

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

- - -

THE PEOPLE OF THE STATE OF	:
NEW YORK by ANDREW M. CUOMO,	:
ATTORNEY GENERAL OF THE STATE	:
OF NEW YORK,	:
PLAINTIFFS	:
v.	:
MAURICE R. GREENBERG and	:
HOWARD I. SMITH,	:
DEFENDANTS	: NO. 104720/05

- - -
JULY 9, 2008
CONFIDENTIAL
- - -

Videotape deposition of
ALICE SCHROEDER, taken pursuant to
notice, was held at the law offices of
Boies, Schiller & Flexner, 575 Lexington
Avenue, 7th Floor, New York, New York
10022, commencing at 9:30 a.m., on the
above date, before Amanda Dee
Maslynsky-Miller, a Certified Realtime
Reporter and Notary Public in and for the
Commonwealth of Pennsylvania.

- - -

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 5 Testimony of: ALICE SCHROEDER
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 7 By Mr. Dwyer 10, 375
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 11 E X H I B I T S
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 14 NO. DESCRIPTION PAGE
 15 Schroeder-1 5/7/07 Omaha World 8
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 16 Schroeder-2 6/1/01 A.M. Best 8
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 17 Schroeder-3 5/18/98 Report 8
 18 Schroeder-4 4/10/03 Report 8
 19 Schroeder-5 1/6/00 Report 8
 20 Schroeder-6 2/11/00 Paine Webber 8
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1 MS. SMITH: Alisha Smith,
2 New York State Office of the
3 Attorney General, on behalf of
4 plaintiff.

5 MR. FISHMAN: Paul Fishman
6 with Steven Frankel of Friedman
7 Kaplan Seiler & Adelman on behalf
8 of the witness.

9 - - -

10 ALICE SCHROEDER, after
11 having been duly sworn, was
12 examined and testified as follows:

13 - - -

14 EXAMINATION

15 - - -

16 BY MR. DWYER:

17 Q. Good morning, Ms. Schroeder.

18 A. Good morning.

19 Q. Would you please state your
20 full name for the record?

21 A. Alice D. Schroeder.

22 Q. And what's your current home
23 address?

24 A. 340 Stanwich Road,

1 A. Yes, I have.
2 Q. How many times?

3 A. Once.

4 Q. What was the context?

5 A. My divorce.

6 Q. And -- well, this will be a
7 little bit different than that, I
8 suppose.

9 A. I hope so.

10 Q. You're generally familiar
11 with the procedure?

12 A. Basically, yes.

13 Q. If you have any questions,
14 your counsel -- just ask your counsel,
15 Mr. Fishman. If you have any doubt about
16 whether you understand the question, let
17 us know or talk to him privately.

18 Any time you want to take a
19 break, let us know, and we'll go off the
20 record and you can do that.

21 A. Okay.

22 Q. After you received your
23 M.B.A. from Texas, did you -- did you
24 start as an auditor with Ernst and

1 Greenwich, Connecticut.

2 Q. And what's your current work
3 address?

4 A. The same.

5 Q. And you received a Bachelor
6 of Arts in business administration from
7 the University of Texas at Austin?

8 A. I did.

9 Q. When did you receive that?

10 A. 1978.

11 Q. And did you have a
12 particular area of expertise?

13 A. Finance.

14 Q. And you received an M.B.A.
15 from the University of Texas at Austin as
16 well?

17 A. Yes, I did.

18 Q. When did you receive that?

19 A. 1980.

20 Q. And what was your area of
21 specialization there?

22 A. Finance.

23 Q. Have you ever had your
24 deposition taken before?

1 Whinney in Houston?

2 A. I did.

3 Q. And were you there from 1980
4 to 1991?

5 A. No, I was not.

6 Q. How long were you there?

7 A. Until 1986.

8 Q. And what were your -- what
9 were your responsibilities there?

10 A. I audited a variety of
11 clients, different industries. I was
12 a -- a manager when I finished my tour in
13 the Houston office.

14 Q. Any of the -- that work
15 involve the insurance business?

16 A. It did. American General
17 Corporation.

18 Q. And is that --

19 A. I'm sorry, I misunderstood
20 you a couple of questions back. The
21 dates through 1991, could you restate
22 that question?

23 Q. My question was, did you
24 work at Ernst and Whinney from 1980 to

Page 14

1 1991?

2 **A. Okay. I'm sorry, I thought**

3 **you said Houston. So, yes, I did.**

4 Q. I take it, then, that you

5 were in Houston for the first six years?

6 **A. Yes.**

7 Q. And after that you moved to

8 a different office?

9 **A. Yes.**

10 Q. Which office did you move

11 to?

12 **A. The Cleveland office in**

13 **national headquarters.**

14 Q. And was -- did that work

15 involve auditing insurance companies?

16 **A. No, it did not.**

17 Q. When you were in Houston,

18 American General Property and Casualty

19 Insured?

20 **A. It was a life insurer for**

21 **most of that time, and then they acquired**

22 **a property casualty insurer, the Maryland**

23 **Casualty Company, during the time that I**

24 **worked there.**

Page 15

1 Q. Was most of your work

2 focused on the life insurance aspect of

3 American General rather than P&C?

4 **A. Neither. I worked at the**

5 **headquarters level, and I did the SEC**

6 **consolidation work, filings, merger work.**

7 **It was corporate-level work.**

8 Q. Did you -- do you have a --

9 were you a CPA?

10 **A. Yes, I was.**

11 Q. And when did you get your

12 CPA?

13 **A. I would say around 1982 or**

14 **1983, but I'm not 100 percent certain of**

15 **the date of the certificate.**

16 Q. And you got that in Texas?

17 **A. Yes, I did.**

18 Q. And did you -- have you ever

19 been a CPA in other states?

20 **A. No.**

21 Q. Are you still -- have you

22 maintained your active status as a CPA?

23 **A. No.**

24 Q. When were you last active as

Page 16

1 a CPA?

2 **A. Practicing or had my**

3 **certificate?**

4 Q. Well, let's start with

5 practicing.

6 **A. Practicing, 1991.**

7 Q. And -- and when did your

8 certificate expire?

9 **A. Probably around 1997 or 8.**

10 Q. When you were in Cleveland,

11 were you still a manager for Ernst and --

12 and Whinney?

13 **A. I was a senior manager.**

14 Q. And did you leave Ernst and

15 Whinney to become a project manager for

16 the Financial Accounting Standards Board?

17 **A. Yes, I did.**

18 Q. And what period of time were

19 you there?

20 **A. From September 1991 through**

21 **September 1993.**

22 Q. What was your title?

23 **A. Project manager.**

24 Q. What caused you to leave

Page 17

1 Ernst and Whinney and go to the FASB?

2 **A. My former boss, Dean**

3 **Bershner, who I had worked for at Ernst &**

4 **Young, recruited me.**

5 Q. What were your

6 responsibilities at the FASB?

7 **A. I was responsible for**

8 **technical work and administration of**

9 **projects that the board was considering**

10 **to make new accounting rules, assisting**

11 **the board.**

12 Q. Were any of those accounting

13 rules ones that are -- well, what were

14 the principal accounting rules that

15 you -- you worked on?

16 **A. Reinsurance related.**

17 Q. And was this your first

18 exposure to reinsurance?

19 **A. Essentially, yes.**

20 Q. And were there specific

21 reinsurance rules that you worked on

22 while you were at FASB?

23 **A. Yes. I worked on FAS 113**

24 **and EITS 93-6 and 14.**

Page 18

1 Q. 93-6 -- 93-6?
 2 A. Yes.
 3 Q. And you said 14?
 4 A. 14, I believe, is the
 5 number.
 6 Q. Just 14? 93 --
 7 A. 93-14.
 8 Q. -- 14.
 9 And what is -- what is
 10 93-14?
 11 A. That is the application of
 12 93-6 to primary insurance. It's
 13 essentially a clone of 93-6.
 14 Q. And who did you work with
 15 in -- in connection with the work you did
 16 at FASB?
 17 Was it all -- was it all
 18 people at FASB or were there people from
 19 the industry?
 20 A. People from the industry are
 21 the constituents of the FASB, so they
 22 comment and provide input and they
 23 criticize the work done by the FASB.
 24 There are constituents -- who are

Page 19

1 constituents --
 2 Q. Did you work --
 3 A. Yes.
 4 Q. -- with anyone from AIG
 5 during that period of time?
 6 A. I believe AIG had -- did
 7 have someone who provided input. I'm
 8 trying to remember if it was Joe
 9 Damanski. I'm not certain. It might
 10 have been Joe Damanski.
 11 Q. Did you work with anyone
 12 from Gen Re at the time?
 13 A. Yes.
 14 Q. Who did you work with from
 15 Gen Re?
 16 A. Joe Brandon and Betsy
 17 Monradden --
 18 Q. Okay. What were --
 19 A. And Chris Grand, I think.
 20 Q. And their positions at the
 21 time were what?
 22 A. I think Joe was CFO and
 23 Betsy was controller at the time.
 24 Q. And they later -- Joe later

Page 20

1 became CEO and Betsy later became CFO?
 2 A. Yes.
 3 Q. And what was it, Grand is an
 4 in-house lawyer?
 5 A. Chris Grand?
 6 Q. Yes.
 7 A. No, he had a definite
 8 department at General Re.
 9 Q. And that was -- that was
 10 what he did at the time?
 11 A. Right.
 12 Q. Was that your first exposure
 13 to reinsurance accounting?
 14 A. Yes.
 15 Q. And after -- after two years
 16 at AF -- FASB, did you go work for
 17 Paulsen Dowling?
 18 A. Yes, I did.
 19 Q. And would you characterize
 20 them as a boutique investment firm?
 21 A. Yes, I would.
 22 Q. And what -- what did you do
 23 there?
 24 A. I assisted in analyzing

Page 21

1 stocks to help investors decide whether
 2 to buy them or sell them.
 3 Q. Did any of those involve the
 4 insurance business?
 5 A. They were all insurance
 6 stocks.
 7 Q. Were they all one type of
 8 insurance stock or were they different
 9 types of insurance stocks?
 10 A. They were all property
 11 casualty insurance stocks.
 12 Q. And what were you -- what
 13 was your position there, title?
 14 A. I don't recall that we had
 15 job titles. It was a partnership. I was
 16 not a partner.
 17 Q. Were you --
 18 A. I was an analyst.
 19 Q. Have you ever become a
 20 certified financial analyst?
 21 A. No, I have not.
 22 Q. Is it -- is it common in
 23 your business for -- for analysts to be
 24 a -- CFAs or -- or not?

Page 22

1 **A. The majority are not, but it**
 2 **is common.**
 3 **Q. So it's more your -- your**
 4 **experience as an analyst is from**
 5 **on-the-job training?**
 6 **A. Yes.**
 7 **Q. Did you stay at Paulsen**
 8 **Dowling from 1993 to 1994?**
 9 **A. Yes, I did.**
 10 **Q. And then did you become an**
 11 **analyst at Oppenheimer & Company?**
 12 **A. I did.**
 13 **Q. And did you do that from '94**
 14 **to '98?**
 15 **A. Yes.**
 16 **Q. And you started out there as**
 17 **an analyst.**
 18 **Did you have a title besides**
 19 **analyst?**
 20 **A. I don't remember their title**
 21 **structure, but I probably did.**
 22 **Q. And were you, again, focused**
 23 **on property and casualty insurance or did**
 24 **you focus on other types of companies?**

Page 23

1 **A. No, just property casualty**
 2 **insurance.**
 3 **Q. So when you were at -- when**
 4 **you were at Paulsen Dowling, what were**
 5 **the principal P&C companies that you**
 6 **analyzed?**
 7 **A. Paulsen Dowling did not**
 8 **assign analysts to companies in quite as**
 9 **formal manner as other firms. So on a**
 10 **given quarter, you might write up a**
 11 **company and then on a given quarter you**
 12 **might write up different companies.**
 13 **Because I was new, I didn't**
 14 **follow -- I'm making little quote marks**
 15 **here, but I didn't follow stocks as a new**
 16 **analyst the way I later did when I was**
 17 **responsible for following stocks.**
 18 **So I touched a variety of**
 19 **companies, and I can't really recall**
 20 **them.**
 21 **Does that help you?**
 22 **Q. Sure.**
 23 **A. Okay.**
 24 **Q. Was AIG one of the companies**

Page 24

1 **you touched?**
 2 **A. Yes, I think so.**
 3 **Q. Was Gen Re one of the**
 4 **companies you touched?**
 5 **A. I'm not sure.**
 6 **Q. And then at Oppenheimer,**
 7 **what -- what companies did you cover?**
 8 **I take it Oppenheimer was a**
 9 **more traditional --**
 10 **A. Yes.**
 11 **Q. -- following specific**
 12 **companies?**
 13 **A. Yes.**
 14 **At what time period are you**
 15 **asking me?**
 16 **Q. Well, you were there from**
 17 **1984 to 1988; is that correct?**
 18 **A. Yes.**
 19 **Q. During that -- that**
 20 **four-year period.**
 21 **Did it -- did it vary during**
 22 **that period?**
 23 **A. Yes.**
 24 **Q. So why don't you take me**

Page 25

1 **from when you started.**
 2 **Did you -- did you follow**
 3 **AIG during that period?**
 4 **A. Eventually.**
 5 **Q. But not at the beginning?**
 6 **A. No.**
 7 **Q. Somebody else did that for**
 8 **Oppenheimer?**
 9 **A. I think so.**
 10 **Q. Did you follow Gen Re during**
 11 **that period?**
 12 **A. Yes.**
 13 **Q. For the whole time?**
 14 **A. I'm not sure.**
 15 **Q. And at some point -- you**
 16 **started out with your title being just**
 17 **analyst; is that correct?**
 18 **A. I'm not sure.**
 19 **Q. You eventually became a**
 20 **managing director?**
 21 **A. Yes, I did.**
 22 **Q. Is that a big deal in the**
 23 **investment banking world?**
 24 **A. Yes, it is.**

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1 Q. And so you were -- you were
 2 being promoted while you were doing your
 3 work?
 4 A. **Yes.**
 5 Q. And then in 1998 you left
 6 Oppenheimer to go to Paine Webber?
 7 A. **I did.**
 8 Q. What caused you to leave
 9 Oppenheimer to go to Paine Webber?
 10 A. **It was a good opportunity.**
 11 Q. More money?
 12 A. **I can't remember whether**
 13 **Oppenheimer matched what they offered me**
 14 **or not, so I'm not sure.**
 15 Q. Why was it a good
 16 opportunity?
 17 A. **Paine Webber was a larger**
 18 **firm with more clients, a better -- a**
 19 **bigger platform.**
 20 Q. Did you start out there as a
 21 managing director?
 22 A. **Yes, I did.**
 23 Q. And did you have a team of
 24 analysts who worked for you there?

Page 27

1 A. **I had -- essentially, yes.**
 2 **"Team" might make it sound a little more**
 3 **than it was, but yes.**
 4 Q. Did you -- did you focus on
 5 the property casualty insurance industry?
 6 A. **Yes.**
 7 Q. Did you follow AIG during
 8 that period?
 9 A. **Yes.**
 10 Q. Did you follow Gen Re during
 11 that period?
 12 A. **Yes.**
 13 Q. And then in June 2000, did
 14 you join Morgan Stanley?
 15 A. **Yes.**
 16 Q. And you were an equity
 17 analyst for the property casualty
 18 insurance industry?
 19 A. **Yes.**
 20 Q. Did you have people who
 21 worked for you there?
 22 A. **I did.**
 23 Q. At both Paine Webber and
 24 Morgan, were you the head of the analysts

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1 for the property and casualty insurance
 2 industry?
 3 A. **I was.**
 4 Q. And you were -- did you join
 5 Morgan Stanley as a managing director?
 6 A. **No, I did not.**
 7 Q. What title did you join as?
 8 A. **Executive director, I**
 9 **believe, was their title.**
 10 Q. Did you -- at some point did
 11 you become a managing director?
 12 A. **I did.**
 13 Q. When was that?
 14 A. **2001.**
 15 Q. And during the time you were
 16 at Morgan Stanley you covered AIG?
 17 A. **I did.**
 18 Q. And you covered Gen Re?
 19 A. **I did.**
 20 Q. Did you cover Berkshire
 21 Hathaway at that point?
 22 A. **I did.**
 23 Q. Had Berkshire -- when had
 24 Berkshire Hathaway acquired Gen Re?

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1 A. **December 1998.**
 2 Q. So -- so when you were at
 3 Paine Webber in -- in the last period
 4 from December 1998 to June of 2000, did
 5 you cover Berkshire Hathaway at that
 6 point?
 7 A. **I covered it from early 1999**
 8 **through 2000.**
 9 Q. And --
 10 A. **Yes.**
 11 Q. -- obviously, Berkshire
 12 Hathaway is a diversified company.
 13 Were -- you were just
 14 covering the property casualty part of
 15 it?
 16 A. **No.**
 17 Q. You were covering the whole
 18 company?
 19 A. **Yes.**
 20 Q. And same with AIG, were you
 21 covering the whole company or just the
 22 property casualty?
 23 A. **The whole company.**
 24 Q. And that's when you were at

Page 30

1 Morgan Stanley, covering the whole
 2 company for -- when -- when I said are
 3 you covering AIG during these various
 4 periods of time, were you covering the
 5 whole company or just property and
 6 casualty? Not just --
 7 **A. The whole company. Well --**
 8 Q. -- at Morgan.
 9 **A. -- yeah, the whole company.**
 10 Q. And in -- in May of 2003,
 11 did you take a leave of absence from
 12 Morgan Stanley?
 13 **A. Yes.**
 14 Q. Are you still on leave of
 15 absence from Morgan Stanley?
 16 **A. Yes. I mean, I'm an**
 17 **employee, but yes.**
 18 Q. Do you have -- have you had
 19 any responsibilities from Morgan Stanley
 20 since May -- since May of 2003?
 21 **A. Yes.**
 22 Q. And what -- what have those
 23 responsibilities been?
 24 **A. Occasionally they call me**

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1 **when they need help with a client matter**
 2 **or they want some advice.**
 3 **I'm an advisory director,**
 4 **which is how -- what advisory directors**
 5 **do. It's sort of like being retired.**
 6 Q. So over the -- that's the
 7 last five years, basically.
 8 Have you -- how -- can you
 9 estimate how many hours a year you
 10 typically worked, actually worked, did
 11 work for Morgan Stanley as an advisory
 12 director in the last five years?
 13 **A. No.**
 14 Q. If you added it all up,
 15 would it be as much as a week a year?
 16 **A. It could be, but I'm not**
 17 **certain.**
 18 Q. Is -- you -- would you
 19 characterize it as the number of times
 20 they've asked you for advice has been
 21 sparse and inter -- intermittent?
 22 **A. No.**
 23 Q. Intermittent?
 24 **A. Yes.**

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1 Q. How -- how often in a
 2 typical year do you get a call asking for
 3 advice?
 4 **A. It -- it varies greatly.**
 5 **Greatly.**
 6 Q. Is the advice all in the
 7 area of property and casualty insurance?
 8 **A. No.**
 9 Q. How much of the advice that
 10 you've been asked for from Morgan Stanley
 11 has been in the property and casualty
 12 insurance realm in the last five years?
 13 **A. Probably most of it.**
 14 Q. And am I correct in
 15 understanding that what you've been doing
 16 in the last five years is researching and
 17 writing a book on Warren Buffett?
 18 **A. That's right.**
 19 Q. And did anything else occupy
 20 your time in that period?
 21 MR. FISHMAN: Not counting
 22 the number of times she's talked
 23 to people about this.
 24 THE WITNESS: Yes.

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1 BY MR. DWYER:
 2 Q. And what are -- what are the
 3 other -- what are the other things you've
 4 been doing?
 5 MS. SMITH: Objection.
 6 MR. DWYER: Okay.
 7 MS. SMITH: Are you just --
 8 are you just asking her business?
 9 You're not asking her socially
 10 what she's been doing?
 11 MR. DWYER: No, I'm
 12 asking -- let's start with --
 13 MS. SMITH: Like, if she has
 14 hobbies.
 15 THE WITNESS: Oh, business.
 16 No, nothing else.
 17 BY MR. DWYER:
 18 Q. All right. No, I don't --
 19 I'm not -- I'm not interested in your
 20 hobbies.
 21 And is the book you're
 22 writing called -- the title of the book
 23 called "The Snowball"?
 24 **A. Yes, it is.**

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1 Q. And why is it called "The
2 Snowball"?

3 A. **You'll have to read the
4 book.**

5 Q. When is the book coming out?

6 A. **September 29th.**

7 Q. Is this an authorized
8 biography of Warren Buffett?

9 A. **No, it's not.**

10 Q. Have you had access to Mr.
11 Buffett in -- in writing the book?

12 A. **Yes, I have. He's
13 cooperating. That's the correct term.**

14 Q. And I've -- I've read in the
15 Omaha World Herald that you're -- you're
16 writing this book in lieu of Mr. Buffett
17 writing an autobiography.
18 Would you agree with that?

19 A. **Yes.**

20 Q. And you've had -- you've had
21 full cooperation from Mr. Buffett?

22 A. **Yes.**

23 Q. And complete access to his
24 files?

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1 A. **No.**

2 Q. Have you had -- are there --
3 have you had a lot of access to his
4 files?

5 A. **Very extensive.**

6 Q. Are there areas that you
7 haven't been able to access?

8 A. **To -- to review all of Mr.
9 Buffett's files, I would be 90 years old
10 by the time I finished. Mr. Buffett has
11 a lot of files. So I've reviewed the
12 files that I needed to review to write
13 this book.**

14 Q. Were there -- were there
15 specific areas of Mr. Buffett's files
16 that were off-limits to you?

17 A. **Yes.**

18 Q. What were -- what were
19 those?

20 A. **The files for the
21 acquisition of Mid American Energy, yes.**

22 Q. Any others?

23 A. **No -- well, at that point he
24 was tired of me doing research and said I**

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1 **had to stop.**

2 Q. Have you had access to files
3 involving the Gen Re transaction that
4 took place with AIG in the fourth quarter
5 of 2000 and first quarter of 2001?

6 A. **No.**

7 Q. So those were off-limits as
8 well?

9 A. **I do not believe that those
10 files existed while I was doing file
11 research. No, they were not off limits.**

12 Q. Well, did they --

13 A. **Actually, I don't know
14 whether those files existed. They were
15 certainly not off-limits.**

16 Q. Do you believe that they
17 exist now?

18 A. **I would hope so.**

19 Q. Okay. Isn't -- isn't that
20 something you'd want to have access to in
21 writing a book about Mr. Buffett?

22 MS. SMITH: Objection.

23 You can answer the question.

24 MR. FISHMAN: You can

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1 answer.

2 THE WITNESS: No.

3 BY MR. DWYER:

4 Q. Did you receive an advance
5 to write the book?

6 A. **Yes, I did.**

7 Q. Who is your publisher?

8 A. **Bantam/Dell.**

9 Q. And how much of an advance
10 did you receive?

11 MS. SMITH: Objection.

12 MR. FISHMAN: I'm going to
13 object, because it's subject to a
14 confidentiality agreement between
15 her and her publisher.

16 MS. SMITH: And I'll object.
17 I don't think it's relevant to the
18 facts at issue in this litigation.

19 BY MR. DWYER:

20 Q. Well, the -- the Omaha World
21 Herald reported that you reportedly
22 received a \$7 million advance for the
23 North American rights.
24 Is that accurate reporting?

