regarding AIG's
25 liquidity in August 2008?

1 A. The assignment was to find a solution for
2 AIG Financial Products as well as securities lending and
3 to raise a sufficient amount of capital and liquidity to
4 get us sort of through the crisis.

5 Q. Are you familiar with a company named BlackRock?

6 A. I am.

7 Q. And who is BlackRock or what is BlackRock?

8 A. BlackRock is a large asset management platform
9 that also provides analytical services.

10 Q. Did -- in August 2008, did BlackRock have a role
11 in AIG's efforts regarding either stemming the tide of
12 losing liquidity or raising liquidity?

13 A. I recall that BlackRock was hired to evaluate the
14 credit default swap book and the structured product,
15 RMBS, residential mortgage-backed securities book.

16 Q. If you could, sir, in the binder that I've handed
17 you or that you believe we've handed you, if you could
18 turn to DX 1418 and just let me know when you get there.

19 A. Okay. I'm there.

20 Q. Sir, have you seen this document before?

21 A. Let me take a look at it.

22 Yes, I've seen it.

23 Q. And what is it, sir?

24 A. This is a note that -- to some of the senior
25 executives at AIG about developing a capital raise action

1 plan and a summary of some of the recommendations from
2 the banks that we had met with.

3 Q. And you're cc'd on that document; is that right,
4 sir?

5 A. No. The document is from me to William Dooley,
6 Robert Gender, David Herzog. I assume this is --

7 Q. You're talking about the second page.

8 A. The second page. Sorry.

9 Q. And then the e-mail is circulating your memo; is
10 that right?

11 A. That's correct.

12 MR. DINTZER: Your Honor, we move for the
13 admission of DX 1418.

14 MR. BOIES: No objection, Your Honor.

15 THE COURT: Defendant's Exhibit 1418 is admitted.

16 (Defendant's Exhibit Number 1418 was admitted into
17 evidence.)

18 BY MR. DINTZER:

19 Q. And sir, if we turn now to the memo that you said
20 you wrote, just generally, who were the people that it's
21 to?

22 A. William Dooley at the time was responsible for our
23 financial services businesses, which included AIGFP.

24 Robert Gender was corporate treasurer.

25 David Herzog was at the time our controller.

1 Phil Jacobs was our head of tax.

2 Alan Pryor worked for Bill Dooley in financial
3 services.

4 Q. And this was August 27, 2008.

5 A. That's what it appears to be.

6 Q. And you write, "Per last night's meeting, we have
7 established the following preliminary 'Capital Raise and
8 FP Plan of Action.' In addition, we have summarized the
9 various banks' proposals."

10 And then the first thing that you do is "The
11 action plan is as follows" and you list them; is that
12 right, sir?

13 A. Yes.

14 Q. And if you could go to number 2, it says, "Refine
15 bankers' proposals, including: RMBS solutions from three
16 leading advisors."

17 What are you talking about in that item?

18 A. The "RMBS solutions" refer to the securities that
19 were invested and using collateral from the securities
20 lending program. That's my recollection.

21 Q. So was this looking for a solution or to stem the
22 liquidity drain on securities lending?

23 A. Yes. Or the potential liquidity drain from
24 securities lending.

25 Q. And then going down farther, number 4, it says,

1 "Select a CDS and RMBS strategy using BlackRock
2 information."

3 Do you see that?

4 A. Yes, I do.

5 Q. And what was that referring to, sir?

6 A. As I recall looking at it now years later, I
7 believe BlackRock had been running valuation analysis on
8 the securities, and using that information, we were I
9 think going to put together a team to try and find a way
10 to either lay that risk off, find intermediaries for that
11 risk, or other potential strategies to relieve the
12 liquidity drain on AIG.

13 Q. And when you talk about "that risk," specifically
14 which risk do you mean, sir?

15 A. The -- sorry. Can I hear the question again?

16 Q. Sure.

17 When you're referring to "that risk" in your
18 previous answer, just so that the record is clear, which
19 risk are you referring to?

20 A. The liquidity drain.

21 Q. From the CDS and RMBS portfolio?

22 A. That is correct.

23 Q. Then farther down you have this chart, and it
24 says, "The banker proposals are summarized as follows,"
25 and then it lists a number of banks.

1 Do you see that?

2 A. I do.

3 Q. And had any of these banks been hired at this
4 point, or what was sort of the stage of where you were at
5 at this point?

6 A. None of the banks had been hired. They had been
7 invited to come in and present their ideas.

8 Q. And so, for example, what was the proposal, as
9 described here, by Goldman Sachs?

10 A. It appears, based on the memo, that their
11 recommendation was to raise 10 to 15 of equity, most
12 likely just pure common stock, through the issuance of
13 common stock.

14 And at the FP solution, there were several ideas:
15 Full credit risk transfer, which is I assume finding
16 someone to novate the entire book of exposure to; full
17 credit risk transfer with upside, meaning potentially AIG
18 would retain some upside in the trade; and risk transfer
19 with leverage, which is another variant of that, which is
20 to potentially give the person taking on that risk some
21 leverage.

22 Again, I don't recall all the specific details,
23 just, you know, what comes to mind at the moment.

24 Q. And then just, for example, Deutsche Bank, what,
25 just generally, are they suggesting in this chart as a

1 possible route for AIG?

2 A. Again, what they're I think looking at is within
3 the CDS book we were guaranteeing, if you will, the
4 performance of CDOs, which are structured products.
5 Collateralized debt obligations is what it stands for.

6 Deutsche Bank's proposal, you know, as I recall,
7 you know, looking at this, was to sell the more junior
8 tranches of the CDOs that were wrapped and that for the
9 higher grade, better-quality CDOs a combination of trying
10 to sell the underlyings and tear up the swaps or to find
11 financing for them.

12 Q. And you've mentioned the securities lending
13 program.

14 What were the issues with respect to the
15 securities lending program at this point in time?

16 A. The main issue with the securities lending
17 program were the counterparties putting the bonds they
18 borrowed from AIG back to AIG and asking for their
19 collateral back. Their collateral had been invested by
20 AIG, their collateral mostly being cash, had been
21 invested by AIG in subprime RMBS whose values declined.

22 Q. And at this point did AIG understand the risk
23 embedded in the RMBS portfolio?

24 A. Did we understand the risk embedded in the -- can
25 you clarify the question?

1 Q. Sure.

2 Had you -- was there a quantification of the risk
3 or the -- the exposure for AIG at this point in the RMBS
4 portfolio?

5 A. As I recall, there was sort of some rough analysis
6 as to what the liquidity needs would be if counterparties
7 failed to roll the trades.

8 Q. At AIG are you familiar with the term, what an
9 all-hands meeting is?

10 A. Yes.

11 Q. And no further questions on that document, sir.

12 A. Okay.

13 Q. What is it?

14 A. Like it sounds, it's a meeting of all the
15 participants on a project. Usually the purpose of those
16 meetings is to, you know, lay out a plan and get
17 coordinated.

18 Q. Was an all-hands meeting ever called for the
19 liquidity issues that you've described?

20 A. I recall there was.

21 Q. And what led to this meeting?

22 A. I'm not sure which meeting in particular you're
23 talking about because we had many all-hands meetings,
24 you know, over this period of time. But most likely the
25 one that come -- the one that sort of comes to mind is,

1 in preparation of having JPMorgan, who was the bank hired
2 by AIG to help us with these problems, the all-hands
3 meeting was to prepare for JPMorgan to come in, do their
4 diligence, help them understand the problems, provide
5 analysis and documentation to get a capital-raising
6 process under way.

7 Q. And at this point in time did AIG have a serious
8 handle on its -- on the specific liquidity needs that it
9 felt it faced?

10 A. No. I think AIG's liquidity forecasting was --
11 was far from adequate at that point in time. We didn't
12 have any real sort of precise understanding of what the
13 liquidity needs were.

14 On top of that you had extremely volatile
15 markets, so any sort of target at any point in time that
16 was, you know, sort of, you know, put down tended to
17 change very rapidly, so -- so again, we had a moving
18 target and we had, you know, not the best of tools to
19 understand it.

20 Q. Was AIG at risk of running out of liquidity in
21 this point in time sort of in the late August time
22 period?

23 A. The answer is yes, AIG was at risk. How much did
24 we understand that risk and the timing of when that would
25 happen, I think there -- you know, that -- there's a

1 little bit more ambiguity about that, but there was
2 clearly a risk.

3 Q. Now, with respect to the all-hands meeting that
4 you described, would you have previewed this meeting with
5 Mr. Willumstad before scheduling it?

6 A. It's very possible. I don't recall, but it's
7 possible.

8 Q. And if you could go to DX 209, sir.

9 And Your Honor, this is already in evidence.

10 And sir, if you could take a look at this and tell
11 me if you've seen it before.

12 A. You said DX 209?

13 Q. Yes, sir.

14 A. Okay. I've got it.

15 Okay. I have the document, and I have seen it.

16 Q. Okay. And again like the last one, we're looking
17 at an e-mail and then a memo attached; is that right,
18 sir?

19 A. Yep.

20 Q. And did you send the e-mail?

21 A. It appears I did.

22 Q. And with -- it's dated September 2, 2008 at 9:30,
23 and without going through the list of people who are
24 listed here, just generally, what group of people were
25 you looking to send this to?

1 A. Well, the -- just to be clear, the subject was a
2 meeting scheduled for Tuesday, September 2, at 9:30. The
3 e-mail went out Sunday, the 31st, at it looks like
4 10:52 probably a.m.

5 Q. And if you go to the -- and the group, sir, how
6 did -- without going through each person's role, how did
7 you pick sort of this, this is the group that you would
8 send it to?

9 A. These were the senior management, those in the
10 senior management team of AIG that would have, you know,
11 or would need to be directly involved in a capital raise
12 or any solution, so you had people on this list that
13 represented finance, tax, legal, accounting, and rating
14 agency relations and credit risk.

15 Q. And if you go to the second page of this, you
16 write, "We will be having an all-hands meeting Tuesday
17 at 9:30 a.m. in the 18th floor Board Room to organize
18 for a potential capital raise. JPMorgan, who will be
19 acting as AIG's lead advisor in this process, will be
20 joining us."

21 At that point was it your expectation that AIG
22 would be having a capital raise in the future, I mean, in
23 the foreseeable future?

24 A. That was the -- that was the objective, so yes.

25 Q. And if you could go to the next page.

1 A. Uh-huh.

2 Q. It says "Critical Path" at the top?

3 A. Right.

4 Q. And just, if you would, would you explain what
5 that means.

6 A. Okay. There would need to be a series of steps in
7 order to get us through a capital raise, and this was a,
8 you know, simple schematic to lay out what the sort of
9 timing and sequencing or at least the sequencing of those
10 steps are and what the key areas of focus and issues were
11 for each of those steps.

12 Q. And if you could briefly -- are those the four
13 steps at the top, sir?

14 A. Correct.

15 Q. And if you could just briefly walk us through
16 those four steps.

17 A. So the first step -- and some of these could have
18 gone on in parallel. I think for the -- you know, to
19 keep it simple, we just showed it as sequential.

20 The first step was to focus on the proximate
21 causes of our liquidity problems, which were AIGFP and
22 the securities lending and the potential mark-to-market
23 on the investment portfolios and, as I recall, the
24 potential capital needs that that could generate within
25 our insurance operating companies.

1 Q. And that's what this first column is?

2 A. That is correct.

3 Q. And it lists here that the -- the options, and if
4 you could just explain what those options are.

5 A. So the options were, you know, do we hold on to
6 the positions and obviously raise additional capital and
7 liquidity to support holding those, do we hedge the
8 positions, and there would be a cost of that and you need
9 to sort of structure those hedges to ensure that they
10 achieved our objectives.

11 You could sell the positions or novate, which
12 would mean finding somebody to assume that risk and
13 transfer it to somebody else, could be a partial sale or
14 some sort of combination of the various other options or
15 an exchange offer.

16 Q. And then the second heading, sir, the Capital and
17 Liquidity Requirements, what was that?

18 A. Right. That was to refine the actual liquidity
19 needs or our best estimate of what those liquidity needs
20 should be and how much more capital or liquidity would be
21 needed to fund the solutions in that first column.

22 Q. The third item, sir?

23 A. Capital-raising alternatives and strategy, which
24 is, you know, how do we find capacity in the market that
25 we wanted to -- that we were able to access to raise the

1 money, so where do -- you know, what combination of debt
2 and equity or anything in between was open to AIG in what
3 capacity to meet our needs.

4 Q. And then the final item.

5 A. The execution, which was really basically going
6 out, developing the story, marketing the capital raise to
7 investors, selecting a -- syndicated bankers to
8 underwrite the deal and market the deal, and all of the
9 other sort of legal issues and documentation issues that
10 go along with the execution of a capital raise.

11 Q. Sir, what was Project North Star?

12 A. I believe that was the sort of project name given
13 to this effort overall.

14 Q. And if you could go to DX 212, sir.

15 And let me know if you recognize this document.

16 A. Yes. It's familiar.

17 Q. And what is the -- so is the first page an e-mail
18 from Mr. Junius?

19 A. Yes.

20 Q. And who is he?

21 A. He worked for me in strategic planning.

22 Q. And you were one of the recipients; is that right?
23 Second row, sir?

24 A. Yes. I guess I was.

25 Q. And did you have a role in the discussion or

1 creation of the document?

2 A. I recall I did.

3 MR. DINTZER: Your Honor, we'd move for the
4 admittance of DX 212.

5 MR. BOIES: No objection, Your Honor.

6 THE COURT: Defendant's Exhibit 212 is admitted.

7 (Defendant's Exhibit Number 212 was admitted into
8 evidence.)

9 BY MR. DINTZER:

10 Q. And taking you -- so this is dated September 3,
11 2008, and on the first page, Mr. Junius writes,
12 "Attached are the current Project Summary and Working
13 Group List."

14 Do you see that?

15 A. Yes, I do.

16 Q. And if you could go to this -- to the third page,
17 the one with the big chart on it, is that the project
18 summary?

19 A. It's part of it. This is -- I don't see sort of a
20 project summary, but I do see a list of key team members
21 along with advisors, you know, what the -- for each of
22 those teams what the priority agenda items were or what
23 the areas of focus would be and, if there had been
24 requests for information from those teams, what was open
25 and outstanding at that point.

1 Q. And so if we could look at that, that page -- and
2 the Bates number on it is 14716 -- and along the
3 left-hand the first box is Steering Committee; is that
4 right?

5 A. Yes.

6 Q. And you're on the steering committee for the
7 project along with others?

8 A. Yes.

9 Q. And the second box is FP.
10 Do you see that?

11 A. I do.

12 Q. And what was your understanding of why FP was on
13 this, sort of on this chart?

14 A. As discussed earlier, FP was a significant cause
15 of the stress on AIG from a liquidity standpoint, so any
16 capital raise, any solution was going to require FP
17 getting addressed.

18 Q. If you could go to the fourth column, the one
19 Priority Agenda, it says, "Evaluate different ideas to
20 reduce liquidity risk and volatility for CDS super senior
21 portfolio."

22 Do you see that?

23 A. I do.

24 Q. And what's your understanding of what that agenda
25 item is?

1 A. As we mentioned before, that agenda item relates
2 to what are the potential solutions, transactions,
3 structures that would mitigate the ongoing liquidity
4 drain and volatility caused by the multi-sector CDS book
5 at AIG Financial Products.

6 Q. The next row down is the RMBS/Sec
7 Lending/Investments.

8 Do you see that?

9 A. Yes.

10 Q. And what's your understanding of why that was on
11 the chart?

12 A. The other source of liquidity drain was the
13 securities lending program that was administered by
14 AIG Investments at the time.

15 Q. And in that Priority Agenda column, it says -- the
16 third bullet down says "liquidity options and solution."

17 Do you see that?

18 A. I do.

19 Q. What was your understanding sort of what you were
20 looking for in that priority agenda area?

21 A. Figuring out options for raising liquidity to meet
22 counterparties' demands for their collateral back.

23 Q. How did the market in early September affect AIG's
24 needs for and ability to get liquidity?

25 A. Liquidity generally in the market was declining,

1 meaning there was more volatility. The bid-ask on
2 securities was widening. Prices were coming down. There
3 was far -- it was far more difficult to sell securities
4 and raise liquidity at that point in time.

5 Q. Now, did AIG consider doing a public offering at
6 this time with either stock or debt?

7 A. We did.

8 Q. And what was your thinking as far as the schedule
9 that that would take?

10 A. As I recall, the challenge with doing a public
11 offering at that point in time was either a blackout
12 period issue -- we were getting toward the final month of
13 the quarter. We were almost at the quarter end. And I
14 don't believe we had an effective registration statement
15 at that point in time. I think we needed to get through
16 and file our third quarter 10-Q in order to access the
17 public markets.

18 Q. And just to unpack that, sir, what is an effective
19 registration statement?

20 A. When securities are sold to the public, they're
21 done so in a registered form based on a filing that the
22 company makes that has its latest financial information
23 and risk factors, and so forth.

24 So unless a company has an effective registration
25 statement outstanding, it would be my understanding,

1 because, again, I'm not a securities lawyer, but we
2 would be prohibited from issuing registered public
3 securities.

4 Q. Now, at this time who was responsible for getting
5 a realistic assessment of AIG's liquidity needs?

6 A. That responsibility fell primarily to AIG's
7 treasurer, Bob Gender.

8 Q. And in early September -- so we've moved from
9 August or -- to September -- in early September, was
10 there a target amount for the capital raise?

11 A. I believe there was.

12 Q. And what was it?

13 A. I -- off the top of my head I don't know the
14 specific number, so again, I don't want to speculate, but
15 as I recall, it was probably somewhere around -- early
16 September probably around 15 or 20 billion I think.
17 Again, I just -- I don't recall.

18 Q. Now, you've mentioned securities lending and the
19 CDS portfolio.

20 Are you -- did AIG have a commercial paper program
21 at that time?

22 A. We did.

23 Q. And if you could just explain briefly what that
24 means.

25 A. Commercial paper was a short-term debt instrument

1 issued by the AIG parent, and some of its financial
2 services subsidiaries also had access to the commercial
3 paper market.

4 Q. And in early September was there concern about
5 AIG's access to the commercial paper market?

6 A. There were. There were growing concerns.

7 Q. If you could explain that.

8 A. The concerns were twofold. One, there was a risk
9 that liquidity in that market would dry up and we
10 wouldn't be able to roll paper. The other risk is that
11 in the event of a downgrade we'd be closed out of the
12 market.

13 Q. And if could you explain that, sir.

14 A. Usually it's only the highest-rated issuers that
15 have access to the commercial paper market.

16 Q. In early September, what was your take on AIG's
17 likely viability?

18 A. By that point in time, AIG's viability, at least
19 the holding company viability, in my view, was starting
20 to come into question, that the continued volatility in
21 the markets, the continued demands on our liquidity were
22 stressing the company.

23 Fortunately, we had reasonably strong operating
24 businesses and the -- at that point in time the stress
25 hadn't much affected them, although I'll qualify that

1 statement because our SunAmerica and our life and
2 retirement business was a participant in the securities
3 lending pool, so that did become a problem. But the
4 overall holding company issue was a growing and great
5 concern to me.

6 Q. Now, did AIG's board meet in early September to
7 discuss the liquidity issue?

8 A. I believe it did.

9 Q. And if we could go to JX 43, sir.
10 And just let me know when you're there, sir.

11 A. I'm here.

12 Q. And do you recognize this document, sir, or do you
13 have an understanding of what it is?

14 A. It looks like minutes from a board meeting.

15 Q. And can you -- in the second line it indicates
16 that it was a telephone conference.

17 Do you see that?

18 A. I do.

19 Q. And it's September 5, 2008.

20 A. I see.

21 Q. And at about four lines from the bottom, does that
22 indicate you were there, sir?

23 A. It does.

24 Q. So at this point in time on September 5, 2008, at
25 about the time that AIG is having a board meeting, how

1 significant did you view the liquidity and capital issues
2 facing AIG?

3 A. Hang on. I was just on the wrong tab. Okay.
4 Sorry. Could you repeat the question.

5 Q. Of course, sir.

6 At this point in time on September 5, 2008, AIG is
7 having a board meeting.

8 At that point how significant did you view the
9 liquidity and capital issues facing AIG?

10 A. Very significant.

11 Q. And if I could get you to turn to exhibit
12 page 4 of 5 and let me know when you're there.

13 A. Okay. I'm here.

14 Q. And I'm going to take you to the minutes in a
15 second, but I forgot to ask you, are you familiar with
16 something named Metropolis?

17 A. Yes.

18 Q. And what is that, sir?

19 A. As I recall, it was a proposed transaction that
20 would have allowed AIG to find an intermediary for an
21 obligation at AIG Financial Products.

22 Q. And this obligation -- and we can look at the
23 minutes, but this obligation, was that one of the ones
24 we've talked about or was that a different obligation?

25 A. It was a different obligation.

1 AIG Financial Products at the time issued
2 guaranteed investment agreements. This particular
3 structure of the agreement was collateralized, so as --
4 as the market deteriorated and volatility increased, AIG
5 would be required to post more collateral against these
6 obligations.

7 Q. And could you just briefly explain what a
8 guaranteed investment agreement is or GIA.

9 A. It is simply a contract issued by a company, in
10 this case AIG Financial Products, that pays a stipulated
11 rate of interest and has a fixed maturity.

12 Q. And with Metropolis, was there a specific company
13 that was potentially a counterparty in this effort?

14 A. Yes. You'll see in the minutes, too, it's
15 Berkshire Hathaway.

16 Q. And I'm not going to read them into the record,
17 sir, but if you could take a look at the top of
18 page 4 those first two sentences.

19 Am I right that you provided a discussion of
20 Project Metropolis in this meeting?

21 A. I recall that.

22 Q. And what was -- if you could just briefly describe
23 what -- how Project Metropolis would have aided AIG if it
24 had been pursued.

