

Smith 116-H
3-18-10

Memorandum

PLAINTIFF'S
EXHIBIT
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To: M. R. Greenberg
CC: E. G. Greenberg, K. P. Moor, S. M. Rivera, H. I. Smith, K. L. Duckett
From: C. R. Schader
Date: January 31, 2000
Re: Auto Warranty - Update

Warrantech

1. **Litigation:** Over the last several weeks, Warrantech has been communicating to anyone and everyone — dealers, agents, contract holders, insurance regulators, AIG executives and employees --- that AIG has changed its long standing auto warranty claim practices to the detriment of Warrantech, its customers, dealers and vehicle owners, by applying previously unheard of coverage restrictions and providing an unacceptably low level of service.

Our initial litigation against Warrantech was narrow, limited to issues of document and record preservation and disclosure. In the face of this latest barrage of disinformation, we decided to amend our complaint to include actions for breach of contract and breach of fiduciary duty, seeking damages in excess of \$20M.

On Monday, January 24, we served Warrantech with notice of motion to amend our complaint to include these two causes of action.

2. **E&O Insurance Policy:** Last Friday, we discovered the existence of a National Union E&O policy issued to Warrantech Corporation, effective July 30, 1999 through July 30, 2000, with limits of \$15M. The policy was procured through Kaye Insurance Associates. It was a new placement, not a renewal.

This morning, I met with Messrs. Petrakis, Krugman, and Jacobi (Mitrovic's successor) to probe any impact the policy may have on how we proceed in our litigation against Warrantech.

The policy and application themselves raise many questions. For example, only Warrantech Corporation appears as an insured, not Warrantech Automotive, Inc. There is no disclosure in the application of auto warranty business, only brown & white and computer business. Nor does the application disclose AIG's claims against Warrantech which were included in our original "for cause" cancellation the prior May. The application is dated October 4, 1999, although the policy is effective July 30, 1999. The policy was initially cancelled for non-payment of premium. Subsequently the cancellation