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<p>1 A. I did not comment on that 2 because I'm subject to a confidentiality 3 agreement regarding my advance. So that 4 was an unconfirmed report. 5 Q. Have you -- did you receive 6 a substantial advance in -- back in 2003? 7 MS. SMITH: Objection. 8 MR. FISHMAN: Objection. I 9 don't know -- I don't know what 10 you mean by "substantial." 11 MR. DWYER: Well, I'm trying 12 to get around the fact that -- I 13 mean, I could trust the witness on 14 the \$7 million, because, 15 obviously, her agreement with 16 Banham doesn't control my 17 questioning. 18 MR. FISHMAN: But it does -- 19 but it does control her 20 contractually. 21 MR. DWYER: Right. But I'm 22 trying -- I'm trying -- I'm trying 23 to deal with it in a way -- have 24 you -- have you --</p>	<p>1 for the last five years off her -- 2 off her earnings for the last five 3 or ten years before that would not 4 be surprising. 5 MS. SMITH: And my 6 objection -- 7 MR. DWYER: No, I'm -- I'm 8 not asking that question. I'm 9 just asking -- that's -- that -- 10 the question before that, I'm just 11 asking if it was -- if the advance 12 she received was a substantial 13 advance. 14 MR. FISHMAN: Same 15 objection. I don't know what -- I 16 don't know what you would consider 17 substantial or she would consider 18 substantial. 19 MR. DWYER: Do you -- I'd 20 ask her to answer my question. 21 MS. SMITH: And I'm just 22 going to continue my objection, 23 saying I don't believe it's 24 relevant to the facts at issue in</p>
Page 39	Page 41
<p>1 BY MR. DWYER: 2 Q. Let me -- let me try it this 3 way: Have you -- have you lived off the 4 proceeds of the advance for the last five 5 years? 6 A. No. 7 Q. You just -- you just -- you 8 just put -- put it away in a bank? 9 A. Yes. 10 Q. And would you -- would you 11 characterize the advance you received as 12 a substantial advance? 13 MR. FISHMAN: Same 14 objection. 15 MS. SMITH: Objection. 16 MR. FISHMAN: I mean, I'm 17 not -- it's not my position so 18 much to decide whether it's 19 relevant to your litigation or 20 not. 21 But she was -- I mean, she 22 was an equities analyst for a 23 major investment bank before this. 24 The fact that she was able to live</p>	<p>1 this case. 2 THE WITNESS: Do I have to 3 answer it? 4 MR. FISHMAN: You can -- if 5 you understand the question, you 6 can answer it. And if you don't 7 think it violates your 8 confidentiality agreement to 9 answer it, you can answer it. 10 THE WITNESS: My 11 confidentiality agreement 12 prohibits me from talking about 13 the size of my advance. 14 BY MR. DWYER: 15 Q. So just so the record is 16 clear, you're -- you're refusing to 17 answer the question, either whether it's 18 \$7 million, whether the Omaha press 19 report is right, or whether it's 20 substantial because of your 21 confidentiality agreement? 22 A. Yes. 23 Q. <u>Now, when you -- when you</u> 24 <u>were an analyst, did you follow the</u></p>

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1 rankings from Institutional Investor?
 2 **A. Follow them?**
 3 Q. Yes.
 4 **A. You mean was aware of them?**
 5 Q. Yes.
 6 **A. Yes.**
 7 Q. And in the years from 1997
 8 to 2002, did Institutional Investor rank
 9 you as either number one or number two in
 10 the non-life insurance area?
 11 **A. I don't remember the first**
 12 **year that I was ranked, but I believe at**
 13 **least in those years, yes.**
 14 Q. And you were ranked either
 15 first or second --
 16 **A. Yes.**
 17 Q. -- in that area?
 18 **A. Yes.**
 19 Q. And you thought -- you
 20 thought that being one of the top three
 21 ranked analysts was really important,
 22 didn't you?
 23 MS. SMITH: Objection.
 24 BY MR. DWYER:

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1 Q. You can answer.
 2 **A. It was important.**
 3 Q. And was it important
 4 because -- in your view because when
 5 you're meeting new clients they pay
 6 attention to it?
 7 MS. SMITH: Objection.
 8 MR. FISHMAN: You can answer
 9 it.
 10 THE WITNESS: It was
 11 important because it determined
 12 how much you were paid and which
 13 firms you could work for.
 14 BY MR. DWYER:
 15 Q. And you -- you -- didn't you
 16 tell Best in 2001 that, quote, The main
 17 value of being ranked is that it's the
 18 best form of job security, closed quote?
 19 **A. Probably. I don't have it**
 20 **in front of me, but it's certainly true.**
 21 Q. Well, if you turn to Page
 22 2 -- Tab 2, and if you look at Page 4
 23 of -- this is the -- this is the Best
 24 article from June 1, 2001. If you look

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1 at Page 4, about in the middle of the
 2 page --
 3 MS. SMITH: Counsel, while
 4 she's looking, for the record, has
 5 this already been marked as an
 6 exhibit?
 7 MR. DWYER: Well, what we
 8 did was we pre-marked all --
 9 everything in the book is
 10 pre-marked.
 11 MS. SMITH: I just mean for
 12 the record, if we can just have
 13 the number that is on there.
 14 MR. DWYER: Well, this is --
 15 MS. SMITH: I mean, if you
 16 need the witness to say it,
 17 then --
 18 MR. DWYER: This is the --
 19 this is the June 2001 -- this is
 20 June 2001 Best review article
 21 called "Power Play." And it --
 22 we -- we produced this to you
 23 yesterday.
 24 MS. SMITH: Yes. No, I

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1 understand. I just meant on the
 2 record, just so we had an idea
 3 of -- assuming this is going to be
 4 Exhibit-1.
 5 MR. DWYER: This is
 6 Exhibit-2.
 7 THE WITNESS: So, yes, I did
 8 say that.
 9 BY MR. DWYER:
 10 Q. You can put that aside.
 11 Are you familiar with a
 12 publication called "The Review"?
 13 **A. Yes.**
 14 Q. And they give worldwide
 15 reinsurance awards; is that correct?
 16 **A. I think so, yes.**
 17 Q. And in 2003, did you receive
 18 their award as the analyst researcher of
 19 the year?
 20 **A. Yes.**
 21 Q. And does the Wall Street
 22 Journal have -- annually publish an
 23 all-star analyst team?
 24 **A. They publish a stock picking**

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1 **award team, yes.**
 2 Q. And were you twice
 3 recognized by the Wall Street Journal as
 4 a member of the all-star analyst team?
 5 A. **I don't remember.**
 6 Q. Were -- were you ever
 7 picked?
 8 A. **I think so.**
 9 Q. That wasn't -- that wasn't a
 10 significant event?
 11 A. **No.**
 12 Q. Are you a sell-side analyst?
 13 A. **No. Was I?**
 14 Q. Were you? I'm sorry.
 15 A. **Yes.**
 16 Q. So you don't regard yourself
 17 as an analyst anymore; is that correct?
 18 A. **No.**
 19 Q. And you haven't been an
 20 analyst since June of 2003?
 21 A. **That's right.**
 22 Q. When you were -- when you
 23 were an analyst, and let's focus on the
 24 period at -- at Paine Webber and Morgan

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1 Stanley, were you a sell-side analyst?
 2 A. **Yes.**
 3 Q. What is a sell-side analyst?
 4 A. **A sell-side analyst works**
 5 **for a brokerage firm and makes**
 6 **recommendations to investors, including**
 7 **professional investors who manage money,**
 8 **about whether to buy stocks, sell stocks**
 9 **and also estimates earnings and provides**
 10 **financial models of valuation for**
 11 **investors.**
 12 Q. And is that -- how does that
 13 differ from a buy-side analyst?
 14 A. **A buy-side analyst is**
 15 **someone who actually manages money,**
 16 **generally doesn't publish research but,**
 17 **rather, makes investment decisions on**
 18 **behalf of their clients and actually buys**
 19 **and sells stocks. They're the consumer**
 20 **of the research that the sell side does.**
 21 Q. And you were -- when you
 22 were at Oppenheimer, you were also a
 23 sell-side analyst?
 24 A. **Yes.**

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1 Q. Now, do you -- how much of
 2 -- I mean, are you -- since it's been
 3 five years since you've been an analyst,
 4 more than five years, I guess, because
 5 we're now in July, how much of what you
 6 did as an analyst do you recall?
 7 A. **How much of my work on**
 8 **specific stocks or exactly --**
 9 Q. Your general -- let's start
 10 with your general analytic approach, do
 11 you remember your general analytic
 12 approach to analyzing property and
 13 casualty insurance companies?
 14 A. **Sure.**
 15 Q. And was it your view when
 16 you were an analyst that the two most
 17 important metrics for evaluating
 18 insurance companies are, quote, by-line
 19 premium growth and market share data,
 20 closed quote?
 21 MS. SMITH: Objection.
 22 THE WITNESS: I'm sorry, I
 23 don't -- I need to see what you're
 24 referring to.

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1 BY MR. DWYER:
 2 Q. Okay. Why don't you look at
 3 Exhibit-3 in the book, which is a May
 4 18th, 1998 report you wrote on insurance
 5 while you were at Oppenheimer.
 6 MR. DWYER: Once again, this
 7 is a document we produced
 8 yesterday.
 9 THE WITNESS: What page?
 10 BY MR. DWYER:
 11 Q. The first page. It's
 12 actually the first sentence on the first
 13 page which says, quote -- look at the
 14 first sentence which says, quote, The
 15 single most important set of industry
 16 statistics for insurance trend watchers
 17 became available last Friday and we are
 18 publishing it today: By-line premium
 19 growth and market share data growth.
 20 A. **That's what I thought.**
 21 **It refers to trend watchers,**
 22 **so that's not necessarily the most**
 23 **important set of statistics for an**
 24 **analyst. But, rather, when you're**

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1 **looking at trends, growth trends are**
 2 **probably the most important set of**
 3 **trends.**
 4 Q. Well, how -- how do you
 5 distinguish between what a trend watcher
 6 does and what an analyst does?
 7 A. Well, they're not -- a trend
 8 watcher is -- okay. I'll try to make
 9 this simple.
 10 Analysts watch trends and
 11 investors watch trends, but they also
 12 watch other data points. So a trend is
 13 data points over a period of time that
 14 are moving sequentially. Whereas --
 15 and -- and have a percentage change from
 16 period to period.
 17 Whereas data points are
 18 numbers that may fluctuate but don't have
 19 a growth rate in the same sense of
 20 periodicity from year to year. So, for
 21 example, a combined ratio may go up and
 22 down and you compare it from period to
 23 period, but it is not something that
 24 moves linearly over time in the same way

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1 **that premium growth does. It doesn't**
 2 **accumulate.**
 3 **Does that word help you?**
 4 Q. Because it's a percentage
 5 instead of a number? Is that -- is that
 6 a distinction you would draw?
 7 A. **No. It's because it doesn't**
 8 **accumulate.**
 9 Q. So as an analyst, you -- you
 10 both watch trends and watch data points;
 11 is that correct?
 12 A. **Exactly.**
 13 Q. And with -- with regard to
 14 the trend watching part of your business,
 15 would you agree that the -- withdrawn.
 16 With regard to the trend
 17 watching part of what you did as an
 18 analyst, would you agree that the -- the
 19 two most important industry statistics
 20 are byline premium growth and market
 21 share data?
 22 MS. SMITH: Objection.
 23 THE WITNESS: I would give a
 24 qualified yes.

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1 **BY MR. DWYER:**
 2 **Q. Why would you qualify that?**
 3 **What's the -- what's the qualification**
 4 **you would make?**
 5 **A. That I wrote this in 1998 at**
 6 **the beginning of a severe downturn in the**
 7 **cycle. And that I would -- if I were to**
 8 **write this today, I would not place so**
 9 **much emphasis on it. Because at the time**
 10 **that I wrote this, I had not seen a**
 11 **degree of cheating and lying about**
 12 **reserves that went on in a down cycle.**
 13 **Q. Well, first of all, when you**
 14 **say when you write it today, you actually**
 15 **wouldn't write it today because you don't**
 16 **do this anymore, correct?**
 17 **A. Well, if I were to have**
 18 **written it two years later, for**
 19 **example -- because analysts learn and get**
 20 **smarter over time. And this was written**
 21 **in 1998.**
 22 **Q. "Two years later" meaning in**
 23 **19 -- in 2000?**
 24 **A. Or '99 or 2001. 1999 was**

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1 **the year that the industry changed**
 2 **significantly.**
 3 **Q. And what was -- what's the**
 4 **change in 1999 that you're pointing to?**
 5 **A. The cycle turned sharply**
 6 **downward.**
 7 **Q. You -- you said severe**
 8 **downturn in cycle.**
 9 **What -- what do you mean by**
 10 **that?**
 11 **A. A price war.**
 12 **Q. So that the -- the business**
 13 **that insurance companies were seeking, by**
 14 **definition, had to become less profitable**
 15 **because they were offering lower prices?**
 16 **MS. SMITH: Objection.**
 17 **THE WITNESS: It didn't have**
 18 **to, but they did do that.**
 19 **BY MR. DWYER:**
 20 **Q. As a result of what they**
 21 **did --**
 22 **A. Yes.**
 23 **Q. -- it became less**
 24 **profitable?**

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1 A. Yes.
 2 Q. And what they did is the
 3 price war?
 4 A. Yes.
 5 Q. And you observed this in
 6 1999?
 7 A. Yes.
 8 Q. What -- what are the
 9 companies that you observed doing this in
 10 1999?
 11 A. I -- I can't answer that,
 12 I'm sorry.
 13 Q. Did you observe AIG doing
 14 what -- what you're describing in 1999?
 15 A. Well, AIG held itself out to
 16 be the standard setter in not -- not
 17 cutting prices. And typically what we
 18 would hear in the marketplace is that
 19 they were doing a little better than the
 20 rest.
 21 Q. And did you have any reason
 22 to doubt that at the time?
 23 A. No.
 24 Q. Now, you -- you used some

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1 pejorative language when you described
 2 this cycle. I can't remember exactly
 3 what it is, but it was cheating or
 4 something like that.
 5 A. Yeah.
 6 Q. Are you talking about in
 7 1999 the companies -- what are you
 8 talking about in 1999?
 9 A. Well, one of my former
 10 competitors refers to this phase of the
 11 cycle as the cheating phase, so I'm
 12 borrowing a term from him. His name is
 13 Vijay Dolling.
 14 And it's the period when
 15 companies are optimistic about their
 16 results, for whatever reason.
 17 Q. And how does that optimism
 18 reflect itself?
 19 A. They report better numbers
 20 than they're actually earning.
 21 Q. And how did -- how did they
 22 do that?
 23 A. They report reserves that
 24 are lower than they need to be reserving.

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1 Q. And what companies do you
 2 have in mind and -- and over what period
 3 of time were doing that?
 4 A. By 2000 a majority of the
 5 companies that I know of, although it's
 6 hard for me to name them, had made
 7 catch-up adjustments to reflect
 8 inaccurate reserves that would suggest
 9 that they had done this or -- although
 10 you can't see into management's mind and
 11 know intent.
 12 Q. What, so you're saying that
 13 by 2000 companies in -- in the property
 14 and casualty insurance business had --
 15 you say most companies in the property
 16 and casualty business had made catch-up
 17 reserves.
 18 Now, do you mean by that
 19 that they increased their reserves in --
 20 in 2000?
 21 A. They had begun to do that,
 22 yes.
 23 Q. Because they had -- they
 24 had -- in your view, they under reserved

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1 in 1999?
 2 MS. SMITH: Objection.
 3 THE WITNESS: They stated
 4 that they had under reserved.
 5 BY MR. DWYER:
 6 Q. What companies do you have
 7 in mind?
 8 A. I'm sorry, I can't give you
 9 a list.
 10 Q. Was AIG one of the companies
 11 you had in mind?
 12 A. No.
 13 Q. And so AIG wasn't one of the
 14 companies you had in mind in terms of
 15 cheating in 1999?
 16 A. No.
 17 MS. SMITH: Objection.
 18 BY MR. DWYER:
 19 Q. What did you mean by --
 20 what -- what does the phrase "byline
 21 premium growth" mean?
 22 A. By line of business.
 23 Q. And can you give examples --
 24 some examples of lines of business?

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1 **A. Commercial liability,**
 2 **medical malpractice, workers'**
 3 **compensation.**
 4 Q. And what does the phrase
 5 "market share data" mean?
 6 **A. It means the percentage of**
 7 **the total premiums available in the**
 8 **market that this company had for its own**
 9 **business.**
 10 Q. And was that by -- by line
 11 of business or was it a total?
 12 **A. It's by line of business.**
 13 Q. Now, in 1999, did you
 14 observe that some companies were -- were
 15 also changing their -- their mix of
 16 business because of the price wars?
 17 **A. Yes.**
 18 Q. And how -- how -- what did
 19 you observe in terms of change of
 20 business being a reaction to price wars?
 21 **A. Some companies were writing**
 22 **more business in the lines where prices**
 23 **were getting lower, indicating that**
 24 **perhaps they were chasing prices**

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1 **downward, is the term of art. And some**
 2 **companies were cutting back on lines of**
 3 **business in those problem markets and**
 4 **some companies were doing both or a**
 5 **mixture of those and explaining different**
 6 **reasons for doing this.**
 7 Q. Did you observe how -- what
 8 AIG was doing in that regard?
 9 **A. Probably, but I can't tell**
 10 **you specifically. I don't recall, but --**
 11 Q. You probably observed at the
 12 time what they were doing but as you sit
 13 here today in 2008 you don't remember?
 14 **A. No. It's been a decade, so**
 15 **no.**
 16 Q. As -- as lines of business
 17 change, does that also impact -- I mean,
 18 I've heard the phrase shorted-tailed and
 19 long-tailed business.
 20 **A. Yes.**
 21 MS. SMITH: Objection.
 22 BY MR. DWYER:
 23 Q. What -- what do -- what do
 24 you understand the difference -- what is

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1 short-tailed business, you know, in
 2 contrast to long-tailed business?
 3 **A. Short-tailed business is**
 4 **types of insurance where the claims were**
 5 **paid fairly quickly; because they usually**
 6 **are routine types of claims, like auto**
 7 **accidents, homeowner theft or things like**
 8 **that --**
 9 Q. And how does -- what is
 10 long-tailed?
 11 **A. -- a hurricane loss.**
 12 **Long-tail business are types**
 13 **of claims where there may be extensive**
 14 **litigation, for example, and it may take**
 15 **years before the claim is paid.**
 16 Q. So directors and officers
 17 liability would be one type of that?
 18 **A. Yes.**
 19 Q. Would -- would a change from
 20 short-tailed to long-tailed mix of
 21 business or vice versa have an impact on
 22 the aggregate -- on the aggregate
 23 reserves of -- of a property and casualty
 24 insurer?

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1 **A. You would expect it to, yes.**
 2 Q. And why would you expect it
 3 to?
 4 **A. Because short-tailed**
 5 **business pays faster, so it would tend to**
 6 **draw down reserves.**
 7 Q. And I take it if you -- so
 8 if you switched to short-tailed, your
 9 reserves would go down more rapidly
 10 than -- than your premiums?
 11 **A. That's right.**
 12 Q. And if you switched to
 13 long-tailed, your reserves would go down
 14 less rapidly than -- than your premiums?
 15 **A. That's -- that's the**
 16 **expected pattern, yes.**
 17 Q. Do you know -- do you know
 18 whether AIG, in the period of time from
 19 1999 to 2001, was experiencing a change
 20 in business mix?
 21 **A. Yes, they were. They were**
 22 **entering the home and auto insurance**
 23 **business, and they were shifting towards**
 24 **the shorter-tail lines.**

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1 Q. So you would -- you would
 2 expect, as an analyst, to see AIG's net
 3 loss reserves in the aggregate go down
 4 even -- even while -- while premiums were
 5 either not going down or going up?
 6 MS. SMITH: Objection.
 7 THE WITNESS: You would not
 8 necessarily expect to see them go
 9 down, but you would expect to see
 10 the trend be different and perhaps
 11 grow slower or be somehow
 12 different than if that had not
 13 happened.
 14 - - -
 15 (A discussion off the record
 16 occurred.)
 17 - - -
 18 BY MR. DWYER:
 19 Q. The -- when you look at the
 20 aggregate and loss reserves of a property
 21 and casualty company, do you look at
 22 gross reserves or do you look at net
 23 reserves?
 24 A. We look at both.

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1 Q. And why do you look at both?
 2 A. The gross reserves are the
 3 reserves that represent the losses
 4 related to the business that the company
 5 took on and wrote.
 6 The net reserves relate to
 7 losses the company will end up paying
 8 after it presumably collects reinsurance
 9 from its reinsurers. So they indicate
 10 two different things.
 11 Q. And so why -- why do you
 12 look at both in terms of the ultimate
 13 exposure to future liabilities?
 14 A. Among other things, the
 15 company may not collect money from its
 16 reinsurers.
 17 Q. So, therefore, you need
 18 to -- you need to know what the potential
 19 overall exposure is?
 20 A. Yes. And the gross reserves
 21 also reflect the underlying business that
 22 the company wrote. So they are more
 23 directly tied to the business that the
 24 company sold.

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1 Q. And so, therefore, the --
 2 using only the net reserves might distort
 3 the results if you're trying to analyze
 4 how good the underwriting was for the
 5 company?
 6 MS. SMITH: Objection.
 7 MR. FISHMAN: You can
 8 answer.
 9 THE WITNESS: Most of the
 10 time the net reserves are the only
 11 numbers that are available. So
 12 most of the time that's what
 13 analysts use. But periodically we
 14 did have access to the gross
 15 reserves, and they provide an
 16 additional bit of insight.
 17 BY MR. DWYER:
 18 Q. Where -- where do you get --
 19 where do you get -- what's the source of
 20 net reserves and gross reserves?
 21 A. The company discloses the
 22 net reserves quarterly in its press
 23 release and its financial statements that
 24 are filed with the SEC. The gross

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1 reserves are in the statutory financial
 2 statements. And a number of companies
 3 publish them also, and some publish them
 4 quarterly.
 5 Q. Did -- did you use both GAAP
 6 data and statutory data in analyzing
 7 property and casualty insurers?
 8 A. Yes, we did.
 9 Q. And why did you use -- why
 10 did you use both GAAP data and -- and
 11 stat data?
 12 MS. SMITH: Objection.
 13 Compound.
 14 THE WITNESS: The -- could
 15 you please make that question
 16 simpler?
 17 MR. DWYER: Okay.
 18 THE WITNESS: It's two
 19 questions.
 20 BY MR. DWYER:
 21 Q. Why did you use GAAP data?
 22 A. GAAP data are the primary
 23 data that the company publishes that are
 24 relevant to investors. GAAP data are

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1 complete in and of themselves, and they
 2 are what investors need to know to
 3 understand a company's financial
 4 statements.
 5 So an analyst, and many
 6 analysts do, can look at them and in
 7 theory know everything you need to know
 8 to buy or sell a stock.
 9 The statutory data are
 10 prepared on a different accounting basis,
 11 and they contain a lot more information
 12 than is in the GAAP data. Looking at
 13 them can give you some supplemental
 14 information. It requires interpretation.
 15 It frequently contains errors. But when
 16 you can get it and have time to do it,
 17 it's often worth looking at.
 18 Q. And when you were at
 19 Oppenheimer, Paine Webber and Morgan, did
 20 you -- did you ever -- did you utilize
 21 stat data for analyzing AIG?
 22 A. Yes.
 23 Q. And where -- where did you
 24 get the stat data from?

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1 A. It depends on different
 2 times where we got it from different
 3 places.
 4 Q. Well, let's -- let's look at
 5 the stat -- when you were at Morgan, so
 6 in the period from 2000 to June of 2003.
 7 A. It depends. I mean, at
 8 times -- at times the companies would
 9 give us the yellow books, and at times we
 10 would get them off the A.M. Best disc.
 11 I'm not -- I can't remember for any
 12 particular time right now.
 13 Q. Did you ever get them from
 14 the state regulators -- state regulators?
 15 A. I don't remember.
 16 Q. If you look at Exhibit-4 in
 17 your book, which is your April 10th,
 18 2003, Morgan Stanley write-up on AIG,
 19 which is produced as AIGF 00108893
 20 through 8917.
 21 MR. DWYER: By the way,
 22 since this is produced under the
 23 confidentiality order, although
 24 it's obviously not particularly a

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1 confidential document, I have to
 2 at this point designate the rest
 3 of the deposition -- or this part
 4 of the deposition as under the
 5 confidentiality order.
 6 MR. FISHMAN: I think our
 7 position is, you can designate,
 8 for the purposes of your
 9 litigation, whatever you want as
 10 confidential. I don't know that
 11 any designation that you make
 12 applies to the witness.
 13 MR. DWYER: All I'm
 14 trying -- all I'm trying -- the
 15 witness has obviously -- since the
 16 witness wrote this document, the
 17 witness has obviously seen the
 18 document.
 19 MR. FISHMAN: And published
 20 it, I believe.
 21 MR. DWYER: Yes. So I -- my
 22 intention is to -- is to go back
 23 to the people who produce
 24 documents like this and -- and

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1 hopefully remove the -- the
 2 designation. But -- but
 3 technically I have to designate it
 4 that way.
 5 BY MR. DWYER:
 6 Q. If you -- if you -- so if
 7 you look -- if you look at Page 2 and
 8 look at the left-hand column on Page 2,
 9 which is basically the third paragraph of
 10 text, and you're talking about your
 11 analysis and it says, quote, In addition,
 12 we do not yet have a full set of
 13 statutory data to analyze for this line,
 14 which would be our preferred method of
 15 reaching a conclusion (the method was
 16 just a backstop as we await the
 17 consolidated Schedule P), closed quote.
 18 Do you see that?
 19 A. Let me read it, please.
 20 Yes, okay.
 21 Q. Is that -- is that something
 22 you wrote back in April of 2003?
 23 A. Sure, it was.
 24 Q. And what did -- in terms of

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1 this Exhibit-4, what -- what was the
 2 purpose for which you -- you wrote
 3 Exhibit-4?
 4 **A. It was --**
 5 MR. FISHMAN: I'm sorry, the
 6 whole report?
 7 THE WITNESS: The whole
 8 report?
 9 BY MR. DWYER:
 10 Q. Yes. The whole report.
 11 **A. It was a report that was**
 12 **describing our reaction to the \$2.8**
 13 **billion reserve charge that AIG took in**
 14 **April of 2003.**
 15 Q. And you -- what was the
 16 distribution you gave to this report?
 17 **A. To Morgan Stanley clients.**
 18 **Is that what you mean?**
 19 Q. Right.
 20 Does that -- is that --
 21 Morgan Stanley clients would have access
 22 to this report?
 23 **A. Yes.**
 24 Q. And you intended them to

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1 rely on your analysis in making their
 2 decisions with regard to AIG stock?
 3 **A. It was up to them what they**
 4 **would rely on. But this was my best**
 5 **effort to help them.**
 6 Q. And you -- you intended this
 7 to be accurate when you were writing it
 8 for Morgan Stanley's clients?
 9 **A. Yes.**
 10 Q. So, now, if we look at what
 11 I referred to -- you to on Page 2, why --
 12 what did you mean that the -- the full
 13 set of statutory data would be our
 14 preferred method of reaching a
 15 conclusion?
 16 **A. Well, when a company takes a**
 17 **\$2.8 billion reserve charge that affects**
 18 **multiple lines of business, the only**
 19 **source that you would have to understand**
 20 **which years were affected would be in the**
 21 **Schedule P.**
 22 **And the significance of this**
 23 **event was such that you wouldn't be able**
 24 **to allocate the charge by year until you**

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1 **actually saw the Schedule P and talked to**
 2 **the company about, you know, which**
 3 **accident years were affected.**
 4 Q. So a Schedule P is a more --
 5 is part -- Schedule P is part of the
 6 statutory filings?
 7 **A. Yes.**
 8 Q. And -- and Schedule P is --
 9 would give you a breakdown by -- by year
 10 for the reserve charge?
 11 **A. Yes.**
 12 Q. Would it give you --
 13 **A. Well, not -- it would give a**
 14 **breakdown for the year for -- we were**
 15 **looking for the year-end Schedule P. And**
 16 **the charge that they took was as of year**
 17 **end. So, yes, it would give the numbers**
 18 **as adjusted. It would have the reserve**
 19 **charge in it. It wouldn't have a**
 20 **separate line that said reserve charge or**
 21 **anything like that.**
 22 Q. But you could -- you could
 23 do a mathematical calculation that would
 24 give you the answer as to how -- how that

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1 was allocated over various years?
 2 MS. SMITH: Objection.
 3 THE WITNESS: You could
 4 probably get the information from
 5 the company to help you do that.
 6 BY MR. DWYER:
 7 Q. And how did that differ from
 8 what was otherwise available that is what
 9 you actually used in -- in connection
 10 with this report?
 11 **A. Could you restate the**
 12 **question, please?**
 13 Q. What -- am I correct in
 14 understanding that you were getting
 15 something more from the statutory filings
 16 than you got from the -- from the not --
 17 from the GAAP filings?
 18 **A. Yes.**
 19 Q. So what was it that is not
 20 in the GAAP filings that you -- you would
 21 look to the statutory filings for?
 22 MS. SMITH: Objection.
 23 MR. FISHMAN: Objection.
 24 You mean generally or with respect

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1 to this particular report?
 2 MR. DWYER: Well, with
 3 respect to this particular report.
 4 THE WITNESS: Reserves by
 5 line, reserves by year, paid
 6 losses incurred and IBNR.
 7 BY MR. DWYER:
 8 Q. So that you wouldn't be able
 9 to find that in the -- in the GAAP
 10 filings?
 11 MS. SMITH: Objection.
 12 THE WITNESS: Some of it is
 13 in the SEC 10K document, but it's
 14 organized in a manner that's very
 15 inconvenient to use and most of it
 16 is not in there.
 17 BY MR. DWYER:
 18 Q. And you -- you -- in terms
 19 of your analysis, you wanted to have the
 20 greater information that was available in
 21 the statutory filings because it would
 22 allow you to analyze the impacts better
 23 if you could do it by line and by year,
 24 correct?