25 A. As I recall, there were certain downgrade

1 triggers on the -- within the GICs, so if AIG's credit
2 rating went below a certain level, AIG would be required
3 to post additional collateral against the GICs.

4 The idea of this transaction was to simply rent
5 Berkshire Hathaway's rating, which was substantially
6 higher than AIG's at the time, which would have avoided
7 further capital or collateral posting requirements on the
8 part of AIG, and in return we would pay a fee to
9 Berkshire Hathaway.

10 Q. And how much collateral protection was in
11 discussion from Berkshire Hathaway?

12 A. Just from looking at the notes here, it appears to
13 be around 5.5 billion.

14 Q. And what was the approximate cost, if this had
15 been pursued, going to look like for AIG?

16 A. About a billion one to a billion four here in the
17 notes.

18 Q. Ultimately was Metropolis pursued by AIG?

19 A. It was not.

20 Q. Do you recall why?

21 A. I don't recall specifically why.

22 Q. Okay. No further questions on that document,
23 sir.

24 If I could get you to turn to DX 222, please, and
25 let me know when you're there.

1 A. I'm here.

2 Q. And do you recognize this document, sir?

3 This is already in evidence, Your Honor.

4 A. I vaguely recall it. Yes.

5 Q. And the -- the attachment says

6 "Project Northstar," and the subject just lists a call.

7 What do you understand this document -- that the
8 document is, both the e-mail and the attachment?

9 A. This document looks like it was prepared by
10 JPMorgan, and it appears to run through various liquidity
11 scenarios for AIG.

12 Q. And was this created at AIG's request, as far as
13 you understand it?

14 A. As part of JPMorgan's assignment and work for us,
15 this is most likely something they produced in relation
16 to the broader assignment as opposed to a specific ask.

17 Q. If you could turn to what's Bates-numbered 4069,
18 it's the first page sort of their deck that's titled
19 Liquidity Scenarios. And just let me know when you're
20 there.

21 A. I'm there.

22 Q. And do you have an understanding of what JPMorgan
23 is doing here?

24 A. I -- yes, I have an understanding of what they're
25 doing.

1 They are looking at our available cash and
2 liquidity resources, looks like as of a date, which I
3 can't really read on this copy, but it looks like
4 possibly September 3, '08, and then looking at various
5 sort of planned cash inflows or outflows, and then under
6 what it appears to be different scenarios figuring out
7 additional liquidity requirements that would be needed,
8 and then estimating what our liquidity balance would be
9 at different dates between September 30 and the end of
10 the year.

11 Q. And what are the different -- I'm not going to ask
12 you to describe them. I mean, they're listed here.

13 But what are the three types of scenarios that you
14 understand JPMorgan is creating here?

15 A. Well, one is if the market and AIG just sort of
16 continued to chug along at current ratings and current
17 market levels I suspect.

18 The next one looks like it was the impact of a
19 one-notch downgrade in our credit rating.

20 And the third scenario, the stressed scenario,
21 probably included further deterioration in the market
22 and, you know -- yeah, and probably other macroeconomic
23 scenarios which I don't think are clearly listed here,
24 but...

25 Q. Does the chart say anything about what AIG's

1 year-ending liquidity position is anticipated to be?

2 And I apologize for the extraordinarily small
3 print.

4 A. Yes. Well, based on this analysis and the
5 assumptions used here, it projected anywhere from a
6 10 to a 45 billion dollar liquidity shortfall.

7 Q. By the end of 2008.

8 A. By the end of 2008.

9 Q. Did you yourself at this time in early
10 September 2008 think that AIG might run out of liquidity
11 by the year end?

12 A. I think my view is quite certain that it would.

13 Q. Now, we've talked about the liquidity -- no more
14 questions on that document, sir -- and you alluded to the
15 downgrade earlier.

16 When did AIG first become aware that it might face
17 a downgrade in September 2008?

18 A. I don't remember any specific date, but we were
19 put on negative watch by the rating agencies. That was
20 at an earlier point in time, so when the agencies put you
21 on negative watch, that means they are contemplating
22 taking a rating action that would amount to a one or
23 multiple-notch downgrade.

24 Q. At this time what result did you consider likely
25 if AIG were to be downgraded?

1 A. Given the -- yeah, I don't recall what I was
2 thinking specifically then. But I thought it was very
3 possible that there would be a multiple-notch downgrade
4 just given the level of liquidity drain on the company.

5 Q. And based on your experience, sir, what did you
6 understand a multiple-notch downgrade -- looking at it
7 from the perspective of early September 2008, what kind
8 of effect would that have on AIG?

9 A. It would have a significant effect. It would
10 have, one, affected our ability to access the capital
11 markets. It would have increased our cost of funding,
12 our cost of capital.

13 It could have had a knock-on effect with our
14 businesses and the willingness of our producers and
15 customers to stick with us during that, you know, as a
16 result of the deterioration in the financial condition of
17 the company.

18 Q. And you used the term "knock-on effect." If you
19 could just explain what that term means.

20 A. That is, the downgrade of the rating itself is
21 just that, but that has an impact on many things. As I
22 mentioned, it would have an impact on our ability to
23 access the capital markets and which investors would be
24 willing to invest in a lower-rated security. It would
25 potentially have an impact on the behavior of our

1 policyholders and their willingness to do business with
2 AIG.

3 Now, the AIG holding company and the AIG operating
4 companies had separate ratings, but there was always a
5 notching, so to speak, between them. And AIG parent
6 company tended to have a slightly lower rating than the
7 operating companies given that's where all the sort of
8 capital and earnings came from.

9 However, if the insurance companies needed
10 capital, the principal source of capital would be through
11 the holding company, so AIG would go to the capital
12 markets, raise capital and put it in if needed, so a
13 weakening of the holding companies could trigger a
14 weakening of the operating companies because of that
15 relationship.

16 Q. Did AIG instigate any meetings with the rating
17 agencies regarding these concerns?

18 That's not a good question. Let me try again.

19 Did these concerns about a potential downgrade
20 create -- cause AIG to make any effort to meet with the
21 rating agencies?

22 A. There was an ongoing dialogue with the rating
23 agencies, and we did meet with them. They -- there was
24 an expectation that AIG would present analysis that
25 would allow them to sort of conclude their ratings

1 process.

2 Q. If you could go to DX 227, sir, and let me know
3 when you're there.

4 And Your Honor, this is already in evidence.

5 A. I'm there.

6 Q. And tell me if you've ever seen this document
7 before, sir.

8 A. It looks vaguely familiar.

9 Q. And who is Teri Watson, sir?

10 A. At the time, she was responsible for rating agency
11 relations, so she was the person who would coordinate
12 meetings and exchange of information with the rating
13 agencies.

14 Q. And this document, along with a number of other
15 people, was sent to both Mr. Willumstad and yourself; is
16 that right?

17 A. Yes.

18 Q. And would that have been part of your -- would
19 that have been unusual or would that have been part of
20 your responsibilities, to track and participate in rating
21 agency discussions?

22 A. I often participated in rating agency meetings.

23 Q. If you could turn to the second page, sir, of this
24 document, of DX 227.

25 A. Uh-huh.

1 Q. Do you have an understanding of what this page is
2 showing?

3 A. The one that's entitled Operational and Strategic
4 Review?

5 Q. Yes, sir.

6 A. So this looks like a schedule of the meetings with
7 the various rating agencies and who the rating agency
8 participants would be at those meetings.

9 Q. Do you know if any or all of these meetings took
10 place?

11 A. I recall attending a rating agency meeting or two
12 at that point in time. I'm not sure all of the meetings
13 took place. It's possible they did. I just --

14 Q. Do you remember specifically which one or ones you
15 were at?

16 A. I -- I think I was at the S&P meeting. And I may
17 have been at the Moody's meeting. I think I was at the
18 S&P meeting.

19 Q. And now, at this point did you have an
20 understanding of why the rating agencies were considering
21 downgrading AIG?

22 A. Yes. I think the principal reason was the
23 liquidity drain taking place at the company as a result
24 of AIG Financial Products and securities lending.

25 Q. And what was AIG's goal in going into these

1 meetings? Did it have a specific objective?

2 A. The objective for these meetings was to
3 articulate a plan to the rating agencies that would show
4 with a degree of confidence AIG's ability to address the
5 causes of distress on the company and, should there need
6 to be additional capital and liquidity raised, to also
7 present a plan for how that would get done.

8 Q. Was there any effort to talk the rating agencies
9 out of the downgrades or at least to get them to postpone
10 the downgrades?

11 A. There may have been conversations to that extent
12 and arguments made for not doing that, and I vaguely
13 recall a number of conversations about it, but I don't
14 recall the specifics.

15 Q. No further questions on that document, sir.

16 If you could go to DX 233 and let me know when
17 you're there.

18 A. I'm there.

19 Q. And do you have an understanding of what this
20 document is, both the e-mail and the attachment?

21 A. As it says on the cover page, it looks like a
22 presentation to Moody's on September 11, 2008.

23 Q. And who was Matthew Laermer?

24 A. Matthew Laermer was a junior person on my team.

25 Q. And you're one of the recipients of this e-mail

1 and this presentation; is that right?

2 A. That is correct.

3 Q. And would you have had input on this
4 presentation?

5 A. Yes.

6 MR. DINTZER: Your Honor, we move for the
7 admission of DX 233.

8 MR. BOIES: No objection, Your Honor.

9 THE COURT: Defendant's Exhibit 233 is admitted.
10 (Defendant's Exhibit Number 233 was admitted into
11 evidence.)

12 BY MR. DINTZER:

13 Q. And Mr. Laermer writes on that first page, "Please
14 see the attached final presentation for tomorrow
15 morning's meeting with Moody's. Twenty-five copies of
16 the presentation will be available in the boardroom
17 before the 9:00 a.m. meeting. Thank you very much."

18 And then is it your understanding that starting
19 two pages down is the presentation from Moody's?

20 A. That's correct.

21 Q. And I'm going to ask you to go to the 34th page of
22 the deck, which is Bates number 5864, and just let me
23 know when you're there.

24 A. I'm there.

25 Q. So this is obviously a title page.

1 What part of the presentation is this the title
2 page for? What's going to happen in the next few pages?

3 A. The next few pages will outline AIG's plan to
4 raise capital and liquidity to meet our needs and
5 maintain adequate capital and liquidity ratios.

6 Q. And then if you go to the next page, sir, and
7 that's Bates 5865?

8 A. Right.

9 Q. The heading is Capital and Liquidity Plan:
10 Overview, and you write, "AIG is committed to address any
11 marks in third quarter '08 and to develop solutions to
12 deal with future marks in order to preserve ratings."

13 Do you see that?

14 A. I do.

15 Q. Do you have an understanding of what "marks" means
16 in that context?

17 A. "Marks" meaning mark-to-market or the adjustment
18 of the carrying value of our assets to market value.

19 Q. And sort of in more plain English, how would
20 that -- what is AIG trying to do to sort of address those
21 mark-to-markets? I mean, what does that mean?

22 A. That's the -- those mark-to-markets create
23 volatility in our financial statements either directly
24 through our income statement or as an entry that reduces
25 shareholders' equity.

1 Q. And if we go to the next sentence on that same
2 heading, it says, "We are considering taking any of the
3 following actions alone or in combination," and then
4 there's four items.

5 Do you see that?

6 A. I do.

7 Q. Asset sales is the first.

8 What was your understanding sort of at that point
9 how asset sales fit into AIG's capital and liquidity
10 plan?

11 A. By selling an asset, the company would raise
12 liquidity, so to the extent we had unencumbered assets,
13 which I believe at that time could have also included
14 businesses that were salable, we would consider selling
15 them to raise liquidity and improve capital.

16 Q. Was it your anticipation, sir, at this point in
17 time that AIG would likely have to sell assets to secure
18 the capital and liquidity it needed?

19 A. It was almost certain to me at that time that AIG
20 would need to engage in a combination of activities to
21 raise a sufficient amount of capital and liquidity to
22 meet our needs.

23 Q. Was one of those asset sales?

24 A. Yes.

25 Q. Now, in early September, at the time sort of on

1 this Moody's presentation on -- around September 10, had
2 AIG actually identified and tried to sell its -- some
3 assets?

4 A. Did we try to -- I'm sorry. Can you --

5 Q. Again, it's not a good question. I apologize,
6 sir.

7 At this point, September 10, had AIG actually made
8 an effort to try -- had it gone out and tried to sell
9 assets at this point?

10 A. At that point we had -- I don't recall. I think
11 we were at that point focusing on, you know, a
12 combination of actions that would provide us liquidity to
13 get over the quarterly filing that would then give us
14 access to the capital markets where we'd be able to raise
15 some equity.

16 I don't recall whether we attempted to actually
17 sell assets, but we did identify at that point in time
18 assets that we believed were salable.

19 Q. Are you familiar with the term "cross-guarantee"?

20 A. I am, yes.

21 Q. Did AIG's insurance subs have cross-guarantees?

22 A. They did.

23 Q. And if you could explain what that means.

24 A. That would mean when a sister company would
25 guarantee the obligations of another, of a sister

1 company, or it could be an entity higher up in the
2 organizational chain guaranteeing another entity at
3 another layer within the company.

4 So that's just a simple explanation.

5 Q. Did the cross-guarantees affect either what assets
6 could be sold or the ability to sell assets?

7 A. It added a degree of complexity to the sale of the
8 assets in that an acquirer would most likely have to
9 assume those guarantees, and to the extent that they were
10 complex, difficult to quantify, and significant in
11 potential size, that would clearly impede the salability
12 of a business.

13 Q. What other factors could affect the speed with
14 perhaps, say, an insurance sub could be sold?

15 A. Clearly the regulatory approval process was one
16 that could be quite time-consuming.

17 Q. If you could explain.

18 A. Change of control of an insurance company would
19 require regulatory approval. There's a process for
20 regulatory review, and that's an added step to the
21 process that could take time.

22 Q. How about with respect to AIG's foreign
23 subsidiaries?

24 A. Foreign regulators would review the transactions
25 as well. That's a broad statement I made earlier.

1 Q. If we could go to DX 255, and just let me know
2 when you're there, sir.

3 A. I'm there.

4 Q. Sir, do you recognize this document?

5 A. Is this the Standard & Poor's report?

6 Q. Is that right, sir? Yes, sir.

7 A. Yes.

8 Q. And do you have a general understanding of what
9 this is?

10 A. Yes. This was an S&P report putting AIG on
11 CreditWatch with negative implications.

12 Q. And is that on September 12, 2008, sir?

13 A. Yes. That's the date of the report.

14 Q. Would it have been part of your responsibility to
15 be knowledgeable about information such as this?

16 A. Yeah. I would agree with that.

17 MR. DINTZER: Your Honor, we move for the
18 admittance of DX 255.

19 MR. BOIES: Objection, Your Honor, if it's
20 admitted for the truth of the matter asserted. If it's
21 admitted or offered for purposes of simply showing what
22 AIG was on notice of, I have no objection to that, but
23 this is not an AIG document.

24 THE COURT: Mr. Dintzer?

25 MR. DINTZER: It may not be an AIG document, at

1 least it's not Bates-numbered, but reports such as this
2 were -- I mean, AIG was meeting with Standard & Poor's.
3 In fact, the witness indicated that he believed he had
4 met with them. And these issues, the facts in there,
5 were specifically the types of things that they were
6 talking about.

7 THE COURT: Well, I'll overrule the objection.
8 DX 255 is admitted.

9 (Defendant's Exhibit Number 255 was admitted into
10 evidence.)

11 BY MR. DINTZER:

12 Q. Sir, if I can take you to the second page.

13 A. Okay.

14 Q. And I'm just going to ask you, the heading
15 indicates "Ratings Placed on CreditWatch with Negative
16 Implications."

17 Do you see that?

18 A. I do.

19 Q. And what's your understanding of what that means?

20 A. That means the rating agency was contemplating
21 taking a rating action, meaning in this case with
22 negative implications, a downgrade of AIG.

23 Q. And if you go to the last paragraph on this under
24 Rationale, it says, "Once we have more clarity on these
25 issues, we could affirm the current ratings on the

1 holding company and operating companies or lower them by
2 one to three notches."

3 Do you see that?

4 A. I do.

5 Q. And was that -- is that consistent with your
6 understanding that AIG faced a potential multiple-notch
7 downgrade in -- on September 12, 2008?

8 A. Yes.

9 Q. No further questions on that document, sir.
10 Now, we've talked a little bit about AIG
11 potentially raising money from the public sector; is that
12 right? In some of the documents. And I was wondering,
13 did there come a time when AIG began to focus on raising
14 money from the private sector or private capital raise
15 instead?

16 A. Yes.

17 At some point mid-September, the latest liquidity
18 forecast came in with a far greater need. It was a far
19 more severe decline in the value of the positions, and at
20 that point we -- it was fairly clear and urgent that AIG
21 would need to raise more than just, you know, liquidity,
22 but we would probably need to raise capital as well.

23 Q. And if you could explain the difference between
24 that, sir.

25 A. Yes. The needs were quite severe that raising

1 the amount completely in debt would have created the
2 leverage ratio of AIG to go up. That would have again
3 created this sort of vicious cycle of downgrade,
4 liquidity need.

5 So capital is supportive of credit, so it was
6 determined that we would need to -- given the size of the
7 amount of liquidity need, it would have to come in the
8 form of both debt and equity. We'd need some form of
9 capital.

10 Q. And I used the term "public sector," sir, but if
11 you understand from my question a few minutes back that I
12 meant a public offering?

13 A. Yes.

14 Q. And --

15 A. Well, I think -- I just -- to be clear, there's --
16 when we think of sort of public markets, there are the
17 public markets, and we talked earlier about the need to
18 have an effective registration statement to access them.

19 At that point in time in September, I don't
20 believe AIG had access to the public markets and that
21 when we were talking about a capital raise, it was almost
22 certainly going to be a raise in the private market, just
23 to --

24 Q. No. I appreciate the clarification, sir.

25 At some point in early September, did you start

1 making an effort, you and the people on your team, to
2 engage in a possible private raise of capital?

3 A. That's correct.

4 Q. And do you recall who you talked to during that
5 week as part of that process?

6 A. We spoke with J.C. Flowers early on in the
7 process. And our advisor, JPMorgan, reached out to
8 several other private equity firms who they believed
9 would have the wherewithal to -- to provide -- to -- to
10 raise the capital that -- in the size that we were
11 looking for.

12 Q. And do you recall approximately when the -- AIG or
13 you yourself reached out to J.C. Flowers?

14 A. I think it was -- I don't have a calendar in front
15 of me, but on the sort of Thursday before the big
16 weekend.

17 Q. So if the -- the big weekend.

18 A. Yes.

19 Q. If the big weekend, sir, was September 13 and 14,
20 and the Friday was September 12, would that peg it at
21 approximately September 11?

22 A. That's correct.

23 Q. And just so that we can connect up, you said that
24 the thing that led you to change focus from liquidity to
25 capital at that point, around that time, was a report.

1 Does that mean that the report that you saw that
2 things were going to be worse than expected came before
3 September 11?

4 A. It was probably right around that time, maybe
5 September 9 or 10.

6 And again, we still needed the liquidity. It was
7 just raising debt or liquidity in the form of a
8 repurchase agreement was not likely going to be
9 sufficient to meet our needs at that point in time.

10 Q. So you indicated that there was a reaching out to
11 Mr. Flowers.

12 Did you yourself make that, that contact?

13 A. I believe so.

14 Q. And did AIG have an existing relationship with
15 Mr. Flowers or his organization?

16 A. We did. We had a relationship with Chris going
17 back to his days as a banker at Goldman Sachs and also
18 had invested with him.

19 Q. And in reaching out to Mr. Flowers -- and when you
20 say "Chris," that's Chris Flowers; is that correct?

21 A. Yes.

22 Q. What did you tell him during that call or
23 meeting?

24 A. I don't remember what I said to him in that call,
25 but I think invited him to come in and have a meeting.

1 Q. And do you recall if there was an initial meeting
2 with Mr. Flowers?

3 A. I do.

4 Q. Do you recall who attended?

5 A. I believe it was Bob Willumstad, Steve Bensinger,
6 and Bob Gender may have been there. I don't remember who
7 was there, but I'm pretty sure it was Bob for sure and
8 then Steve.

9 Q. And who was there on behalf of Mr. Flowers and his
10 organization?

11 A. I think he was there alone.

12 Q. And at that point did you tell Mr. Flowers sort of
13 what the ask was?

14 A. I don't think there was an ask. I think we shared
15 some information with him and sort of gave him a rough
16 idea of what we were trying to raise.

17 Q. And do you recall what that would have been?

18 A. I believe at that point in time we were trying to
19 raise about \$20 billion in the form of a repurchase
20 agreement because there is a belief that AIG had
21 unencumbered assets that could be used in -- to raise a
22 repo financing and another up to \$20 billion of equity.

23 Q. After the first meeting with Mr. Flowers, were
24 there follow-up efforts by Mr. Flowers?

25 A. Yes.

1 Q. Could you describe those.

2 A. Chris had a team of people who he was working with
3 come on-site to AIG to perform due diligence.

4 Q. And did that take place over that weekend of
5 September 13 and 14?

6 A. Yeah. In fact, I believe they started on Friday.

7 Q. On September 12.

8 A. On September 12.

9 Q. Was he -- was Mr. Flowers at that point working
10 with any coinvestors?

11 A. He was. He was working with Allianz, who may have
12 also been an investor in his fund. I'm not sure for
13 certain. And it was likely that other investors in his
14 fund would also provide additional side-by-side invest
15 capacity because the amount of the investment probably
16 exceeded what the Flowers could do as a single fund
17 investment.

18 Q. And could you explain what Allianz is, sir.

19 A. It's a large global insurance company based in
20 Germany.

21 Q. Do you know if at that point Mr. Flowers was
22 working with either the Chinese or with any sovereign
23 wealth funds?

24 A. It was my understanding that CIC, the Chinese
25 sovereign wealth fund, was an investor in Chris' fund and

1 that they would be a potential coinvestor in the
2 financing.

3 Q. And what led you to that conclusion?

4 A. Chris mentioned it to me, and a representative
5 from CIC was on-site at AIG doing due diligence with his
6 team.

7 Q. And do you remember the name of that gentleman?

8 A. I do. Hu Bing.

9 Q. And did you yourself have any meetings with
10 Mr. Bing?

11 A. I did.

12 Q. Could you describe those, please.

13 A. The meetings generally described what our
14 objectives were. And Mr. Hu expressed his interest to
15 try and find a way to help either as part of the
16 Chris Flowers consortium or even outside of that.

17 Q. And with respect to helping outside Mr. Flowers,
18 what was your response?

19 A. I said we have an objective, we're trying to raise
20 the capital and we're open to any and all offers, and
21 you know, I encouraged him to get to work.

22 Q. You mentioned JPMorgan.

23 Did they make any effort to reach out and find
24 either liquidity or capital for AIG?

25 A. They did. I don't know how many calls or

1 approaches that they made in total, but over the course
2 of the weekend, other private -- there were other private
3 equity firms performing due diligence on-site at AIG.
4 Those included KKR, TPG, and Goldman Sachs' private
5 equity arm.

6 Q. Did Mr. Bing ever get back to you with respect to
7 the possibility of CIC investing directly with AIG?

8 A. No, he did not.

9 Q. How far along did KKR and TPG progress in their
10 consideration?

11 A. They were there throughout the weekend. I -- we
12 provided them all the information we could, but I don't
13 recall ever receiving even an informal proposal from
14 either.

15 Q. Did AIG also explore a possible loan from JPMorgan
16 itself?

17 A. We did. That was really in the form of a repo
18 facility.

19 Q. And if you could just briefly explain what a repo
20 facility would have been.

21 A. We would provide securities that would be,
22 you know, effectively pledged against a credit facility
23 for AIG.

24 We provided a list of securities to JPMorgan and
25 to Citibank, and the goal was that both Citi and JPMorgan

1 would find sufficient eligible collateral on that list to
2 each provide AIG 10 billion of repo capacity for a total
3 of 20 billion of liquidity.

4 Q. And what was JPMorgan's response?

5 A. Well, their response initially or their ultimate
6 response?

7 Q. Let's start with initially, sir.

8 A. Well, they accepted the list of securities that
9 was provided and said they would take a look.

10 Q. And what was their ultimate response?

11 A. Well, the ultimate response was no.

12 THE COURT: Mr. Dintzer, shall we break for lunch
13 at this point?

14 MR. DINTZER: Yes, Your Honor.

15 THE COURT: Let's reconvene at 1:45.

16 (Whereupon, at 12:45 p.m., a lunch recess was
17 taken.)

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1 Q. Now, was this something that he would typically
2 do or was this -- do you have an understanding that this
3 was done for sort of the stress that's going on at that
4 time?

5 A. This was probably created specifically as a result
6 of the stress on AIG.

7 MR. DINTZER: And Your Honor, we move to admit
8 DX 242.

9 MR. BOIES: No objection, Your Honor.

10 THE COURT: Defendant's Exhibit 242 is admitted.

11 (Defendant's Exhibit Number 242 was admitted into
12 evidence.)

13 MR. DINTZER: Your Honor, we also -- well, that's
14 unfortunate.

15 Well, let's see if we can make do with 242.

16 BY MR. DINTZER:

17 Q. If you could, sir, on the -- what is this after
18 the first page? What are we seeing on these, just
19 generally on these, on these subsequent pages?

20 A. It appears that these are daily forecasts of AIG's
21 cash balance.

22 Q. And on September 12, 2008, is there a forecast of
23 what would happen if there's a Moody's downgrade? Does
24 he project what might happen then?

25 A. Yes. It appears in the lower half of the table

1 that there are scenarios that are -- that assume a
2 Moody's downgrade.

3 Q. And what does he project with respect to whether
4 AIG will be -- will not have enough liquidity to pay its
5 bills? Does he make an estimation?

6 A. Well, my, again, best read of this is that AIG
7 runs out of money sometime starting -- depending on the
8 scenario, sometime around the 17th to the 19th, depending
9 on the scenario.

10 Q. Okay. And then towards -- on the second page of
11 the document, the first page of the spreadsheets, at the
12 very bottom of the page it uses the initials "CP" and a
13 series of initials with "CP."

14 Do you see that?

15 A. I do.

16 Q. Do you have an understanding of what "CP" means
17 there?

18 A. I believe he's referring to commercial paper.

19 Q. And is he making a projection about commercial
20 paper?

21 A. He's making a projection of commercial paper
22 maturities, and I suspect the assumption here is that if
23 those facilities were unable to be rolled when they were
24 due --

25 Q. And what -- I'm sorry, sir. Please.

1 A. -- liquidity would be needed to pay them off.

2 Q. And what is the term -- I think we've used it
3 before, but just so that the record says, what does that
4 mean to roll one --

5 A. That means investors would be willing to accept
6 new paper to fund the maturity of the paper that was
7 due.

8 Q. And is there a projection of what would happen to
9 commercial paper if -- and the ability to roll it if
10 there was, say, a double downgrade?

11 A. It looks like the double downgrade above,
12 you know, with Curzon -- as I say, again, I -- I don't
13 know without some footnotes or other explanation exactly
14 what he saw. I'm just inferring from here that with
15 Curzon CP maturities that the cash balance would turn
16 negative under a double downgrade scenario on Wednesday,
17 September 17.

18 Q. Okay. No further questions on that document,
19 sir.

20 If you could go to DX 296. And let me know when
21 you get there.

22 A. Okay.

23 Q. Do you recognize this document, sir?

24 A. Let's take a look.

25 I am vaguely familiar with this document. It

1 looks like a draft of a document, but I do vaguely recall
2 it.

3 Q. And was The Blackstone Group -- were they
4 assembling materials for AIG on September 14, 2008?

5 A. They were brought in as an advisor over the
6 weekend, and it's -- yes, they would be preparing
7 materials at that time.

8 Q. And do you have an understanding of what these
9 materials are?

10 A. It appears to be a review of the events that
11 transpired from September 8th through the 14th, what
12 happened to the markets and what happened to AIG during
13 that period of time.

14 Q. Do you have an understanding of why the discussion
15 materials were being prepared?

16 A. I -- I suspect that the materials were being
17 prepared for a briefing with AIG's board and/or
18 management.

19 THE COURT: Mr. Dintzer, just one question if I
20 may.

21 MR. DINTZER: Please.

22 THE COURT: Sir, is there a distinction between
23 Blackstone and BlackRock? And I think they both were
24 involved in this case.

25 THE WITNESS: Yes, Your Honor, there is a

1 distinction.

2 THE COURT: Two different organizations?

3 THE WITNESS: Two different organizations. Well,
4 early on, Blackstone was an early investor in BlackRock.
5 At this point in time they were two different firms.
6 Blackstone who was advised (sic) as an investment
7 banking advisor to AIG. BlackRock was providing
8 analysis and support -- and valuation around our
9 structured products, the residential mortgage-backed
10 securities and the CDOs that were underlying the credit
11 default swaps.

12 THE COURT: Thank you.

13 THE WITNESS: You're welcome.

14 MR. DINTZER: Your Honor, at this time we move for
15 the admission of DX 296.

16 MR. BOIES: No objection, Your Honor.

17 THE COURT: Defendant's Exhibit 296 is admitted.

18 (Defendant's Exhibit Number 296 was admitted into
19 evidence.)

20 BY MR. DINTZER:

21 Q. And sir, I'm going to take you to the deck's
22 fourth page. It's the Bates number 683 and it says
23 "Situation Overview."

24 A. Okay.

25 Q. And if you look down the timeline, under Friday,

1 September 12, the first triangle, "AIG held similar
2 meetings with Moody's during which AIG attendees came
3 away with the belief that there was a high risk of a
4 one-notch downgrade."

5 Do you see that?

6 A. I do.

7 Q. Is that consistent with your memory and
8 understanding of sort of what happened at that time?

9 A. It is.

10 Q. And then the next triangle says, "AIG had a
11 one-day stock price drop of 31 percent and the Company
12 had difficulty rolling its commercial paper programs."

13 Do you see that?

14 A. I do.

15 Q. And is that consistent with your memory?

16 A. It is.

17 Q. And so on Friday, September 12, what difficulty
18 did AIG have rolling its commercial paper at that point?

19 A. Certain investors in our commercial paper program
20 were unwilling to reinvest in AIG's commercial paper.

21 Q. Did that lead AIG at that point to be unable to
22 fund all the commercial paper transactions it wanted to?

23 A. That is correct.

24 Q. The second box under there says, "AIG chose not to
25 draw on its backstop facilities to maintain investor

1 confidence and future flexibility."

2 Do you see that?

3 A. I do.

4 Q. What does the term "backstop facilities" mean in
5 that context?

6 A. Often issuers of commercial paper will secure a
7 credit line with a group of banks. In the event that the
8 commercial paper program doesn't roll, the investors
9 would take comfort that the company would then draw the
10 facility down from the banks to pay them off.

11 Q. And AIG -- do you recall that at that point AIG
12 chose not to do it?

13 A. I recall that was the case.

14 Q. And why was that?

15 A. I don't recall, but -- the specific reasons, but I
16 do know that the perception of the draw was an issue that
17 had been discussed.

18 Q. If you could explain that.

19 A. That usually it's an action of last resort to
20 pull down on their credit facility and there was concern
21 what that might signal to the market at that point in
22 time.

23 Q. The fifth triangle down says, "As a result of
24 these events, AIG determined that it did not have
25 sufficient liquidity to meet near-term obligations and

1 would require additional capital immediately."

2 Do you see that?

3 A. I do.

4 Q. And is that consistent with your memory as to
5 where AIG stood at Friday, September 12?

6 A. That is -- that's accurate.

7 Q. All the way down that page it says -- on -- for
8 September -- Sunday, September 14, "The J.C. Flowers
9 group of investors and KKR group of investors have been
10 asked to submit levels of interest to the Company"; is
11 that right?

12 A. That is correct.

13 Q. And do you recall that happening?

14 A. Yes. Although I believe we only received a
15 proposal from Flowers.

16 Q. If you could go to the next page, sir.

17 And that's page 5 and it says "AIG Liquidity
18 Position." It says, "As of September 12, 2008, the
19 Company forecast a \$7.1 billion cash shortfall within the
20 next two weeks."

21 Do you see that?

22 A. I do.

23 Q. Was that consistent with your expectation of what
24 the shortfall would be?

25 A. My expectations were a function of the analysis

1 being provided by AIG's treasurer, so, again, I have no
2 reason to -- you know, I can't recall specifically what
3 my understanding at that time was, but this is generally
4 consistent with it.

5 Q. If you could go to page 10, sir, of this
6 document.

7 And the heading is Liquidity Plan. "Management
8 evaluated a number of capital-raising alternatives to
9 address AIG's liquidity concern and believes that the
10 best approach is a combination of various alternatives to
11 meet the target capital raise objectives."

12 Did you agree with that, with that
13 characterization of where AIG was at that point?

14 A. I do.

15 Q. And then we go to page 11, sir.

16 "Key Benefits and Considerations," do you see
17 that?

18 A. I do.

19 Q. It says, "Although Blackstone believes that the
20 current proposal and related transactions will satisfy
21 AIG's short-term liquidity requirements there are a
22 number [of] issues that need to be considered."

23 Do you see that?

24 A. I do.

25 Q. And the first -- under Considerations, if you

1 could read that first triangle and tell me what you
2 understand that is.

3 A. "Rating agencies may still determine a downgrade
4 is appropriate for AIG given the Company's current
5 exposures to volatile asset classes."

6 Q. What did you -- what do you understand is their
7 consideration under that triangle?

8 A. That even if we were to raise significant amount
9 of capital and liquidity and meet our obligations that
10 that in itself wouldn't be a permanent solution to the
11 problems plaguing AIG. Should the markets continue to be
12 volatile and decline, more capital and liquidity would be
13 needed in the future, and it was likely that we would be
14 downgraded anyway.

15 Q. Did you agree with that conclusion?

16 A. I did.

17 Q. The next consideration says, "AIG will continue to
18 focus on divesting noncore assets to provide additional
19 capital and liquidity."

20 What did you understand that one to mean?

21 A. That we would look to supplement whatever we were
22 able to raise in that near-term period with further
23 capital raise in the form of divestitures of noncore
24 operations.

25 Q. Did you agree with that consideration?

1 A. I did.

2 Q. The next one says, "Existing shareholders will
3 have a significant dilution."

4 What did you understand that to mean?

5 A. That given the levels we would likely be raising
6 capital at, that -- and the amount of capital that we
7 would be raising, that existing shareholders would be
8 diluted both in terms of ownership percentage of the
9 company and in economic value of their holdings.

10 Q. And on September 12, did you believe that that was
11 true?

12 A. I did.

13 Q. And finally, it says, "New shareholders will own
14 approximately" -- and then they have brackets there --
15 "percent of the Company."

16 And obviously that hasn't been filled in, but did
17 you have an understanding that if AIG pursued its plans
18 on September 12 that there would be new shareholders with
19 a new ownership share in the company?

20 A. That is correct.

21 Q. No further questions on that document, sir.

22 Now, you mentioned that Mr. Flowers gave a
23 proposal.

24 What did you understand was the nature of
25 Mr. Flowers' proposal on the weekend of

1 September 12, 13 and 14?

2 A. It was a rough outline of terms under which he
3 would consider making an investment into AIG.

4 Q. Do you recall any of the specifics of the
5 proposal?

6 A. I recall some of the features of the proposal.

7 Q. Did it call for an equity as part of the
8 consideration for the assistance?

9 A. Yes. He -- his -- his capital coming into the
10 company would be in the form of equity, yes.

11 Q. Do you recall what happened to the Flowers
12 proposal?

13 A. The Flowers proposal was reviewed, and feedback
14 was provided that the proposal required things that were
15 out of AIG's control to provide, for example, access to
16 the Fed window or other sort of backstop financing from
17 the federal government, so we were unable to proceed.

18 Q. With respect to the other terms in the Flowers
19 proposal, do you know if they were accepted -- do you
20 know if they were acceptable to AIG?

21 A. I don't recall. And it's really an impossible
22 question to ask because you can only approve a package in
23 its entirety. You don't approve individual terms.

24 Q. If you could go to DX 337 and tell me if you --
25 and tell me when you're there.

1 A. Okay.

2 Q. Do you recognize this document?

3 A. I do.

4 Q. And what is it?

5 A. It's an e-mail from John Studzinski, who was a
6 banker at Blackstone working with us during that period
7 of time.

8 MR. DINTZER: Your Honor, we move for the
9 admission of DX 337.

10 MR. BOIES: No objection, Your Honor.

11 THE COURT: Defendant's Exhibit 337 is admitted.

12 (Defendant's Exhibit Number 337 was admitted into
13 evidence.)

14 BY MR. DINTZER:

15 Q. And the date is September 15, and the second line
16 says, "Board is advised the expression of interest is
17 only that and does not warrant either a formal disclosure
18 or reply."

19 Do you see that?

20 A. I do.

21 Q. Do you have a memory or understanding of what he's
22 talking about there?

23 A. Yes. I think this is referring to the term sheet
24 that Flowers presented.

25 Q. And did -- what was the -- what was AIG's response

1 to the term sheet that Mr. Flowers presented?

2 A. As I mentioned, there were features of the term
3 sheet that were beyond AIG's control, for example, the
4 access to the Fed window and possibly other government
5 support, so the term sheet itself wasn't a binding offer.
6 It was really an outline of, you know, some general terms
7 under which, you know, he would consider making the
8 investment.

9 So I think the -- I don't know if that answered
10 your -- your question.

11 Q. When did you conclude -- no further questions on
12 that document, sir.

13 When did you conclude that AIG's efforts to raise
14 private capital weren't going to bear sufficient fruit?

15 A. Certainly by Sunday afternoon. But given some of
16 the developments over the weekend with respect to the
17 due diligence that the various private equity firms were
18 undertaking and the inability to present a sort of very
19 sort of high-conviction finite number as to the amount of
20 capital and liquidity AIG would need, that my belief was
21 that it was going to be very, very challenging to raise
22 private capital.

23 Q. Did the credit rating agencies ultimately
24 downgrade AIG on September 15?

25 A. I don't recall if it was on the 15th, but they did

1 downgrade us.

2 Q. What effect did that downgrade have on AIG's
3 subsidiaries?

4 A. It had different effects on different
5 subsidiaries, but the downgrade triggered further
6 collateral posting obligations on the part of AIG. And
7 there were other sort of qualitative effects of the
8 downgrade around AIG's sort of reputation perception in
9 the marketplace with respect to our producers and our
10 customers.

11 Q. If you could discuss the reputation perception
12 effects that you're just suggesting.

13 A. There were some producers and clients, certain
14 products we offered, where the -- where ratings were very
15 important, both in terms of sort of marketing, but where
16 certain buyers of our products wouldn't be able to buy
17 AIG insurance if the company didn't have a minimum
18 rating.

19 Q. And in this context when you use the term
20 "producers," what do you mean, sir?

21 A. Agents, brokers, bank distribution channels, for
22 the most part.

23 Q. If you could turn to DX 383.

24 And let me know when you're there.

25 A. I'm there.

1 Q. What is -- do you recognize this document, sir?

2 A. Yes, I do.

3 Q. What is it?

4 A. It was an e-mail to me and to other members of the
5 senior management team at AIG, copying some other folks
6 as well, including our treasurer, Bob Gender, from
7 Richard Pfeiffer, who I don't recall who he was at that
8 time.

9 MR. DINTZER: Your Honor, we move for the
10 admission of DX 383.

11 MR. BOIES: No objection, Your Honor.

12 THE COURT: Defendant's Exhibit 383 is admitted.

13 (Defendant's Exhibit Number 383 was admitted into
14 evidence.)

15 BY MR. DINTZER:

16 Q. Do you -- and I can read this, but do you have an
17 understanding or memory of what Mr. Pfeiffer is
18 discussing in this e-mail regarding CFG?

19 A. Yes. CFG was our consumer finance group in Asia.

20 Q. And he writes, "I want to brief on a rapidly
21 developing situation in CFG Asia that could adversely
22 impact AIG's current situation and current bank lines."

23 And then further down, "Overnight we experienced a
24 massive deposit run on CFG HK. The situation quickly
25 began to unravel as depositors became very belligerent

1 and AIA security was called in to assist. AIA security
2 could not control the situation and the police
3 intervened."

4 Do you recall that event?

5 A. I do.

6 Q. And was -- when you talked about reputational
7 effect of being downgraded, were you -- was this the type
8 of -- was this one possible or one outcome of that type
9 of a downgrade?

10 A. Absolutely.

11 In virtually all of AIG's businesses, you know,
12 what we're selling is a promise to sort of be there when
13 our customers need us. When there's a -- a -- a
14 situation that would draw into question our ability to,
15 you know, have the financial wherewithal to meet our
16 obligations, it could trigger customer behavior that we
17 saw described in this memo.

18 Q. No further questions on that, sir.

19 Do A- -- do you have an understanding what a
20 minimum rating requirement is?

21 A. It is -- I don't know if it's a sort of formal,
22 technical term, but generally, as I think about it, it
23 is a minimum rating a company would require to access a
24 part of the capital markets.

25 It could be a minimum rating required for a

1 distribution partner like a bank to sell your product.

2 It could be a minimum rating that in certain parts
3 of the insurance market a company buying commercial
4 insurance or an individual buying personal insurance
5 would require in order to be comfortable buying the
6 future promise that AIG was making.

7 Q. Did AIG's business partners have minimum rating
8 requirements as far as you were aware?

9 A. While not my sort of area of responsibility, I did
10 understand that that was the case.

11 Q. When did you first learn that there might be an
12 effort to syndicate a loan with -- involving JPMorgan and
13 others?

14 I can show you a document if that would assist.

15 A. Yeah, that would be helpful. Thank you.

16 Q. If you could look at DX 338, sir. And let me know
17 if you recognize it.

18 A. I do.

19 Q. What is it?

20 A. It's an e-mail or -- I guess originally starting
21 from John Studzinski to me and then me responding to him
22 and kind of back and forth.

23 Q. And the top one is dated September 15, 2008; is
24 that right?

25 A. That is correct.

1 MR. DINTZER: And Your Honor, we move for the
2 admission of DX 338.

3 MR. BOIES: No objection, Your Honor.

4 THE COURT: Defendant's Exhibit 338 is admitted.

5 (Defendant's Exhibit Number 338 was admitted into
6 evidence.)

7 BY MR. DINTZER:

8 Q. And you're -- in the final e-mail you write, "In
9 with GS, MS, JPM helping them to understand value."

10 Do you see that?

11 A. I do.

12 Q. I'm going to get to the e-mail in a minute, but
13 does this document refresh your memory as to when
14 JPMorgan and others put together or tried to put together
15 a syndicate?

16 A. Yes. This was on Monday, the 15th. I don't know
17 if the effort started on Sunday, but certainly on Monday
18 that's what they were doing.

19 Q. And did you have a role in that effort?

20 A. I did.

21 Q. What was your role?

22 A. I was providing information and answering
23 questions around the value of our various businesses and
24 subsidiaries.

25 Q. And did you have an understanding of why that

1 piece was necessary as part of their efforts?

2 A. What they were trying to do is sum up the value of
3 AIG's assets, including the operating businesses, and
4 figuring out if the value of the assets was greater than
5 or less than the liabilities that AIG owed and just I
6 think they were looking at the situation like potential
7 creditors or investors.