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1 MS. SMITH: Objection.
 2 THE WITNESS: Yes. This
 3 particular charge came from AIG's
 4 domestic operations, mostly, and
 5 those were actually filed and
 6 they're U.S. businesses. So the
 7 Schedule Ps would actually have
 8 helped us.
 9 BY MR. DWYER:
 10 Q. Now, with regard to
 11 analyzing AIG as opposed to other
 12 companies, did it make it harder or
 13 easier for you to analyze AIG's reserves
 14 because a lot of AIG's business -- the
 15 property and casualty business was from
 16 foreign sources that didn't have to file
 17 statutory filings?
 18 A. Harder.
 19 Q. And why is that?
 20 A. Because you're getting
 21 incomplete information having only the
 22 domestic business, and because AIG could
 23 do transactions with its offshore
 24 businesses and move -- move business

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1 **around and you didn't have a way to peer**
 2 **into what was offshore. So while the**
 3 **information was useful, it wasn't**
 4 **definitive.**
 5 Q. So simply looking at the
 6 aggregate net loss reserve number in --
 7 in AIG's disclosures wouldn't give you
 8 the kind of information that would allow
 9 you to track by line business by year for
 10 all of AIG's operations in the property
 11 and casualty area; is that correct?
 12 MS. SMITH: Objection.
 13 THE WITNESS: No, of course
 14 not. It wouldn't for any company.
 15 BY MR. DWYER:
 16 Q. But in -- in particular AIG
 17 would be a -- would be a -- it would
 18 be harder to understand that analysis
 19 with regard to AIG than for a company
 20 that was much more -- or operating just
 21 in the United States?
 22 MS. SMITH: Objection.
 23 THE WITNESS: From the
 24 single net reserve number?

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1 BY MR. DWYER:
 2 Q. Yes.
 3 A. **It would be the same.**
 4 Q. And so it's just -- the
 5 single net reserve number is not a number
 6 that you would use to analyze -- what
 7 are -- what are the difficulties of using
 8 the single net reserve number to analyze
 9 AIG?
 10 A. **There really aren't any.**
 11 **I'm -- I'm not -- I'm sorry, I'm just not**
 12 **following you.**
 13 Q. Maybe I missed -- maybe I
 14 missed your no.
 15 Is there other information
 16 you'd want to have, other than the single
 17 net reserve number, that's contained in
 18 the statutory filings?
 19 A. **Yes. You know, you work**
 20 **with what you've got. You can analyze an**
 21 **insurance company and issue a perfectly**
 22 **viable opinion on a stock based on what's**
 23 **in the Form 10K, which only has, you**
 24 **know, the net and, I believe, the gross**

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1 reserve number in it. It doesn't
 2 really -- you don't have to have anything
 3 more than that. But you would want to
 4 have as much information as you can get.
 5 So you want the statutory
 6 filings, even if they are only the
 7 on-shore information, and you glean what
 8 you can from them. But it would be nice
 9 to have the whole picture.
 10 Q. And you -- you were still
 11 aware, when you're analyzing AIG, that
 12 you were -- you were analyzing the
 13 information you had from -- from the GAAP
 14 filings, from the statutory filings, but
 15 you were aware that there was other
 16 information that might impact your
 17 analysis that you just didn't have the
 18 ability to -- to get because it related
 19 to foreign operations; is that correct?
 20 MS. SMITH: Objection.
 21 THE WITNESS: Yes.
 22 BY MR. DWYER:
 23 Q. Now, if you go back to
 24 Exhibit-3, I -- I should have asked you

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1 that, we never authenticated this
 2 document.
 3 Is this -- is this -- is
 4 this a report that you wrote while you
 5 were at Oppenheimer in May of 1998?
 6 A. Yes.
 7 Q. And was that distributed by
 8 Oppenheimer to its clients?
 9 A. Yes, it was.
 10 Q. And -- and for what purpose
 11 did Oppenheimer distribute Exhibit-3 to
 12 its clients?
 13 A. To help them in making
 14 investment decisions.
 15 Q. We've been talking about, I
 16 think, annual data. Would you regard
 17 annual data as being more reliable in
 18 terms of what a company was releasing
 19 than the quarterly data?
 20 A. For statutory or for GAAP?
 21 Q. Well, let's start with
 22 statutory.
 23 A. Yes.
 24 Q. And why is that?

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1 A. We have talked with
 2 insurance companies about their processes
 3 for preparing quarterly statutory data.
 4 And the statutory statements, for one
 5 thing, are more sparse, to use your word.
 6 They -- they require far less
 7 information. But our understanding is
 8 that there's much more estimation that
 9 goes on in the quarters.
 10 Q. So you would -- in terms of
 11 the statutory filings, you would -- you
 12 would put more reliance on the -- the
 13 annual filings than on the quarterly
 14 filings?
 15 MS. SMITH: Objection.
 16 THE WITNESS: Yes.
 17 BY MR. DWYER:
 18 Q. Now, if you look at Tab 5,
 19 which is a January 6th, 2000 -- January
 20 6th, 2000 report you wrote while you were
 21 at Paine Webber called "Insurance
 22 Investors Insight," which is AIGF 186319
 23 through 326, if you look at the second
 24 page of that document, if you -- in the

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1 next-to-last paragraph on Page 2 -- in
 2 the next-to-last paragraph on Page 2, you
 3 say this: The source of our data was
 4 A.M. Best compilations of nine months of
 5 statutory filings.
 6 What did you mean by that?
 7 A. The rating agency, A.M.
 8 Best, puts out a CD-rom where they take
 9 all of the books in which companies file
 10 their statutory data and they put it into
 11 an electronic form that can be
 12 downloaded.
 13 Q. So that's one of the sources
 14 you rely on, as an analyst, for statutory
 15 filings, correct?
 16 A. Yes.
 17 Q. And -- and a couple of
 18 sentences later you say, quote, Companies
 19 are not expected to scrub quarterly
 20 statutory filings as carefully as they're
 21 more important statutory annual
 22 statements (a/k/a Yellow Perils) which
 23 will not be available until April.
 24 Do you see that?

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1 **A. Yes.**
 2 **Q.** First of all, why do you
 3 refer to the statutory annual statements
 4 as yellow perils?
 5 **A. That's the industry term for**
 6 **the statutory annual statements. It's a**
 7 **colloquialism.**
 8 **Q.** Because they have a yellow
 9 cover?
 10 **A. Yes. I -- I believe it has**
 11 **to do with the fun and entertainment of**
 12 **preparing them.**
 13 **Q.** So it's -- its not something
 14 that people look forward to?
 15 **A. I -- I'm not sure. But I --**
 16 **you know, I don't think it has to do with**
 17 **the data that's contained in them. I**
 18 **think it has to do with the people who**
 19 **have to prepare them.**
 20 **Q.** And -- and the cover is
 21 yellow?
 22 **A. Yes.**
 23 **Q.** Yes.
 24 And so -- so you were

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1 telling -- you were telling your Paine
 2 Webber clients here that you -- you would
 3 be more likely to rely on the statutory
 4 annual statements than the statutory
 5 quarterly statements; is that correct?
 6 **MS. SMITH:** Objection.
 7 **THE WITNESS:** Well, what I
 8 was saying is that we would place
 9 heavier credence on the data in
 10 the annual statements, yes.
 11 **BY MR. DWYER:**
 12 **Q.** And -- and you prepared this
 13 report for Paine Webber in early 2000?
 14 **A. That's correct.**
 15 **Q.** And you sent it out to Paine
 16 Webber's clients?
 17 **A. Yes.**
 18 **Q.** And you sent it out with the
 19 expectation that it would be useful to
 20 them in what they were doing?
 21 **A. Yes.**
 22 **MR. FISHMAN:** Mr. Dwyer,
 23 when you get to a convenient point
 24 to take a break, that would be

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1 great.
 2 **MR. DWYER:** Sure. Why don't
 3 we take a break now.
 4 - - -
 5 **VIDEO TECHNICIAN:** The time
 6 is 10:46. That's the end of Tape
 7 1, and we're now off the record.
 8 - - -
 9 (Whereupon, a brief recess
 10 was taken.)
 11 - - -
 12 **VIDEO TECHNICIAN:** We're
 13 back on the record. We'll begin
 14 Tape Number 2. The time is 11
 15 o'clock.
 16 - - -
 17 **BY MR. DWYER:**
 18 **Q.** When you were an analyst,
 19 did you regularly encourage your clients
 20 to focus on the big picture and not to
 21 focus on individual pieces of good or bad
 22 data?
 23 **MS. SMITH:** Objection.
 24 **THE WITNESS:** Probably, yes.

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1 **BY MR. DWYER:**
 2 **Q.** And -- and one of the
 3 individual pieces that you didn't have
 4 them focus on was the -- was reserve
 5 levels; you had them focus on the big
 6 picture, correct?
 7 **MS. SMITH:** Objection.
 8 **THE WITNESS:** I don't think
 9 that's correct. I don't think I
 10 ever told clients not to focus on
 11 reserves.
 12 **BY MR. DWYER:**
 13 **Q.** But you -- but you were --
 14 you were focused on the big picture,
 15 correct?
 16 **A. Yes.**
 17 **Q.** And, for example, let me
 18 show you, if you look at Exhibit-6, which
 19 is your Paine Webber research note of
 20 February 11, 2000 concerning AIG, you
 21 said in the second paragraph on the first
 22 page, quote, We believe the market
 23 overreacted to minor items in the
 24 property casualty business in the quarter

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1 while overlooking the big picture, a
 2 rapidly growing domestic and
 3 international life insurer with a strong
 4 financial services business and a good
 5 acquisition currency, closed quote.
 6 Do you see that?
 7 **A. Yes.**
 8 Q. And I take it this -- this
 9 is another report that you wrote
 10 intending your clients to rely on it?
 11 **A. Yes.**
 12 Q. And with regard to the minor
 13 items, what -- what were the minor items
 14 you were referring to here that you said
 15 the market overreacted to?
 16 **A. Would you like me to list**
 17 **what it says?**
 18 Q. Yeah, sure.
 19 **A. Catastrophes, slightly lower**
 20 **sequential premium growth rates, the auto**
 21 **insurance fundamental environment and**
 22 **reserves.**
 23 Q. And in terms of the -- the
 24 big picture, why was -- why was the fact

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1 that a rapidly growing domestic and life
 2 insurer with strong financial services,
 3 why was that important to you?
 4 **A. We viewed that as the driver**
 5 **of AIG's value over a long period of**
 6 **time.**
 7 Q. And why -- why was it
 8 important to you that AIG was a good
 9 acquisition currency?
 10 MS. SMITH: Objection.
 11 THE WITNESS: That -- AIG
 12 had a strategy at that time of
 13 making acquisitions and growing
 14 through acquisitions.
 15 BY MR. DWYER:
 16 Q. And what -- what did you
 17 mean -- in terms of the phrase, "a good
 18 acquisition currency," what did that
 19 mean?
 20 **A. That its stock price would**
 21 **be a good way to make acquisitions -- or,**
 22 **rather, its stock would be a good way to**
 23 **make acquisitions.**
 24 Q. So that was -- that was

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1 another item of the big picture that was
 2 important to you?
 3 **A. Yes.**
 4 Q. Now, if you turn to
 5 Exhibit-7, which is your February 9, 2001
 6 Morgan Stanley report on AIG, once again
 7 you were writing this report so that your
 8 clients could rely on it, correct?
 9 **A. Yes.**
 10 Q. And if you look at -- at the
 11 three bullet points on -- in terms of the
 12 structure of this -- this Exhibit-7,
 13 you've got three bullet points on the --
 14 on the first page.
 15 Is there -- is it -- is
 16 that -- are those the most important
 17 points that you want to get across to the
 18 client base that you're circulating this
 19 to?
 20 MS. SMITH: Objection.
 21 THE WITNESS: Yes.
 22 BY MR. DWYER:
 23 Q. And the third -- the third
 24 of these bullet points says, quote, Focus

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1 on the big picture. Investors pay a
 2 premium partly for AIG's consistent EPS
 3 growth. Focusing too much on a quarter's
 4 moving parts can cause you to lose sight
 5 of the company's future - its outstanding
 6 international franchise, closed quote.
 7 Do you see that?
 8 **A. Yes, I do.**
 9 Q. What were you -- what were
 10 you -- that was something you believed in
 11 when you wrote this at the time, right?
 12 **A. Yes.**
 13 Q. And what -- what were you
 14 trying to communicate to Morgan Stanley's
 15 clients?
 16 **A. That investors pay a premium**
 17 **partly for AIG's consistent EPS growth**
 18 **and that focusing too much on -- what**
 19 **moving parts mean, I think that's what**
 20 **you're really asking about --**
 21 Q. Right.
 22 **A. What moving parts means is**
 23 **that things go up and down in a quarter,**
 24 **different items, different financial**

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1 statement items, and they often reverse
 2 themselves in the next quarter or are not
 3 representing the trends and, therefore,
 4 can become very distracting to investors,
 5 and that they can distract them from the
 6 big picture.
 7 Q. And why did you think that
 8 the big picture was AIG's outstanding
 9 international franchise?
 10 A. Because it was.
 11 Q. Is that -- I mean, is it
 12 because the opportunities for growth
 13 were -- were better in the international
 14 segment than in the U.S. segment?
 15 A. Yes. It had a more mature
 16 business in the U.S., and the non-U.S.
 17 business was growing much faster.
 18 Q. So -- so in the times you
 19 wrote these two reports that were
 20 Exhibits-6 and 7, the February 2000 Paine
 21 Webber report, the February 2001 Morgan
 22 Stanley report, you thought one of the
 23 elements for AIG of the big picture was
 24 that it had good earnings, correct?

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1 MS. SMITH: Objection.
 2 THE WITNESS: Yes.
 3 BY MR. DWYER:
 4 Q. And one of the items that
 5 was part of the big picture was that it
 6 had a large market share?
 7 A. I don't think -- I don't see
 8 anything here about market share. I
 9 think we -- I see it talking about
 10 growth.
 11 Q. Well, was market share an
 12 important factor to you with regard to
 13 analyzing AIG?
 14 MS. SMITH: Objection.
 15 THE WITNESS: It depends on
 16 the line of business. In some,
 17 yes.
 18 BY MR. DWYER:
 19 Q. In some yes and in some no?
 20 A. Yes.
 21 Q. So which ones -- which
 22 ones were -- in which lines of business
 23 was market share important?
 24 A. More so in life insurance.

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1 Q. And why was that?
 2 A. Because life insurance was a
 3 business where you -- okay, this is --
 4 that was where its greatest growth
 5 opportunity was and where it had the
 6 potential to grow without compromising
 7 its profit margins, unlike some of the
 8 nonlife businesses.
 9 Q. And would you agree that in
 10 the 2000, 2001 period, one of the -- part
 11 of the big picture for AIG was that it
 12 was shifting away from domestic nonlife
 13 insurance and having a greater mix of
 14 both international business and life
 15 insurance?
 16 A. Yes.
 17 MS. SMITH: Objection.
 18 BY MR. DWYER:
 19 Q. And a substantial --
 20 substantial international presence in
 21 that 2000, 2001 period was also an
 22 important part of the big picture for
 23 AIG?
 24 MS. SMITH: Objection.

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1 THE WITNESS: Yes.
 2 BY MR. DWYER:
 3 Q. And the fact that AIG had an
 4 excellent underwriting record was also an
 5 important part of the big picture for you
 6 in that 2000, 2001 period?
 7 A. Yes.
 8 Q. With regard to AIG's
 9 reserves, would you agree that the -- the
 10 big picture element of -- of reserves for
 11 AIG was whether AIG's reserves would be
 12 adequate over the long term?
 13 MS. SMITH: Objection.
 14 THE WITNESS: Yes.
 15 BY MR. DWYER:
 16 Q. And you -- in focusing on
 17 the big picture, you -- you weren't
 18 focusing on whether AIG's reserves
 19 fluctuated in a single quarter or even a
 20 single -- series -- a couple quarters; is
 21 that correct?
 22 MS. SMITH: Objection.
 23 THE WITNESS: We were
 24 certainly paying attention to

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1 every quarter, but we were looking
 2 at the trend of more than one
 3 quarter.
 4 BY MR. DWYER:
 5 Q. So -- but the big picture
 6 was whether -- was whether the reserves
 7 were adequate for the long term, not
 8 whether the -- the aggregate net reserves
 9 went up or down in a quarter?
 10 MS. SMITH: Objection.
 11 THE WITNESS: I -- I
 12 wouldn't -- no, I -- that's not
 13 exactly --
 14 BY MR. DWYER:
 15 Q. How would you put it, then?
 16 A. **It's context sensitive to**
 17 **the quarter. It would depend on how much**
 18 **and what else happened.**
 19 Q. So you -- but you'd have to
 20 put the change of reserves -- the change
 21 in the aggregate net reserves in context
 22 of a quarter, in terms of what else
 23 happened and how -- how large the change
 24 was?

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1 A. **Yes.**
 2 MS. SMITH: Objection.
 3 BY MR. DWYER:
 4 Q. And you -- at the time, AIG
 5 had about \$25 billion in aggregate net
 6 reserves, correct?
 7 A. **Yes.**
 8 Q. That's for the property and
 9 casualty business?
 10 A. **Yes.**
 11 Q. Would you agree that setting
 12 reserves is not an exact science?
 13 A. **I would.**
 14 MS. SMITH: Objection.
 15 BY MR. DWYER:
 16 Q. And if you look at
 17 Exhibit-8, which is your January 31,
 18 2003, Morgan Stanley report on the
 19 property casualty insurance industry --
 20 do you see that?
 21 A. **Yes.**
 22 Q. Was this -- was Exhibit-8
 23 also a report that you prepared for
 24 clients at Morgan Stanley?

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1 A. **Well, I was not the primary**
 2 **author.**
 3 Q. You're -- you're listed as
 4 one of the three people on this; is that
 5 correct?
 6 A. **Yes. Because Bill Wilt**
 7 **worked for me, and I led the team.**
 8 Q. Did you review this report
 9 before it went out?
 10 A. **I think so, yeah. I'm sure**
 11 **I did.**
 12 Q. And you reviewed it to make
 13 sure that, from your perspective, it
 14 was -- contained views that you agreed
 15 with?
 16 A. **Yes.**
 17 Q. And you -- you sent it to --
 18 to clients of Morgan Stanley intending
 19 that they would use it in their -- in
 20 their decisions?
 21 A. **Yes.**
 22 Q. On Page 3 of this report,
 23 you -- under the -- in the first column
 24 under the heading, The Tool Kit, you say,

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1 quote -- or Morgan Stanley says, quote,
 2 Reserve analysts' analysis is definitely
 3 more art than science in our view.
 4 Do you see that?
 5 A. **Yes.**
 6 Q. Was that a view that you had
 7 in 2003?
 8 A. **Well, this is Bill Wilt's**
 9 **report. Bill is an actuary and came to**
 10 **us from Moodys. So I -- again, I**
 11 **reviewed this report to make sure I was**
 12 **comfortable with his point of view. I**
 13 **would not use those words.**
 14 Q. Well, what would -- you
 15 would agree that setting reserves is not
 16 an exact science?
 17 A. **Yes, sure.**
 18 Q. And would you -- would you
 19 also agree that different analysts could
 20 look at the same facts with regard to
 21 reserves and come to different opinions?
 22 A. **Sure.**
 23 MS. SMITH: Objection.
 24 BY MR. DWYER:

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1 Q. Now, staying with Exhibit-8,
 2 do you see this -- this long medical
 3 analogy that runs through here where it
 4 describes review analysis as having three
 5 stages: First, triage; second,
 6 preoperative exam; and third, surgery?
 7 **A. Where -- I'm sorry, where**
 8 **are you?**
 9 Q. I'm on -- in Exhibit-8.
 10 Page --
 11 **A. What page?**
 12 Q. Pages -- starting with Page
 13 3 and going to Page 5. Where we were
 14 before, under The Tool Kit.
 15 **A. Right.**
 16 Q. Right under that it says,
 17 Level 1 analysis, triage.
 18 **A. Triage.**
 19 Q. And then on the next page in
 20 the second column it says, Level 2
 21 analysis, preoperative exam.
 22 **A. Right.**
 23 Q. And then on the fifth page
 24 it says, Level 3 analysis, surgery.

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1 **A. Uh-huh.**
 2 Q. Did you have a role in
 3 writing -- in writing this or is this --
 4 this is -- this is the actuary's view of
 5 how to do a reserve analysis?
 6 **A. This is the actuary's view.**
 7 **This is -- this was actually a -- sort of**
 8 **a Moodys technique that Bill brought to**
 9 **us.**
 10 Q. And did you -- am I correct
 11 in assuming that since he worked for you,
 12 you at least had enough confidence in --
 13 in what he was writing that you felt
 14 comfortable sending it out to Morgan
 15 Stanley's clients?
 16 **A. Yes.**
 17 Q. So -- so this is -- this
 18 reflects Morgan Stanley's advice to its
 19 clients about how a reserve analysis is
 20 done; is that correct?
 21 **MS. SMITH: Objection.**
 22 **THE WITNESS: Yes.**
 23 **BY MR. DWYER:**
 24 Q. And -- but not -- but this

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1 is -- this is beyond the level of detail
 2 that you would normally get into in doing
 3 your own work?
 4 **MS. SMITH: Objection.**
 5 **THE WITNESS: This type of**
 6 **reserve work?**
 7 **BY MR. DWYER:**
 8 Q. Yeah, this -- yes.
 9 **A. Let me -- I have to take a**
 10 **look at it.**
 11 **We did most of this work.**
 12 Q. Okay. So this is --
 13 internally with regard to how Morgan
 14 Stanley goes about looking at a company,
 15 a P&C company's reserves, this is -- this
 16 is basically the way you go about it?
 17 **A. This is a -- a standard**
 18 **method. And, basically, yes, we -- we**
 19 **did.**
 20 Q. Now, you said that Bill was
 21 an actuary; is that correct?
 22 **A. Yes.**
 23 Q. Now, you're not an actuary?
 24 **A. No.**

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1 Q. Is there -- is there
 2 something that actuaries bring to the
 3 table in doing reserve analyses that you
 4 as an M.B.A. didn't have?
 5 **MS. SMITH: Objection.**
 6 **THE WITNESS: Yes. We were**
 7 **the only team of auditors that had**
 8 **an actuary. I hired him because I**
 9 **felt that having an actuary on the**
 10 **team would enable us to get some**
 11 **more insight into reserves.**
 12 **BY MR. DWYER:**
 13 Q. Right. And why did you feel
 14 that?
 15 **A. Well, that's what they do.**
 16 **That's -- they analyze reserves**
 17 **professionally.**
 18 Q. And with regard to --
 19 **MR. FISHMAN: I think she**
 20 **said team of auditors. I think**
 21 **you meant team of --**
 22 **THE WITNESS: I meant**
 23 **analysts. Did I say auditors? I**
 24 **meant analysts.**

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1 BY MR. DWYER:
 2 Q. To your team of analysts?
 3 A. Yes.
 4 Q. And with regard to -- do you
 5 have an understanding --
 6 A. I -- you know what, and I
 7 misspoke. Because I think -- was
 8 Weston -- there might have been one other
 9 analyst who had been a former actuary.
 10 But it was not -- it was not common.
 11 Q. And did -- are you aware as
 12 to whether AIG, in setting its reserve
 13 levels, relied on internal actuaries
 14 to -- to set its reserve levels?
 15 A. Yes.
 16 MS. SMITH: Objection.
 17 BY MR. DWYER:
 18 Q. And how were you aware of
 19 that?
 20 A. From talking to the company
 21 and because it's required to. There's no
 22 other way to do it.
 23 Q. And you talked to -- did you
 24 ever talk to Frank Douglas, who was the

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1 chief actuary of AIG?
 2 A. No.
 3 Q. You just learned from the
 4 company that they did it that way?
 5 A. The company did not make
 6 personnel like that available to
 7 analysts.
 8 Q. And were you also aware that
 9 PricewaterhouseCoopers, the outside
 10 auditors for AIG, also used actuaries to
 11 analyze the -- the reserves that were --
 12 when they were doing their review and
 13 coming to their opinions?
 14 A. My general knowledge as a
 15 former auditor told me that. I did not
 16 have a specific knowledge about PWC. It
 17 is standard.
 18 Q. And did you rely on the fact
 19 that companies, not just AIG but the
 20 companies in -- in the property casualty
 21 insurance business that you were
 22 reviewing, had the requirement of having
 23 internal actuaries and that their outside
 24 auditors would use actuaries to review

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1 the reserve levels?
 2 A. Yes.
 3 Q. Why was -- was that -- how
 4 was that a factor in terms of your
 5 analysis of the reserves?
 6 A. Well, analysts are not --
 7 are neither auditors nor -- nor are they
 8 preparers of financial statements.
 9 Analysts rely on the company
 10 to produce financial statements that are
 11 reasonably accurate within the degree
 12 that is assumed or allowed by GAAP and
 13 that have been reviewed by auditors and
 14 meet the accounting standards and have
 15 been subjected to auditing to the degree
 16 that the auditing standards require, and
 17 are reliable within the degree that is
 18 expected under GAAP and GAAS, the
 19 auditing standards.
 20 And analysts place reliance
 21 on, also, the fact that the auditors
 22 consider the internal culture of the
 23 company. And while they do not have a
 24 duty to audit for fraud, they are in a

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1 very close proximity to the company and
 2 they are far more likely to discover it.
 3 And we also are not -- we are not in a
 4 position to look for that.
 5 So we rely on this
 6 information that's prepared by all these
 7 people.
 8 Q. Okay.
 9 A. And audited by them.
 10 Q. Now, I want to ask you a
 11 couple of specific questions about this
 12 Exhibit-8.
 13 If you -- if you're on Page
 14 3, in the right-hand column, near the top
 15 there it says, quote, R5 ratios use the
 16 major financial statements (B-S, C-F and
 17 I-S) and rely on calendar year data
 18 available at each quarter end. They are,
 19 in no particular order, 1, IBNR-earned
 20 premiums; 2, IBNR-paid losses; 3,
 21 IBNR-incurred or reported losses; 4,
 22 total reserves-paid losses; and, 5, total
 23 reserves-earned premiums.
 24 Are those -- are those --

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1 first of all, do you know what B-S --

2 **A. Balance sheet.**

3 **Q. Balance sheet?**

4 **A. Balance sheet, cash flow**

5 **statement and income statement.**

6 **Q. And are these the five**

7 **factors that, as an analyst, you would**

8 **principally look at in trying to analyze**

9 **reserves?**

10 **A. These are the --**

11 **MS. SMITH: Objection.**

12 **THE WITNESS: These are the**

13 **factors that you would use from**

14 **the statutory statements, not --**

15 **these are subsequent to getting**

16 **quarterly earnings.**

17 **BY MR. DWYER:**

18 **Q. And -- but these are the**

19 **factors that, as an analyst, you -- when**

20 **you were an analyst, you would use in**

21 **analyzing a company's -- P&C company's**

22 **reserves?**

23 **MS. SMITH: Objection.**

24 **THE WITNESS: No. These are**

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1 the factors that we would use in

2 analyzing the statutory reserves

3 that we got off the Schedule P.