8 Q. And on DX 338 you send your e-mail at it looks
9 like 7:10 p.m.

10 Do you recall how long you were sort of in that
11 meeting?

12 A. It was several hours.

13 Q. Do you know what the outcome of that meeting was?

14 A. I do not.

15 Q. Did you ever see a private sector term sheet as a
16 result of the meeting?

17 A. I believe there was a term sheet, a very rough
18 term sheet that was sketched out, and I do recall seeing
19 something, but I'm not sure.

20 Q. Do you know if there was an equity component of
21 that effort?

22 A. I recall that there was -- there was an equity
23 component.

24 Q. Did it come to your attention at some point that
25 this effort with JPMorgan and others was not successful?

1 A. It -- the sense I had when I was in the meeting
2 was that the effort wasn't going to be successful. I
3 didn't think the discussion was particularly
4 constructive, and it didn't appear to me that the banks
5 or others involved really had any intention of lending or
6 providing capital in the amount that was needed and in
7 the time that it was needed. That's my own just
8 perception of the dynamic in the meeting.

9 Q. And if you go to -- if you'd turn back to DX 338.

10 A. Yes, I'm on it. That's the series of e-mails with
11 Studzinski.

12 Q. Yes, sir.

13 A. Okay.

14 Q. And the one that Mr. Studzinski sends to you, he
15 writes, "Combination of Jimmy Lee and Goldman. Sounds
16 like structure where company will be sold to the banks
17 for the amount of the liquidity needed."

18 Do you see that?

19 A. I do.

20 Q. Was that part of your understanding of what was
21 going on in that meeting?

22 A. Well, generally what -- the way it would work is I
23 think a little bit more elaborate than that. But what
24 the banks would do in a rescue financing-type situation,
25 they would try and put capital into the company as high

1 up in the capital structure as they can get and retain
2 some kind of option on the equity to the extent it was
3 worth money so that they would be protected in the event
4 of a liquidation and if there was excess value that they
5 would pick it up.

6 So in effect, John Studzinski was right in that
7 they were effectively buying the company.

8 Q. No further questions on that document, sir.

9 Now, did you learn on September 16 that -- well,
10 let me take you to DX 1452.

11 Are you there, sir?

12 A. I am.

13 Q. Do you recognize this document?

14 A. I do.

15 Q. And what is it?

16 A. It's an e-mail from John Studzinski to me,
17 forwarding an e-mail he received from Ruth Porat from
18 Morgan Stanley, who was advising I believe the Fed at
19 that point in time.

20 MR. DINTZER: And Your Honor, we move for the
21 admission of DX 1452.

22 MR. BOIES: No objection, Your Honor.

23 THE COURT: Defendant's Exhibit 1452 is admitted.

24 (Defendant's Exhibit Number 1452 was admitted into
25 evidence.)

1 BY MR. DINTZER:

2 Q. Going to the bottom of that page on -- and it's
3 just a one-page document, but at the first e-mail, the
4 second sentence says, "JPM is over here saying a private
5 sector solution is unlikely. And there will be a
6 government solution."

7 Do you see that?

8 A. I do.

9 Q. And that was at 1:00 -- that was sent at 1:00, but
10 it shows that you're getting this about 5:00 on
11 September 16.

12 Do you see that?

13 A. I do.

14 Q. Do you recall if this was the first awareness that
15 you had of these events, or had you heard about them
16 before that?

17 A. Well, I was meeting with the banks the day
18 before, so I knew something was in the works or at least
19 the banks -- and it was, again, my understanding that at
20 the instruction of the Fed, the banks were asked to come
21 up with a private sector solution to finance AIG, to
22 bail out AIG. And that work had gone on over the course
23 of Monday and into Monday evening.

24 The question then on Tuesday was, was that private
25 market solution still the path that we were going down or

1 was there something else that was, you know, going to
2 happen, in other words, was there another potential
3 solution to the problem.

4 Q. And did you hear at some point on
5 September 16 that the New York Fed may have or was going
6 to provide assistance to AIG?

7 A. I don't know specifically when I heard that that
8 was a possibility. It was very likely it was late on
9 Tuesday.

10 Q. On September 16 at any point, did you understand
11 that AIG might file for bankruptcy?

12 A. No.

13 Q. What options did you understand the company to
14 have at that point?

15 A. At that point in time it was a private market
16 solution. I guess the board could have looked at,
17 you know, I guess if they had the choice to file for
18 bankruptcy. I was not aware of any of that. And then
19 the other option was that if the Fed or some parts of the
20 government were going to come together to provide some
21 support for us.

22 Q. What -- did you learn on the 16th what the terms
23 of the Fed loan would be or the proposal would be?

24 A. Sorry. On which date?

25 Q. It was a bad question, sir.

1 On September 16, at some point during that day or
2 evening, did you come to understand the terms or the
3 requirements of the Fed loan proposal?

4 A. I don't recall if it was on the Tuesday or the
5 Wednesday that I had a sense for what the terms were.

6 Q. Did you develop an opinion when you did learn
7 about -- about the loan proposal?

8 A. When I first saw the loan proposal -- well, first,
9 I think there was a sense of great relief that we would
10 have access to a significant amount of liquidity, so that
11 was I think my initial reaction.

12 As for the terms, it's -- you know, my impression
13 was and my view was that the Fed was trying to mirror as
14 closely a market deal as possible and was working off of
15 maybe sort of the rough term sheet that the banks had put
16 together.

17 Q. Did you have -- did you have an opinion as to how
18 the Fed proposal compared to any possibility of
19 bankruptcy?

20 A. In my view -- and I'm not a bankruptcy expert --
21 the fact that the Fed facility gave us flexibility that
22 we avoided, you know, the potentially very damaging
23 effects on the franchise from a bankruptcy, that it was a
24 very good solution to get us, you know, through the
25 crisis and at least gave us a chance to, you know, to

1 have, you know, a business thriving business of
2 substance, you know, going forward.

3 Q. At the time, did you become aware of the form of
4 any equity component that was being part of the
5 proposal?

6 A. Could you repeat the question.

7 Q. Sure.

8 When you became aware of the Fed's loan proposal
9 or the terms, did you become aware of the form of the
10 equity component that was part of it?

11 A. No. I -- I have a recollection of there being an
12 equity component, the form of which, I don't recall what
13 it was.

14 Q. Would the form of the equity component have
15 changed your analysis as to the nature of the Fed loan's
16 proposal?

17 A. No. The form -- as far as my thinking went,
18 you know, the form didn't matter as much as the economic
19 substance in terms of, you know, what the gives and gets
20 in the transaction were.

21 Q. If AIG had filed for bankruptcy, what would
22 have -- if that had happened, what would have happened to
23 the insurance subs, in your understanding?

24 A. You know, again, we didn't, so I can't say with
25 certainty what would have happened, but what I think was

1 probable was that the insurance companies would be seized
2 by local regulators. We would probably have -- there
3 would be no new business written. I think the franchise
4 value would decline dramatically, and we would lose
5 potentially employees, customers, and whatever franchise
6 value that we had in the business.

7 Q. Is that the belief that you held back in
8 September 2008?

9 A. Absolutely.

10 Q. Did you have any role in negotiating the credit
11 agreement?

12 A. No.

13 Q. Do you know if and when the New York Fed started
14 lending money to AIG?

15 A. I believe money from the Fed came in on Wednesday.
16 Again, I can't be certain, but my recollection is that it
17 came in on Wednesday, the 16th.

18 Q. After the Fed started lending money to AIG, did
19 the Fed assign anyone to interact with AIG?

20 A. They did.

21 Q. Who?

22 A. It was Sarah Dahlgren, who is the lead Fed
23 representative, and other colleagues, including
24 Steve Manzari and some others.

25 Q. Did you interact with Ms. Dahlgren and other

1 members of her team?

2 A. I did.

3 Q. And what was your understanding of her objective
4 in sort of those early days?

5 A. My first meeting, actually I found it pretty
6 interesting. My first meeting with Sarah Dahlgren was
7 either like on the Wednesday or Thursday. I can't be
8 sure. But the first thing she said was that the Fed
9 wants to ensure that we maximize value for all
10 stakeholders. And she was steadfast in that they were
11 not in a rush and that we should really focus on
12 maximizing value.

13 Q. And were the Fed's actions consistent with those
14 statements?

15 A. Very much so.

16 Q. Over the days and weeks that followed, was there
17 any struggle with the Fed over who would control AIG?

18 A. I'm not sure I understand the question, but there
19 was never a discussion about who was controlling AIG.
20 Management was running the company, and we had a board of
21 directors, and that's the way we operated.

22 Q. What role did the Fed have in approving AIG's
23 asset sales after the transaction?

24 A. We reviewed all of our planned asset sales and our
25 overall sort of strategy and process for generating

1 capital and liquidity going forward to pay the Fed off
2 and to stabilize our capital structure and get AIG back
3 on its feet.

4 So as time progressed, market conditions changed,
5 AIG's situation evolved, those plans were adjusted, so
6 they would be reviewed, you know, with the Fed, and
7 that's pretty much, you know, kind of how the process
8 worked.

9 Q. Did you find it unusual that the Fed wanted to
10 review or was interested in reviewing those?

11 A. I didn't. Being the -- a significant creditor of
12 AIG and having come in in the circumstances in which it
13 came in, it didn't strike me as odd at all that,
14 you know, a creditor would be interested in how the
15 company was, you know, planning to raise capital and
16 liquidity and pay them back.

17 Q. What was AIG's financial position in the month
18 after the credit agreement was signed?

19 A. We were probably, with that senior secured credit
20 facility from the Fed, perhaps the most, you know, liquid
21 insurance company on the planet at that point. We had
22 plenty of liquidity.

23 However, the -- the Fed's solution to our problem
24 solved AIG's liquidity problem for that period of time,
25 for the time being, but it created another issue in that

1 it created a huge amount of senior secured debt on the
2 top of our capital structure, so it created a leverage
3 problem.

4 So as we were scrambling in September to solve a
5 liquidity problem, we then had to deal with the leverage
6 problem and get our capital structure into shape.

7 Q. What was happening in the market in the month
8 after the credit agreement was signed?

9 A. The volatility continued at high levels. The
10 market continued to decline. AIG's liquidity needs
11 continued to grow. And again, the markets were again
12 quite disruptive, and you know, again it was -- it was
13 not getting better. It was getting worse.

14 Q. You mentioned the leverage problem.

15 What exactly is that problem, and why is it a
16 problem?

17 A. Well, the problem is that you have a small amount
18 of equity supporting a huge amount of debt, so that was
19 going to put more pressure on our ratings at that point
20 in time, which was a major problem.

21 In addition, with a huge senior secured credit
22 facility at the top of the capital structure, it was
23 unlikely we'd be able to reaccess the bank markets or the
24 public debt markets and almost for sure would be
25 impossible for us to raise equity as there were so many

1 senior claims on the businesses assets above that it
2 would be I think quite challenging.

3 Q. What was happening to the value in AIG's insurance
4 subsidiaries in the weeks and -- after the credit
5 agreement was signed?

6 A. The equity markets continued to deteriorate, and
7 using peer insurance companies as a proxy for those
8 values, the value of our companies continued to
9 deteriorate as well, quite significantly.

10 Q. If you could go to DX 1503, sir, and just let me
11 know when you're there.

12 A. I'm there.

13 Q. Do you recognize this document?

14 A. I do.

15 Q. What is it?

16 A. It looks like minutes of a finance committee
17 meeting.

18 Q. And did you have a role in the finance committee
19 meetings, or did you attend those meetings?

20 A. I usually attended them. Yes.

21 Q. And this one is dated October 15, 2008.

22 A. It is.

23 Q. And on the bottom line do I see your name, sir?

24 A. You do.

25 MR. DINTZER: Your Honor, we move to admit

1 DX 1503.

2 MR. BOIES: No objection, Your Honor.

3 THE COURT: Defendant's Exhibit 1503 is admitted.

4 (Defendant's Exhibit Number 1503 was admitted into
5 evidence.)

6 BY MR. DINTZER:

7 Q. And sir, if you could turn to the fifth page of
8 this document -- I'm sorry. I take that back. Could you
9 turn to the tenth page of this document.

10 And I'm not going to read it out loud, but if you
11 could read the first three sentences in, just read it to
12 yourself, up to the words --

13 A. Sorry. Starting with the --

14 Q. "Mr. Schreiber presented an update."

15 A. Right.

16 Q. All the way up to where it gets -- says "closing
17 by mid to late 2009." And just let me know when you've
18 finished.

19 (Pause in the proceedings.)

20 A. Okay.

21 Q. Just generally, sir, what were you explaining to
22 the finance committee at that point?

23 A. That executing on a plan of divestitures to raise
24 money to pay off the Fed was going to be increasingly
25 challenging as the capital markets continued to be

1 volatile and that the valuations and access to liquidity
2 that, you know, the potential acquirers had was becoming
3 more challenging, so, you know, it was unclear that,
4 you know, any of our target buyers would have the
5 financial wherewithal to, you know, buy our businesses.

6 Q. If you could go then -- the next and actually the
7 last sentence in that paragraph says, "He then presented
8 a valuation update showing that peer group valuations are
9 down 20 percent on average, with many potential buyers
10 down 30 percent to 40 percent, and indicated how
11 difficult and uncertain the current market for
12 dispositions is."

13 Is that what you're referring to, sir?

14 A. That's correct.

15 Q. And what analysis -- when it says "peer group
16 valuations," what analysis are you doing there?

17 A. We would typically look at a group of insurance
18 companies broken down by, you know, geographic focus or
19 by line of business. As publicly traded companies, we
20 were able to observe a market price for the shares and
21 then calculate ratios, valuation ratios, like price
22 earnings or price to book, to see where they were trading
23 and what their market capitalization was and use that as
24 a proxy for cost of capital and what it would take for
25 them to have the financial wherewithal to acquire our

1 businesses.

2 Q. Did A- -- no further questions on that document,
3 sir.

4 Did AIG face possible downgrades in either October
5 or November 2008?

6 A. We did.

7 Q. Why?

8 A. There was constant pressure on our ratings because
9 of the leverage, the continued volatility in the markets,
10 and the liquidity challenges the company continues to
11 have in certain parts of its business. I think that's --
12 you know, and as the value of AIG's equity continued to
13 decline, there was a smaller and smaller cushion
14 supporting the creditors.

15 So, again, rating agencies really focus on the
16 creditors, and I think it was becoming increasingly
17 challenging to support the ratings.

18 Q. And when you say "liquidity pressures" -- I think
19 that's the term you used -- or "liquidity challenges,"
20 were you referring to the ones we talked about earlier,
21 the CDS and sec lending?

22 A. Correct.

23 Q. Did the Fed -- I'm sorry. Strike that.

24 Did AIG make any efforts in that -- at that time
25 to avoid a downgrade?

1 A. We did.

2 Q. And what efforts did that include?

3 A. We met regularly with the rating agencies and
4 attempted to demonstrate that we had a plan in place for
5 raising the necessary capital to take the Fed out and
6 restore our balance sheets ratios to where they would be
7 in line with, you know, what the ratings would require
8 for us or within those ranges for the ratings that we
9 were at.

10 We also -- we had many ratings -- meetings with
11 the rating agencies over this period of time. But I
12 think the single most important factor that avoided the
13 downgrade of AIG during this period of time was the
14 unwavering support and commitment of the Fed to stand
15 behind AIG and provide whatever resources were necessary
16 to allow the company to meet its obligations.

17 Q. Did anyone from the Fed participate in these
18 meetings with the rating agencies?

19 A. They did.

20 Q. Could you describe them.

21 A. Sarah Dahlgren and Steve Manzari usually attended
22 the rating agencies meetings, as I recall.

23 Q. And did they have any role in those meetings?

24 A. They did. Their role was to speak to the -- what
25 they did was speak to the Fed's support for AIG.

1 Q. If we could go to JX 144, sir, and if you could
2 let me know when you're there.

3 A. I'm here.

4 Q. And this is already in evidence, but if you could
5 just tell me briefly what you understand this document to
6 be.

7 A. This looks like minutes of a board meeting.

8 Q. And if you look on the second page towards the
9 top, am I right that you were there, second line?

10 A. Yes. It appears I was at this meeting.

11 Q. And this is November 9, 2008.

12 A. Yes.

13 Q. And if you go to the second page, the last
14 paragraph on that page begins "Mr. Liddy," and it says,
15 "Mr. Liddy advised the Board that Management and the Fed
16 representatives have been working with the rating
17 agencies every day. Mr. Herzog added that Ms. Dahlgren
18 and he had met multiple times with the rating agencies
19 and provided full briefings on the potential solutions."

20 A. Correct.

21 Q. And then it goes on in the next -- skipping a
22 sentence (as read), "Ms. Dahlgren added that there had
23 been a herculean effort designed to make the rating
24 agencies comfortable and that the next 90 days will be
25 critical."

1 Do you see that, sir?

2 A. I do.

3 Q. And were you part of that process that is
4 described in that paragraph?

5 A. I was.

6 Q. And do you agree with respect to the term
7 "herculean effort"?

8 A. I do.

9 Q. So did you have an opinion as to whether
10 Ms. Dahlgren and other members of the Fed were welcome in
11 board and rating agency meetings?

12 A. Is the question were they welcome in the
13 meetings?

14 Q. Yes, sir.

15 A. Yes, they were.

16 Q. Now, sir, the Court has heard a great deal about
17 Maiden Lane II and III, and I'm not going to ask you to
18 go into the specifics of them, but if you could just, in
19 just a couple sentences, describe your understanding of
20 what those structures did.

21 A. Those were two important transactions that took
22 the volatility and ongoing liquidity drain from the
23 securities lending program and the AIG Financial Products
24 multi-sector CDO -- CDS book on the multi-sector CDOs off
25 of our balance sheet, so they once and for all removed

1 that source of uncertainty and volatility, which was very
2 important to the rating agencies, and not only for the
3 reason that it removed the volatility, but it was a
4 further sign of the government's support for AIG.

5 Q. Were you involved in the structuring or
6 negotiating of ML II and ML III?

7 A. I was not.

8 Q. Did you have any role in AIG's board -- in AIG's
9 board's consideration of these transactions?

10 A. No. Only to the extent that those transactions
11 would have affected our sort of recapitalization plan or
12 our divestiture plan, and you know, the impact of those
13 transactions were reflected in my analysis, but that's --
14 was my involvement.

15 Q. If you could turn, sir, to page 6 of the document
16 we already have in front of us, JX 144, and let me know
17 when you're there.

18 A. I'm there.

19 Q. And at the very top of the page, it says, "With
20 respect to securities lending, Mr. Schreiber said that
21 the plan is to monetize all assets in the securities
22 lending collateral pool and redeem all third-party and
23 Fed securities lending obligations."

24 Do you see that?

25 A. I do.

1 Q. And then a little farther down, it says,
2 "Mr. Schreiber next summarized the proposed solution for
3 AIGFP's multi-sector credit default swap portfolio, which
4 generated 95 percent of the collateral calls."

5 Just generally, sir, what are you describing and
6 discussing with the board at that point?

7 A. As I recall, we were describing the transactions
8 to get the securities lending and the CDS portfolios off
9 our books once and for all.

10 Q. Would that be ML II and ML III, sir?

11 A. That is correct.

12 Q. Did you conclude that there was a benefit with
13 respect to ML II for AIG?

14 A. I believe so. Yes.

15 Q. And what was the benefit?

16 A. Well, it -- well, one, it put an end to the,
17 you know, volatility coming through our financial
18 statements from the subprime RMBS that were held in the
19 program, and it eliminated any uncertainty as to future
20 liquidity needs from the program.

21 Q. How about ML III?

22 A. The same could be said for ML III.

23 Q. Did you have an understanding at this time in
24 November as to how much AIG's counterparties were to be
25 paid under the transactions?

1 A. I don't remember the specific numbers.

2 Q. Were you surprised -- did you come to understand
3 at some point that it would be par?

4 A. Oh, what was going to be paid ultimately for the
5 underlying CDOs.

6 Q. Yes, sir.

7 A. No, it didn't surprise me that the counterparties
8 would receive par.

9 Q. And why is that, sir?

10 A. The counterparties held the underlying security
11 and they held collateral, so the combination of the
12 collateral and the market value of the securities was
13 par, so there was really -- you know, they could have
14 sold the underlying securities, kept our collateral and
15 gotten close to par. They may not have gotten par
16 exactly, but then they would have had a claim against AIG
17 for the difference between what they ultimately sold the
18 securities for and par.

19 So in my view, they had a contractual right to par
20 and that they had a high likelihood of getting par one
21 way or another.

22 Q. Now, were the terms of the credit agreement
23 modified at this time in November 2008?

24 A. Yes. I believe so.

25 Q. And do you know if there was an infusion of TARP

1 money at that time?

2 A. There was.

3 Q. Do you recall whether the length of the loan under
4 the credit agreement was changed?

5 A. It was.

6 Q. How so?

7 A. The credit facility was extended from two years to
8 five years.

9 Q. Was this significant?

10 A. It was very significant.

11 One of the most valuable things that that
12 extension did was to buy AIG time. Time I believe was
13 the most important asset we had. It avoided a rapid-fire
14 sale of our businesses. It provided AIG with optionality
15 to not only stabilize its businesses, which would enhance
16 the value of those businesses and ultimately require us
17 to sell fewer assets to meet our obligations and actually
18 have a meaningful business when all of this mess was
19 cleaned up.

20 Q. What happened to the market after ML II and ML III
21 were created?

22 A. The market continued to deteriorate.

23 Q. And do you recall how -- for how long the market
24 continued to deteriorate?

25 A. Through pretty much the winter and into the spring

1 of 2009 when it bottomed out.

2 Q. And the assets that were ultimately put into ML II
3 and ML III, if they had stayed on AIG's books throughout
4 that period, generally speaking, what effect would they
5 have had?