4 **BY MR. DWYER:**

5 **Q. Okay. So --so --**

6 **A. Because this report is an**

7 **analysis of Schedule P.**

8 **Q. Okay. So -- so this is --**

9 **this whole report, Exhibit-8, is a -- is**

10 **how Morgan Stanley would analyze the**

11 **statutory filings of property and**

12 **casualty insurers?**

13 **A. Yes, I believe so.**

14 **Q. And I -- I take it from that**

15 **that that was -- that was a part of**

16 **Morgan Stanley's general analysis of**

17 **companies, to look at the statutory**

18 **filing; is that correct?**

19 **A. Yes. At different points in**

20 **the cycle, you'd place more emphasis on**

21 **it. At this point in the cycle, it**

22 **was -- it was more important than at**

23 **other points. But, yes.**

24 **Q. "This point" being January**

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1 2003?

2 **A. Yes.**

3 **Q. And when -- when -- when was**

4 **it less important?**

5 **A. During a hard market when**

6 **companies had extra reserves and were**

7 **not, what's called, blowing up.**

8 **Q. What do you mean by "blowing**

9 **up"?**

10 **A. Well, for example, the \$2.8**

11 **billion reserve charge that AIG took,**

12 **that's called blowing up.**

13 **Q. You mean just having a**

14 **significant --**

15 **A. Catastrophic-type financial**

16 **loss.**

17 **Q. So if you turn to the next**

18 **page, Page 4, it -- it says in the**

19 **first -- first column, the first full**

20 **paragraph, which is headed, Total**

21 **Reserves, it says, This is available in**

22 **all GAAP and statutory filings. Be**

23 **careful to subtract reinsurance**

24 **recoverables from the GAAP reserve figure**

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1 (or use total reserves gross of

2 reinsurance for all time periods and

3 companies under evaluation).

4 **Why was it -- why was it**

5 **important to subtract reinsurance**

6 **recoverables from the GAAP reserve**

7 **figures?**

8 **A. Because the numbers that**

9 **you're comparing to in these ratios**

10 **exclude the premium that you've given to**

11 **the reinsurers and the paid losses that**

12 **you've given to the reinsurers and the**

13 **IBNR that you've given to the reinsurers.**

14 **So if you also -- if you**

15 **were to include the reserves that you've**

16 **given to the reinsurers, you would be**

17 **doing an apples/oranges comparison.**

18 **Q. And if you look at the next**

19 **page, Page 5, the third bullet in the**

20 **left-hand column, it says, quote, Finite**

21 **reserve covers can distort the ratios and**

22 **may invalidate comparisons (either in**

23 **time series or against peers), closed**

24 **quote.**

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1 Do you see that?
 2 **A. Yes.**
 3 **Q. And is that -- what do you**
 4 **understand -- what does "finite reserve**
 5 **cover" mean?**
 6 **A. Finite reinsurance, which**
 7 **would be the more common term, is a type**
 8 **of reinsurance in which the reinsurer's**
 9 **loss are limited. The reinsured does not**
 10 **have unlimited exposure.**
 11 **It's often entered into for**
 12 **financial purposes rather than risk**
 13 **transfer, or the risk transfer is limited**
 14 **and usually significantly limited.**
 15 **Q. Is a loss portfolio a**
 16 **transaction -- a type of finite -- finite**
 17 **reinsurance?**
 18 **A. Yes, it is.**
 19 **Q. And so you -- you and Morgan**
 20 **Stanley understood that -- that the use**
 21 **of finite reinsurance or a loss portfolio**
 22 **transaction could distort the reserve**
 23 **results that you were looking at in**
 24 **the -- in the filings?**

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1 **A. Yes.**
 2 **MS. SMITH: Objection.**
 3 **BY MR. DWYER:**
 4 **Q. Now, are the -- do the**
 5 **statutory filings break out the**
 6 **reinsurance, the finite reinsurance in a**
 7 **way that enables you to do an analysis**
 8 **of -- of the reserves net of the finite**
 9 **reinsurance?**
 10 **A. The rules changed, and I**
 11 **don't remember when. And I think there**
 12 **is some information, but I don't**
 13 **remember -- you know, I'd have to look at**
 14 **a yellow peril.**
 15 **Q. Okay. We'll come -- later**
 16 **in -- later in our questioning we'll come**
 17 **back to that with a specific question.**
 18 **A. Okay.**
 19 **Q. If you look at Page 4 of**
 20 **Exhibit-8, the right-hand column, the**
 21 **fourth bullet in the right-hand column**
 22 **says, The ratios and their trends should**
 23 **be considered in the context of the**
 24 **company's overall business position.**

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1 **And then it talks about**
 2 **certain additional considerations.**
 3 **What did you -- what did**
 4 **that mean in the context of this report?**
 5 **A. I would call that a boiler**
 6 **plate caveat.**
 7 **Q. Okay. And what do you mean**
 8 **by a -- what do you mean by a "boiler**
 9 **plate caveat"?**
 10 **A. That it's a warning that you**
 11 **need to understand the company and its**
 12 **business in order to interpret any**
 13 **financial statistic.**
 14 **Q. Including reserves?**
 15 **A. Sure.**
 16 **Q. And am I correct in**
 17 **understanding this three-level -- this**
 18 **three-part, three-level analysis as**
 19 **requiring an analysis in which you look**
 20 **through specific line items, not just the**
 21 **aggregate numbers, to determine the**
 22 **adequacy of reserves?**
 23 **MS. SMITH: Objection.**
 24 **THE WITNESS: I'm -- I'm**

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1 **afraid I'm going to have to read**
 2 **this report to answer that**
 3 **question, because all I've read**
 4 **are these headlines of pre-op and**
 5 **triage and -- so I -- I**
 6 **actually -- I mean, when I**
 7 **answered your other question, I**
 8 **looked at the -- at the formulas**
 9 **and the work that was done in the**
 10 **back, not the narrative of what**
 11 **he's saying here.**
 12 **BY MR. DWYER:**
 13 **Q. Right. Well, if you look**
 14 **under surgery, for example, on Page 5, in**
 15 **the second paragraph under surgery he --**
 16 **he talks about how one of the -- one of**
 17 **the types of analysis that you -- one of**
 18 **the types of data that you get out of**
 19 **doing this analysis is you get to**
 20 **understand, quote, reserves**
 21 **shortfalls/redundancies by line of**
 22 **business that could have implications for**
 23 **competitive behavior, closed quote.**
 24 **Do you see that?**

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1 A. Yes.
 2 Q. So is that one of the -- is
 3 that one of the benefits that Morgan
 4 Stanley would get in analyzing statutory
 5 reserves by line of business, that it
 6 would have a better understanding of what
 7 reserve/redundancies and shortfalls there
 8 were?
 9 MS. SMITH: Objection.
 10 THE WITNESS: Yes.
 11 BY MR. DWYER:
 12 Q. You can put that document
 13 aside.
 14 Now, are there a number
 15 of -- are there reasons why -- a number
 16 of reasons why reserves might go down?
 17 A. Yes.
 18 Q. And is one of the reasons
 19 that reserves might go down is that
 20 premiums are going down?
 21 MS. SMITH: Objection.
 22 THE WITNESS: Yes.
 23 BY MR. DWYER:
 24 Q. And is one of the reasons

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1 that reserves might go down that there's
 2 a large catastrophic loss?
 3 A. Yes.
 4 Q. Another reason that reserves
 5 might go down is a change in business mix
 6 from long-tail to short-tail?
 7 A. Yes.
 8 MS. SMITH: Objection.
 9 BY MR. DWYER:
 10 Q. Another -- another reason
 11 that reserves might go down is if a
 12 company makes an acquisition that causes
 13 the acquiring company to add reserve
 14 deficiencies from the acquired company?
 15 MS. SMITH: Objection.
 16 THE WITNESS: To add to
 17 reserves because of reserve
 18 deficiencies?
 19 BY MR. DWYER:
 20 Q. No, that the
 21 reserves would -- that the reserves of
 22 the current -- of the acquiring company
 23 would go down because the company its
 24 acquiring had reserve deficiencies.

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1 MS. SMITH: Restate the
 2 objection.
 3 THE WITNESS: Yes.
 4 BY MR. DWYER:
 5 Q. And is another reason why
 6 reserves might go down is a divestiture
 7 that causes the company that divests to
 8 lose reserves from the operation that it
 9 sells?
 10 A. Yes.
 11 MS. SMITH: Objection.
 12 BY MR. DWYER:
 13 Q. Did you -- did you ever take
 14 the position publicly that you did not
 15 believe that investors should alter their
 16 overall investment strategy based on what
 17 securities analysts said?
 18 A. I don't remember whether I
 19 did or not.
 20 Q. Let's look back at Exhibit-2
 21 at Page 5. And this is -- just so we're
 22 clear, this is an article that was in the
 23 June 1, 2001, Best's review. And it --
 24 on Page 5 in the second full paragraph,

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1 it purports to characterize and quote
 2 something you said. And I -- let me read
 3 it into the record and then I'll ask you
 4 questions about it.
 5 It says, quote, Schroeder
 6 said she likes to tell the company she
 7 covers to ignore analysts' advice.
 8 Quote, If you do what's right for your
 9 business and you run it for the highest
 10 return on capital over the long-term,
 11 closed quote, she tells managers, quote,
 12 eventually you'll get rewarded and your
 13 stock multiple will be very high and
 14 you'll get the benefit of the doubt from
 15 us. But you can't let us dictate your
 16 strategy quarter to quarter, because if
 17 you do you will go down the wrong path
 18 every time, closed quote.
 19 A. Yes.
 20 Q. Is that something you said?
 21 A. Yes.
 22 Q. And you -- you -- and when
 23 it was published, you didn't -- you
 24 didn't correct it?

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1 **A. Why would I?**
 2 **Q.** Because it's right? That's
 3 your -- that was your view at the time,
 4 correct?
 5 **A. Yes.**
 6 **MS. SMITH:** Objection.
 7 **MR. FISHMAN:** Just a point
 8 of clarification. You may have
 9 asked a different question before.
 10 I think you asked her -- you asked
 11 whether investors --
 12 **MR. DWYER:** I did. You're
 13 right.
 14 **MR. FISHMAN:** So, not
 15 companies. That may be the source
 16 of the confusion.
 17 **BY MR. DWYER:**
 18 **Q.** Do you think companies -- do
 19 you think companies should -- should
 20 alter their overall business strategy
 21 based on what analysts say?
 22 **A. No.**
 23 **MR. FISHMAN:** I'm guessing
 24 she would give a different answer

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1 about investors.
 2 **THE WITNESS:** Yes, I would.
 3 **BY MR. DWYER:**
 4 **Q.** And do you -- do you
 5 believe -- do you believe that whether --
 6 do you believe that analysts have any --
 7 let me withdraw that.
 8 How much effect do you think
 9 analysts have on the stock price of a
 10 company?
 11 **A. I don't believe they do have**
 12 **any effect.**
 13 **Q.** If you go to Tab --
 14 Exhibit-9, we haven't looked at this one
 15 before. And I don't intend to ask you
 16 questions about the entire 286-page
 17 report.
 18 **A. Thank you.**
 19 **MR. FISHMAN:** That's good.
 20 Because I've instructed my client
 21 not to answer questions about
 22 documents without reading it in
 23 its entirety.
 24 **MR. DWYER:** Didn't we

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1 provide you this in advance?
 2 **MR. FISHMAN:** That's
 3 correct.
 4 **MR. DWYER:** This is one of
 5 the documents that made us give
 6 you the documents in advance.
 7 **MR. FISHMAN:** Yeah. I'm
 8 guessing it's one she did not read
 9 in its entirety.
 10 **THE WITNESS:** I certainly
 11 didn't.
 12 **BY MR. DWYER:**
 13 **Q.** Now, in Exhibit-9, which
 14 bears production numbers AIGF 185795
 15 through 186082, is this a document that
 16 was issued under your supervision in May
 17 of 2000 by Paine Webber?
 18 **A. Yes, it was.**
 19 **Q.** And was it a company
 20 analysis of AIG?
 21 **A. Yes, it was.**
 22 **Q.** And did it focus on the
 23 property casualty business or was it an
 24 analysis of all of AIG?

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1 **A. All of AIG.**
 2 **Q.** And so you think that AIG
 3 was a sufficiently complex company that
 4 you needed to write a 286-report to tell
 5 your -- your clients at Paine Webber
 6 what -- what you thought of AIG?
 7 **MS. SMITH:** Objection.
 8 **THE WITNESS:** We didn't need
 9 to do that, but we wanted to.
 10 **BY MR. DWYER:**
 11 **Q.** And you -- presumably you
 12 gave it to the clients thinking they
 13 would get something more out of a
 14 286-report than they would get out of a
 15 28-page report?
 16 **MS. SMITH:** Objection.
 17 **THE WITNESS:** Yes.
 18 **BY MR. DWYER:**
 19 **Q.** And one of the things you
 20 told -- if you look at Page 9, one of the
 21 things you told your clients at Paine
 22 Webber was that, quote, The increasing
 23 complexity of AIG's business and the need
 24 to obtain and analyze detailed

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1 information about its constantly
 2 expanding worldwide operations have made
 3 it more difficult to estimate the
 4 company's long-term sustainable growth
 5 rate, closed quote.
 6 Is that correct?
 7 **A. Yes.**
 8 Q. And you told them that in
 9 May of 2000?
 10 **A. Right.**
 11 Q. And that was your view at
 12 the time?
 13 **A. Yes.**
 14 Q. Now, did you focus on a
 15 number of factors in analyzing AIG in
 16 this report that you provided to Paine
 17 Webber's clients in May of 2000?
 18 **A. Yes, we did.**
 19 Q. And so if you look at Page 9
 20 at the -- at the top of your summary and
 21 introduction, you led off with the
 22 statement, quote, AIG has been the most
 23 consistently profitable major U.S.
 24 insurance company in history, closed

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1 quote.
 2 Do you see that?
 3 **A. Yes.**
 4 Q. Now, was that -- did you
 5 regard that as the most important factor
 6 in terms of presenting to your clients
 7 your analysis of AIG?
 8 MS. SMITH: Objection.
 9 THE WITNESS: I don't
 10 recall.
 11 BY MR. DWYER:
 12 Q. Well, you listed it first.
 13 **A. That doesn't mean -- the**
 14 **title of the report is "Targeting Global**
 15 **Growth." That's not the same as most**
 16 **profitable. So I can't -- I don't**
 17 **recall.**
 18 Q. Am I correct in assuming
 19 that it was an important factor?
 20 **A. Yeah.**
 21 Q. And was a -- another
 22 important factor that you were presenting
 23 to your clients in May of 2000 that there
 24 was a breadth in diversity of AIG's

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1 business?
 2 **A. Yes.**
 3 Q. And if you turn to the next
 4 page, was another important factor you
 5 were presenting to your clients AIG's
 6 strength in the international market?
 7 **A. Yes.**
 8 Q. In fact, you saidin -- on
 9 Page 10 that, quote, AIG's single most
 10 important competitive advantage is the
 11 significant head start it has
 12 internationally, a head start we believe
 13 will result in rapidly compounding growth
 14 in important markets, closed quote.
 15 **A. Correct.**
 16 Q. And you also pointed out,
 17 still on Page 10, that AIG has not come
 18 close to fully exploiting its growth
 19 opportunities, correct?
 20 **A. Yes.**
 21 Q. And that AIG had plenty of
 22 room to grow in its largest -- even in
 23 its largest markets?
 24 **A. Yes.**

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1 Q. And then at the top of Page
 2 11, you listed a number of -- you said
 3 that AIG has numerous other competitive
 4 advantages, and then you listed a number
 5 of competitive advantages, correct?
 6 **A. Uh-huh, yes.**
 7 Q. And the ones you listed are
 8 its very low expense structure, flat
 9 organization, product innovation skills,
 10 underwriting ability, enormous scale and
 11 entrepreneurial culture in which
 12 either/or is not a -- an acceptable
 13 answer.
 14 Is that correct?
 15 **A. Yes.**
 16 Q. So those were -- those were
 17 the -- would you say those were the most
 18 important factors that you thought were
 19 AIG's competitive advantages when you
 20 wrote this report in May of 2000?
 21 **A. Yes.**
 22 MS. SMITH: Objection.
 23 BY MR. DWYER:
 24 Q. Now, if you turn to Page 16,

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1 at the -- the last paragraph on Page 16,
 2 you also pointed out to your Paine Webber
 3 clients that AIG's business mix was
 4 shifting from nonlife to -- insurance to
 5 life insurance, correct?
 6 **A. Yes.**
 7 Q. Why was that important to
 8 point out to your clients in May of 2000?
 9 **A. It's a different business.**
 10 **It has lower margins but faster growth**
 11 **and so they needed to understand how the**
 12 **business mix would affect both the growth**
 13 **rates and the profitability.**
 14 Q. And you were projecting that
 15 by 2005, that is, five years later, that
 16 less than one-third of AIG's earnings
 17 would come from nonlife insurance,
 18 correct?
 19 **A. Yes.**
 20 Q. And nonlife insurance
 21 includes property & casualty insurance?
 22 **A. Yes.**
 23 Q. And you -- you said in this
 24 report to your clients in May of 2000

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1 that you didn't think that the property
 2 and casualty segment of AIG would be the
 3 principal driver of its stock, correct?
 4 MS. SMITH: Objection.
 5 THE WITNESS: Did I say
 6 that? I don't know.
 7 BY MR. DWYER:
 8 Q. Well, if you look at that --
 9 that last paragraph that I pointed out,
 10 it said -- you say, Life insurance will
 11 be the more important business.
 12 And you say, in the second
 13 sentence of that paragraph, While the low
 14 cost float provided by these
 15 businesses -- meaning the nonlife
 16 businesses -- is valuable, we do not
 17 believe it will be the principal driver
 18 of the stock.
 19 **A. Okay.**
 20 Q. Does that refresh your
 21 recollection?
 22 **A. Yes. Thank you.**
 23 Q. You said that?
 24 **A. Yes.**

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1 Q. And you -- you -- that
 2 was -- that was the view that you had at
 3 the time?
 4 **A. Yes.**
 5 Q. And then if you turn to Page
 6 19, you have a discussion of risk factors
 7 in the second half of Page 19 that
 8 actually, you know, will continue on.
 9 And the -- in this report to
 10 Paine Webber's clients in May of 2000,
 11 you -- you call out three risk factors
 12 that are specific to AIG in the first
 13 three paragraphs there.
 14 Do you see that?
 15 **A. Yes.**
 16 Q. And -- and one of them is by
 17 doing business in foreign companies --
 18 foreign countries you're -- you're
 19 exposed to political and economic risk
 20 there; is that correct?
 21 **A. Yes.**
 22 Q. And a second AIG specific
 23 factor was major political or regulatory
 24 change in a key country; is that correct?

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1 **A. Yes.**
 2 Q. And the third major stock
 3 factor is poorly timed or executed
 4 management succession?
 5 **A. Yes.**
 6 Q. Okay. And then in the
 7 fourth paragraph you talk about risk
 8 factors not specific to AIG.
 9 And by that do you mean risk
 10 factors that just are inherent to any
 11 insurance company?
 12 **A. Yes.**
 13 Q. And so one of the -- and so
 14 one of the -- so what you're saying to
 15 your clients is, these are other risk
 16 factors that affect AIG and all property
 17 casualty insurers?
 18 **A. Yes.**
 19 Q. And -- and one of them is
 20 interest rates?
 21 **A. (Witness nods.)**
 22 Q. Yes?
 23 **A. Yes.**
 24 Q. And one of them is loss

Page 130

1 reserves?
 2 **A. Yes.**
 3 **Q. Another is inflation?**
 4 **A. Yes.**
 5 **Q. And another is an**
 6 **unexpectedly prolonged property casualty**
 7 **downward cycle?**
 8 **A. Yes.**
 9 **Q. So those are -- those are**
 10 **just generic factors in the industry?**
 11 **A. Yes.**
 12 **Q. And the three -- the three**
 13 **ones before that are the ones that are**
 14 **more specifically directed at AIG?**
 15 **A. Yes.**
 16 **MS. SMITH: Objection.**
 17 **BY MR. DWYER:**
 18 **Q. So loss reserves -- at the**
 19 **time you wrote this report and you're**
 20 **analyzing AIG to your client base at**
 21 **Paine Webber, you would -- one of the**
 22 **things you were communicating was that**
 23 **loss reserves were a factor that you**
 24 **would consider in evaluating AIG but they**

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1 weren't the only factor or even the most
 2 major factor?
 3 **MS. SMITH: Objection.**
 4 **THE WITNESS: That's fair.**
 5 **BY MR. DWYER:**
 6 **Q. And if you turn to Page 31,**
 7 **at the bottom of Page 31, and you're**
 8 **looking at -- you've got a chart,**
 9 **Exhibit-8, that is AIG's reserve**
 10 **development for 1997, 1998, 1999 -- I'll**
 11 **wait until you get there.**
 12 **A. Okay.**
 13 **Q. Now, first of all, what's**
 14 **a -- what is a reserve development chart?**
 15 **A. A reserve development**
 16 **separates the reserve change from**
 17 **policies that are sold in the current**
 18 **year from all of the changes to reserves**
 19 **from policies written in all preceding**
 20 **years.**
 21 **Q. And you say in the paragraph**
 22 **that's under the Exhibit-8, in your -- in**
 23 **your May 2000 report, quote, The pattern**
 24 **that is apparent is that AIG's reserves**

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1 **have consistently developed favorably,**
 2 **although market conditions in the 1997**
 3 **and 1998 accident years are not likely to**
 4 **produce similar levels of redundancies as**
 5 **peak cycle years of the past, closed**
 6 **quote.**
 7 **And then you actually go on**
 8 **to say, This is consistent with**
 9 **management's choice to not renew certain**
 10 **business in 1999 due to inadequate**
 11 **pricing.**
 12 **So let me ask you some --**
 13 **first of all, that was -- that was what**
 14 **you intended to say at the time, correct?**
 15 **A. Yes.**
 16 **Q. And that reflected your**
 17 **views at the time?**
 18 **A. Yes.**
 19 **Q. What -- what did you mean**
 20 **by -- that AIG's reserves have developed**
 21 **favorably?**
 22 **A. Typically, they have**
 23 **reserved at an estimated level that when**
 24 **the losses were subsequently paid,**

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1 **they've paid out less than they initially**
 2 **estimated.**
 3 **Q. And then you say, Market**
 4 **conditions in the '97 and '98 accident**
 5 **years are not likely to produce similar**
 6 **levels of redundancies as peak cycle**
 7 **years of the past.**
 8 **What did you mean by that?**
 9 **A. Because of the price wars**
 10 **that were going on -- in a period of**
 11 **price wars, almost every insurance**
 12 **company, I would say without exception,**
 13 **but perhaps there is an exception, I**
 14 **can't think of any, reserves at a level**
 15 **that does not produce loss payments later**
 16 **that are less than the initial reserve;**
 17 **often they're greater.**
 18 **Q. So what you -- am I -- am I**
 19 **correct in understanding that your view**
 20 **at the time that you were communicating**
 21 **to your clients at Paine Webber in May of**
 22 **2000 was that it was -- it was possible,**
 23 **based on the market conditions in the**
 24 **1997 and 1998 accident years, that AIG's**

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1 property and casualty reserves would go
 2 down?
 3 MS. SMITH: Objection.
 4 THE WITNESS: Would go down?
 5 That really -- that really isn't
 6 what I was communicating here, but
 7 it doesn't rule out what you said.
 8 **BY MR. DWYER:**
 9 Q. It might -- that might be --
 10 someone might look at this and interpret
 11 it that way?
 12 MS. SMITH: Objection.
 13 THE WITNESS: I don't think
 14 they would be thinking about
 15 whether the reserves would go up
 16 or down if they read this.
 17 **BY MR. DWYER:**
 18 Q. What would they be thinking
 19 about?
 20 **A. They would be thinking --**
 21 MS. SMITH: Objection.
 22 THE WITNESS: They would be
 23 thinking about whether the
 24 reserves would be adequate or not.

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1 **BY MR. DWYER:**
 2 Q. Adequate to cover future
 3 losses?
 4 **A. Future losses.**
 5 Q. So would -- because what
 6 they would be concerned about is if
 7 your -- if your reserves are adequate to
 8 cover future losses, that has a positive
 9 affect on your earnings?
 10 **A. Yes.**
 11 MS. SMITH: Objection.
 12 **BY MR. DWYER:**
 13 Q. And if they're not, it has a
 14 negative affect on your earnings?
 15 MS. SMITH: Objection.
 16 THE WITNESS: Yes.
 17 **BY MR. DWYER:**
 18 Q. So that was -- that was the
 19 key question that -- for your readership?
 20 **A. Yes.**
 21 Q. You can put that document
 22 aside. I know you're sorry to hear that.
 23 So let's look at Exhibit-10,
 24 which is a February 12, 2002, Morgan

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1 Stanley report with regard to AIG headed,
 2 "Details of Fire" -- "Fireside Chat" with
 3 production numbers AIGF 41177 to 41 --
 4 41184.
 5 Is this a report that was
 6 written under your direction at Morgan
 7 Stanley?
 8 **A. Yes.**
 9 Q. And what was your role in
 10 writing this report?
 11 **A. I wrote it.**
 12 Q. And was this distributed to
 13 Morgan's client base?
 14 **A. Yes.**
 15 Q. And did you intend them to
 16 use it in their investment decisions?
 17 **A. Yes, I did.**
 18 Q. Now, the heading, "Details
 19 of Fireside Chat," what does that refer
 20 to?
 21 **A. The annual meeting that Mr.**
 22 **Greenberg held with investors, which was**
 23 **referred to as the fireside chat.**
 24 Q. And this was -- was this

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1 in-person -- I'm sorry, an in-person
 2 meeting or not?
 3 **A. It was an in-person meeting.**
 4 Q. And where was it held?
 5 **A. We were summoned down to**
 6 **Pine Street to his office.**
 7 Q. How many --
 8 **A. Or his conference room.**
 9 Q. So how many people were --
 10 were there?
 11 **A. I'd say 25.**
 12 Q. All -- all -- all buy --all
 13 sell-side analysts?
 14 **A. He had a buy-side meeting**
 15 **and a sell-side meeting on two**
 16 **consecutive nights.**
 17 Q. And you went to the
 18 sell-side meeting?
 19 **A. Yes.**
 20 Q. How -- how many fireside
 21 chats had you gone to?
 22 **A. Maybe --**
 23 MR. FISHMAN: I'm sorry, had
 24 she gone to before this one?

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1 MR. DWYER: Yes. Yes.
 2 THE WITNESS: Before this
 3 one? I'm not sure. I don't know.
 4 BY MR. DWYER:
 5 Q. Did you go every year?
 6 A. **Once I began covering AIG, I**
 7 **went every year, unless I might have been**
 8 **sick one year or something. But, I mean,**
 9 **I normally went, yes.**
 10 Q. And did all the --
 11 obviously, you only went to the sell-side
 12 meetings. But did -- to the best of your
 13 recollection, did all the principal
 14 sell-side analysts go to these meetings?
 15 A. **Yes.**
 16 Q. And if you turn to Page 2,
 17 in the second paragraph of the second
 18 column -- actually, in terms of the
 19 first -- the first paragraph in the
 20 second column, it recites that Mr.
 21 Greenberg was -- was sick at this meeting
 22 so he didn't -- he didn't come.
 23 A. **Right.**
 24 Q. And was that the first -- at

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1 all the other meetings, fireside chats
 2 you had gone to, had he -- had he been
 3 present --
 4 A. **Yes.**
 5 Q. -- and done the principal --
 6 been the principal spokesman for AIG?
 7 A. **Yes.**
 8 Q. And -- but the vice
 9 chairman, Ed Matthews, ran this meeting?
 10 A. **Yes.**
 11 Q. And in the second paragraph,
 12 in the middle of it -- and I think this
 13 is, you know, I guess in February of
 14 2002, this is shortly after the collapse
 15 of Enron?
 16 A. **Yes.**
 17 Q. You -- you say in the middle
 18 of that paragraph, quote, One feature
 19 that we felt was totally absent from the
 20 tone of the discussion was any sense of
 21 evasiveness on AIG's part, closed quote.
 22 Is that -- did that
 23 accurately reflect your views when you
 24 wrote this?

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1 A. **Yes.**
 2 Q. And was that -- was that, in
 3 your view, different from some of the
 4 other insurance companies that you
 5 covered?
 6 A. **No. That statement related**
 7 **only to AIG. It was very specific to**
 8 **AIG.**
 9 Q. Had you -- had you -- prior
 10 to this, had you had this view as to AIG,
 11 that -- that AIG gave candid disclosures
 12 to -- to you as an analyst?
 13 MS. SMITH: Objection.
 14 THE WITNESS: AIG was not
 15 known for its openness, but that
 16 is not what this statement refers
 17 to.
 18 BY MR. DWYER:
 19 Q. What does this statement
 20 refer to?
 21 A. **Mr. Greenberg's illness was**
 22 **perceived with great consternation by**
 23 **investors as possibly having something to**
 24 **do with possibly more serious than just**

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1 **the flu. And there was a lot of concern**
 2 **that there was a cover-up going on of him**
 3 **having something serious.**
 4 **At the same time, AIG had**
 5 **had a practice of not letting investors**
 6 **have access to other senior management,**
 7 **so that there was a great desire of**
 8 **investors to meet people who might become**
 9 **possible successors of him and gauge**
 10 **their capabilities.**
 11 **So you had these**
 12 **simultaneous things going on where being**
 13 **able to freely ask questions of other**
 14 **members of management was something that**
 15 **investors really wanted to get a sense of**
 16 **how straightforward they were and also**
 17 **get a sense of how true it was that Mr.**
 18 **Greenberg was not mortally ill.**
 19 **It was very specific and**
 20 **unique to this meeting.**
 21 Q. And am I correct in
 22 understanding that analysts thought that
 23 Mr. Greenberg's -- had a significant role
 24 in -- in the success of AIG?

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1 A. Yes.
 2 Q. And that -- and that as --
 3 as you and the other analysts sat there
 4 in early 2002, you were -- you were
 5 concerned that if Mr. Greenberg couldn't
 6 continue in that role that AIG would
 7 lead -- lose a very good leader?
 8 A. Yes.
 9 Q. Have you -- have you seen
 10 him more recently?
 11 MS. SMITH: Objection.
 12 BY MR. DWYER:
 13 Q. He's still in pretty good
 14 health.
 15 A. Have I seen Hank?
 16 Q. Yes.
 17 A. No.
 18 Q. You can put that document
 19 aside.
 20 If you look at Exhibit-11,
 21 which is AIGF 2955 through -- I'm sorry,
 22 29955 through 29962, which is the AIG
 23 third quarter 2000 press release -- do
 24 you see that?

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1 A. Uh-huh.
 2 Q. This is a document you've
 3 seen before, correct?
 4 A. Yes.
 5 Q. And you saw it -- you saw it
 6 at the time that it was issued?
 7 A. Yes.
 8 Q. And is it -- is it true that
 9 quarterly press -- quarterly earnings
 10 releases were documents that you
 11 routinely relied on for AIG or other
 12 companies?
 13 A. That's correct.
 14 Q. And did you then -- did you
 15 write your reports at the various
 16 investment firms as an analyst, timing
 17 them so they would come out right after
 18 the -- the quarterly earnings releases?
 19 A. Yes, we did.
 20 Q. Now -- and you did so with
 21 regard to -- to Exhibit-11, correct?
 22 A. Yes.
 23 Q. Now, if you look at Page 3,
 24 the next-to-last paragraph which says,

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1 quote, The poor underwriting environment
 2 that existed for a number of years in the
 3 nonlife sector in many parts of the world
 4 as well as the failure to meet investment
 5 guarantees to policyholders in the life
 6 sector must lead to a continuing
 7 consolidation in the industry. We view
 8 this as an opportunity, given our strong
 9 financial position and global network.
 10 AIG is well positioned to evaluate such
 11 opportunities, closed quote.
 12 And that's a statement
 13 that's attributed to Mr. Greenberg.
 14 A. Yes.
 15 Q. Did you -- were you -- were
 16 you aware of this statement when you
 17 analyzed Exhibit-11 back in, I guess this
 18 is, October of 2000?
 19 A. Yes.
 20 Q. And what was the
 21 significance of that statement to you?
 22 A. That AIG was interested in
 23 making acquisitions.
 24 Q. And did other analysts who

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1 followed AIG also reach that conclusion?
 2 A. Sell-side analysts aren't
 3 privy to one another's work, so I'm not
 4 sure.
 5 Q. Did you ever -- did you
 6 ever -- did you ever read any of the
 7 other analysts' reports?
 8 A. Almost never.
 9 Q. What -- what would cause you
 10 to have read them?
 11 A. Very occasionally a client
 12 would send me something and ask me a
 13 question about it. But, no. Generally,
 14 no.
 15 Q. Did you read any -- have you
 16 ever read any other analysts' reports
 17 relating to AIG that related to the third
 18 quarter of 2000 earnings release?
 19 A. I was shown one as a -- as
 20 an exhibit in Hartford, and I read a
 21 paragraph. And that's the only one I
 22 recall.
 23 Q. Who's -- who's that? Whose
 24 report was that?

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1 **A. Kenneth Zuckerberg.**
 2 **Q. He's at Wasser --**
 3 **A. I don't -- I'm not sure.**
 4 **Q. Okay. We'll come back to**
 5 **that.**
 6 **Is there -- is there a**
 7 **prohibition to your reading other**
 8 **sell-side analysts' reports?**
 9 **A. The system of first call is**
 10 **designed to prevent us from doing so.**
 11 **Prohibition, there is no**
 12 **Supreme Court of the analyst or, you**
 13 **know -- but we're not supposed to.**
 14 **Q. And so you don't?**
 15 **A. No.**
 16 **Q. And --**
 17 **A. And, you know, you form your**
 18 **own independent judgment. So reading**
 19 **other analysts' reports would not help**
 20 **you. It would probably tend to color**
 21 **your thinking in a way that would not be**
 22 **helpful.**
 23 **Q. So you -- so you in writing**
 24 **your reports at Oppenheimer, Paine**

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1 **Webber, Morgan Stanley, you almost all**
 2 **the time were -- were not aware of what**
 3 **other sell-side analysts were writing?**
 4 **A. Well, clients would**
 5 **frequently make comments on key**
 6 **statements that other analysts might**
 7 **make. So I generally knew -- for**
 8 **example, in this particular quarter,**
 9 **everyone knew why everyone was upset and**
 10 **everyone knew what was going on.**
 11 **So you would often get**
 12 **questions, why is so-and-so saying such**
 13 **and such? But I didn't read their**
 14 **reports.**
 15 **Q. Okay. And how were -- when**
 16 **you say everyone was aware that everyone**
 17 **was upset, who -- who is the "everyone"**
 18 **that you're talking about?**
 19 **A. Clients. Salespeople.**
 20 **Q. And -- and how -- how did**
 21 **you become aware of what they were**
 22 **concerned about?**
 23 **A. Phone calls and the stock**
 24 **price dropping, I think it was, 6**

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1 **percent.**
 2 **Q. Okay. And who are the**
 3 **analysts -- I'm sorry, who are the**
 4 **clients that made these calls to you?**
 5 **A. I don't remember specific**
 6 **clients --**
 7 **Q. Do you remember --**
 8 **A. -- at this point.**
 9 **Q. Do you remember what**
 10 **specifically was said to you?**
 11 **A. Yes. That the reserve**
 12 **decrease was the thing that people were**
 13 **concerned about primarily in the quarter.**
 14 **And, also, I believe that**
 15 **Mike Smith downgraded the stock that day.**
 16 **And I believe that I knew or heard he was**
 17 **downgrading it.**
 18 **Q. And Mike Smith is an analyst**
 19 **at what -- what firm?**
 20 **A. I think he was at Bear**
 21 **Stearns. I'm not --**
 22 **Q. And when you said they were**
 23 **concerned about the price drop, what**
 24 **specifically did they say about the --**

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1 **the price drop?**
 2 **A. Well, if you own \$100**
 3 **million worth of AIG stock, you lost \$6**
 4 **million that day in your portfolio. And**
 5 **if that was 10 percent of your portfolio,**
 6 **then, you know, that was -- that was**
 7 **significant to your performance that day.**
 8 **So if you were a money manager, you were**
 9 **angry.**
 10 **Q. When you said you lost it**
 11 **that day, you don't -- they only lost it**
 12 **if -- on either a market-to-market basis**
 13 **or if they sold, correct?**
 14 **MS. SMITH: Objection.**
 15 **THE WITNESS: Investors**
 16 **were -- portfolio managers are**
 17 **market-to-market every day, most**
 18 **of them.**
 19 **BY MR. DWYER:**
 20 **Q. But if they -- but unless**
 21 **they sold -- if they had -- they had**
 22 **waited a week in this particular stock**
 23 **price drop, they -- they would have -- a**
 24 **week later they wouldn't have lost any**

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1 value at all?
 2 MS. SMITH: Objection.
 3 THE WITNESS: Those who
 4 didn't sell didn't lose any value.
 5 But as you can see, a number of
 6 them sold.
 7 BY MR. DWYER:
 8 Q. Well, how do you know that a
 9 number of them sold?
 10 A. **Because the stock dropped 6**
 11 **percent.**
 12 Q. Well, how do you know that
 13 it was fund managers who sold as opposed
 14 to individuals who sold?
 15 A. **Whoever sold lost money.**
 16 Q. So you don't know that it
 17 was fund managers who sold?
 18 A. **No.**
 19 Q. Did any fund managers who
 20 were clients of yours tell you that they
 21 lost money?
 22 A. **I don't recall.**
 23 Q. And you do recall that the
 24 stock price had -- had a drop and

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1 recovered to its pre-earnings
 2 announcement picture within a week?
 3 A. **Yes.**
 4 MS. SMITH: Objection.
 5 BY MR. DWYER:
 6 Q. Now, the -- the reserve drop
 7 that you're talking about is one
 8 that's -- is that the one that's
 9 reflected on -- on Page 29961 -- 29961,
 10 opposite -- I'll wait until you get
 11 there -- opposite change in loss and LAE
 12 reserve?
 13 A. **The \$59 million?**
 14 Q. Yes.
 15 A. **Yes.**
 16 Q. And there's a Footnote D,
 17 right, for change in loss and LAUs. And
 18 if you look on the last page of this
 19 document it says, The reduction in loss
 20 and loss adjust expense reserve is
 21 primarily attributed to TransAtlantic
 22 Holdings, Inc., as discussed above.
 23 A. **That's correct.**
 24 Q. And that's discussed --

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1 actually discussed in the -- in the
 2 report itself; is that correct?
 3 A. **That's correct.**
 4 Q. And did that have some
 5 significance -- did that have any
 6 significance to you in your analysis?
 7 A. **It did.**
 8 Q. And what was the
 9 significance it had to you in your
 10 analysis?
 11 A. **Nine months prior to this**
 12 **report, around New Years 2000, there were**
 13 **two huge European storms, Martina and**
 14 **Wilthar, that had caused major losses to**
 15 **insurance companies and reinsurers in**
 16 **particular. And these losses were being**
 17 **paid out around this time.**
 18 **And we believed that the**
 19 **losses from TransAtlantic related to**
 20 **these catastrophes because we were seeing**
 21 **that to some degree at other companies,**
 22 **too.**
 23 Q. And that's what, in fact --
 24 that is, in fact, what AIG said in its

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1 earning release, correct?
 2 A. **That is correct. They --**
 3 **they said catastrophes.**
 4 Q. Well, but I mean, if you
 5 look at the top of the third page of
 6 Exhibit-11, it says there -- that's the
 7 paragraph that talks about TransAtlantic.
 8 A. **Right. It doesn't say which**
 9 **catastrophes, but it says catastrophes.**
 10 Q. But that's at least what you
 11 understood when you were doing your
 12 analysis?
 13 A. **Yes. And there were also**
 14 **the Midwest storms, the tornados. So --**
 15 Q. Okay. Now, if you turn to
 16 Exhibit-12, which is your October 27,
 17 2000, report.
 18 Let me first ask you, is
 19 it -- is it typical that you would write
 20 a report the day after the earnings
 21 release?
 22 A. **The day of or the day after.**
 23 **It could be either.**
 24 Q. But the idea is to get it

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1 out into the marketplace quickly?

2 **A. Yes.**

3 **Q. And when you -- when you**

4 **wrote this report in October of 2000,**

5 **you -- you wrote this the way you**

6 **normally would write a report, correct?**

7 **MS. SMITH: Objection.**

8 **THE WITNESS: Yes.**

9 **BY MR. DWYER:**

10 **Q. So what did you -- what did**

11 **you do in writing this report other than**

12 **looking at the earnings release?**

13 **A. I -- I'm not sure how to**

14 **answer that. Are you asking how we**

15 **analyze a quarterly -- I'm not sure what**

16 **you're asking.**

17 **Q. Well, let me start out.**

18 **Did you -- one thing you**

19 **looked at was the earnings release,**

20 **correct?**

21 **A. Correct.**

22 **Q. Did you talk -- try to talk**

23 **to anybody at AIG about the earnings**

24 **release?**

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1 **A. Yes.**

2 **Q. And with regard to this**

3 **earnings release, who did you talk to?**

4 **A. Ms. Hamrah.**

5 **Q. She is the director of**

6 **shareholder relations?**

7 **A. Yes.**

8 **Q. And what -- what did you --**

9 **did you ask her any questions about this**

10 **release?**

11 **A. Yes.**

12 **Q. What did you ask her?**

13 **A. We talked about the reserve**

14 **change.**

15 **Q. Anything else?**

16 **A. I don't remember.**

17 **Q. And what did you -- what did**

18 **you -- what did you ask her about the**

19 **reserve change?**

20 **A. Just went through and got**

21 **a -- as I recall, a slightly more**

22 **detailed or more confirmed explanation of**

23 **the reserve change and the reason for it.**

24 **Q. And you don't remember**

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1 specifically what she said?

2 **A. As I recall, it was**

3 **consistent with the press release and**

4 **whatever we said in our report. But I**

5 **don't -- I can't reel off the**

6 **conversation verbatim.**

7 **Q. Did you look the -- at**

8 **what -- TransAtlantic was the primary**

9 **reason she gave for the --**

10 **A. I believe so.**

11 **Q. And did you look at the**

12 **stock price before you did your report?**

13 **A. Yes.**

14 **Q. So what other factors,**

15 **besides the quarterly release, talking to**

16 **Hamrah and looking at the stock price?**

17 **A. Industry trends, our**

18 **knowledge of the company, our knowledge**

19 **of the industry, past -- you know, our**

20 **earnings model, past trends at AIG.**

21 **Q. So then when you wrote this**

22 **report, you -- and I take it you wrote**

23 **this report?**

24 **A. Yes.**

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1 **Q. And -- and you then**

2 **published it to your clients?**

3 **A. Yes.**

4 **Q. And you intended them to**

5 **use -- use it in their decision-making?**

6 **A. Yes.**

7 **Q. And you -- you had described**

8 **the -- the title of this document was,**

9 **"Correction: Raising 2001 E; Market**

10 **Concerns Overblown."**

11 **Do you see that?**

12 **A. Yes.**

13 **Q. And would you explain what**

14 **those three components of that meant?**

15 **A. Yes. I'm -- I'm not sure**

16 **what was corrected on here. So because**

17 **it's not obvious, I'm guessing that in**

18 **the table below a number was probably**

19 **left off or something like that. We did**

20 **corrections all the time. It's kind of**

21 **like a newspaper.**

22 **Raising 2001 E, if you go**

23 **down to that table, it -- on the last**

24 **column it says, 2001 E, that's our**

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1 **earnings estimates for 2001. So what**
 2 **we're saying is that we increased our**
 3 **estimate of what AIG would earn in 2001.**
 4 **Market concerns overblown,**
 5 **we're referring to the stock price**
 6 **decrease of 6 percent the day before and**
 7 **the investor reaction to the reserve**
 8 **change.**
 9 Q. And -- and, in fact, you --
 10 you have three bullet points on that
 11 first page and one of them is, This looks
 12 like an opportunity to buy on weakness.
 13 A. **That's right.**
 14 Q. So you were telling your
 15 clients that the market had overreacted
 16 and that this would be a good buying
 17 opportunity for them?
 18 A. **Yes.**
 19 Q. And did you talk to your
 20 clients about that?
 21 A. **Yes.**
 22 Q. And did they -- did some of
 23 them agree with you?
 24 A. **I -- I don't recall what**

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1 **their reaction was. I -- I don't know.**
 2 Q. And you then -- why -- why
 3 did you raise your earnings estimates?
 4 A. **Speaking generically, we**
 5 **took all the numbers in their press**
 6 **release and ran it through our earnings**
 7 **model and it pumped out an increase**
 8 **because of the trends of all the**
 9 **different data that we input.**
 10 **In terms of specifically, I**
 11 **would have to read this and see if**
 12 **there's an exact explanation.**
 13 Q. And then you -- the third
 14 bullet point on the first page of your
 15 October 27th, 2000 write-up on AIG said,
 16 Concerns over reserves appear overblown.
 17 Do you see that?
 18 A. **Yes.**
 19 Q. And the specific things --
 20 and that was your view at the time,
 21 right?
 22 A. **Yes.**
 23 Q. And the specific items you
 24 point to under that heading are, first,

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1 that the amounts were immaterial: is that
 2 correct?
 3 A. **Correct.**
 4 Q. What did you mean by that?
 5 A. **That the amount was small**
 6 **enough that it could be set aside by**
 7 **investors in the context of the big**
 8 **picture.**
 9 Q. That \$59 million of a
 10 decrease in reserves compared to the --
 11 A. **\$25 billion.**
 12 Q. -- \$25 billion is
 13 immaterial?
 14 A. **Yes.**
 15 MS. SMITH: Objection.
 16 BY MR. DWYER:
 17 Q. And then you say, The
 18 explanation for the decline is logical.
 19 What did you mean by that?
 20 A. **That we agreed with the**
 21 **rationale that given that we knew that**
 22 **they had had the catastrophe losses in**
 23 **the prior periods and would have to be**
 24 **paying them, and given the timing, it**

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1 **made sense that the company was**
 2 **explaining the reserve change in light of**
 3 **the catastrophe losses.**
 4 Q. And as you went on in
 5 this -- in this report you said -- you
 6 gave a greater explanation on Pages 2 and
 7 3 about why you weren't concerned about
 8 reserves, correct?
 9 A. **Yes.**
 10 Q. And you described it -- you
 11 said, Pass the popcorn, we've seen this
 12 movie before. To us this looks like a
 13 classic buying opportunity.
 14 What did you mean by that?
 15 A. **I was referring to the prior**
 16 **year when AIG had had reserve decreases**
 17 **and then the next quarter it turned**
 18 **around and had increases. And it was not**
 19 **significant. It -- it did not become a**
 20 **trend. And investors got all excited**
 21 **about it and it was for nothing.**
 22 Q. And -- and the -- one of the
 23 key factors you pointed to was that this
 24 wasn't a -- this wasn't an unexplained

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1 reserve?
 2 **A. Yes.**
 3 Q. And unexplained reserves
 4 cause you some concern because of the
 5 risk that they're being used to mask a
 6 drawdown to inflate earnings?
 7 MR. FISHMAN: Objection. I
 8 think she said unexplained reserve
 9 decline, as opposed to unexplained
 10 reserves.
 11 MR. DWYER: I'm sorry.
 12 THE WITNESS: Unexplained
 13 release.
 14 MR. DWYER: Unexplained
 15 release. Let me -- let me try
 16 that question again.
 17 BY MR. DWYER:
 18 Q. You are -- you are -- what
 19 you -- what you weren't concerned with --
 20 you weren't concerned because it wasn't
 21 an unexplained release of reserves; is
 22 that correct?
 23 **A. Not quite. I wasn't**
 24 **concerned because it wasn't a steady**

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1 **trend of unexplained releases.**
 2 Q. Of reserves?
 3 **A. Of reserves.**
 4 Q. And -- and that's because
 5 with regard to the third quarter, you
 6 understood that the release -- that the
 7 decrease in reserves was explained, it
 8 had to do with the loss -- primarily with
 9 the losses having to do with
 10 TransAmerica?
 11 MS. SMITH: Objection.
 12 THE WITNESS: It's because
 13 it wasn't a steady trend and it
 14 was -- it was explained, both of
 15 those things.
 16 BY MR. DWYER:
 17 Q. Right. And -- and, in fact,
 18 you then go on with four bullet points,
 19 you know, one of which is that it's a
 20 small release, only two-tenths of a
 21 percent of AIG's reserves and represents
 22 only a single quarter data point, not a
 23 trend?
 24 **A. Correct.**

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1 Q. And the second was, it's
 2 dangerous -- you thought it was dangerous
 3 to draw sweeping conclusions from one
 4 quarter's reserve data given the many
 5 complex numbers that drove this factor.
 6 Yes?
 7 **A. Right.**
 8 Q. And -- and the reason given
 9 for TransAtlantic's portion of the
 10 reserves was logical to you and had no
 11 negative implications for earnings
 12 quality?
 13 **A. Correct.**
 14 Q. Why is earnings quality --
 15 why -- what's the relationship between
 16 earnings quality and the release of
 17 reserves?
 18 **A. Earnings quality has to do**
 19 **with the source of earnings and whether**
 20 **it is sustainable or coming from digging**
 21 **under the mattress to find, you know,**
 22 **nickels and dimes, which isn't going to**
 23 **be able to be sustained.**
 24 **Because earning estimates**

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1 **are projections of future trends. So if,**
 2 **for example, the company was reporting**
 3 **earnings and getting one-time gains from**
 4 **sales of assets, you wouldn't project**
 5 **that as a trend. And that has -- that**
 6 **would be poor earnings quality.**
 7 **If the company was releasing**
 8 **reserves from having found that a block**
 9 **of medical malpractice policies sold in**
 10 **1987 to obstetricians were going to pay**
 11 **off as less than assumed because of a**
 12 **change in the law and had a one-time**
 13 **reserve release, that would be very**
 14 **legitimate, but it would have a quality**
 15 **of earnings effect because you would not**
 16 **trend it forward.**
 17 Q. And the fourth bullet you
 18 had, which is on Page 3, was that the
 19 remaining amount of the reserve decline
 20 not attributable to TransAtlantic was
 21 also very small and you accepted
 22 management's explanation that it
 23 reflected a continued shift to
 24 shorter-tailed businesses.