6 A. They would have continued to generate losses
7 coming through our financial statements and requiring
8 additional liquidity.

9 Q. If you could go to DX 711, sir. And let me know
10 when you're there.

11 A. DX 711?

12 Q. Yes, sir.

13 A. Okay. Okay.

14 Q. Do you have an understanding of what this is,
15 sir?

16 A. Yes. It looks like minutes of a finance committee
17 meeting.

18 Q. And this is December 9, 2008?

19 A. It is.

20 Q. And am I right that you're there on the second to
21 last line?

22 A. Yep.

23 MR. DINTZER: Your Honor, we move for the
24 admission of DX 711.

25 MR. BOIES: No objection, Your Honor.

1 THE COURT: Defendant's Exhibit 711 is admitted.
2 (Defendant's Exhibit Number 711 was admitted into
3 evidence.)

4 BY MR. DINTZER:

5 Q. If you could turn to page 6 of that document,
6 sir.

7 A. Okay.

8 Q. And at the top, it says, "Mr. Schreiber provided
9 an update on the AIG capital model, noting the rapid
10 deterioration in commercial mortgage-backed securities
11 and the overall deterioration in values of the life
12 insurance, general insurance and financial services
13 businesses."

14 Do you see that?

15 A. I do.

16 Q. And just what are you describing there? What's
17 going on in the market that you're describing there?

18 A. As I've said before, continued volatility,
19 declining prices, and not just for those securities but
20 in the peer group that was used to value our businesses,
21 which is an indication of the values we would get for our
22 businesses on disposition.

23 Q. So it was your understanding at this time that the
24 actual values of AIG's businesses -- that the possible
25 sale value of AIG's businesses was declining.

1 A. Yes. And the likelihood that a sale could even be
2 completed was I think becoming more challenging.

3 Q. Do you know if those businesses that you're
4 referring to were some of the businesses that served as
5 collateral for the Fed's loan?

6 A. They may have. Yeah, they may have.

7 Q. If you could turn to page 9 -- I take it back --
8 page 8 of this document.

9 A. Okay.

10 Q. In the bottom paragraph, top sentence, it says,
11 "Mr. Jacobs updated the Committee on the status of
12 disposition transactions."

13 A. That's right.

14 Q. And then I'm going to jump you to the end of that
15 same paragraph, and it says, "Mr. Schreiber commented
16 that overall valuations are down 50 percent since
17 September, creating challenges in terms of realizing
18 adequate value for AIG's assets."

19 Do you see that?

20 A. I do.

21 Q. And is that consistent with your memory as to
22 where the valuations were at that point?

23 A. It is.

24 Q. And these -- were these the assets that AIG
25 planned to sell to repay the loan?

1 A. I'm sorry. Say again?

2 Q. The assets that you're describing, the 50 percent
3 drop since September, did these include the assets that
4 AIG hoped to sell in order to be able to repay the loan?

5 A. Yes.

6 Q. No further questions on that document, sir.

7 Why was AIG planning on relying on asset sales as
8 part of its effort to pay off the federal loan?

9 A. It was really the only source of -- at that time
10 of cash to be able to pay off the Fed loan. Other things
11 happened over time that allowed us to, you know, come up
12 with a recapitalization plan, which ultimately took
13 place, but it was essential that AIG, you know, pay the
14 Fed off with cash. And that would, you know, free up the
15 capital structure and allow us to, you know, continue to,
16 you know, take the other steps necessary to recapitalize
17 our balance sheet.

18 Q. How long did it take AIG to complete the sales of
19 the insurance subsidiaries it wanted to sell?

20 A. Several years.

21 Q. And why did it take that long?

22 A. A combination of factors.

23 One, the market needed to stabilize and start
24 to -- and have a good recovery, which helped.

25 Two, these were large businesses, and many of them

1 were sort of large valuable businesses, and there weren't
2 lots of potential buyers for them, so these transactions
3 just took time. Again, nobody was putting capital at
4 risk at that -- certainly in the early days of the
5 process.

6 Q. If you could go to DX 1561, 1-5-6-1, and let me
7 know when you're there.

8 A. I'm there.

9 Q. And if you could take a look, sir, and tell me if
10 you recognize this document.

11 A. It's an e-mail from Eric Litzky.

12 Q. And what's attached to it, sir?

13 A. It looks like an agenda for a board meeting on
14 Sunday, March 1.

15 Q. And was it unusual to send ahead agendas for
16 upcoming board meetings or was that the normal practice?

17 A. I believe that's customary.

18 Q. Your Honor -- and did you receive a copy of this
19 memo and e-mail?

20 And if you need, I'll draw your attention on the
21 second page to the fourth cc.

22 A. Yes, I did receive it.

23 MR. DINTZER: Your Honor, we move for the
24 admission of DX 1561.

25 MR. BOIES: No objection, Your Honor.

1 THE COURT: Defendant's Exhibit 1561 is admitted.
2 (Defendant's Exhibit Number 1561 was admitted into
3 evidence.)

4 BY MR. DINTZER:

5 Q. And looking at that second page, sir, the sort of
6 the memo page as opposed to the e-mail, that's dated
7 February 27; is that right?

8 A. Yeah. The cover letter is dated February 27.

9 Q. And if you turn to the next page, the one marked
10 Agenda, what's your understanding of what these pages
11 are?

12 A. This was the agenda for the board meeting. There
13 were several topics laid out for discussion.

14 Q. And did you have responsibility for speaking to
15 any of these?

16 A. I believe so. I think I'm listed here -- I am
17 listed here as presenting on the revised restructuring
18 plan.

19 Q. And also the next one, sir, discussions with the
20 rating agencies; is that correct?

21 A. That's correct as well, yes.

22 Q. What was the restructuring plan, sir?

23 A. That was the series of actions that AIG would take
24 to repay the Fed and its other obligations and be able to
25 emerge as a standalone, viable company.

1 Q. If you could turn, sir, to -- it's Bates-numbered
2 34892 -- I'm sorry. Let me try that again. It's
3 Bates-numbered 8492. It's the second page of the deck
4 that's attached to tab 1.

5 A. Okay.

6 Q. It's titled Significant Market Volatility.

7 A. I'm there.

8 Q. Did you have a role in speaking to or the
9 discussion of this slide?

10 A. I believe I did.

11 Q. And what does this slide depict, sir?

12 A. The first two line charts show the decline in
13 price on percentage terms of our life insurance and
14 property and casualty insurance company peers.

15 The first chart, if I'm reading it correctly, is
16 the deterioration in value from July 2008 through
17 February '09 or probably maybe March.

18 And the second chart shows the deterioration from
19 what looks like January 2, 2009 through the then current
20 date.

21 So what it shows is that from 2008 life insurance
22 companies were down -- I can't read that -- maybe
23 82.8 percent or 62.8 percent but a significant amount,
24 P&C down 35.9 percent, and then from the beginning of the
25 year life insurance companies were down 44 percent, P&C

1 28 percent.

2 The table on the bottom of the page shows the
3 change in market value or the market capitalizations
4 since June, and you can see the massive deterioration in
5 market cap of the peer group.

6 In fact, if you, you know, take the Chinese
7 insurers out of this chart, as I look at it, and you sum
8 up the market cap of the entire industry, that was
9 probably close to the kind of money that AIG would have
10 to raise to meet its obligations, so, again, the entire
11 market value of the equity of the industry was probably
12 close to what was ultimately needed.

13 Q. Why was this chart prepared for the board?

14 A. It was to present the -- a perspective on the
15 current market environment for the disposition of our
16 businesses.

17 Q. And how did this information affect AIG's
18 consideration of asset sales?

19 A. Well, it really indicated, you know, who would
20 likely be willing and able to acquire these businesses,
21 so how did it affect it, I think we had, you know, a plan
22 that we felt reflected the businesses that could and
23 should be sold, and I think this just goes to the
24 challenges that we had to execute on the plan.

25 In some ways, fortunately, we did not sell into

1 this environment.

2 Q. If you could turn, please, to the page -- it's
3 deck numbered page 5 and it's Bates number 8495.

4 A. Okay.

5 Q. And at the top it says "Revised Plan. AIG has
6 worked with the U.S. Government to develop a Revised Plan
7 to preserve and maximize value."

8 Do you recall the process at which this plan was
9 developed?

10 A. Yes, I do.

11 Q. And what was that?

12 A. Well, as the government had done before, the
13 objective was to further refine the form of support to
14 give AIG greater financial flexibility and improve our
15 ability to recover and maximize value.

16 This was also likely done to demonstrate to the
17 rating agencies the strong support that the government
18 still provided to AIG and their willingness to step up in
19 a meaningful way to help improve the financial condition
20 of the company.

21 Q. And at the bottom of that same page, it says,
22 "This Revised Plan demonstrates the U.S. Government's
23 continued significant commitment to AIG and has enabled
24 the Company to maintain its ratings."

25 What did that mean, sir?

1 A. It means really, you know, what it says and what
2 I just articulated, that with the continued
3 deterioration of the market, AIG not being able to
4 achieve the divestitures it had laid out in its plan,
5 rising doubts on the part of the rating agencies that
6 we'd be able to execute the plan and pay the Fed off,
7 this was a very, very strong sign of support for -- from
8 the rating agencies' perspective and from AIG's
9 perspective, greatly enhanced our financial flexibility
10 at this time.

11 Q. No further questions on that document, sir.

12 If you could go to PTX 424.

13 And when you get there -- is this a document
14 you've seen before, sir?

15 A. Yes, I've seen this before.

16 Q. And what is it?

17 A. It's an e-mail from David Herzog to me,
18 responding to an e-mail from -- that I for- -- I sent to
19 him.

20 Q. And the subject matter is Debt Opportunity.

21 Do you see that?

22 A. Yes, I do.

23 Q. Do you have a memory of what the debt opportunity
24 is?

25 A. I do. At that time AIG's publicly traded debt

1 was trading at very low values, cents on the dollar, and
2 I thought it was a good idea to go and possibly buy back
3 some of that debt at a significant discount to par
4 value. That had a number of sort of positive effects.

5 One, it would lower our interest expense and help
6 delever the company.

7 Two, the difference between what we ultimately
8 paid for the debt and par value would effectively
9 generate capital, so it would help our leverage ratio.

10 Q. And the -- did Mr. Herzog respond to your proposal
11 or idea?

12 A. He did in this e-mail, yes.

13 Q. And what was his thought?

14 A. Well, the -- the -- there are a couple of thoughts
15 in this e-mail as I'm reading it.

16 He's asking, you know, how long would this take or
17 what the sense of timing is.

18 He's indicating that he didn't think we'd be able
19 to do anything in the public markets before the earnings
20 release.

21 He's asking if we have enough authorized shares.

22 One of the ideas was to -- I mean, there -- you'd
23 have to offer consideration to your bondholders to buy
24 the bonds back, so we could have done that, you know, a
25 couple of ways. One was to use cash to buy the bonds

1 back. That would require further borrowing from the Fed
2 in order to do that.

3 The other thing we could have done was to issue
4 new equity, issue shares in exchange for debt to our
5 bondholders. And that's I think what he was responding
6 to, do we have enough authorized shares to exchange for
7 the debt.

8 Q. There is also a mention of the reverse split.
9 Do you see that?

10 A. Yes.

11 Q. And do you have an understanding of what that
12 was?

13 A. Yeah. I have a recollection that the purpose of
14 the reverse split was to ensure our share price remained
15 above a dollar so we wouldn't get delisted from the
16 New York Stock Exchange.

17 Q. Are you aware of any other purpose for the stock
18 split?

19 A. No, I'm not.

20 Q. If I could get you to turn, sir, now to DX 723.
21 And let me know if you recognize this document.

22 A. This also looks like it's minutes of a finance
23 committee meeting of January 2009.

24 Q. And do I see you listed on the bottom line as
25 attending this meeting?

1 A. I am on the list.

2 MR. DINTZER: Your Honor, we move for the
3 admittance of DX 723.

4 MR. BOIES: No objection, Your Honor.

5 THE COURT: Defendant's Exhibit 723 is admitted.

6 (Defendant's Exhibit Number 723 was admitted into
7 evidence.)

8 BY MR. DINTZER:

9 Q. And sir, if I could get you to turn to the fourth
10 page of this document.

11 A. Okay.

12 Q. And the last paragraph on this page begins,
13 "Mr. Schreiber said that the November interim solution
14 with the New York Fed had helped lower the cost of
15 capital, remove pressure on the disposition process and
16 allow the stabilization of ratings, but since November
17 the broader economic deterioration had led to a very
18 significant loss for the quarter, business conditions
19 have deteriorated, there have been key management
20 departures and target valuations have decreased."

21 Do you see that, sir?

22 A. I do.

23 Q. Could you please from -- as a first step, explain
24 the benefits that you ascribed at this meeting to what
25 you called the November interim solution.

1 A. It did. It reduced the cost of the Fed facility.
2 It gave us more financial flexibility.

3 The November -- you may have to help me out here.
4 November I recall is when TARP came in as well?

5 Q. If you don't remember, that's fine, sir.

6 A. Yeah. Whatever, if it did, I wasn't sure if it
7 was part of this one or a subsequent, but -- but clearly
8 actions taken helped again stabilize our capital
9 structure a little bit and lower our cost of -- our cost
10 of capital and funding.

11 Q. If you go now to the -- to sort of -- to the
12 second page -- to page 5 and near the finish of this
13 paragraph, it says, "He said that the dividend-paying
14 capacity of the insurance companies is down significantly
15 as a result of capital deterioration."

16 What did you mean by that?

17 A. Okay. The market conditions had eroded the
18 statutory capital of the insurance companies.

19 Insurance companies have dividend-paying capacity
20 that is usually a function of their statutory surplus.
21 If surplus is eroded, decreases, theoretically the amount
22 of dividends that the insurance companies can pay is also
23 decreased.

24 Q. And did that happen?

25 A. Yes, it did. In fact, I'm not sure we were

1 actually even receiving any dividends from the insurance
2 companies at that point in time as they also require
3 regulatory approval, so I'm not sure we were even
4 receiving any dividends. Our sole source of liquidity at
5 the parent company at the time were the sources of
6 government support.

7 Q. Given the asset price declines you described, was
8 the credit agreement providing any value to AIG at this
9 time?

10 A. Yes.

11 Q. How so?

12 A. As I said, without -- the lifeblood of the holding
13 company were dividends from the subsidiaries or access to
14 the capital markets. If we didn't have either of those,
15 our only source of liquidity were the -- were the really
16 senior secured credit facility and TARP.

17 Q. How did the rating agencies respond to the Fed's
18 continuous assistance to AIG?

19 A. They did not downgrade us.

20 Q. If you could turn to DX 1558.

21 Tell me if you recognize this document, sir.

22 A. Again, minutes of a finance committee meeting in
23 February 2009.

24 Q. And you're in that meeting, sir?

25 A. It appears that way.

1 MR. DINTZER: Your Honor, we move for the
2 admittance of DX 1558.

3 MR. BOIES: No objection, Your Honor.

4 THE COURT: Defendant's Exhibit 1558 is admitted.

5 (Defendant's Exhibit Number 1558 was admitted into
6 evidence.)

7 BY MR. DINTZER:

8 Q. If you'd go to page 4, sir.

9 And in the middle paragraph, it says,
10 "Ms. Reynolds updated the Committee on discussions with
11 the New York Fed and U.S. Department of Treasury on
12 potential restructuring solutions and on sales efforts."

13 And then the first sentence of the next paragraph
14 is you saying, "Mr. Schreiber also noted the
15 catastrophic events that would result from a downgrade,
16 including liquidity, capital and business deterioration
17 issues."

18 Do you see that?

19 A. I do.

20 Q. And at that point was AIG still potentially facing
21 a downgrade?

22 A. We were.

23 Q. On the next page in the middle, it says, "In
24 response to a Director inquiry, Mr. Liddy said that
25 bankruptcy could be considered if the Corporation were

1 downgraded. He noted the adverse consequences of
2 downgrade, including immediate collateral calls at AIGFP,
3 potential downgrades at the subsidiary level, with the
4 potential for seizures by regulators, inability to close
5 transactions, accelerated surrenders or cancellations of
6 insurance products and inability to continue as a going
7 concern."

8 Do you remember the discussion about the possible
9 effects of bankruptcy at that time within AIG?

10 A. I had a general understanding of what they would
11 be.

12 Q. Do you remember that in February 2009 that there
13 was a discussion about that possibility?

14 A. I don't recall discussions at that point in time,
15 certainly no formal discussions.

16 Q. If you could turn to DX 1563.

17 A. Okay.

18 Q. Do you recognize this document, sir?

19 A. Again, minutes of a board meeting March 1.

20 Q. And if you look at the second page at the top, are
21 you in attendance at this meeting, sir?

22 A. I guess I am.

23 Q. And --

24 A. Or I was.

25 MR. DINTZER: Your Honor, we move for the

1 admittance of DX 1563.

2 MR. BOIES: No objection, Your Honor.

3 THE COURT: Defendant's Exhibit 1563 is admitted.

4 (Defendant's Exhibit Number 1563 was admitted into
5 evidence.)

6 BY MR. DINTZER:

7 Q. I'm on page 2 in the middle:

8 "Mr. Liddy thanked the members for participating
9 in the regular updates and explained that the
10 restructuring plan to be presented is similar to that
11 described previously, including a \$30 billion TARP
12 backstop facility."

13 Do you see that, sir?

14 A. I do.

15 Q. And so what was happening at this meeting?

16 A. I think this was a review of additional TARP
17 support for AIG.

18 Q. And then if you go to page 3 at the top, it says,
19 "Mr. Schreiber then presented the revised plan to
20 preserve and maximize value and reviewed its specific
21 objectives - improve capital position, reduce financial
22 leverage, bolster liquidity and maintain AIG's ratings."

23 Do you see that?

24 A. I do.

25 Q. What was the nature of the presentation? I mean,

1 what were you telling the board there?

2 A. It's what the effect of the proposed enhancements
3 to the government support package were. Additional TARP,
4 which is subordinated effectively, you know, equity in
5 the company delevered us, and additional financial
6 flexibility, meaning additional access to capital and
7 liquidity going forward.

8 Q. Farther down in that paragraph, it says,
9 "Mr. Schreiber noted the downgrade risk absent the
10 revised plan, the benefit to shareholders in possible
11 creation of value to them from the revised plan, and the
12 benefit to creditors."

13 A. Uh-huh.

14 Q. And then you sort of walk through the plan, and
15 without reading it, if you could just briefly summarize
16 what the revised plan for March 2009 was.

17 A. So it was effectively more TARP equity and it was
18 reducing the -- the LIBOR floor on the credit facility,
19 so lowering our cost of capital. And as I recall the
20 TARP, the -- and what was exchanging the new Series F was
21 effectively a zero-coupon perpetual preferred.

22 What that really means is you had perpetual free
23 equity capital being injected into your company. It
24 didn't have a maturity. There were no mandatory
25 repayment dates. It didn't have either an implicit or an

1 explicit cost to it. It was a remarkably valuable
2 element to our capital structure for the company.

3 Q. If you could turn to page 5 of this document.

4 A. Yep.

5 Q. And it says, at the top of that page,
6 "Mr. Schreiber explained that the U.S. Government's
7 support for AIG has been based on public policy
8 rationale around systemic risk, and the benefits
9 outweigh the cost, although there is no certainty that
10 the U.S. Treasury will fully recover its preferred stock
11 positions in AIG."

12 And the -- when you say "the benefits outweigh the
13 cost," what are you referring to?

14 A. That -- I'm trying to think back, you know, to
15 exactly what was said in the meeting and the context, but
16 that by taking on this additional support, it was a sort
17 of no-regrets move for AIG, that we needed the capital to
18 support the ratings, it provided us a far more -- much
19 greater amount of financial flexibility, and again
20 lowered our cost of capital. This would give us much
21 more likelihood at the end of the recapitalization to
22 preserve value for existing stakeholders.

23 THE COURT: Mr. Dintzer, shall we take a break?

24 MR. DINTZER: Yes, Your Honor.

25 THE COURT: Let's reconvene at 3:30.

1 (Court in recess.)

2 (Whereupon, the witness was not present in
3 open court.)

4 MR. BOIES: The Court will notice the absence of
5 the witness.

6 THE COURT: I did notice that.

7 MR. BOIES: And the reason is that I think we
8 jointly believe that we need to seek the guidance of the
9 Court in terms of implementing the attorney-client waiver
10 issue and the production of documents pursuant to the
11 Court's direction.

12 And I think there are two issues, and there may be
13 a third or fourth issue, but I think there are two main
14 issues.

15 The first is what it means to have a waiver.

16 The view on the defendant's side is I think
17 basically that what has been waived are Davis Polk's
18 communications with the Federal Reserve and back and
19 forth.

20 And while those certainly, in our view, have been
21 waived, what has been waived is the attorney-client
22 privilege. And that means that if there is something
23 that didn't go to the Fed that went to Wachtell that
24 we're entitled to get that as well, that this is not a
25 situation in which they can say, All that's been waived

1 is our advice directly to the Fed.

2 If it went indirectly or even if it was just an
3 internal analysis, once the privilege is waived, it's
4 relevant. And my view is we're entitled to it; their
5 view is it ought to be limited.

6 Obviously I'll let them argue the merits of that,
7 but I just want to identify that as one issue.

8 The second issue is as a practical matter how do
9 we proceed.

10 With respect to all of the entities that are
11 relevant, I think it is easy except for Davis Polk.

12 We have privilege logs from the
13 Board of Governors, the Treasury, the Federal Reserve
14 Board, and if we're right, all they have to do is
15 produce what is on their privilege log because we will
16 accept the good-faith effort in constructing the
17 privilege log. That is, we're not going to ask them to
18 go back and look at stuff that's not on the privilege
19 log.