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1 A. Yes.
 2 Q. Now, one final question on
 3 this document, and then I think we can
 4 break for lunch.
 5 The rating on this was
 6 outperform, it's on the first page?
 7 A. Correct.
 8 Q. Now, what -- and in layman's
 9 term, what does that mean?
 10 A. It's sometimes referred to
 11 as the limp-wristed buy, meaning it's a
 12 weak buy. It's the second highest rating
 13 category and it's a favorable rating, but
 14 it's not your highest recommendation.
 15 Q. And that was the rating --
 16 since there's no change in here, that was
 17 the rating you had had the quarter before
 18 as well?
 19 A. Yes.
 20 MR. DWYER: Now, is a good
 21 time to break for lunch.
 22 - - -
 23 VIDEO TECHNICIAN: The time
 24 is 12:15. This is the end of Tape

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1 2. We are off the record.
 2 - - -
 3 (Whereupon, a luncheon
 4 recess was taken.)
 5 - - -
 6 VIDEO TECHNICIAN: It's now
 7 1:17. We're beginning Tape Number
 8 3. We're back on the record.
 9 - - -
 10 BY MR. DWYER:
 11 Q. If you would turn to
 12 Exhibit-13, this is a March 18th, 2002
 13 report on the insurance property casualty
 14 business called, New Rating System, with
 15 production numbers AIGF 131183 to 189.
 16 Is this another report that
 17 you wrote when you were at Morgan
 18 Stanley?
 19 A. Yes, it is.
 20 Q. And you intended it to be
 21 accurate when you wrote it?
 22 A. Yes.
 23 Q. And you sent it out to your
 24 clients at Morgan Stanley intending that

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1 they rely on it?
 2 A. Yes.
 3 Q. Now, if you turn to Page 3,
 4 in the second column at the end of the
 5 first full paragraph it says, quote,
 6 Historically, the best time to buy AIG
 7 has been on those rare occasions when
 8 confusion and worry cause investors to
 9 doubt, closed quote.
 10 Do you see that?
 11 A. Yes.
 12 Q. And were you thinking about
 13 various points in time in the past?
 14 A. Yes.
 15 Q. What -- what were you
 16 thinking about?
 17 A. Partly I was thinking about
 18 the reserve quarters, and partly I was
 19 thinking about every quarter when there
 20 would be the rumor that Mr. Greenberg was
 21 dying.
 22 Q. And the reserve -- what do
 23 you mean by the reserve quarters --
 24 A. The quarters where the

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1 reserve decreased.
 2 Q. So you had -- you had always
 3 thought those were occasions that were
 4 good times to -- the best times, in fact,
 5 to buy AIG stock?
 6 A. Generically, yes.
 7 Q. And you also said in -- in
 8 this -- and that was your view when you
 9 wrote this report in March 2002?
 10 A. Yes.
 11 Q. And you also said in this
 12 same paragraph on Page 3 of Exhibit-13,
 13 quote, The value of AIG's business
 14 franchises does not rest on accounting
 15 gimmicks, in our view, closed quote.
 16 Do you see that?
 17 A. Yes.
 18 Q. And you wrote that at the
 19 time?
 20 A. Yes.
 21 Q. And that was your view at
 22 the time?
 23 A. It was.
 24 Q. You can put this document to

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<p>1 the side.</p> <p>2 And now, when you -- did</p> <p>3 you -- you said you didn't read any of</p> <p>4 the reports that other analysts wrote.</p> <p>5 But did you -- did you have any</p> <p>6 professional opinion as to which -- which</p> <p>7 other sell-side analysts, at the time you</p> <p>8 were at Morgan Stanley, were people that</p> <p>9 you thought highly of their professional</p> <p>10 competence?</p> <p>11 A. No comment.</p> <p>12 Q. So you didn't?</p> <p>13 A. Of course I had opinions,</p> <p>14 but they were not based on reading their</p> <p>15 work.</p> <p>16 Q. Okay.</p> <p>17 A. They were based on other</p> <p>18 things.</p> <p>19 Q. And, now, if you go back to</p> <p>20 Exhibit-12 on Page 2, you say in -- in</p> <p>21 the right-hand column on Page 2, in the</p> <p>22 paragraph that the first words are in</p> <p>23 boldface, Reserves were not concerned,</p> <p>24 halfway down that paragraph you say,</p>	<p>1 claims exceeding net loss reserve</p> <p>2 additions by approximately \$31 million in</p> <p>3 the second quarter.</p> <p>4 Do you see that?</p> <p>5 A. Yes.</p> <p>6 Q. And that means that they had</p> <p>7 a reduction in property and casualty loss</p> <p>8 reserves of \$31 million in that quarter,</p> <p>9 right?</p> <p>10 A. That's right.</p> <p>11 Q. Okay. Now, if you -- if you</p> <p>12 look at Tab 16, which is a printout</p> <p>13 from -- from Yahoo Finance of the stock</p> <p>14 prices of AIG from July 21, 1999 through</p> <p>15 July 28, 1999, do you -- do you see --</p> <p>16 which is, therefore -- it starts the day</p> <p>17 before the earnings announcement and goes</p> <p>18 for, you know, five days after the</p> <p>19 earnings announcement.</p> <p>20 Do you see that, in fact,</p> <p>21 the price of AIG common stock did not</p> <p>22 decline as a result of that decline in</p> <p>23 loss reserves?</p> <p>24 A. Well, it did on July 22nd.</p>
<p>1 quote, AIG has reduced reserves twice</p> <p>2 recently, in the second and fourth</p> <p>3 quarters of 1999, and the market reacted</p> <p>4 badly then as well, closed quote.</p> <p>5 Do you see that?</p> <p>6 A. Uh-huh.</p> <p>7 Q. And that -- did you -- did</p> <p>8 you look -- did you do any research at</p> <p>9 the time to refresh your recollection as</p> <p>10 to how the market had reacted at the</p> <p>11 time?</p> <p>12 A. I don't remember.</p> <p>13 Q. Okay. Now, if you look</p> <p>14 at -- let's look at the second quarter</p> <p>15 earnings announcement, which is Tab 15,</p> <p>16 that was released on July 22, 1999. And</p> <p>17 in particular, if you look -- this is</p> <p>18 Bates numbers AIGF 269477 through 482.</p> <p>19 If you look in particular at</p> <p>20 479, and the next-to-last paragraph on</p> <p>21 that page, that says, Claim payments for</p> <p>22 previously reported catastrophe losses</p> <p>23 and the settlement of some large claims</p> <p>24 were primarily responsible for total paid</p>	<p>1 And also --</p> <p>2 Q. Well, on July 22nd --</p> <p>3 A. That's the day they</p> <p>4 reported.</p> <p>5 Q. Right. And what is the --</p> <p>6 what is the -- what is the opening of</p> <p>7 that day?</p> <p>8 A. \$118.69.</p> <p>9 Q. And the close?</p> <p>10 A. \$119.94.</p> <p>11 Q. So it closed above the open?</p> <p>12 A. But intraday it declined.</p> <p>13 Q. So you're -- you're counting</p> <p>14 that -- that kind of -- that kind of</p> <p>15 decline as a decline?</p> <p>16 A. Of course.</p> <p>17 Q. So even though it opened at</p> <p>18 \$118.69 and -- and closed -- and closed</p> <p>19 higher than that, you're -- you're</p> <p>20 counting that as a -- as a decline?</p> <p>21 A. Of course.</p> <p>22 Q. So any decline at all is a</p> <p>23 decline? Any interday decline is a</p> <p>24 decline?</p>

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<p>1 A. A decline is a decline. 2 Q. Even if it's one minute? 3 You regard that as -- as a significant 4 decline? 5 Yes? 6 A. I did not say that -- 7 Q. Well -- 8 A. -- no. 9 Q. -- it was not a 10 significant -- 11 A. I don't know how long the 12 stock was down. I don't have the records 13 of the day's trading. 14 And, also, when I wrote in 15 my report, I may have been referring by 16 investor reaction to their verbal 17 reactions and not to the stock price. 18 You're inferring here it's the stock 19 price, but that may not have been what I 20 was referring to. 21 But, yes, an intraday low is 22 significant to most investors. 23 Q. So would you agree with me 24 that most stocks would have interday lows</p>	<p>1 intraday low occurred on the open 2 and how long the stock traded 3 there and what the trading volume 4 was, and whether the high was 5 reached right before the close and 6 perhaps it might be one big block 7 trade. 8 So you'd have to understand 9 the trading patterns of the day to 10 really know the significance. 11 These three data points 12 aren't enough information, if I 13 was referring to the stock price, 14 which this report does not 15 indicate. 16 BY MR. DWYER: 17 Q. Well, yeah. So what you're 18 saying is that the kind of analysis you'd 19 have to do in terms of stock market 20 reaction to an event would require a lot 21 of analysis? 22 MS. SMITH: Objection. 23 THE WITNESS: Analysis 24 really isn't an applicable word.</p>
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<p>1 on many of the days that they trade? 2 A. All stocks have intraday 3 lows, yes. 4 Q. Right. So -- so -- so I 5 don't understand why that would be 6 significant enough for you to put in your 7 report, if -- if you're simply recording 8 that -- that AIG stock had an interday 9 low that related to -- on a day of the 10 earnings announcement when, in fact, the 11 earnings -- the price closed above the 12 stock for that day. 13 MR. FISHMAN: Objection -- 14 THE WITNESS: Well, you 15 see -- 16 MR. FISHMAN: -- to the 17 mischaracterization of her answer. 18 THE WITNESS: -- first I was 19 just saying that I wasn't 20 necessarily referring to the stock 21 price. 22 But if I was, I would have 23 to see the pattern of all the 24 day's trades to see whether the</p>	<p>1 BY MR. DWYER: 2 Q. Well, what -- what would it 3 require? What -- what would be a good 4 word? 5 A. Well, you know what the 6 stock market reaction is when it 7 happens -- 8 Q. When you -- 9 A. -- because you're watching 10 it. 11 Q. But you have to figure out 12 why? 13 A. You know why. 14 Q. How do you know why? 15 A. Because your phone is 16 ringing off the wall and people are 17 telling you. 18 Q. Did you compare -- would you 19 also compare it to how other financial 20 stocks are doing that day? 21 A. Sure. 22 Q. And you compare it to how 23 other insurance stocks are doing that 24 day?</p>

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1 **A. Sure, but --**
 2 Q. And how the market --
 3 **A. But --**
 4 Q. -- generally is doing that
 5 day?
 6 **A. Yeah. Sure. Sure.**
 7 Q. Now, when you -- on
 8 Exhibit-12 at Page 2 you said, The market
 9 reacted badly then as well.
 10 So you might have been
 11 referring to something other than a drop
 12 in market price?
 13 **A. I might have, yes.**
 14 Q. And that would have been?
 15 **A. It could have been client**
 16 **criticism, it could have been sales force**
 17 **criticism, it could have been trader**
 18 **information. All kinds of stuff.**
 19 Q. Okay. You can put those
 20 documents aside.
 21 **A. It could have been things on**
 22 **the conference call, if there was a**
 23 **conference call.**
 24 Q. I don't think I asked you

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1 this, but I may have, so if I did I
 2 apologize.
 3 Do you remember any specific
 4 conversations you had with your clients
 5 about the -- specifically about the
 6 decline in AIG's loss reserves in the
 7 third quarter of 2000?
 8 **A. No. I tend not to remember**
 9 **specific conversations with clients years**
 10 **after the fact. No. Sorry.**
 11 Q. So you don't?
 12 **A. No.**
 13 Q. Now, you also -- earlier
 14 today you said that Michael Smith, you
 15 believe, had downgraded the AIG stock in
 16 that third quarter of 2000?
 17 **A. That's my recollection.**
 18 Q. If you look at -- if you
 19 look at Exhibit-14, which are the first
 20 call notes for -- for October of 2000,
 21 this is AIG/Gen Re Trans 1049 through
 22 1125. And, specifically, if you look at
 23 Page 1085.
 24 And that's -- that's Michael

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1 Smith's report from Bear Stearns for
 2 October 26th, 2000, correct?
 3 **A. Okay. So I was incorrect**
 4 **about my recollection.**
 5 Q. Right. Because Michael
 6 Smith's report says, We are reiterating
 7 our buy rating of the shares.
 8 **A. Was it Michael Lewis?**
 9 **There's somebody who**
 10 **downgraded the stock.**
 11 Q. Well, I'm only going off
 12 your testimony.
 13 **A. Okay. Sorry, would you like**
 14 **me to look through?**
 15 Q. I'll tell you what, it
 16 might -- if you want to look at Michael
 17 Lewis, he's on 1071. And he does --
 18 you'll see there he does change his
 19 rating from strong to buy to buy.
 20 **A. Okay.**
 21 Q. Is that -- is that what you
 22 were thinking about?
 23 **A. Some Michael, yes.**
 24 Q. Some Michael. Michael

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1 Jordan?
 2 **A. No, too bad. We didn't have**
 3 **a Michael Jordan.**
 4 Q. So Michael Lewis.
 5 So what you were recalling
 6 was Michael Lewis --
 7 **A. Yes.**
 8 Q. -- downgrading?
 9 **A. Yes.**
 10 Q. But his -- even though he
 11 downgraded, he's still rating it as a --
 12 as a buy, right?
 13 **A. Yes.**
 14 Q. Now, if you turn to Tab 17,
 15 which is the AIG earnings release for the
 16 fourth quarter of 2000, is that -- is
 17 that a document you've seen before?
 18 **A. Yes.**
 19 Q. And you -- had you -- am I
 20 correct in assuming you saw it
 21 contemporaneously on the day that it was
 22 released by AIG?
 23 **A. That's correct.**
 24 Q. And that's in January of

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1 2001 or February? February 8th, 2001?
 2 **A. Yes.**
 3 Q. That's -- that's when you
 4 saw it?
 5 **A. Yes.**
 6 Q. And you treated this the way
 7 you had previously described you treated
 8 earnings releases; you read it, you
 9 analyzed it, you wrote a report about it?
 10 **A. Right.**
 11 Q. And this -- if you turn to
 12 Page 3 --
 13 **A. I believe.**
 14 Q. -- of Exhibit-17, the third
 15 paragraph of Page 3 says, quote, We added
 16 \$106 million to AIG's general insurance
 17 net loss and loss adjustment reserves for
 18 the quarter and together with the
 19 acquisition of HSB Group, Inc. increased
 20 the total of those reserves to \$25.0
 21 billion by year end 2000.
 22 Do you see that?
 23 **A. Yes.**
 24 Q. Okay. And that was

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1 something you -- you read at the time?
 2 **A. Yes.**
 3 Q. Along with the rest of this,
 4 correct?
 5 **A. Yes.**
 6 Q. And now if you -- did you --
 7 if you look back at Tab 7 --
 8 MR. FISHMAN: Which tab did
 9 you say?
 10 MR. DWYER: 7.
 11 MR. FISHMAN: 7.
 12 MR. DWYER: We've already
 13 talked about this document before.
 14 **BY MR. DWYER:**
 15 Q. This is the -- this is the
 16 report on AIG that you released on
 17 February 9th, 2001, correct?
 18 **A. Correct.**
 19 Q. And this is -- this is the
 20 report that relates to the -- the press
 21 release that we just looked at, correct,
 22 Tab -- Tab 17, the February 8th, 2001
 23 press release?
 24 **A. Yes.**

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1 Q. And you -- in -- in your
 2 report you maintained a rating of
 3 outperform, correct?
 4 **A. Yes.**
 5 Q. And that's the one you said
 6 was a weak-kneed buy or something?
 7 **A. Limp-wristed.**
 8 Q. Limp-wristed. I knew it was
 9 some joint.
 10 And you maintained -- and
 11 you maintained your price target of \$110,
 12 which was the same as you had previously
 13 maintained?
 14 **A. Correct.**
 15 Q. So, basically, you didn't --
 16 you didn't change your -- your rating of
 17 AIG, either positively or negative, in
 18 this report?
 19 **A. Right.**
 20 Q. And so if you look at Page 2
 21 of Exhibit-7, if you look at Page 2 it
 22 says in the second paragraph on the first
 23 column, As always, the risk with AIG is
 24 the sustainability of earnings, closed

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1 quote.
 2 What -- what did you mean by
 3 that?
 4 **A. The company is very large.**
 5 **And very large companies have more**
 6 **difficulties sustaining their growth**
 7 **rates than small companies.**
 8 Q. But you -- in this report,
 9 you expressed your view that you believed
 10 the company remains one of the best
 11 positioned businesses in the world to
 12 maintain its performance over the
 13 long-term due to its newly granted
 14 licenses in such fast growing insurance
 15 markets as China, Vietnam and India,
 16 right?
 17 **A. Correct.**
 18 Q. So you -- you were -- you
 19 were thinking that in spite of the risk
 20 of sustainability of earnings, you were
 21 optimistic that AIG had business
 22 prospects in -- in place that would
 23 enable it to sustain earnings?
 24 **A. The risk flows from the**

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1 **prospects. The importance of the**
 2 **prospects is what creates the risk.**
 3 **But, yes.**
 4 Q. And that's why you
 5 maintained your outperform rating and
 6 maintained the -- the price level of
 7 \$110?
 8 A. **Yes.**
 9 Q. And you -- in fact, you
 10 expressed the view that if you -- if you
 11 were right in your analysis about
 12 AIG's prospects, AIG would -- should be
 13 reporting more than \$10 billion of
 14 operating earnings in 2004, driven
 15 primarily by its powerhouse life
 16 operation roughly in the neighborhood of
 17 what General Electric, the largest
 18 company in the Fortune 500 earns now; is
 19 that correct?
 20 A. **Correct.**
 21 Q. So you were -- you were
 22 quite bullish on the prospects of AIG?
 23 A. **We were. If we were right**
 24 **about our assumptions.**

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1 Q. And your -- and your
 2 assumptions were driven by two important
 3 factors, the success of AIG's life
 4 insurance business and its success in
 5 emerging markets such as China or
 6 Vietnam?
 7 MS. SMITH: Objection.
 8 THE WITNESS: Well, I --
 9 we've listed a number of
 10 assumptions and our earnings model
 11 contained many assumptions. So
 12 you can't limit it to those two.
 13 BY MR. DWYER:
 14 Q. But those were the -- those
 15 were the assumptions that you felt that
 16 you should mention in your report to
 17 your -- your clients?
 18 A. **Well, no. The report, you**
 19 **know, had an earnings model attached and,**
 20 **you know, it has risk factors somewhere**
 21 **probably -- no, this is just a note.**
 22 Q. I guess the question I'm
 23 trying to --
 24 A. **Basically, the answer is no.**

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1 Q. That there --
 2 A. **Just say no.**
 3 Q. That there were other
 4 factors?
 5 A. **Yes.**
 6 Q. But -- but these -- these
 7 were the ones that you chose to write
 8 about in this note?
 9 A. **These were the ones we chose**
 10 **to highlight.**
 11 Q. And -- and what was the
 12 reason that you chose to highlight them?
 13 A. **They're important.**
 14 Q. And so then you talk -- you
 15 also talked about -- later on in this
 16 column you talked about the addition of
 17 \$106 million in reserves in the -- the
 18 increase of \$106 million in net property
 19 casualty reserves for AIG in the quarter,
 20 correct?
 21 It's in -- it's in -- it's
 22 the next paragraph in the first column.
 23 A. **Yes.**
 24 Q. Did you regard the

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1 possibility of AIG getting as large as --
 2 as GE due to international operations and
 3 life insurance operations as a more
 4 important factor in your analysis than
 5 the increase in -- of \$106 million out of
 6 \$25 billion in reserves?
 7 MS. SMITH: Objection.
 8 THE WITNESS: We don't -- we
 9 didn't look at it that way. You
 10 know, we don't rank the factors
 11 that way. Because the reserves
 12 are a risk. And the reserves are
 13 a potential problem, whereas the
 14 growth is an opportunity. So you
 15 don't rank risk versus
 16 opportunities. The risks are a
 17 contingency.
 18 This -- this was resolving a
 19 problem. So, you know, you
 20 wouldn't say it was a higher or
 21 lower priority exactly.
 22 BY MR. DWYER:
 23 Q. So you would -- you would --
 24 you would analyze -- in your analysis of

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1 AIG stock at this time, you would
 2 analyze -- you would -- you would take
 3 into account all the potential
 4 opportunities and all the potential
 5 risks?
 6 **A. Yes.**
 7 **Q. And of the potential**
 8 **opportunities, foreign operations, life**
 9 **insurance were two of the potential**
 10 **opportunities, but there were many**
 11 **others?**
 12 **A. There were others. Those**
 13 **were very important.**
 14 **Q. And with regard to risks,**
 15 **the quality of reserves was a risk but**
 16 **there were other risks as well?**
 17 **A. Correct.**
 18 **Q. Now, were you -- were you**
 19 **still involved in -- just so I remember**
 20 **the chronology, you left AIG -- I'm**
 21 **sorry, you left Morgan Stanley in June of**
 22 **2003, correct?**
 23 **MR. FISHMAN: On a -- on a**
 24 **full-time basis?**

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1 **MR. DWYER: On a full-time**
 2 **basis.**
 3 **BY MR. DWYER:**
 4 **Q. You -- you moved from being**
 5 **a managing director to being an advisory**
 6 **director in June of 2003?**
 7 **A. May or June, yeah.**
 8 **Q. Okay.**
 9 **A. End of May.**
 10 **Q. And after that point you**
 11 **basically ceased to do the kind of**
 12 **analyst work for the property and**
 13 **casualty insurance business?**
 14 **A. That's correct.**
 15 **Q. So it would not have been**
 16 **part of your business involvement to have**
 17 **actually tried to study and analyze AIG's**
 18 **restatement that came out on May 31st,**
 19 **2005?**
 20 **MS. SMITH: Objection.**
 21 **THE WITNESS: Could you**
 22 **rephrase -- could you say that**
 23 **again?**
 24 **BY MR. DWYER:**

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1 **Q. Well, my question is, by the**
 2 **time we got to May 31st, 2005 when AIG**
 3 **restated -- you know, issued a 10K that**
 4 **restated earnings for -- for some past**
 5 **periods, you were no longer -- it was no**
 6 **longer your main responsibility to be an**
 7 **analyst in the property and casualty**
 8 **insurance business?**
 9 **A. That's correct.**
 10 **Q. And did anybody at Morgan**
 11 **Stanley consult you in connection with --**
 12 **with the -- the restatement at that point**
 13 **as part of your advisory director**
 14 **operations?**
 15 **A. Consult might not exactly be**
 16 **the right word. But I certainly -- talk,**
 17 **yes.**
 18 **Q. Who did you talk to?**
 19 **A. Vinay Saqi.**
 20 **Q. And what was his role at the**
 21 **time?**
 22 **A. I believe he was still -- I**
 23 **believe he was still at Morgan Stanley.**
 24 **He might have gone to the buy side by**

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1 **then. But it was such a momentous**
 2 **occasion, that --**
 3 **Q. Well, did he ask you some**
 4 **questions having to do with what he was**
 5 **doing in either Morgan Stanley or**
 6 **wherever he was?**
 7 **A. I don't think questions**
 8 **would really describe the conversation.**
 9 **It was more like stunned exclamations.**
 10 **Q. What do you remember**
 11 **specifically about what he said and what**
 12 **you said?**
 13 **A. I don't remember a lot of**
 14 **details. Just, you know, looking at the**
 15 **charts and, you know, just -- you know,**
 16 **it was just a shocking thing.**
 17 **Q. So you don't remember what**
 18 **he said or what you said?**
 19 **A. Not -- not in any detail,**
 20 **no.**
 21 **Q. Did you talk to anybody else**
 22 **about it at that time or -- or**
 23 **subsequently?**
 24 **MR. FISHMAN: Including**

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1 people from law enforcement that
 2 interviewed her and that sort of
 3 stuff? Or are you talking
 4 about --
 5 MR. DWYER: Yes. Yes.
 6 THE WITNESS: Let me think.
 7 BY MR. DWYER:
 8 Q. Any -- any non-privileged
 9 communications.
 10 MR. FISHMAN: At any point
 11 after?
 12 MR. DWYER: I'm -- I'm
 13 starting with -- I'm starting with
 14 the restatement of May 31st, 2005.
 15 MR. FISHMAN: But in that --
 16 I mean, during what time period?
 17 Because you know she met with lots
 18 of people to discuss this from the
 19 Justice Department and elsewhere.
 20 MR. DWYER: To the present.
 21 I want to know what she remembers,
 22 which may not be anything.
 23 THE WITNESS: Well, I'm sure
 24 that -- I know I talked to Warren

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1 about it, Warren Buffett. I'm
 2 trying to think if there's anybody
 3 else.
 4 What was the date of the
 5 restatement again?
 6 BY MR. DWYER:
 7 Q. May 31st, 2005.
 8 **A. I'm not sure. I just -- I**
 9 **remember talking with Warren.**
 10 Q. Did you talk to him about
 11 the AIG aspects of it or the Gen Re
 12 aspects of it or both?
 13 **A. Gen Re aspects?**
 14 Q. Right.
 15 **A. No. The AIG aspects.**
 16 Q. Do you remember what you and
 17 he said?
 18 **A. Vaguely. Just the gist of**
 19 **how shocking it was, how this is what**
 20 **happens when you -- okay, I'm going to**
 21 **try to recall exactly.**
 22 **When you get a little behind**
 23 **and you keep stretching to try to make**
 24 **the numbers, it becomes like -- it**

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1 **becomes like, you know, somebody who**
 2 **takes a little money out of the cash**
 3 **register and promises to pay it back and**
 4 **then the next month they have to take a**
 5 **little more and, you know, over time it**
 6 **becomes impossible and they're**
 7 **discovered; and that this is why you**
 8 **never want to run an insurance company**
 9 **that way, is because it just -- you just**
 10 **can't, you know -- and how unfortunate it**
 11 **is and how much he likes Hank and admires**
 12 **Hank and how -- how too bad, it's a**
 13 **shame, et cetera, et cetera, et cetera.**
 14 Q. That's something, I take it,
 15 that Mr. Buffett said --
 16 **A. Yes.**
 17 Q. -- not what you said?
 18 **A. Yes.**
 19 Q. Did you say anything?
 20 **A. I asked questions. What do**
 21 **you think, you know. And then I said how**
 22 **shocked I was, something like --**
 23 **something like this.**
 24 Q. Now, Mr. Buffett,

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1 notwithstanding his successes in
 2 business, never worked for AIG?
 3 **A. No.**
 4 Q. Never was a director of AIG?
 5 **A. No.**
 6 Q. Did he have access to the
 7 internal records of AIG?
 8 **A. No.**
 9 Q. Did he have access to what
 10 Pricewaterhouse's work papers were?
 11 **A. No.**
 12 Q. So did he have any basis for
 13 saying what you just quoted him as
 14 saying?
 15 **A. The mathematics of how this**
 16 **kind of thing works.**
 17 Q. So he is just applying -- he
 18 is assuming the restatement is correct
 19 and he's then making some hypothetical
 20 statements of how he thought it came
 21 about?
 22 MS. SMITH: Objection.
 23 THE WITNESS: That's fair,
 24 yes.