20 With respect to Wachtell, we believe that that's
21 really a very narrow group of documents because they were
22 involved such a short period of time.

23 The issue is with respect to Davis Polk, which,
24 because of the volume of materials, we did not require
25 them to do a privilege log. We accepted their

1 representation that it was privileged, and they therefore
2 don't have something that is listed and ready to be
3 produced.

4 My view is that the right way to do that is to do
5 that -- since most of these documents are electronic, is
6 to do it in the way we would do it in most commercial
7 cases, which is to have a -- upload it into a document
8 management system, we put in search terms, we bring --
9 you know, we take the documents out based on those search
10 terms, and we are able to narrow it down both to what
11 relates to this case but more importantly, for
12 everybody's standpoint, to those documents that are more
13 relevant. And we can do that by limiting document
14 custodians as well. And we think in that case, if we do
15 it electronically, we can do it in a matter of several
16 days.

17 If we have to -- if what we do is the
18 old-fashioned way of everybody sitting in a room and
19 printing out the documents and reading it, we'll be here
20 until a year from Christmas.

21 THE COURT: I'm looking over at your colleagues
22 who are all looking down.

23 MR. BOIES: Yes. This has been a very mixed
24 blessing for many of my clients, Your Honor -- many of my
25 colleagues.

1 But, I mean, I think those are the two issues. I
2 think we have differing views, and there may be some
3 additional issues that need to be --

4 THE COURT: Mr. Gardner?

5 MR. GARDNER: Thank you, Your Honor.

6 First of all, I resist the notion that there has
7 been this, you know, amorphous subject-matter waiver for
8 many of the reasons we've already talked about. There's
9 no need to go back over that, but I want to be very clear
10 that we do resist that notion.

11 Two -- and I know the Court has this preliminary
12 view at least that it is a -- the subject matter that has
13 been waived is AIG.

14 And you know, again, without belaboring this
15 point either, Your Honor, as Mr. Huebner testified to
16 yesterday, he did not represent Treasury even until
17 October of 2008, and then we get into things like ML III
18 and the like. And you may recall that his testimony on
19 those, what I will say post September 22 issues, was
20 fairly short, fairly compact. And I didn't hear anything
21 there that would even come close to constituting the
22 disclosure of communications between attorneys and the
23 client. That's why I think it is important to be precise
24 in terms of what we are talking about.

25 Beyond that, Your Honor, to get to sort of the

1 second issue that Mr. Boies talked about, about,
2 you know, trying to come up with a workable solution, I
3 think we have to go back to issues about proportionality,
4 right, just like we would do with discovery rule 26. And
5 we look at what the needs of the party are for the case,
6 how important those issues are to the issues in this
7 case.

8 I mean, I recall before trial started,
9 plaintiffs' pretrial brief said there are two issues in
10 this case and they're largely legal. I actually tend to
11 agree with that, Your Honor. I think these are largely
12 legal issues, and so then the question becomes is will
13 the enormous cost and burden of collecting all these
14 additional documents, when we already have all this stuff
15 right here, materially contribute to the overall result
16 in this case.

17 And I can't conceive of a way where it would
18 inform this Court on whether there is legal authority
19 under the Federal Reserve Act, which again you can look
20 at the statute to determine that, or whether there's been
21 a physical appropriation of an intangible right not to
22 have your vote diluted. I don't see how Davis Polk
23 e-mails are going to contribute to either of those two
24 conclusions.

25 Beyond that, there are many practical problems,

1 and I don't purport or dying to speak to how Davis Polk
2 maintains their e-mails. I can certainly have someone
3 from Davis Polk speak to that. But what I understand
4 one of the concerns is with Mr. Boies' approach is that
5 there are dozens or tens of dozens of attorneys from
6 Davis Polk over a three-year period working on all sorts
7 of aspects of this case, some of which are not at issue
8 here.

9 There are many issues of the AIG transaction that
10 have nothing to do with plaintiffs' legal claims. I
11 think Mr. Boies would acknowledge that.

12 So the question then becomes is how do you design
13 a process by which you search hundreds of attorneys'
14 e-mails, somehow filter it out for those AIG issues that
15 are both relevant to the case and for which there has
16 been a subject-matter waiver on, over a three-year
17 period, without disclosing other attorney-client
18 communications that are for clients that have nothing to
19 do with this case, so that, I think, is the practical
20 challenge and the notion that that can be done over the
21 course of five days, while I wish it were so, I don't see
22 how that is technologically feasible.

23 So I think that's our, you know, two big concerns
24 obviously or five big concerns.

25 THE COURT: Well, here's the way I think we ought

1 to proceed, and the plaintiff, Mr. Boies, can tell me if
2 he's willing to follow this approach. I'm looking at
3 this from a practical resolution of where we are now.

4 First of all, I maintain, as I stated yesterday,
5 that there's been a waiver as to anything AIG that came
6 out of Davis Polk & Wardwell. I think all of that's
7 been put in issue and it's -- it would create even more
8 work to try to parse it by subject matter because you'd
9 have to have people physically reviewing the document and
10 saying, Oh, yeah, this is waived and this isn't and we
11 have to redact it out and do all of that. I think it's a
12 broader waiver at this point because of yesterday's
13 events and that everything AIG is fair game.

14 However, if I were in the shoes of Davis
15 Polk & Wardwell, I would want to see something in
16 writing out of the Court telling them what they have to
17 do. And as a practical matter, I'm going to be away for
18 a few days and I just would not be able to do that sort
19 of thing probably before -- I mean, it might be possible,
20 but -- to give them something of extreme brevity, but I'm
21 not sure it would be feasible to do that.

22 The easy solution here and one that may meet our
23 needs would be to do a couple of things.

24 Number one, I really don't want to see any
25 redacted exhibits in the final exhibit list, unless it's

1 somebody's personal information obviously or if it's just
2 something that doesn't involve the waiver that we're
3 talking about. I think 90 percent of it probably is
4 going to be unredacted at this point. But I want to see
5 the exhibits cleaned up so we don't have any redactions
6 in there anymore.

7 And number two, I think that if you work off of
8 the privilege logs that we already have and just go down
9 those documents and release them, that should be a fairly
10 straightforward thing to do.

11 My inclination would be to just leave Davis Polk
12 alone at this point and go with the documents that are on
13 the privilege log.

14 MR. BOIES: Your Honor, because of the central
15 role and because this was a Davis Polk witness, while I
16 entirely agree with the need to have a practical result,
17 I think just leaving Davis Polk alone would not be the
18 right result.

19 Let me suggest we approach it this way if the
20 Court is willing and if they are willing.

21 Let them produce what's on the privilege logs.
22 We're going to have five days. During that period of
23 time, we will look at those documents. And if we then
24 need -- if we then think we need to come back to
25 Davis Polk, I will come back with a proposal that will

1 not be hundreds of lawyers, it will be no more than a
2 dozen lawyers at Davis Polk, who we want to have
3 searched, if that's an agreeable approach.

4 THE COURT: I'm agreeable to that.

5 The risk we have here now is that on the last day
6 of trial, it might not be really the last day, or perhaps
7 we could have an agreement that, if necessary, we'd have
8 to leave the record open to allow for the submittal of
9 additional exhibits possibly. I don't know. Let's not
10 get ahead of ourselves.

11 MR. BOIES: I think we may know a great deal more
12 about this a week from now.

13 THE COURT: Okay.

14 MR. BOIES: That is, if we use this time to
15 review what's on the privilege logs of the entities that
16 gave us privilege logs and maybe make some proposals to
17 them that they can consider. And if we can't work it
18 out, I will come back with, as I say, a very limited
19 focus because it's not -- it's not going to be hundreds
20 of lawyers. I understand there were hundreds of lawyers
21 working on it. The stuff that we really want are not in
22 the files of people other than about a dozen.

23 THE COURT: Just based upon what I've seen in the
24 documents, it may be a half a dozen.

25 MR. BOIES: Exactly. And it may even be less.

1 And I will commit to the Court that I will look at
2 the -- we'll look at the documents that they produce,
3 you know, from the Board of Governors, Treasury, FRBNY,
4 places we have privilege logs, and then I'll come back --
5 if it's necessary and if we can't work it out, I'll come
6 back with a very focused proposal.

7 THE COURT: Now, it looks like Mr. Kiernan wants
8 to speak, and I'll give you that chance in just a
9 moment.

10 The situation with Wachtell is not all that --
11 it's a little murkier perhaps than in the case of
12 Davis Polk, but still it's the client who waives the
13 privilege.

14 MR. BOIES: Exactly, Your Honor. What has been
15 waived is not the Davis Polk privilege.

16 THE COURT: Right.

17 MR. BOIES: It's the client's privilege. And
18 when the client waives the privilege, it waives the
19 privilege for the client and for all the client's
20 lawyers.

21 THE COURT: Right.

22 Mr. Kiernan, would you like to come forward?

23 MR. KIERNAN: Sure, Your Honor. I'm just trying
24 to make sure I understand clearly what the Court is
25 directing us so that we can do it.

1 But I understand that -- what the Federal Reserve
2 Bank of New York, for example, is being directed to do,
3 and what we would plan to do this weekend is twofold.

4 First, with respect to all redacted documents that
5 are -- you said admitted exhibits. Is it admitted
6 exhibits that we go through and we look at redactions,
7 and if all -- if those redactions reflect any
8 communications from Davis Polk, then we unredact them.

9 THE COURT: When the trial is over, I'm not really
10 concerned about exhibits that have never been offered or
11 which are not admitted. But of course, I think we'll
12 keep on admitting exhibits, but --

13 MR. KIERNAN: We'll see what we can do for -- if
14 we can avoid having to do all the thousands, it may be an
15 as-you-go thing or we can talk about that with
16 plaintiffs.

17 Second, our understanding is that we're to go
18 through the Federal Reserve Bank of New York privilege
19 log and all communications that are to or from Davis Polk
20 that are on that privilege log regardless of subject are
21 to be produced to plaintiffs.

22 THE COURT: Relating to AIG.

23 MR. KIERNAN: Relating to AIG.

24 THE COURT: Yeah.

25 Mr. Boies?

1 MR. BOIES: Your Honor, it's not, I respectfully
2 suggest, just the communications back and forth. If
3 they've got something on their privilege log, by
4 definition, putting it on the privilege log means, A, it
5 was privileged and, B, it was relevant to our discovery.
6 And if that's so and the privilege has been waived, we're
7 entitled to get that document, even if it didn't go to
8 Davis Polk.

9 THE COURT: I would agree with that. That's quite
10 true.

11 MR. KIERNAN: Well, Your Honor, that's a pretty
12 significant expansion from the -- from the way you said
13 it three or four times, which is why I wanted to check.

14 I thought that what you had said several times,
15 including this afternoon, was that you were ordering the
16 production of all documents that -- all communications
17 that emanated from Davis Polk.

18 THE COURT: You're saying there might or there
19 probably are documents internal --

20 MR. KIERNAN: Internal reflections. Sure.

21 THE COURT: -- to the Federal Reserve reflecting
22 on what some lawyer told them; right?

23 MR. KIERNAN: Sure. Or between lawyers within the
24 Federal Reserve.

25 THE COURT: Yeah, I think that's waived also.

1 That's included.

2 MR. KIERNAN: So it's our entire privilege the
3 Court is finding has been waived. You're not limiting it
4 to Davis Polk communications.

5 THE COURT: No.

6 MR. GARDNER: Then as I think a further
7 clarification, Your Honor, a complicator is --

8 THE COURT: Because it's a client waiver as I see
9 it.

10 MR. GARDNER: So then with respect to the
11 Board of Governors, Your Honor, Davis Polk does not
12 represent and did not represent the Board of Governors,
13 nor did they represent the Department of Treasury, again,
14 until October 2008, so I -- just so we're clear here,
15 there would be no subject-matter waiver with respect to
16 anything Mr. Huebner or Mr. Brandow might have said
17 vis-à-vis the Federal Reserve Board of Governors;
18 correct?

19 THE COURT: I want to hear Mr. Boies on that.

20 MR. BOIES: Your Honor, the defendant here is
21 the United States. They can't parse out the
22 Department of Treasury and the Board of Governors. The
23 defendant here is the United States.

24 THE COURT: It's Board of Governors, too, because
25 you have documents back and forth between those. I've

1 seen those already.

2 MR. GARDNER: Where there are those documents back
3 and forth, Your Honor, that's certainly one thing. If
4 Davis Polk is on an e-mail with the Board of Governors,
5 for sure. I mean, I can understand that. But -- to the
6 extent that's available.

7 But when we're just talking about the
8 Board of Governors itself, it's not clear to me how it
9 could possibly be that Davis Polk, a third-party law
10 firm, could ever waive a privilege of the federal
11 government and its attorneys.

12 THE COURT: But it's the clients they were
13 representing.

14 MR. GARDNER: But they're not representing the
15 Board of Governors. That's what I'm -- I'm sorry if I'm
16 not being articulate enough, Your Honor.

17 Davis Polk never represented the
18 Board of Governors. They represented New York Fed. And
19 they didn't represent Treasury until October 2008, so
20 I --

21 THE COURT: But I've seen documents where they're
22 really acting as one. You know, you've got Baxter to
23 Alvarez and that sort of thing.

24 MR. GARDNER: The relationship, though, between
25 the Board of Governors and the New York Fed is one thing,

1 the relationship between Davis Polk and the New York Fed
2 is another, and then the relationship between Davis Polk
3 and the Board of Governors, which is a nonexistent
4 relationship, is yet a third. And that's why -- look,
5 I'm trying to come up with as practical a solution as
6 well, but we also at the Department of Justice represent
7 clients and have specific interests as well.

8 I understand the New York Fed is represented by
9 private counsel, as is their right, but the Department of
10 Justice does represent the interests of the
11 Board of Governors and Treasury, and those interests are
12 not a hundred percent the same with respect to
13 Davis Polk, who you have concluded has effectuated a
14 subject-matter waiver, so I think we do need to be a
15 little careful in terms of the breadth in which we
16 conclude there's been a waiver because it would be
17 inappropriate to conclude, even if there was a waiver,
18 which again we don't accept, that that waiver somehow
19 imbues to the detriment of a federal entity, the
20 Board of Governors.

21 MR. BOIES: Your Honor, there's just one thing I
22 want to clear up.

23 I understand that the testimony has been and I
24 suspect there is a formal retention letter in October.
25 I've got a bill here from Davis Polk for professional

1 services rendered to date as special counsel to
2 Federal Reserve Bank of New York and United States
3 Department of Treasury, and it's dated September 22,
4 2008.

5 I think the idea that regardless of when they
6 signed the formal letter, they were not representing the
7 Department of Treasury is simply wrong.

8 The Court will recall that I used with the witness
9 a -- where he addresses clients, and it includes Treasury
10 and the Federal Reserve Bank of New York.

11 Now, somebody might get an e-mail wrong, but this
12 is a formal bill for a large amount of money, and I think
13 that is something that law firms are careful about who
14 they're representing.

15 MR. GARDNER: It strikes me as somewhat
16 extraordinary that you would find a subject-matter waiver
17 to the Department of Treasury based upon a single billing
18 record, Your Honor, particularly when Mr. Huebner
19 testified on the stand that he did not represent,
20 Davis Polk did not represent the Department of Treasury
21 until October 2008.

22 And so I think this is a significant problem,
23 Your Honor. And again, I'm not trying to make this more
24 complicated, I'm actually somehow trying to make this
25 less, although I'm not sure that's being effective.

1 But this is -- I think just to say there is a
2 broad subject-matter waiver against every federal entity,
3 I mean, Mr. Boies knows the only proper defendant in the
4 Court of Federal Claims is the United States, but that
5 doesn't mean that every nominal defendant in this case is
6 a federal agency.

7 I mean, that's why Mr. Boies sued the New York Fed
8 in the Southern District of New York, because he couldn't
9 bring a lawsuit against them here alone. That is why the
10 Board of Governors isn't a defendant here. That is why
11 the Department of Treasury isn't a defendant here.

12 MR. BOIES: If I could just make one point on
13 that. We sued them in New York because we didn't know
14 what they were going to claim was the right place for
15 them to be, and what happened is the Court up there held
16 the right place for us to sue them, if we had any claim
17 against them, was down here.

18 THE COURT: Right.

19 Well, I apologize that we're operating a little
20 bit on the fly here, but I see no other choice because
21 of the situation we're in. You know, we had what I
22 regard as an unexpected waiver of the privilege in the
23 case during the trial yesterday, and it was -- to me, it
24 wasn't inadvertent. It was totally intentional. There
25 were no objections or anything about this.

1 And so you -- you know, the Department of Justice
2 is sort of in a position of its own making. That's what
3 happened.

4 And I don't want there to be any loopholes here,
5 so it's -- you know, it's going to apply to, as to
6 anything AIG, Federal Reserve Bank, the
7 Board of Governors or the Department of Treasury.

8 And so go back and fix the exhibits and produce
9 the documents on your privilege log that are covered by
10 the waiver.

11 MR. GARDNER: Thank you, Your Honor.

12 MR. KIERNAN: Thank you, Your Honor.

13 MR. BOIES: Thank you, Your Honor.

14 THE COURT: And then we can revisit the subject
15 next week I suppose after you are able to make some
16 progress through this.

17 MR. BOIES: Yes, Your Honor. And we'll look at
18 that and we'll look at it with a view of trying to
19 minimize the practical issues. And as I say, I am very
20 convinced that I can cut it back so that they're not
21 talking about hundreds of people that we have to search.

22 THE COURT: Yeah. And I mean, and I won't tell
23 you how to put on your case, but any documents that come
24 to light that simply confirm what we already know, I
25 really don't need to see that. It would be new

1 developments or new revelations that would be most
2 informative.

3 MR. BOIES: Yes, Your Honor.

4 THE COURT: All right.

5 MR. DINTZER: We'll call for the witness,
6 Your Honor.

7 THE COURT: Okay. Great. Thank you.

8 (Whereupon, the witness was present in
9 open court.)

10 THE COURT: Welcome back, Mr. Schreiber. You had
11 a longer break than anticipated.

12 THE WITNESS: Thank you for that, Your Honor.

13 BY MR. DINTZER:

14 Q. I can assure you, sir, we were not talking about
15 you.

16 So I'm going to direct your attention -- we've
17 been sort of moving temporally to the 2010, 2010.

18 Did there come a time when AIG began to look at
19 sort of a final restructuring and a way to conclude the
20 Fed's and government's assistance to AIG?

21 A. Yes. That's correct.

22 Q. Can you describe how that evolved?

23 A. Yes. It -- at that point the plan was to raise
24 sufficient cash to pay off the senior secured credit
25 facility provided by the Fed, and at that point there

1 was -- you know, the markets had stabilized. Our
2 businesses were doing better. And the idea was to
3 recapitalize the company and pay off TARP through a --
4 through the issuance of common stock as opposed to a sale
5 of businesses and a repayment of the TARP.

6 This would put in the hands of the Treasury a
7 liquid security that they would be able to monetize over
8 time and actually participate in increased value as AIG's
9 operations continued to improve.

10 Q. And did -- on the AIG side, who was involved in
11 this process of thinking through this and putting this
12 together?

13 A. I was leading that effort and was working with
14 other colleagues in the senior management team, including
15 at that time our CEO, Bob Benmosche, and our CEO,
16 David Herzog.

17 Q. Now, did this process involve interaction with the
18 various entities who had participated in AIG's
19 assistance?

20 A. What do you mean by --

21 Q. Let me ask it again.

22 A. Yeah.

23 Q. Was there a negotiation that took place with
24 respect to this, this sort of a final resolution?

25 A. Yes.

1 Q. And amongst who?

2 A. The negotiations were with the Fed and Treasury,
3 with the Fed principally around the mode of repayment and
4 conditions that were required for repayment. With the
5 Treasury, it was around the -- how we would, you know,
6 sort of value the TARP and what we would be -- what
7 consideration would be given in exchange for
8 extinguishing the TARP securities.

9 Q. And what entity was holding the preferred -- the
10 C-level preferred shares?

11 A. My recollection is that the C was held in a trust
12 for the -- initially for the Fed. At the time of the
13 negotiation, I don't recall exactly where the C was
14 held.

15 Q. Do you recall if the trust was participating --
16 participated in the negotiation?

17 A. I don't recall.

18 Q. As part of the -- this process, did you have a
19 role in AIG's development of a bargaining position?

20 A. I did.

21 Q. And what was that role?

22 A. The role was to -- well, as just generally as part
23 of the recap project, to, you know, come up with a series
24 of actions that would allow AIG to repay all of the
25 government support, and obviously we wanted to do that on

1 the best possible terms we could.

2 Q. If you could go to PTX 578 and let me know when
3 you get there.

4 A. Okay.

5 Q. And do you have an understanding of what this is,
6 sir?

7 A. It's an e-mail from me to Bob Benmosche and
8 Peter Hancock.

9 Q. And why did you write this e-mail, sir?

10 A. It was to share with them some material prepared
11 for our -- two of our directors it appears, on a
12 possible proposal for a recapitalization with the
13 Treasury.

14 MR. DINTZER: And Your Honor, we'll move to admit
15 PTX 578.

16 MR. BOIES: No objection, Your Honor.

17 THE COURT: Plaintiffs' Exhibit 578 is admitted.

18 (Plaintiffs' Exhibit Number 578 was admitted into
19 evidence.)

20 BY MR. DINTZER:

21 Q. And you write here, sir, "Bob and Peter - Here are
22 a few pages we prepared for Harvey and Morris summarizing
23 the TARP Exit Proposal."

24 Do you see that?

25 A. I do.

1 Q. What do you mean by "TARP exit proposal"?

2 A. It was the plan for monetizing the Treasury's
3 interests in AIG and effectively repaying TARP.

4 Q. The next sentence says, "Obviously the situation
5 is fluid, and we are evaluating new ideas every day, but
6 this pretty much summarizes the Chutzpah Case that was
7 presented to the board at the last meeting."