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1 BY MR. DWYER:
 2 Q. If you look at Tab 18,
 3 this -- this appears to be the transcript
 4 of another fireside chat on February
 5 12th, 2001.
 6 Did you -- did you attend
 7 this conference?
 8 A. **This is 18?**
 9 Q. Yes.
 10 A. **I don't remember, because**
 11 **there was one -- I think there was one I**
 12 **didn't attend because I was sick or for**
 13 **some reason. I don't remember.**
 14 Q. Right. Well, let me -- let
 15 me turn you to Page 49, direct you to 49
 16 of this to see if you remember attending
 17 a conference at which he made the
 18 statement that appears there.
 19 And on -- on Page 49 Mr.
 20 Greenberg is quoted as saying, quote, We
 21 don't dot every I for you and cross every
 22 T, but you can dig out a lot of
 23 information also from 10Ks and the yellow
 24 peril book.

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1 Do you see that? Is that
 2 something you remember him saying?
 3 A. **I don't remember him saying**
 4 **that. I don't remember the meeting.**
 5 Q. Okay. But those are -- you
 6 can put that document aside.
 7 Those are -- those are --
 8 those are sources you previously talked
 9 about were ones that you used in
 10 connection with your analysis, right?
 11 A. **Yes.**
 12 Q. While we're in this book, I
 13 just want to -- I have to go back.
 14 MR. FISHMAN: You can't go
 15 back to Tab 1, that's just not
 16 allowed.
 17 BY MR. DWYER:
 18 Q. Tab 1, did -- did you
 19 ever -- did you ever read this article
 20 that's marked at Tab 1?
 21 It's -- it's the May 7th,
 22 2007 article in the Omaha World Herald.
 23 A. **Yes.**
 24 Q. And so you read it at the

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1 time it came out, I assume?
 2 A. **Yes.**
 3 Q. Did you communicate at all
 4 with the Omaha World Herald about this
 5 article and, you know, make any -- any
 6 corrections or objections to what was in
 7 there?
 8 A. **Afterwards?**
 9 MR. FISHMAN: You mean after
 10 it came out?
 11 BY MR. DWYER:
 12 Q. Afterwards.
 13 A. **I -- no. Because that's**
 14 **futile. No.**
 15 Q. And you -- you gave them --
 16 I take it you gave them an interview?
 17 A. **I did.**
 18 Q. You can put that to the
 19 side.
 20 Did you -- in analyzing AIG,
 21 did you -- did you look at National Union
 22 in particular as a good surrogate for
 23 AIG's domestic brokerage group?
 24 A. **Yes, to the extent you could**

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1 **get information that was separate. But,**
 2 **yes.**
 3 Q. And the information about
 4 National Union would -- among other
 5 places, would come from the statutory
 6 filings they did, correct?
 7 A. **To the extent that it wasn't**
 8 **allocated, yes.**
 9 Q. And -- and you regarded
 10 National Union as a good surrogate for
 11 the domestic brokerage group because it,
 12 basically, had a 38 percent share of the
 13 domestic brokerage group?
 14 A. **Yes.**
 15 Q. And it was the largest --
 16 A. **Well, and it had a mix that**
 17 **was -- you know, other than the**
 18 **Lexington, it was -- yes.**
 19 Q. And it was a representative
 20 mix --
 21 A. **Yes.**
 22 Q. -- and it was -- and it was
 23 the largest of the --
 24 A. **Yes.**

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1 Q. -- DBG companies?
 2 Now, if you look at --
 3 Exhibit-19 is the annual statement of
 4 National Union to the state regulators
 5 for the year ended December 31st, 2000.
 6 Is that -- is that -- is
 7 that a document that you've -- that you
 8 had seen in -- in the work you did at
 9 Morgan Stanley?
 10 A. Yes.
 11 Q. And did you, in your -- did
 12 you and the people who worked for you in
 13 your -- in your group use this document
 14 to analyze AIG?
 15 A. We used the electronic
 16 version of it.
 17 Q. The electronic version, I
 18 assume, contains the same information?
 19 A. Yes.
 20 Q. Now, if you look at Page 3,
 21 and there's a -- there's a bottom box in
 22 this Page 3 that's got a subhead of
 23 Details of Write-Ins.
 24 Do you see that?

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1 A. My copy is illegible, I'm
 2 sorry.
 3 Q. Sorry. Do you see -- do you
 4 see line -- can you read Line 2202 that
 5 says --
 6 A. Oh, the header, okay.
 7 Q. Yes.
 8 It says, Line 2202,
 9 Retroactive reinsurance reserve-assumed?
 10 A. Yes.
 11 Q. And then opposite that it
 12 says, On current year \$95 million?
 13 A. Yes.
 14 Q. And prior year zero?
 15 A. Yes.
 16 Q. Now, did you -- did you
 17 understand that entry to mean that
 18 because of National Union's 38 percent
 19 share of DBG that the domestic brokerage
 20 group of AIG was accounting for \$250
 21 million of retroactive reinsurance as a
 22 deposit?
 23 MS. SMITH: Objection.
 24 THE WITNESS: Yes.

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1 BY MR. DWYER:
 2 Q. And -- and that's up from --
 3 from zero of the year before, correct?
 4 A. Yes.
 5 Q. So in -- in analyzing AIG in
 6 early 2001, you were aware that there
 7 was -- \$250 million of retroactive
 8 reinsurance reserve had been assumed in
 9 the year 2000?
 10 A. No.
 11 Q. Oh, what did you understand?
 12 A. Well, we would not make that
 13 assumption because of a couple of
 14 reasons, partly because there could be
 15 something that would 100 percent or more
 16 than 100 percent offset this offshore.
 17 Also, we knew that AIG
 18 classified intercompany reinsurance items
 19 that offset each other as unaffiliated
 20 reinsurance, even though we couldn't ever
 21 get an explanation of why that was.
 22 And so when we would look at
 23 something like this, it would not
 24 necessarily be meaningful.

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1 Q. Now, at this point in time,
 2 first quarter of -- you -- you looked at
 3 this some time in the first quarter of
 4 2001?
 5 A. No.
 6 Q. When -- when did you look at
 7 this?
 8 A. This would not be available
 9 until May -- well, actually, these come
 10 out in March. But we -- we didn't do
 11 reserve analysis until May. That would
 12 be the normal time to do it.
 13 Q. So in May of 2001, you
 14 looked at this, correct?
 15 A. We did our reserve analysis
 16 around then.
 17 Q. So around May 2001 you
 18 looked at this?
 19 A. Yeah.
 20 Q. And you and the people you
 21 work for were -- had had a special focus,
 22 among other things, on AIG's property and
 23 casualty reserves in the fourth quarter
 24 of 2000 and the first quarter of 2001,

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1 correct?

2 **A. On the rate of change in the**

3 **reserves, yes.**

4 Q. Okay. So it -- didn't

5 this -- this line item that showed that

6 AIG had gone from zero to \$250 million in

7 retroactive reinsurance reserves assumed

8 during 2000, didn't that cause you to ask

9 anybody any questions about this?

10 **A. No, we wouldn't.**

11 Q. You were -- you were focused

12 on reserves, correct?

13 **A. Well, we had been down this**

14 **road before with AIG, and we knew -- we**

15 **knew that we wouldn't get answers. So,**

16 **no, we wouldn't.**

17 Q. Well, one way to not get

18 answers is not ask questions.

19 And you didn't ask any

20 questions, did you?

21 **A. No.**

22 MS. SMITH: Objection.

23 THE WITNESS: No.

24 We also knew it wasn't

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1 meaningful because it's only part

2 of the company. It's only

3 on-shore business. It could be

4 intercompany.

5 BY MR. DWYER:

6 Q. But if you had known -- if

7 you had known that -- that -- if you had

8 asked the question and found out that

9 this \$250 million was a -- was the Gen Re

10 transaction --

11 **A. Right.**

12 Q. -- which is what you would

13 have found out --

14 **A. Right.**

15 Q. -- then you would have known

16 that the -- what you saw in -- in the

17 earnings releases as positive in the

18 fourth quarter and -- in the fourth

19 quarter of 2000, would have turned around

20 to be negative?

21 MR. FISHMAN: I'm going to

22 object to --

23 MS. SMITH: Objection.

24 MR. FISHMAN: I'm going to

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1 object to the -- not only the

2 complexity of the question but the

3 assumption built in that she

4 hasn't testified to, which is that

5 she would have found out that

6 that's what it was.

7 MS. SMITH: I join in that

8 objection.

9 BY MR. DWYER:

10 Q. You can object to -- you

11 can answer the question.

12 **A. Actually, that's not right.**

13 **Because the management had said in the**

14 **press release, which is a public**

15 **document, and its SEC filings what the**

16 **reason for the change in reserves was and**

17 **that's GAAP. And that's what analysts**

18 **rely on.**

19 **So I don't specifically**

20 **recall seeing this, but we did review**

21 **these.**

22 **Seeing this, we would know**

23 **and assume that something offset it,**

24 **because otherwise the press release would**

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1 **contain something that was a lie. And we**

2 **had a right to rely on the press release.**

3 Q. Why would the press release

4 be a lie if it's GAAP -- those are GAAP

5 financials and this is statutory

6 financials?

7 **A. Because they disclosed**

8 **numbers that were smaller than this as**

9 **reasons for the change in reserves and**

10 **they would have had to disclose this in**

11 **the press release.**

12 Q. You under -- you understand

13 that the -- the public -- the public

14 filings with the SEC and the quarterly

15 financial releases are based on GAAP

16 financing, correct?

17 **A. Right.**

18 Q. And -- and they don't -- the

19 quarterly financial releases and the --

20 and the GAAP SEC filings are not based on

21 statutory accounting, correct?

22 **A. Correct.**

23 Q. And this is based on

24 statutory accounting?

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1 **A. Correct. So if this doesn't**
 2 **affect the GAAP numbers, we don't care**
 3 **about that. If they're not -- if this is**
 4 **some item that's not in the GAAP**
 5 **financial statements, analysts don't**
 6 **care.**
 7 **Q.** But this would have -- well,
 8 you -- as I've heard your testimony, I --
 9 I had the understanding that at Morgan
 10 Stanley and Oppenheimer and Paine Webber
 11 you actually looked at statutory filings
 12 every year.
 13 **A. Sure.**
 14 **Q.** And -- and you didn't do
 15 that because you didn't pay attention to
 16 them?
 17 **A. No, we do it because there's**
 18 **a lot of information in the statutory**
 19 **filings that is also in the GAAP**
 20 **statements.**
 21 **Q.** There's also information in
 22 the statutory filings that's not in the
 23 GAAP statements, correct?
 24 **A. Right.**

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1 **Q.** And if you had -- if you
 2 had -- if you had looked at this
 3 particular line item and asked the right
 4 questions, you would have been able to
 5 find out something about the reserves
 6 that you -- that you were focused on?
 7 **MR. FISHMAN:** Objection.
 8 **THE WITNESS:** No, I wouldn't
 9 have.
 10 **MS. SMITH:** Objection.
 11 Where -- maybe I need to clarify
 12 this.
 13 I think earlier you alluded
 14 to this also that she should have
 15 asked the right questions and
 16 would have known about the Gen Re
 17 transaction.
 18 How, from Page 3, would she
 19 have known that this was the Gen
 20 Re transaction?
 21 **MR. DWYER:** The way this
 22 works, I don't need to answer your
 23 questions --
 24 **MS. SMITH:** I know --

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1 **MR. DWYER:** -- to explain to
 2 you the theory of the case.
 3 **MS. SMITH:** -- I'm just
 4 putting on the record that that's
 5 the issue I see now.
 6 **MR. DWYER:** Okay. You can
 7 ask those questions on -- on
 8 cross.
 9 **BY MR. DWYER:**
 10 **Q.** Did you -- did you have an
 11 understanding about how SSAP 62 worked?
 12 **A. Not really, no.**
 13 **Q.** Did people in your group
 14 have an understanding of how SSAP 62
 15 worked?
 16 **A. In very broad terms. We**
 17 **have a general understanding of statutory**
 18 **accounting, but since we're really not --**
 19 **the answer is really no. You know, we're**
 20 **not really statutory accountants.**
 21 **Q.** What about that actuary that
 22 worked for you? What's his name?
 23 **A. Bill Wilt?**
 24 **Q. Yes.**

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1 **A. I don't know. He may have.**
 2 **I'm not sure. You know, this really**
 3 **isn't our domain.**
 4 **Q.** So if you turn to -- now
 5 turn to Tab 21. Is this another -- this
 6 is the March 14th, 2001 Morgan Stanley
 7 report on AIG called, "Upgrading a Global
 8 Giant to Strong Buy."
 9 **A. That's correct.**
 10 **Q.** And is this another report
 11 you -- you put out to Morgan Stanley's
 12 clients?
 13 **A. Yes.**
 14 **Q.** And you intended it to be
 15 accurate?
 16 **A. Yes.**
 17 **Q.** And you intended them to
 18 rely on it?
 19 **A. Yes.**
 20 **Q.** And here you -- you maintain
 21 your target price of AIG at \$110 here,
 22 correct?
 23 **A. Right.**
 24 **Q.** But you upgraded AIG from

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1 outperform to strong buy, right?
 2 **A. Correct.**
 3 Q. And you -- you gave as, on
 4 Page 1, as the reason for the upgrade
 5 that it's based on recent price
 6 performance?
 7 **A. Yes.**
 8 Q. And the recent price
 9 performance was a pull back in the stock,
 10 correct?
 11 **A. Yes.**
 12 Q. So the stock was actually
 13 trading at a lower value, lower price,
 14 market price when you wrote this than
 15 when you had written the -- the report
 16 for the fourth quarter of 2000?
 17 **A. That's right.**
 18 Q. And -- and that was the
 19 reason you pointed to in -- in your
 20 report as to why you were upgrading,
 21 because you thought -- since you still
 22 thought the stock was worth \$110 --
 23 **A. Right.**
 24 Q. -- you now had another \$24

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1 of upside in what you expected?
 2 **A. Right.**
 3 MS. SMITH: Objection.
 4 BY MR. DWYER:
 5 Q. Were you going to add
 6 something?
 7 **A. That's true.**
 8 Q. And on -- you gave some
 9 reasons beyond the recent price
 10 performance as to why you were upgrading,
 11 correct?
 12 **A. Yes.**
 13 Q. And, for example, in the
 14 first paragraph on the first column of
 15 Page 2 you said, quote, Our upgrade is
 16 also based on our conviction that AIG has
 17 the earnings power to outperform the
 18 market for the foreseeable future, closed
 19 quote.
 20 **A. I'm sorry, where are you?**
 21 Q. Page 2, first column, first
 22 paragraph, near the end of the first
 23 paragraph.
 24 **A. Oh, okay. Yes.**

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1 Q. You said that.
 2 And that was your belief at
 3 the time?
 4 **A. Yes.**
 5 Q. And you told that to your --
 6 to your clients, right?
 7 **A. Yes.**
 8 Q. Okay. And another --
 9 another reason that you talked about in
 10 this report to your clients, which is in
 11 the second paragraph on Page 2, the last
 12 two sentences, you said that AIG's
 13 performance-oriented entrepreneurial
 14 culture is legendary, so is its position
 15 as the low-cost producer in every
 16 business.
 17 **A. Yes.**
 18 Q. So those were -- those were
 19 the two other factors that you noted to
 20 your clients as reasons why you were
 21 upgrading the stock?
 22 **A. Sure.**
 23 Q. And you also -- another
 24 reason you pointed to, further down in

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1 that second column on Page 2 is, We also
 2 believe that AIG is a likely
 3 consolidator.
 4 Do you see that?
 5 **A. Yes.**
 6 Q. And that was another reason
 7 you pointed to?
 8 **A. Yes.**
 9 Q. And you -- you thought that
 10 was a reason because AIG would be able to
 11 continue to grow if it -- if it acquired
 12 other businesses?
 13 **A. Grow profitably, yes.**
 14 Q. And then if you turn to the
 15 next page, 3, another factor you pointed
 16 to was the first quarter earnings,
 17 correct?
 18 **A. Uh-huh.**
 19 Q. And that was another
 20 positive factor?
 21 **A. Yes.**
 22 Q. And then further down you
 23 said that you also thought it was a
 24 good -- a good buy because investors

Page 218	Page 220
<p>1 <u>appreciate the company's no-surprises</u> 2 <u>earnings track record?</u> 3 A. Yes. 4 <u>Q. And -- and you said that you</u> 5 <u>thought that AIG recognized income</u> 6 <u>conservatively so that it doesn't run the</u> 7 <u>risk of surprises?</u> 8 A. Yes. 9 <u>Q. And those were all positive</u> 10 <u>factors, correct?</u> 11 A. Yes. 12 <u>Q. And then you listed a bunch</u> 13 <u>of risk factors, and one of the risk</u> 14 <u>factors you identified was management</u> 15 <u>succession?</u> 16 A. Yes. 17 <u>Q. And -- and another was AIG's</u> 18 <u>sensitivity to the world economy?</u> 19 A. Yes. 20 <u>Q. And another was the</u> 21 <u>political risk that AIG carried by virtue</u> 22 <u>of its -- it -- particularly because of</u> 23 <u>its businesses in China and India?</u> 24 A. Yes.</p>	<p>1 <u>another risk factor whether AIG's annuity</u> 2 <u>sales could be weaker than anticipated</u> 3 <u>due to difficult capital markets.</u> 4 <u>Yes? Is that another --</u> 5 <u>another risk factor you pointed to?</u> 6 A. Yes. 7 <u>Q. And then you also talked</u> 8 <u>about market risk in selling financial</u> 9 <u>products.</u> 10 <u>And -- yes?</u> 11 A. Yes. 12 <u>Q. And you talked about</u> 13 <u>currency risk, yes?</u> 14 A. Yes. 15 <u>Q. So those are -- that's a --</u> 16 <u>a column-long list of risk factors, some</u> 17 <u>particular to AIG and some generic, to</u> 18 <u>being a property and casualty insurer,</u> 19 <u>correct?</u> 20 A. Correct. 21 <u>Q. You can put that document</u> 22 <u>aside.</u> 23 <u>And then if you look at</u> 24 <u>Exhibit-23 -- well, I guess look at</u></p>
<p>1 <u>Q. And -- and then you also</u> 2 <u>said -- and those were -- those were --</u> 3 <u>once again, three particular risks that</u> 4 <u>were particular to AIG?</u> 5 A. That's right. 6 <u>Q. And then you went on to list</u> 7 <u>risks that you thought were generic risks</u> 8 <u>that affect all insurance?</u> 9 A. Right. 10 <u>Q. And one of those was</u> 11 <u>interest rate and inflation risk?</u> 12 <u>Yes?</u> 13 A. Yes. 14 <u>Q. And another was loss</u> 15 <u>reserves could develop unfavorably,</u> 16 <u>correct?</u> 17 A. Correct. 18 <u>Q. And -- but you said, quote,</u> 19 <u>We believe that AIG's exposure to factors</u> 20 <u>such as poor loss reserve development and</u> 21 <u>asbestos are below average.</u> 22 <u>Correct?</u> 23 A. Correct. 24 <u>Q. And then you also talked as</u></p>	<p>1 <u>Exhibit-22 first, which is the April 26th</u> 2 <u>earnings announcement of AIG in the year</u> 3 <u>2001.</u> 4 <u>Is that another earnings</u> 5 <u>announcement that you got in the course</u> 6 <u>of your business at Morgan Stanley?</u> 7 A. It is. 8 <u>Q. And one of the items you</u> 9 <u>looked at was the -- on Page 3, the \$63</u> 10 <u>million increase in net loss reserves,</u> 11 <u>correct?</u> 12 A. Yes. 13 <u>Q. Now, if you look at</u> 14 <u>Exhibit-23, your May 15, 2001, Morgan</u> 15 <u>Stanley report called, "Hacked to acquire</u> 16 <u>AGC," is that another report that you</u> 17 <u>prepared?</u> 18 A. Yes. 19 <u>Q. And you intended it to be</u> 20 <u>accurate?</u> 21 A. Yes. 22 <u>Q. And you sent it out to your</u> 23 <u>clients intending that they would rely on</u> 24 <u>it?</u></p>

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1 Yes?
 2 **A. It's a different kind of**
 3 **report, but yes.**
 4 Q. Why is it a different kind
 5 of report?
 6 **A. We don't have a price target**
 7 **on this report. And we've suspended our**
 8 **stock rating.**
 9 Q. And it -- am I correct in
 10 assuming that the reason you don't have a
 11 price target and the reason you suspended
 12 your stock rating is that Morgan Stanley
 13 was representing American General in that
 14 transaction and, therefore, you, as an
 15 analyst, were not allowed to -- to either
 16 give a price estimate or a ratings for --
 17 for a company involved in a transaction?
 18 **A. Sort of.**
 19 Q. Well, how -- how would you
 20 put it?
 21 **A. You're only --**
 22 Q. Correct my assumption.
 23 **A. You're only allowed to give,**
 24 **basically, informational analysis and not**

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1 **opinion. Your opinion is -- is minimal.**
 2 **It's not just the rating and the stock.**
 3 Q. But the rating and the stock
 4 price --
 5 **A. Part of that.**
 6 Q. -- they're opinions --
 7 **A. But it's broader than that.**
 8 Q. Right. So they're opinions
 9 so you can't give them --
 10 **A. Right.**
 11 Q. -- but you can talk about
 12 the facts. And that's what you do.
 13 Now, in -- in -- on Page 5,
 14 in the bottom of the first column you
 15 talk about reserves. And in analyzing --
 16 in analyzing reserves of AIG as a result
 17 of the first quarter 2001 earnings
 18 announcement, you say, quote, Despite the
 19 surge in net premiums, net reserves rose
 20 only slightly, up \$63 million or 1.3
 21 points on the combined ratio to \$25.0
 22 billion at March 31, 2001 from the
 23 year-end level, closed quote.
 24 Do you see that?

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1 **A. Yes.**
 2 Q. And what -- what did you
 3 mean, "despite the surge in net premiums,
 4 net reserves rose only slightly"?
 5 **A. Our previous reports had**
 6 **referred to the expectation that reserves**
 7 **would rise in proportion to premiums.**
 8 **And we're referring to the fact that**
 9 **reserves are still lagging premiums.**
 10 Q. And you -- you attributed
 11 that disparity to three factors, one --
 12 one of which was the continued shortening
 13 of AIG's tail of business, correct?
 14 **A. Correct.**
 15 Q. And another of the three
 16 factors was the growth in commercial
 17 lines dominated by claims-made classes of
 18 business, correct?
 19 **A. Correct.**
 20 Q. And the third of the three
 21 was the increasing shift of AIG's
 22 business to personal lines?
 23 **A. That's right.**
 24 Q. So is it fair to say that

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1 even with the positive reserve
 2 development that was announced by AIG for
 3 the first quarter of 2001, you didn't
 4 regard the increase in premiums -- sorry,
 5 the increase in reserves -- let me start
 6 again. Withdrawn.
 7 So would -- is it fair to
 8 say that even with the positive reserve
 9 development in -- in the earnings
 10 announcement for the first quarter of
 11 2001, you didn't regard the increase in
 12 reserves as sufficient compared to the
 13 growth and premiums?
 14 **MS. SMITH: Objection.**
 15 **THE WITNESS: No. I think**
 16 **we've said that it's been**
 17 **adequately explained, and so it**
 18 **may be sufficient.**
 19 **BY MR. DWYER:**
 20 Q. And you didn't have an
 21 expectation that there would be any kind
 22 of linear relation between premiums going
 23 up a certain amount and reserves going up
 24 the same amount or the same percentage?