8 Do you see that?

9 A. I do.

10 Q. The use of the word "chutzpah," if you could
11 explain that term, sir.

12 A. It is a Yiddish term I think probably best defined
13 as shameless audacity.

14 Q. And what do you mean by the term "chutzpah case"?

15 A. It was a list of what we would consider sort of
16 starting negotiating positions that were, you know,
17 fairly extreme, where we were trying to make a case for
18 clawing back as much value as we could in the process of
19 the recap.

20 Q. And the next sentence says, "My understanding is
21 that Harry has a meeting with Dudley next week and wanted
22 something to reference."

23 A. Yes.

24 Q. Just to be clear, Harvey is whom?

25 A. That would be Harvey Golub, I believe the chairman

1 of AIG's board at that point in time.

2 Q. And Dudley is whom?

3 A. That would be William Dudley, president of the
4 New York Fed.

5 Q. And then you go on, "this is not intended for
6 distribution with the Fed, but merely as backup for
7 Harvey."

8 What did you mean by that?

9 A. That this was just reference material that if he
10 felt he just wanted some, you know, again, you know,
11 some details on the recap plan and our position, he'd
12 have something he could reference when talking to
13 whomever.

14 Q. If you could go to the next page, page 2 of
15 PTX 578, and it says "Discussion of TARP Exit."

16 Do you see that?

17 A. I do.

18 Q. And then the next one after that, AIG Proposal
19 versus Modified UST Case, do you see that?

20 A. I do.

21 Q. What is the -- what does just that mean, "modified
22 UST case"?

23 A. As I recall, there were some discussions going on
24 back and forth between AIG and the Treasury, and the
25 modified UST case my recollection is was probably,

1 you know, the last sort of idea or framework that they
2 floated our way.

3 Q. And then from looking at this chart, so we have a
4 column that is that -- that's the -- that's that case,
5 the case that Treasury had floated as an opening salvo?

6 A. Yeah. If not, it may not have been the opening
7 salvo -- sorry. Repeat the question.

8 Q. The question was that the first column, Modified
9 U.S. Treasury Case, that that was the Treasury's opening
10 salvo, but maybe not?

11 A. No. Well, it's modified, so I suspect that there
12 may have been some other earlier case. I just don't
13 recall.

14 Q. And then the middle column, what's that, sir?

15 A. That was an AIG proposal.

16 Q. And was that the proposal that you were floating?

17 A. It may not have been formally floated at that
18 point in time, or I don't recall, you know, specifically
19 when that was, but that was kind of what we were thinking
20 about in terms of our proposal.

21 Q. And so for -- with respect to the Series C, what
22 was the modified Treasury case at that time?

23 A. As it says here, it was conversion of the
24 Series C.

25 Q. Which meant what?

1 A. That the Series C would convert into an 80 percent
2 or 79.9 percent ownership position in AIG.

3 Q. And that would be converted or it -- or it -- into
4 common shares; is that right?

5 A. That's I believe what it means.

6 Q. And then the AIG proposal is what?

7 A. Cancellation of the Series C preferred and for
8 some consideration.

9 Q. And was that the chutzpah case that you described
10 in the front e-mail?

11 A. Yeah. I mean, I don't think "chutzpah" was the
12 formal sort of term for the case, but that generally
13 characterized the position.

14 Q. And what was the rationale that -- well, actually,
15 what does that column, Rationale for AIG Proposal, what
16 does that column mean to you?

17 A. Those were the points that we would make in
18 support of that point on the AIG proposal.

19 Q. And what were the points that you were proffering
20 there?

21 A. That the Series C was overly punitive -- I won't
22 read them all. You have them -- but, you know, there was
23 a lack of precedent for this, that the Series C really
24 didn't have much value and that it would complicate the
25 TARP exit.

1 Q. And with respect to complicating the TARP exit,
2 what was that point?

3 A. That at least, you know, based on my recollection
4 and reading here that, you know, it would avoid the
5 Treasury having to consolidate AIG's results on its
6 balance sheet, but also the -- the higher the ownership
7 percentage, the higher the overhang, the more difficult
8 it would be for the Treasury to sell.

9 Q. And so in listing these items, what were you --
10 what was your -- they just call it a proposal.

11 What were you suggesting that -- that -- that the
12 CEO or -- do with these proposals?

13 A. That -- that -- remember, this was prepared,
14 you know, for just some backup slides, but I think if I
15 understand, your question is what would we ultimately do
16 with this information, these proposals? This would at
17 some point be presented as a -- as a proposal to the
18 Treasury for the elimination of the Series C, E and F
19 preferreds.

20 Q. And was this -- so this was a suggested proposed
21 bargaining position; is that right?

22 A. That is correct.

23 Q. And then -- and then for ML II and ML III again --

24 A. Yes.

25 Q. -- looking across the chart --

1 A. Uh-huh.

2 Q. -- what was the modified UST case?

3 A. That the Fed would keep any upside in its residual
4 interests in ML II and ML III.

5 Q. And what was your AIG proposal?

6 A. That they would credit the gains in ML II and
7 ML III from their residual interests toward a reduction
8 in the principal amount outstanding of the TARP
9 Series E and F.

10 Q. And what was your rationale for this proposed
11 proposal?

12 A. As it says, that, you know -- here that, you know,
13 the upside belongs to AIG, that, you know, formation of
14 ML II and III, you know, at the bottom of the market
15 crystallized some losses. Effectively when ML II and
16 ML III were created, the Fed bought the securities at the
17 then current market values, and the difference between
18 market and par was effectively -- you know, that was
19 AIG's, you know, formal write-down.

20 So did we have a contractual right to any of this,
21 no. Did we agree to the terms of ML II and ML III,
22 absolutely. This was really, you know, just trying to
23 come up with an argument to claw it back and to make the
24 argument that, you know, these gains should be applied,
25 you know, in total to the overall obligation that AIG

1 has to the government, so use these gains to offset
2 TARP.

3 Q. No further questions on that document, sir.
4 If you could turn to JX 271.

5 A. Okay.

6 Q. So this is June 16, 2010.
7 Do you see that, sir?

8 A. I do.

9 Q. And do you have an understanding of what this
10 document is?

11 A. Let me take a quick look.

12 (Pause in the proceedings.)

13 It looks like it is a cover letter introducing a
14 presentation on AIG's recap proposal that had already
15 been reviewed with the restructuring committee of the
16 board.

17 Q. And what was the restructuring committee of the
18 board?

19 A. It was a subcommittee of the board of directors
20 that was overseeing the restructuring proposal with
21 the -- between AIG and the government.

22 Q. And if you look at the fourth paragraph down, it
23 says: The presentation will be forwarded under separate
24 cover, is shorter and does not represent AIG
25 management -- and does represent AIG management's current

1 view on restructuring.

2 Do you see that?

3 A. I do.

4 Q. At what stage was the process at at this point in
5 June 2010?

6 A. We had -- as I recall, we had already had a few,
7 you know, discussions with the Treasury and had worked
8 internally to, you know, sort of come up with a proposal
9 that, you know, we thought would allow us to extinguish
10 our obligations to the government.

11 Q. If you could turn to page 6 of JX 271.

12 A. Yes.

13 Okay.

14 Q. And this is -- this is the executive summary; is
15 that right?

16 A. Yes, it is.

17 Q. And if you could explain -- it says, "Repay
18 Federal Reserve Bank of New York."

19 What's involved in that line?

20 A. Establish a mechanism to repay the Fed. I guess
21 the -- what this is sort of trying to illustrate were
22 the -- what the -- what the proposed plan would
23 accomplish.

24 So repaying the Fed meant generating enough cash
25 on hand to repay all the outstanding borrowings and

1 accrued interest under the senior secured credit facility
2 as well as the interests that the Fed had in the AIA and
3 ALICO SPVs.

4 Q. And the next line is: "Exit TARP and Return
5 Support to U.S. Treasury."

6 A. Correct.

7 Q. What's going on in that element?

8 A. As it said, that would be an extinguishment of the
9 Series E, F and C, which was not TARP, through the
10 issuance of common stock.

11 Q. And finally, "Eliminate Systemic Risk," what's
12 going on there?

13 A. Derisk AIGFP as well as capitalize our other
14 businesses to withstand potential shocks.

15 So the -- that relates to certain conditions that
16 I recall probably needed to be precedent before the Fed
17 would allow us to extinguish the line and kind of repay
18 all of the support. They wanted to make sure that once
19 the government was out, AIG wasn't going to ring their
20 bell again in the future for additional support.

21 Q. If you could go to page 7 of this document, what
22 are the columns that we see here?

23 A. Okay. It looks like the left-hand column, Sources
24 of Value, were the -- were the businesses that would
25 remain -- that were going to be sources of the repayment

1 of the Fed and the Treasury and the --

2 Q. I'm sorry, sir. We're on page 5 of the slide?

3 A. I thought you said page 7.

4 Q. No, no. Page 7 of the exhibit, page 5 of the
5 slide deck. I'm sorry.

6 A. Oh, sorry, sorry, sorry. Okay. Oh, sorry.

7 Okay. This shows the sequence of events that
8 would -- that were contemplated in the restructuring
9 plan.

10 There was a -- first demonstrating how we'd repay
11 the Fed, next how the recapitalization would work,
12 meaning the issuance of common stock to extinguish the
13 Series C, E and F.

14 There's a third column, Shareholder Vote, and a
15 fourth column, Re-IPO of AIG, which is where we would do
16 the first issuance of the Treasury's common shares and
17 also issue primary stock of AIG to demonstrate for the
18 Fed and Treasury as well as for the rating agencies that
19 we were able to reaccess the public equity markets.

20 Q. And on the second column, it says "Series C
21 extinguished for nominal amount of other assets."

22 Do you see that?

23 A. I do.

24 Q. And what is that, sir?

25 A. That was a -- you know, as part of the recap, that

1 we would pay some consideration in order for the
2 extinguishment of the Series C.

3 Q. And ultimately did there come to be a negotiation
4 regarding how the Series C would be treated?

5 A. Yes, there was.

6 Q. And could you describe sort of how that
7 negotiation sort of -- the issues and the resolution.

8 A. To -- really what it came down to was looking at
9 the C, the E and the F together. At the point when it --
10 we -- we really sort of narrowed our options down, it
11 came down to really just how much common stock AIG would
12 have to issue to satisfy both the -- all of the C, the E
13 and the F, and ultimately it was really a discussion over
14 how much equity would be given in exchange for
15 extinguishing those. That was -- if you want to think of
16 the one variable, that was really what it came down to at
17 the end of the day.

18 Q. And what were the different parties looking for?

19 A. What AIG was looking for was to issue as little
20 common stock as possible and maximize the value of our
21 businesses and maximize shareholder value.

22 What we explained to the Treasury what they
23 should be most interested in was a clear exit that would
24 only be possible through a series of what we called sort
25 of reinforcing transactions. That means at each step of

1 the way creating a transaction that would send a positive
2 signal to the market and really open doors for them to
3 sort of exit and sell the AIG stock that they would have
4 as opposed to doing an onerous transaction that would
5 really close doors and kind of get them locked into the
6 company, ultimately having a much more difficult time to
7 sell.

8 Q. What was the onerous transaction that was
9 complicated at the time?

10 A. Well, you know, you could look at all of the
11 securities, and depending on -- there was a lot of sort
12 of ambiguity here because it was sort of unclear whether
13 the Series C would get, you know, common shares issued to
14 it for 79.9 percent of the company before or after the
15 Series E and F were taken out.

16 So if you looked at it beforehand -- again, I
17 don't have the numbers here, but on one hand you can say
18 that the government was entitled to, you know, 95 percent
19 of the company. On the other hand, if the Series C was
20 then issued common shares post a recapitalization of the
21 E and F, they could have been up to 99 percent of the
22 company.

23 So we were really talking about, you know, a band
24 of ownership, you know, in that, in that range.

25 Q. Ultimately, what position did the Treasury adopt

Starr International Company, Inc. v. USA

1 and did the government adopt with respect to the
2 negotiation on the C and the trust?

3 A. Ultimately they accepted a -- well, what it was,
4 as we all know, was 92 percent ownership in the company,
5 so that was -- and another important feature of that,
6 that agreement, was that we issued common stock to the
7 Treasury for the E and the F at a market price above the
8 current market price of the AIG shares.

9 That was also important, because once that got
10 announced, the argument we made was that there were still
11 at the time, as everybody recalls, public shareholders of
12 AIG and there was an observable market price of the
13 stock.

14 We made the case that the market price didn't
15 reflect the true value of AIG's business and therefore
16 told the Treasury that, you know, they should exchange or
17 be willing to exchange for -- the E and the F for a value
18 higher than the current market price.

19 That was very important because it was our view
20 that every time -- that, again, when we made that
21 announcement and there was certainty to the market as to
22 how many shares would ultimately be issued in the
23 recapitalization that the market price of the stock
24 would then start working its way up, which in fact it
25 did, allowing the Treasury to ultimately exit at a profit.

1 Q. Did you view the position that the Treasury
2 ultimately took on the recap as a concession?

3 A. I'm not sure, you know, in thinking about the
4 meaning of "concession" and the technical term, it was a
5 concession. They could have, purely based on sort of the
6 contractual terms of everything, nego- -- you know, ended
7 up with a larger percentage of the company.

8 I think the -- you know, where we ended up at
9 92 percent, you know, you know, I think reflects a couple
10 of things, one, that the E and the F again received
11 shares at a market value, if you just kind of look at it
12 technically, below what the E and the F were worth, but
13 if you look at the entire package, the Treasury got the
14 dollar value of their commitment at the time or their --
15 the capital that they had provided at the time of the
16 recap.

17 So, again, this is -- I apologize for talking
18 numbers. This is complex stuff.

19 But at the end of the day, I think if you look at
20 the deal, the C ended up with something like 30 percent
21 of the company and the E and the F took the remainder.
22 But I think it's misleading to really look at it that way.

23 I think the way you look at it is, you know, you
24 take the amount of the TARP that was put into AIG, and
25 you look at the market value of the shares issued in

1 exchange for that TARP, and then you can figure out,
2 you know, whether, you know, you know, you know, how much
3 value the Treasury got.

4 So really the value of the C really went, in my
5 view, to sort of taking out the E and the F. They did
6 not get the 80 percent or the 79.9 percent on top of the
7 E and the F.

8 Q. Did -- were there warrants involved in the taking
9 out of the C?

10 A. There were a small number of warrants issued to
11 existing shareholders. I believe the ratio was one mark
12 for two shares of stock that were issued as part of the
13 recap.

14 Q. When did the government exit its relationship with
15 AIG?

16 A. That was sometime I believe in 2012 when we made
17 the sort of final TARP repayment and I think all the
18 relationship formally came to an end.

19 Q. When the government exited the transaction,
20 looking back, how did you view the deal?

21 A. I think, you know, from the government's
22 perspective, one, it was a validation most importantly of
23 what was some very, you know, sort of sound and bold
24 policies during a very difficult time to stabilize the
25 markets. They did receive all of the money they put into

1 AIG back plus a profit of approximately 23 billion.

2 MR. DINTZER: Your Honor, may I have a moment?

3 THE COURT: Sure.

4 (Pause in the proceedings.)

5 MR. DINTZER: We have nothing else, Your Honor.

6 We pass the witness.

7 THE COURT: All right. Thank you, Mr. Dintzer.

8 I have one question for the witness.

9 MR. DINTZER: Oh, yes, please.

10 THE COURT: I may have missed this at the
11 beginning of your testimony, but do you still work at
12 AIG?

13 THE WITNESS: I do.

14 THE COURT: Okay. In the same position that you
15 had?

16 THE WITNESS: No. I am currently deputy chief
17 investment officer.

18 THE COURT: All right. Thanks very much.

19 Cross-examination?

20 MR. BOIES: Thank you, Your Honor.

21 (Pause in the proceedings.)

22 - - - - -

23 CROSS-EXAMINATION

24 BY MR. BOIES:

25 Q. Good afternoon, Mr. Schreiber.

1 A. Good afternoon.

2 Q. We haven't met, but my name is David Boies, and I
3 suspect they've told you that I represent the plaintiffs
4 and I'll be asking you some questions.

5 A. Okay.

6 Q. What did you do to prepare for this testimony?

7 A. I reviewed some prior deposition testimony and
8 some documents.

9 Q. Did you meet with people?

10 A. I did.

11 Q. Who did you meet with?

12 A. I met with AIG's lawyers from Weil Gotshal and I
13 met with lawyers from the government.

14 Q. How many times did you meet with lawyers for the
15 government?

16 A. Once.

17 Q. When was that?

18 A. Tuesday.

19 Q. And for how long a period of time?

20 A. Several hours.

21 Q. And did they go over questions that they might ask
22 you?

23 A. We reviewed documents. They had questions on
24 documents.

25 Q. And did they show you particular documents?

1 A. They did.

2 Q. And did they show you the documents that they have
3 gone over with you in court today?

4 A. I think for the most part, yes.

5 Q. And did they show you any documents other than the
6 documents that they went over with you today?

7 A. I don't recall.

8 Q. Now, AIG, the government asserts, has an
9 indemnification obligation to the government with respect
10 to this lawsuit. Are you familiar with that?

11 A. I am not very familiar with it, but I understand
12 there might be. There's an indemnification, but I don't
13 know what the details of it are.

14 Q. Do you know in general what the indemnification
15 agreement is?

16 MR. DINTZER: Objection, Your Honor, to the extent
17 it calls for a legal conclusion.

18 MR. BOIES: I'm just asking his understanding.

19 MR. DINTZER: And actually, too, obviously it is
20 not for me to assert privilege and I won't for the
21 witness, but I would just suggest and ask that if unless
22 it's counsel's intention to impinge upon privilege,
23 perhaps he could rephrase it to make sure that if the
24 witness has discussed it with his own counsel -- and I
25 have no idea -- that just to keep the record clear.

1 THE COURT: Thank you, Mr. Dintzer.

2 I will overrule the objection. I will take his
3 understanding of the provision. And perhaps he heard the
4 advice about legal advice you may have received, not from
5 the United States but perhaps from your own lawyers. I
6 don't know.

7 BY MR. BOIES:

8 Q. Do you have the question, sir?

9 A. Yes.

10 So I am vaguely aware of an indemnification sort
11 of provision in some agreement with the government, but
12 whether that indemnification agreement applies to this
13 case or not I can't say.

14 Q. Are you aware of whether or not the government
15 takes the position that the indemnification agreement
16 applies to this case?

17 A. I'm not aware.

18 Q. Let me ask you about the rating agency
19 presentations in 2008 that you said you attended.

20 A. Sure.

21 Q. Now, you understood, at the time you attended
22 those presentations, that it was very important for AIG
23 to be honest and accurate in the information that it
24 presented to rating agencies; correct?

25 A. That's correct.

1 Q. And you made it an effort that anything that you
2 participated in in making presentations to the rating
3 agencies would be honest and accurate; correct?

4 A. To the best of our knowledge at that time, yes.

5 Q. Now, counsel for the United States showed you
6 PTX 578. Do you recall that? What you referred to as
7 the chutzpah case?

8 A. Yes, I have it.

9 Q. And this is dated April 2, 2010; correct?

10 A. It is dated April 2010 and the e-mail is, yes,
11 April 2.

12 Q. And subsequent to April, there were a number of
13 additional negotiations and conversations with the
14 government; correct?

15 A. Correct.

16 Q. And let me hand up a book of documents.

17 And I'd like to direct your attention to
18 PTX 601 that is in your binder.

19 A. Yes.

20 Q. And this is an e-mail exchange between you and
21 Peter Hancock in September of 2010; is that correct?

22 A. Correct.

23 MR. BOIES: Your Honor, I would offer PTX 601.

24 MR. DINTZER: No objection, Your Honor.

25 THE COURT: Plaintiffs' Trial Exhibit 601 is

1 admitted.

2 (Plaintiffs' Exhibit Number 601 was admitted into
3 evidence.)

4 BY MR. BOIES:

5 Q. Is this one of the documents that counsel for the
6 United States showed you during your preparation session
7 with them?

8 A. I recall seeing it. I don't know if it was during
9 the meeting I had with the Weil Gotshal lawyers or the
10 government lawyers. I just don't remember.

11 Q. Okay. But this is a document that you've seen in
12 preparation for your testimony; correct?

13 A. That is correct.

14 Q. And on September 5, 2010 at 10:41 a.m., you write
15 Mr. Hancock, saying, "Excellent point."

16 And what point were you referring to there?

17 A. This was an exchange, as I recall, about the
18 issuance of warrants to existing shareholders as a way
19 to, you know, sweeten the exchange offer at -- you know,
20 as part of the -- as part of our, you know, sort of
21 package of proposals.

22 Q. And you go on to say, "He needs to keep in mind,"
23 and who is the "he"?

24 A. I don't recall, but just based on the e-mail,
25 looking at it here, it's possibly Jim Millstein.

1 Q. And you say, "He needs to keep in mind that the
2 way these warrants would work by definition would ensure
3 the Treasury gets its almost \$80 billion before
4 shareholders received value" --

5 A. That's correct.

6 Q. -- "i.e., knock in at \$50 per share (568 times
7 50 for the C and \$50 billion for the E and F)."

8 Do you see that?

9 A. I do.

10 Q. And what you're saying is that these warrants that
11 were going to be issued as what you describe as a
12 sweetener for the existing common shareholders, before
13 they would receive any value, the Treasury would have
14 received almost \$80 billion; correct?

15 A. That is correct.

16 Q. And when you in the next sentence say, "It's also
17 hard to argue it's a windfall for old shareholders when
18 even at that value we are talking under \$4 per share in
19 aggregate value pre reverse split," do you see that?

20 A. I do.

21 Q. And you go on to say, "I am sensitive to the
22 government's view, but it's not reality, just politics."

23 Do you see that?

24 A. I do.

25 Q. Then you write, "Other institutions were toast as

1 well yet their past, present and future shareholders are
2 not being punished this way."

3 Do you see that?

4 A. I do.

5 Q. And you meant that at the time you wrote it,
6 didn't you?

7 A. I did.

8 Q. And you then go on to say, "We are meeting all of
9 our public and private obligations and the government is
10 making a huge profit - that is why this is unlike other
11 restructurings and why they shouldn't be as hung up on a
12 reinforcing transaction as they seem to be."

13 Do you see that?

14 A. I do.

15 Q. And you meant that when you wrote it; correct?

16 A. Yes, I did.

17 Q. With respect to the Series E stock, you described
18 that to counsel for the government as extremely valuable
19 because it was free money. Do you recall that?

20 A. I do.

21 Q. Okay. Now, what did you mean when you said that
22 the Series E stock was free money for AIG?

23 A. It was effectively equity capital that never had
24 to be repaid. It was illiquid. It had no sort of
25 exchange or conversion features, didn't pay a dividend or

1 have a stated dividend amount, so it was a perpetual
2 zero-coupon capital instrument.

3 So I would think that an instrument like that
4 would have almost no value in the marketplace but was
5 extremely valuable to AIG in supporting our capital
6 structure.

7 Q. Now, there came a time as part of this
8 recapitalization when it was proposed by the government
9 that AIG provide certain consideration in exchange for
10 this Series E stock; correct?

11 A. Correct.

12 Q. And even though the Series E stock, as you
13 described it, was an instrument that would have almost no
14 value in the marketplace, they wanted to have it
15 exchanged for AIG common stock; correct?

16 A. Correct.

17 Q. And ultimately how many shares of AIG common stock
18 was provided to the government in exchange for this
19 Series E preferred stock?

20 A. I don't recall off the top of my head.

21 Q. Approximately, sir.

22 A. It was, you know, a package of shares issued for
23 the C, E and the F. I don't recall what the specific
24 number was. I don't even recall what the par -- or
25 the -- you know, the face value of the E was that was

1 being exchanged. But we could -- I'm sure you have the
2 number. You can refresh me and I'll tell you if I
3 agree.

4 Q. Does a liquidation preference of \$40 billion for
5 the Series E stock refresh your recollection?

6 A. Yeah. That's -- yeah, sounds about right.

7 Q. And do you know how many shares of AIG common
8 stock were exchanged for this Series E preferred stock?

9 A. I don't remember the exact breakdown of the
10 shares, but I recall the exchange was done at 45 per
11 share, so -- I don't know -- a billion, you know,
12 somewhere around there.

13 Q. And let me be sure I understand what you're
14 saying when you say the exchange was done at 45 per
15 share.

16 A. Yeah.

17 Q. What you're saying is that you took \$45.

18 A. Yeah.

19 Q. Divided it into \$40 billion.

20 A. Yeah.

21 Q. And the result of that arithmetic calculation was
22 the number of shares that were given; correct?

23 A. That's what I recall generally.

24 Q. And when did that exchange actually take place?

25 A. It was part of the overall recapitalization which

1 took place -- and I don't remember the exact date.

2 Q. Approximately.

3 A. But it was approximately maybe sometime in I think
4 '11, maybe sometime in 2011. I don't remember the exact
5 month.

6 Q. Do you remember whether it was in the first half
7 of the year or the second half of the year?

8 A. You know, when the exact exchange took place,
9 there were so many transactions, so many things going on,
10 that still -- it's a little bit fuzzy, but I'm sure
11 there's a record of it, so it's not really for me to sort
12 of -- I'm sure there's a record of it actually.

13 Q. At the time that the exchange took place, whenever
14 it was --

15 A. Yeah.

16 Q. -- what was the AIG common stock price on the
17 market?

18 A. As I recall, it was I think somewhere thirty-ish
19 or in the thirties. I don't remember the exact price.

20 Q. Do you recall whether or not -- and you said you
21 were the person in charge of this; right?

22 A. I was leading the effort to sort of pull the
23 structure together and was involved in the negotiations,
24 yes.

25 Q. And other than Mr. Benmosche, who was the CEO, you

1 were the senior AIG executive involved, according to your
2 testimony; is that right?

3 A. Yes. As I said, there were also others.
4 David Herzog, our CFO, was involved, too, which I believe
5 I testified to.

6 Q. And did AIG receive a fairness opinion in
7 connection with this Series E transaction?

8 A. I believe AIG received a fairness opinion with
9 respect to the overall recap. I'm not sure if the
10 opinion was for each component of it. It was viewed as a
11 package.

12 Q. Do you recall who provided that fairness opinion?

13 A. I believe it was B of A and Citi.

14 Q. And were B of A and Citi given any instructions by
15 anyone as to assumptions that they ought to employ in
16 deciding whether this transaction was fair to the
17 minority shareholders?

18 A. I don't believe -- I'm not aware of any
19 instructions given to B of A and Citi other than to
20 provide the opinion or to render an opinion. They may
21 have asked for certain information and documentation to
22 help them support that opinion.

23 Q. But as far as you were concerned as the person
24 leading this effort, Citibank and B of A were simply
25 told, Analyze this transaction and tell us whether you

1 think it's fair; correct?

2 A. I don't think they were specifically told to
3 analyze and say whether it was fair. They were engaged I
4 believe by the board. I don't know if it was AIG. It
5 might have been the board.

6 And again, there are -- I think are a lot of steps
7 in the preparation and rendering of a fairness opinion,
8 and that would have been covered by their engagement
9 letter.

10 Q. You certainly know what a fairness opinion is.

11 A. I do.

12 Q. And it's a common thing to get a fairness opinion
13 in circumstances where you're going to have something
14 happen that's a transaction that involves somebody in
15 control of a corporation through majority ownership to
16 make sure that the minority shareholders are treated
17 fairly; correct?

18 A. It could be for that reason. Fairness opinions
19 are also issued in other circumstances as well.

20 Q. But this particular fairness opinion was directed
21 as to whether the transaction was fair to the minority
22 shareholders; right?

23 A. I don't recall what the specific engagement was on
24 the fairness opinion and whether it was specifically
25 cited that it was whether it was fair for the minority

1 shareholders, but I suspect that is the case.

2 Q. As the person who was leading this effort --

3 A. Yeah.

4 Q. -- were you of a view that there needed to be a
5 fairness opinion with respect to whether the transaction
6 was fair to the minority shareholders?

7 A. That was a legal issue that I left to our lawyers
8 to decide.

9 Q. You didn't have a view on that one way or the
10 other, is your testimony.

11 A. It's a legal issue and I didn't have an opinion on
12 it.

13 Q. Did you feel that you had a fiduciary duty to the
14 minority shareholders?

15 A. I believe I had a fiduciary duty to the company
16 and to all of its stakeholders, but as a member of the
17 management team.

18 Q. Now, I want to follow up on that, but before I do,
19 I just want to get your understanding of what you mean by
20 "stakeholders."

21 A. Uh-huh.

22 Q. Can you define what you mean by "stakeholders."

23 A. All of our stakeholders, our policyholders, our
24 creditors, our government capital providers, as well as
25 our minority shareholders.

1 Q. And do you include in stakeholders the company's
2 employees?

3 A. Not in the definition I gave you.

4 Q. And I take it the definition you gave me is the
5 definition that you use?

6 A. I never -- until you mentioned employees, I didn't
7 think about employees, but I thought about our external
8 stakeholders, external.

9 Q. And what I'm asking you is, now that I've
10 refreshed your recollection that the company has
11 employees, do you think that --

12 A. I knew they had employees, but what I was saying
13 to you is stakeholders.

14 Q. Do you include them in what you mean by
15 "stakeholder"?

16 A. For the purpose of this conversation, I think
17 looking out for the interests of creditors and equity
18 holders, by definition, is inclusive of employees.

19 Q. By "inclusive of employees" do you mean that it
20 includes employees?

21 A. In that if what's good for creditors and equity
22 holders is good for the company, which it is, it would be
23 good for employees.

24 Q. Now, other than a general statement that you
25 believe that you have a fiduciary duty to all of the

1 company's stakeholders, did you believe that in this
2 particular transaction you had a fiduciary duty to the
3 minority shareholders? That's a yes, no, or I don't know
4 or I don't understand the question.

5 A. I believe I did.

6 Q. Okay. Now, in fulfillment of the fiduciary duty
7 that you say that you believe you had to AIG's minority
8 shareholders, did you believe that it was important to
9 get a third party's view as to whether this transaction
10 was or was not fair?

11 MR. DINTZER: Objection, Your Honor, to the extent
12 that -- I mean, he's sort of building a -- I can't tell
13 if it's a legal opinion or not, but it sounds like one,
14 so to the extent -- I mean, obviously we don't oppose
15 asking the witness whatever he believes, but to the
16 extent he's asking -- he's suggesting that there's a
17 legal obligation, then it's a -- it's obviously asking
18 for a legal conclusion.

19 THE COURT: I'll overrule the objection and I'll
20 pick up on the part where you said you did not object to
21 him asking --

22 MR. DINTZER: I just want to make sure -- can't
23 leave that one.

24 I just want to make sure that it's clear he's not
25 asking the witness not only what he was -- whether he was

1 or wasn't legally bound but to suggest that he was
2 legally bound. That's the only thing I'm asking.

3 THE COURT: All right. I think Mr. Schreiber can
4 handle this.

5 BY MR. BOIES:

6 Q. Do you understand the question?

7 A. Yes. Did I think the transaction required a
8 fairness opinion from a third party or -- is that the --
9 repeat it then.

10 Q. Yeah. And I want to be clear because I am not
11 asking you for a legal opinion.

12 A. Okay.

13 Q. And when you used the word "required," that might
14 have implied legal opinion. I just want to be clear
15 that I'm not asking you in my questions for a legal
16 opinion.

17 A. Uh-huh.

18 Q. I'm simply asking you whether you believed, as a
19 businessman --

20 A. Yes.

21 Q. -- with fiduciary duties to the minority
22 shareholders, that it was important to fulfill those
23 duties for you to get a third party's advice as to
24 whether this transaction was fair to the minority
25 shareholders.

1 A. I'd never thought about that question.

2 Q. Okay.

3 A. I always viewed the --

4 Q. If you never thought about the question --

5 A. I've never thought -- well, I'll tell you, I
6 did -- I don't believe a third -- from my own views of
7 the fairness of the transaction that a third-party
8 opinion was necessary. I believed the transaction was
9 fair and favorable for the minority shareholders.

10 Q. And your view was that that was something that
11 since you came to that view on your own, you didn't
12 really need in pursuing your fiduciary duties to seek a
13 third party's view; is that what you're saying?

14 A. I personally didn't need a third-party opinion to
15 tell me that this deal was fair for the shareholders.

16 Q. My question is a little different, sir.

17 My question is whether you felt as a fiduciary to
18 the minority shareholders that you should get a
19 third-party view to test whether other people agreed with
20 the view that you say you had.

21 A. Did I think a third party -- I think that was a
22 decision that those parties needed to make based on their
23 fiduciary duties to shareholders, which I believe
24 probably had a more sort of legal definition and
25 requirement.

1 As for my view of the transaction, I believe that
2 this transaction was fair and favorable, and I didn't
3 need any third party nor did I feel the fiduciary duty to
4 have a third party provide an opinion.

5 Q. When you say, "I think that was a decision that
6 those parties needed to make," who are those parties?

7 A. Other -- well, you mentioned if --

8 Q. I didn't mention --

9 A. No, no, no, Mr. Boies. There are other -- because
10 you said there were others with fiduciary duties a moment
11 ago, that would they have recalled if -- maybe if we
12 could read back --

13 Q. Could I get you to listen to the question.

14 A. -- the question.

15 Q. Could I just get you to listen to my question.

16 A. Yeah, I'm listening.

17 Q. If you don't understand it, just tell me you don't
18 understand it, and I'll rephrase it. Okay?

19 A. Sure thing.

20 Q. My question is whether you felt, as a fiduciary to
21 the minority shareholders, that you should get a
22 third-party view to test whether other people agreed with
23 the view that you say you had. That's a yes, no, I don't
24 know --

25 A. I don't know.

1 Q. -- or I don't understand the question.

2 A. I don't know. I don't know. I'm having a hard
3 time with this question. I really don't understand what
4 you're getting at.

5 Q. Okay. Let me turn to another subject.

6 And in that connection, let me ask you to look at
7 JX 271 that counsel asked you some questions about. This
8 is --

9 A. JX -- which book is this one in?

10 Q. It's in the book the government gave you.

11 A. This one (indicating)?

12 Q. And it's Joint Exhibit 271.

13 A. Yep.

14 Q. Do you remember counsel for the United States
15 showing you this document?

16 A. Yes, I do.

17 Q. And this is a restructuring plan presentation --

18 A. It is.

19 Q. -- on June 9, 2010; correct?

20 A. That's correct.

21 Q. And did you participate in the preparation of this
22 presentation?

23 A. I did.

24 Q. Were you the senior person preparing this
25 presentation?

1 A. Most likely, yes. It may have been submitted for
2 some comments or feedback from others, but yeah.

3 Q. Uh-huh.

4 A. That's it.

5 Q. Now, if you go to page 7 --

6 A. Right.

7 Q. -- and this was a page that counsel for defendant
8 directed your attention to.

9 A. Right.

10 Q. And it says, "The basic steps of the Restructuring
11 Plan also remain the same."

12 Do you see that?

13 A. Again, I'm on page 7 of the deck, the wrong page.
14 So page 5 of the deck, page 7 of 41?

15 Q. That says "AIG Executive Summary. The basic steps
16 of the Restructuring Plan also remain the same"?

17 A. Right. I'm there.

18 Q. Now, when you said, "The basic steps of the
19 Restructuring Plan also remain the same," remain the same
20 as what?

21 A. I don't recall what -- what "remain the same" was
22 referring to in this particular case. It may have been
23 referring to an earlier presentation given to the board
24 where we laid out the four steps, and maybe what I am
25 just speculating here is that some of the components in

1 the boxes of those steps may have changed.

2 Q. Well, let me go through the components in these
3 boxes --

4 A. Sure.

5 Q. -- and you tell me which ones had changed.

6 And let's start with the first column, clarity on
7 Federal Reserve Bank of New York repayment.

8 A. Uh-huh.

9 Q. The first bullet is divestitures and asset sales.

10 A. Yes.

11 Q. Had that changed?

12 A. I don't know what the earlier version was that
13 this is referring to, so I can't answer that.

14 Q. Would your answer be the same if I went through
15 each one of these bullets and asked you whether it had
16 changed?

17 A. Yes. Unless you showed me an earlier document, I
18 wouldn't be able to tell you what changed.

19 Q. So as you sit here now, you don't have any memory
20 of that earlier document; is that the case?

21 A. No, I do not.

22 Q. You do recall that there was an earlier document,
23 though; correct?

24 A. There were many, many presentations to the board
25 on a regular basis about the evolution of the

1 restructuring plan as market conditions changed, as
2 negotiations proceeded, so yeah, it's hard to remember
3 any one document in particular.

4 Q. What I was really referring to is, when you say
5 that the basic steps remain the same, there had to have
6 been some document that preceded this one; right?

7 A. There -- yeah, there may have been, or it may
8 have been from some kind of verbal conversation or --
9 I -- again, I just -- I don't have a recollection. I
10 can't say.

11 Q. Okay. Let me go over to the second column.

12 It says "Simultaneous Recapitalization"?

13 A. Yes.

14 Q. And the first bullet there says "Series C
15 extinguished for nominal amount of other assets."

16 Do you see that?

17 A. I do.

18 Q. And what was the nominal amount that was
19 contemplated?

20 A. I don't recall at this point how much it was and
21 what "other assets" referred to. But I think -- and in
22 an earlier -- in another exhibit that we reviewed
23 earlier, there was a footnote that said maybe a billion
24 dollars, but I can't remember. I saw it earlier in my
25 testimony.

1 Q. I think you're referring to Plaintiffs' Trial
2 Exhibit 578, which I want you to look at, and look at
3 page 3 just to assure yourself that that's what you're
4 talking about.

5 A. Yeah, that's probably it.

6 Q. Okay.

7 A. Yeah.

8 Q. Now, in June of 2010, did you consider a billion
9 dollars to be a nominal amount?

10 A. When you're dealing in these kinds of large
11 numbers, that was just a term used. I don't consider it
12 a nominal amount certainly.

13 Q. And indeed, as you sit here now, do you have any
14 reason to believe that the nominal amount that you were
15 referring to here was a billion dollars?

16 A. As I said, I don't recall this document --
17 specifically what the changes in this document were and
18 from an earlier version and what the nominal amount was
19 in the prior document.

20 MR. BOIES: Okay. Your Honor, is this a
21 convenient time?

22 THE COURT: Is this a good spot?

23 MR. BOIES: Yes.

24 THE COURT: Okay.

25 MR. DINTZER: Your Honor -- and I know the Court

1 is reluctant to, but I'm going to make a shot at this --
2 if there's any chance -- I don't know if counsel could
3 make a proffer, but if there's any chance we could try to
4 finish the witness tonight before the five-day layover,
5 the -- the -- I know the witness would certainly
6 appreciate it, and we could start fresh on Wednesday when
7 we come back.

8 THE COURT: Well, we've hardly touched the
9 documents yet in the plaintiffs' binder. Granted, it's a
10 thinner binder than some we've dealt with, but there's
11 still a good 12 to 15 documents there, and there may be
12 redirect. I just -- I have to be somewhere tonight
13 and --

14 MR. DINTZER: We appreciate you considering it,
15 Your Honor.

16 THE COURT: Yeah. If it were just 10 or
17 15 minutes, we could maybe do it, but --

18 MR. BOIES: It is not, Your Honor.

19 THE COURT: That's what I thought.

20 MR. DINTZER: Thank you for considering it,
21 Your Honor.

22 THE COURT: So we'll reconvene next Wednesday
23 morning at 9:30.

24 (Whereupon, at 4:57 p.m., the proceedings were
25 adjourned.)

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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: NOVEMBER 7, 2014

/S/ Josett F. Whalen
JOSETT F. WHALEN, COURT REPORTER

1	ADMITTED EXHIBITS		
2	PX	PAGE	DESCRIPTION
3	578	6669	Email (4/2/2010)
4			From: Brian Schreiber
5			To: Robert Benmosche, Peter Hancock
6			And attached AIG Slide Deck "Discussion of
7			TARP Exit" (April 2010)
8	601	6690	Email (9/5/2010 10:41 am)
9			From: Brian Schreiber
10			To: Peter Hancock
11			re: RE: Efficient markets
12	1060	6478	AIG Credit Risk Management Memo (10/4/2007)
13			re: CRC Portfolio Review of AIG Securities
14			Lending
15			Approved by Kevin McGinn (10/23/2007)
16	1408	6482	AIG Slide Deck: Liquidity Review: Finance
17			Committee Presentation (July 16, 2008)
18			
19	DX	PAGE	DESCRIPTION
20	212	6552	EMAIL FROM DAVID JUNIUS TO ROBERT WILLEMSTAD,
21			STEVEN BENSINGER, BRIAN SCHREIBER ET AL RE:
22			PROJECT NORTH STAR, WITH ATTACHED PROJECT
23			NORTH STAR SUMMARY; WGL PROJECT NORTH STAR
24			SUMMARY
25			

1 338 6605 EMAIL FROM BRIAN SCHREIBER, TO JOHN
2 STUDZINSKI, RE: SOUNDS FASCINATING, STATING
3 THAT HE IS WITH GS MS AND JPM HELPING THEM
4 UNDERSTAND THE VALUE

5 383 6602 EMAIL FROM RICHARD PFEIFFER TO WILLIAM
6 DOOLEY, BRIAN SCHREIBER, STEVEN BENSINGER AND
7 EDMUND TSE, RE: CFG UPDATE DISCUSSING CFG ASIA
8 SITUATION THAT COULD ADVERSELY IMPACT AIG'S
9 CURRENT SITUATION, SEPTEMBER 16, 2008

10 711 6629 AIG FINANCE COMMITTEE MINUTES

11 723 6640 AIG FINANCE COMMITTEE MINUTES

12 1418 6540 EMAIL FROM LMATTHEW LAERMER TO WILLIAM DOOLEY
13 ET AL., RE: ACTION PLAN AND SUMMARY OF
14 PROPOSALS; ATTACHMENT: 2008_8_27 CAPITAL RAISE
15 AND FP SOLUTION ACTION PLAN.DOC

16 1452 6608 EMAIL FROM JOHN STUDZINSKI TO BRIAN SCHREIBER
17 ET AL., RE: FW: GOLDMAN

18 1503 6618 MINUTES OF MEETING OF THE FINANCE COMMITTEE OF
19 AMERICAN INTERNATIONAL GROUP, INC., HELD
20 OCTOBER 15, 2008

21 1558 6643 MINUTES OF MEETING OF THE FINANCE COMMITTEE OF
22 AMERICAN INTERNATIONAL GROUP, INC., HELD
23 FEBRUARY 10, 2009
24
25

1 1561 6633 EMAIL FROM ERIC LITZKY TO ERIC LITZKY RE: AIG
2 BOARD OF DIRECTORS MEETING - SUNDAY, MARCH 1ST
3 - 11:00 A.M. (NYC TIME); ATTACHMETNS: BOD
4 MARCH 1 AGENDA AND MATERIAL.PDF
5 1563 6645 MINUTES OF A MEETING OF DIRECTORS, AMERICAN
6 INTERNATIONAL GROUP, INC., HELD MARCH 1, 2009
7 1919 6528 EMAIL FROM ALAN PRYOR TO KAREN OPPENBERG RE:
8 PRIMARY DEALER FINAL TALKING POINTS WITH
9 ATTACHED NATIVE FILE
10
11
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