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1 MS. SMITH: Objection.
 2 THE WITNESS: There is
 3 normally a relation, but not
 4 necessarily a linear relation by
 5 the same percentage. So we had an
 6 expectation, but not a linear
 7 expectation.
 8 BY MR. DWYER:
 9 Q. And -- and you were
 10 satisfied with the -- the explanations
 11 here?
 12 A. We felt they were
 13 reasonable. But this report can't
 14 contain opinions, so even if we had not,
 15 we couldn't have done anything about it.
 16 Q. If -- so if -- you felt
 17 there were reasonable explanations if --
 18 if the -- only -- of the net reserves
 19 rising only \$63 million in the quarter.
 20 Is there some point where you would
 21 have -- you could say for sure that you
 22 wouldn't have accepted those explanations
 23 if the reserves had been not up \$63
 24 million but up some lesser amount or --

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1 or down -- down some amount?
 2 MS. SMITH: Objection.
 3 THE WITNESS: If I were to
 4 go back and reanalyze the quarter
 5 with all the numbers in front of
 6 me, I perhaps could tell you what
 7 that would be with an earnings
 8 model in front of me. But I
 9 can't, you know, do it in my head
 10 now.
 11 BY MR. DWYER:
 12 Q. So -- so that -- there's no
 13 magic about 63 as opposed to 62 or some
 14 lesser number that -- that you can --
 15 that you can analyze without having --
 16 A. Not without having the model
 17 and all of the context and spending a few
 18 hours on it, no.
 19 Q. We don't -- we don't have a
 20 few hours here today and I don't have the
 21 earnings model, so --
 22 A. No.
 23 Q. Now, you retained the strong
 24 buy -- at some point the strong buy

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1 became overweight, correct?
 2 A. Yes.
 3 Q. And that's just a term in --
 4 change in Morgan Stanley terminology?
 5 A. It's more than a change in
 6 terminology. It's a change in rating
 7 systems.
 8 Q. But they were the highest --
 9 A. Yes.
 10 Q. Both of those were the
 11 highest rating?
 12 A. Yes.
 13 Q. And you maintained the
 14 strong buy -- or you maintained the
 15 highest rating until -- until January of
 16 2003 for AIG, correct?
 17 A. I'd have to check.
 18 Q. Let's -- let's look at
 19 Exhibit-25.
 20 A. Okay. Yes.
 21 Q. And -- and then in -- and
 22 then in January of 2003 -- this is --
 23 Exhibit-25 is another report you -- you
 24 prepared and distributed to your clients,

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1 correct?
 2 A. Yes.
 3 Q. And you intended it to be
 4 accurate?
 5 A. Yes.
 6 Q. And you intended them to
 7 rely on it?
 8 A. Yes.
 9 Q. And you -- when you
 10 downgraded AIG stock from overweight to
 11 equal weight, was the principal reason
 12 you expressed on Page 1 of your report
 13 that you were downgrading based on your
 14 sense that the economy as a whole was not
 15 likely to recover in 2003 and that
 16 because AIG is one of the more
 17 economically sensitive stocks in our
 18 insurance universe that it would -- it
 19 would -- it would follow that?
 20 MS. SMITH: Objection.
 21 BY MR. DWYER:
 22 Q. And if you look on Page 2,
 23 in the first paragraph --
 24 A. Yes.

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1 Q. -- that's what I was quoting
 2 from.
 3 A. Yes.
 4 Q. That was -- so that was your
 5 reason?
 6 A. Yes.
 7 Q. And in this report, at the
 8 bottom of the first column on Page 2, you
 9 said that AIG's nonlife insurance
 10 business was, quote, Clearly its strong
 11 suit now, closed quote.
 12 Do you see that, last
 13 paragraph on Page 2?
 14 A. Yes.
 15 Q. And that was your -- that
 16 was your view at the time, correct?
 17 A. Yes.
 18 Q. And you also noted in the
 19 top of the second column on Page 2 that,
 20 quote, AIG has begun building reserves at
 21 a significant pace, closed quote.
 22 Do you see that?
 23 A. Yes.
 24 Q. What -- what had -- what was

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1 the significance of that to you?
 2 A. **There had been, for the past**
 3 **two years -- I'd have to look quarter by**
 4 **quarter, but there had been an issue of**
 5 **AIG reserve growth lagging the premium**
 6 **growth that had dogged the company. And**
 7 **it appeared that reserves were now**
 8 **beginning to accelerate and catch up.**
 9 Q. And when you listed other --
 10 other risks to AIG on the -- in the
 11 right-hand column of Page 2 and the
 12 left-hand column of Page 3 where you
 13 listed -- you listed nine types of risks,
 14 was reserve adequacy one of the risks
 15 that you listed?
 16 A. **Asbestos refers to reserve**
 17 **adequacy and transparency is a reference**
 18 **to reserve adequacy. But we didn't have**
 19 **a separate item for it.**
 20 Q. And other than asbestos
 21 reserves and whether the transparency was
 22 there, there was -- unlike some of the
 23 prior reports that you issued, there's no
 24 specific calling out of reserve adequacy

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1 as a -- as a risk factor?
 2 MS. SMITH: Objection.
 3 THE WITNESS: Well, asbestos
 4 is a specific. But, no.
 5 We said the quarter could be
 6 messy. We highlighted asbestos,
 7 but we didn't highlight other
 8 reserves. So yes, you're right.
 9 BY MR. DWYER:
 10 Q. And if you look at
 11 Exhibit-28, which in everybody else's
 12 book is 27 --
 13 MR. FISHMAN: So it's 28 in
 14 hers and 27 --
 15 MR. DWYER: Yes. This is
 16 the February 5th, 2003, report on
 17 AIG by Morgan Stanley.
 18 BY MR. DWYER:
 19 Q. Is this another report that
 20 you wrote and -- and issued to Morgan
 21 Stanley's clients intending that they
 22 rely on it?
 23 A. Yes, it is.
 24 Q. And this is a -- this is a

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1 report that was issued after AIG
 2 announced it was taking a \$1.8 billion
 3 after-tax reserve charge, right?
 4 A. That's correct.
 5 Q. And in spite of that reserve
 6 charge, you, for -- for Morgan Stanley,
 7 maintained an equal rate -- equal weight
 8 rating on the AIG stock?
 9 A. That's right.
 10 Q. And the -- the reasons you
 11 gave -- you give for that in -- on the
 12 second page of this -- one of the reasons
 13 you give for maintaining equal weight
 14 rating is that over performance or under
 15 performance generally drives a rating
 16 change and that you believe that AIG was
 17 still likely to perform on par with the
 18 insurance industry; is that correct?
 19 A. Yes.
 20 Q. And another reason you --
 21 you gave for maintaining your rating was
 22 that AIG's book value multiple had not
 23 fallen as far as the stock price decline
 24 would suggest; is that correct?

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1 **A. Yes.**
 2 **Q.** And another reason you gave
 3 for maintaining your rating is that AIG
 4 continued to be a very economically
 5 sensitive stock; is that correct?
 6 **A. Yes.**
 7 **Q.** And -- and the final reason
 8 you gave was that you wanted to see the
 9 details of the earnings announcement
 10 rather than simply rely on the bottom
 11 line; is that correct?
 12 **A. Yes.**
 13 **Q.** Why was it important that
 14 you see the details of the earnings
 15 announcement rather than just the bottom
 16 line?
 17 **A. We had just been surprised,**
 18 **and we wanted to make sure that we**
 19 **understood the situation and that -- in**
 20 **making future earnings projections, we**
 21 **had a model that really reflected what**
 22 **had happened and not just a bottom-line**
 23 **summary.**
 24 **Q.** And you -- you weren't -- am

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1 I correct in understanding that you
 2 weren't expecting a write-off of reserves
 3 in the tune of \$1.8 billion after tax?
 4 **A. No.**
 5 **Q.** And based on this write-off,
 6 were you aware that it impacted on prior
 7 period reserve levels?
 8 **A. Yes, that was the nature of**
 9 **it.**
 10 **Q.** And -- and were you familiar
 11 with how -- I mean, the prior period
 12 reserve levels were impacted by this --
 13 this write-off by somewhere between half
 14 a billion and slightly over a billion
 15 dollars for each of the prior three
 16 years.
 17 Is that your understanding?
 18 **A. I don't recall the**
 19 **specifics.**
 20 **Q.** But --
 21 **A. But they were affected.**
 22 **Q.** It was three years -- it was
 23 three years of write-offs --
 24 **A. Right.**

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1 **Q.** -- that added up to 1.6?
 2 **A. Yes.**
 3 **Q.** So those -- the magnitude of
 4 those write-offs and the impact on prior
 5 periods was not sufficient to change --
 6 by itself to change your -- your rating
 7 recommendation for AIG stock?
 8 **MS. SMITH: Objection.**
 9 **THE WITNESS: No. Because**
 10 the stock had corrected to a level
 11 that re-rated it for us.
 12 **BY MR. DWYER:**
 13 **Q.** So because the stock --
 14 you're saying the stock price dropped?
 15 **A. Right.**
 16 **Q.** And because the stock price
 17 dropped, it now, in your view, became a
 18 more attractive stock to buy?
 19 **A. Yeah.**
 20 **Q.** So, therefore, you -- you
 21 continued to recommend the same level of
 22 rating?
 23 **A. The rating is also relative**
 24 **to other insurers under this new system**

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1 **not versus the market.**
 2 **Q.** So you're -- you're saying
 3 if you're going to buy an insurance
 4 stock, you should have equal weight of
 5 AIG to its -- to what, its market cap?
 6 **A. Yes.**
 7 **Q.** Relative to other insurance
 8 companies?
 9 **A. Yes.**
 10 **Q.** But it doesn't mean that you
 11 should buy AIG or not buy AIG if you're
 12 not going to be in the insurance sector?
 13 **A. Correct.**
 14 **Q.** And then if you look at your
 15 Tab 29 -- your Exhibit-29, everybody
 16 else's Tab 28, you --
 17 **MR. FISHMAN: I'm sorry,**
 18 whenever you get a chance, it's
 19 been about an hour, so.
 20 **MR. DWYER: Okay. Let me**
 21 just do this document and then
 22 we'll take a break.
 23 **MR. FISHMAN: That's fine.**
 24 That's fine.

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1 BY MR. DWYER:
 2 Q. You -- this is another
 3 report you -- you wrote and distributed
 4 to your clients intending to have them
 5 rely on it, correct?
 6 A. Yes.
 7 Q. And in this report you
 8 maintain the -- the equal weight rating?
 9 A. Yes.
 10 Q. And so this -- this report
 11 is now written -- you said before when
 12 you were looking at Tab 28 -- at
 13 Exhibit-28, that you had -- which was in
 14 January, that you had wanted to do some
 15 further analysis of details.
 16 I take it by the time you
 17 wrote Exhibit-29, which is three months
 18 later, you had done that -- you had done
 19 that work?
 20 A. Yes.
 21 Q. And you -- you still painted
 22 your equal weight rating?
 23 A. Yes.
 24 Q. And that's -- that's even

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1 though AIG had added over \$1 billion to
 2 reserves in that quarter?
 3 MS. SMITH: Objection.
 4 THE WITNESS: Yes.
 5 BY MR. DWYER:
 6 Q. So would you agree that with
 7 regard to Exhibits-28 and 29, they
 8 demonstrate that in the Morgan Stanley
 9 rating system there's not a one-to-one
 10 relationship between reserve levels
 11 and -- and the rating that you get?
 12 MS. SMITH: Objection.
 13 THE WITNESS: Sure.
 14 BY MR. DWYER:
 15 Q. Yeah. I mean, ratings can
 16 go down, maintain rating; ratings can go
 17 up significantly and maintain the same
 18 rating?
 19 A. Sure.
 20 MS. SMITH: Objection.
 21 MR. FISHMAN: I'm sorry,
 22 you're right.
 23 THE WITNESS: Whatever.
 24 BY MR. DWYER:

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1 Q. Reserves -- reserves can go
 2 down significantly or reserves can go up
 3 significantly, as these two quarters
 4 showed, and yet you maintained the same
 5 rating?
 6 MS. SMITH: Objection.
 7 THE WITNESS: Sure. It's
 8 the analyst -- I mean, yeah, sure.
 9 BY MR. DWYER:
 10 Q. And that's even though it's
 11 part of a -- in this -- in this case,
 12 Exhibit-28 was part of a multi-year
 13 adverse reserve --
 14 A. Sure.
 15 Q. And it still didn't cause
 16 you to change your -- your rating?
 17 A. No.
 18 Q. And -- and is that because
 19 your decision as to whether or not to
 20 change a stock's rating is driven by a
 21 number of factors and not -- not just by
 22 reserve levels or reserve changes?
 23 MS. SMITH: Objection.
 24 THE WITNESS: Yes. Well --

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1 yes. Just yes.
 2 BY MR. DWYER:
 3 Q. Other -- are there other
 4 ways, other than finite reinsurance or a
 5 loss portfolio transaction, of increasing
 6 loss reserves for a property and casualty
 7 insurance company?
 8 A. You mean like
 9 legitimately --
 10 Q. Yes, like --
 11 A. -- raising reserves?
 12 Q. Well, for example, is
 13 entering into a new reinsurance
 14 transaction as the ceding party a way
 15 that a company can increase its reserves?
 16 A. No.
 17 Q. How about not entering into
 18 new reinsurance transactions as the -- as
 19 the ceding party?
 20 A. Yes.
 21 Q. That's a way they can
 22 increase reserves?
 23 A. Yes.
 24 Q. Is terminating existing

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1 reinsurance contracts a way that a
 2 company can increase its reserves?
 3 **A. Yes.**
 4 Q. Is writing more long-tailed
 5 policies, such as workman's comp, a way
 6 that a company can increase its reserves?
 7 **A. Yes.**
 8 MR. DWYER: Why don't we
 9 take the break now?
 10 - - -
 11 VIDEO TECHNICIAN: It's
 12 2:23. That ends Videotape Number
 13 3. Off the record.
 14 - - -
 15 (Whereupon, a brief recess
 16 was taken.)
 17 - - -
 18 VIDEO TECHNICIAN: It's now
 19 2:35. We'll be on Tape Number 4,
 20 and we're back on the record.
 21 - - -
 22 **BY MR. DWYER:**
 23 Q. I think you testified that
 24 you were at FASB and worked on the

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1 development of FAS 113?
 2 **A. That's correct.**
 3 Q. So at some point in time you
 4 had expertise about FAS 113 and related
 5 accounting rules?
 6 **A. At some point in time, yes.**
 7 Q. But as I understand it, you
 8 haven't read FAS 113 in 15 years?
 9 **A. I have not read the document**
 10 **page by page, line by line in 15 years.**
 11 Q. Do you have an understanding
 12 of any aspects of -- of FAS 113?
 13 **A. Sure.**
 14 Q. Is -- do you -- do you have
 15 a familiarity with an interpretation of
 16 FAS 113 called the 10/10 Rule?
 17 **A. Yes.**
 18 Q. Now, that's not actually in
 19 FAS 113 itself, correct?
 20 **A. Correct.**
 21 Q. What is your understanding
 22 of what -- of what -- how the 10/10 Rule
 23 is -- is applied in practice?
 24 **A. How it used to be applied?**

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1 Q. Yes.
 2 **A. It used to be thought that a**
 3 **loss was significant to a reinsurer if**
 4 **the probability of the loss was greater**
 5 **than 10 percent and the amount of the**
 6 **loss was greater than 10 percent of the**
 7 **size of the contract, I believe.**
 8 Q. And some people would
 9 interpret that as saying there only had
 10 to be a 1 percent risk because they
 11 multiplied 10 percent times 10 percent;
 12 is that correct?
 13 **A. That was --**
 14 MS. SMITH: Objection.
 15 **THE WITNESS: That's how it**
 16 **was applied in practice before it**
 17 **was overturned, yes.**
 18 **BY MR. DWYER:**
 19 Q. And -- and so -- and when
 20 you said -- used the phrase -- the word
 21 overturned, when -- when would you say
 22 that there was a change between use of
 23 the 10/10 Rule and not?
 24 **A. In the earlier millennial**

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1 **years, some time between 2002 and 4 or 5,**
 2 **but I can't pinpoint the year.**
 3 Q. So did -- did the change
 4 apply to transactions that -- accounting
 5 for transactions that had taken place
 6 already or only was applied for
 7 prospective transactions?
 8 MS. SMITH: Objection.
 9 **THE WITNESS: I don't know**
 10 **how the accountants applied it.**
 11 **BY MR. DWYER:**
 12 Q. And the reason that you use
 13 the word "significant," because the FAS
 14 113 contains terms like "significant
 15 insurance risk" and "significant loss"?
 16 **A. That's correct.**
 17 Q. So that's why they were
 18 looking for a -- a surrogate for what
 19 significant meant?
 20 **A. That's correct.**
 21 Q. And was asymmetrical
 22 accounting permitted by FAS 113?
 23 **A. It was.**
 24 Q. And what did you -- what do

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1 you understand asymmetrical accounting to
 2 mean in that context?
 3 **A. Asymmetrical accounting**
 4 **meant that FAS 113 did not require the**
 5 **insurers and reinsurers' accounting to be**
 6 **mirror images of each other.**
 7 Q. Now, back in the period that
 8 is relevant to this case, the end of
 9 2000 -- you know, last quarter of 2000,
 10 first quarter of 2001, as FAS 113 was
 11 applied in that period of time, could a
 12 loss portfolio transaction have
 13 significant risk -- sufficient risk in it
 14 to satisfy the risk transfer requirements
 15 of FAS 113?
 16 MS. SMITH: Objection.
 17 THE WITNESS: It could.
 18 BY MR. DWYER:
 19 Q. Did FAS 113 require the
 20 disclosure of finite reinsurance
 21 transactions?
 22 **A. It did.**
 23 Q. It did? Did you say it did?
 24 **A. Oh, I'm sorry, FAS 113?**

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1 Q. Yes.
 2 **A. No.**
 3 Q. Have you ever read the
 4 amended complaint in this action, this
 5 is -- "this action" being the action
 6 brought by the Attorney General?
 7 **A. I -- yes, I have.**
 8 Q. And did you see a reference
 9 in there to a transaction that involved a
 10 company called Capco, C-A-P-C-O?
 11 **A. I did.**
 12 Q. Was that a transaction that
 13 factored into any of your analyst reports
 14 back when you were covering AIG for --
 15 for Morgan Stanley or Paine Webber?
 16 **A. No, we were not aware of**
 17 **Capco.**
 18 Q. And were you aware of the
 19 Nan Shan transaction in -- in the
 20 Attorney -- did you see in the -- in the
 21 amended complaint a description of a
 22 transaction involving Nan Shan?
 23 **A. Yes.**
 24 Q. And were you aware of that

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1 transaction back when you were covering
 2 AIG?
 3 **A. No.**
 4 Q. So neither of those factored
 5 into your -- into the reports that you
 6 wrote on AIG?
 7 **A. No.**
 8 Q. Did you see the discussion
 9 in the amended complaint having to do
 10 with top-level or top-side adjustments?
 11 **A. Yes.**
 12 Q. Is that a phrase that you
 13 understand?
 14 **A. Yes.**
 15 Q. And what do you understand
 16 that phrase to mean?
 17 **A. I understand it to mean**
 18 **corporate adjustments, meaning**
 19 **adjustments to the financial statements**
 20 **that are made at the corporate level by**
 21 **senior management that are not part of**
 22 **the ordinary operations of the business.**
 23 Q. And back when you were at
 24 Ernst and Whinney, had you seen such

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1 adjustments made?
 2 **A. Yes.**
 3 Q. And you -- did you review
 4 them as part of your outside audit work?
 5 **A. Yes.**
 6 Q. And there's nothing
 7 intrinsicly wrong with -- with top-side
 8 or top-level adjustments?
 9 **A. No.**
 10 Q. Did you -- did you factor
 11 top-side -- or did you have any analysis
 12 of top-side or top-level adjustments in
 13 connection with the reports you wrote at
 14 Oppenheimer, Paine Webber or Morgan
 15 Stanley?
 16 **A. No. Analysts would not have**
 17 **access to that information.**
 18 Q. Do you own or have you ever
 19 owned any stock, bonds or other
 20 securities of Berkshire Hathaway?
 21 **A. Yes.**
 22 MS. SMITH: Objection.
 23 BY MR. DWYER:
 24 Q. And over what -- do you

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1 still own Berkshire Hathaway stock?
 2 **A. No.**
 3 Q. When did you cease to own --
 4 let me -- do you still own Berkshire
 5 Hathaway securities, let me use the
 6 generic securities?
 7 **A. I sold my Berkshire when --**
 8 **shortly before, actually, the rule**
 9 **changed that said that analysts should no**
 10 **longer own stock in companies that they**
 11 **follow. And that was 2001 or 2002, some**
 12 **time around then.**
 13 Q. And since then you
 14 haven't -- you haven't owned any
 15 Berkshire stock?
 16 **A. No.**
 17 Q. Did you own any -- have you
 18 owned any insurance company's stock
 19 since -- since then?
 20 **A. No.**
 21 Q. Did you own any AIG
 22 securities before then?
 23 **A. No.**
 24 Q. Did you own any other -- any

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1 other companies that you covered before
 2 then?
 3 **A. Once I owned stock of a**
 4 **small cap insurer called FPIC Insurance.**
 5 **That was, I think, the only time.**
 6 Q. In the -- you -- you
 7 testified at a criminal trial in
 8 Hartford, Connecticut last fall, correct?
 9 **A. Yes.**
 10 Q. Have you ever testified --
 11 given any trial testimony other than
 12 that?
 13 **A. No.**
 14 **I'm sorry, in my divorce**
 15 **trial.**
 16 Q. Other than that?
 17 **A. Okay, no.**
 18 Q. And in -- in connection with
 19 the Hartford trial, did you meet with
 20 representatives of the Department of --
 21 U.S. Department of Justice beforehand?
 22 **A. Yes.**
 23 Q. How many times -- how many
 24 times did you meet or how many hours did

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1 you meet?
 2 MR. FISHMAN: Which do
 3 you --
 4 MR. DWYER: How many hours.
 5 MR. FISHMAN: Over?
 6 MR. DWYER: Well, over the
 7 entire period of time.
 8 THE WITNESS: Is the U.S.
 9 Attorney and the Department of
 10 Justice the same thing?
 11 BY MR. DWYER:
 12 Q. The U.S. Attorney is a --
 13 the U.S. Attorneys are employed by the
 14 U.S. Department of Justice.
 15 **A. Okay. I'm sorry, it's --**
 16 **maybe 24 hours or -- between 20 and 30**
 17 **hours, somewhere in the middle of that**
 18 **range, maybe.**
 19 Q. Did you take any notes in
 20 connection with that preparation?
 21 **A. No.**
 22 MR. FISHMAN: Preparation
 23 would actually not be a fair
 24 characterization of what she said.

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1 THE WITNESS: I was -- I was
 2 interviewed the vast majority of
 3 that time.
 4 BY MR. DWYER:
 5 Q. In connection with that 20
 6 or 30 hours, did you take any notes?
 7 **A. No.**
 8 Q. At the Hartford trial, you
 9 gave testimony that described you and
 10 Joseph Brandon as, quote, very good
 11 friends, closed quote.
 12 What -- what did you mean by
 13 "very good friends"?
 14 MS. SMITH: Objection.
 15 MR. FISHMAN: I'm going to
 16 object to that.
 17 MS. SMITH: Objection. Not
 18 relevant to the facts in this
 19 case.
 20 MR. FISHMAN: Totally
 21 irrelevant.
 22 MR. DWYER: Do you instruct
 23 her not to answer?
 24 MR. FISHMAN: I don't

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<p>1 understand the point of the 2 question in any event. I don't 3 know what the answer is, but 4 regardless of what the answer is, 5 it's not appropriate. 6 BY MR. DWYER: 7 Q. Are you following your 8 counsel's instruction -- you're 9 represented by Mr. Fishman today, 10 correct? 11 A. Yes. 12 Q. I have to establish that for 13 the record. 14 Are you following your 15 counsel's instruction not to answer? 16 A. I always follow my counsel's 17 instruction. 18 MR. FISHMAN: One of my few 19 clients that does. 20 MR. DWYER: As a technical 21 matter, I don't -- I don't think 22 that's a proper instruction. 23 However, there's another way that 24 you can get to the same result, by</p>	<p>1 connection with writing the book or when 2 you were an analyst, did you ever discuss 3 the transaction that involved the loss 4 portfolio transaction between AIG and Gen 5 Re that's the subject of this litigation? 6 A. Yes. Yes. 7 Q. You discussed that with him? 8 A. Yes. 9 Q. And how -- was it -- was it 10 discussed in connection with writing the 11 book or prior to writing the book? 12 A. In connection with 13 writing -- well, after I was writing the 14 book. 15 Q. And when did you have the 16 discussion with him? 17 A. It was when he was being 18 interviewed. I -- I can't give you the 19 date, but it was -- I think it was in 20 2005 when he was being interviewed. 21 Q. Interviewed by you or by 22 someone else? 23 A. No, no, I'm sorry. By 24 whoever -- I don't -- I've lost track of</p>
<p>Page 255</p> <p>1 adjourning the deposition and 2 going to the judge, so -- 3 MR. FISHMAN: I just don't 4 think -- I'm surprised you're 5 going down this road. I don't see 6 the point of it. I understand 7 what I can and can't do. 8 BY MR. DWYER: 9 Q. Did you -- did you -- in 10 your -- any communications with the U.S. 11 Attorney or the U.S. Department of 12 Justice, did you ever make a request that 13 they not indict or prosecute Mr. Brandon? 14 A. No. 15 Q. In your -- I take it you -- 16 you had communications with Mr. Buffett 17 prior to writing the book or starting to 18 write the book? 19 A. Yes. 20 Q. You followed -- and that was 21 in connection with your following him as 22 an -- as an analyst? 23 A. Yes. 24 Q. At any time, either in</p>	<p>Page 257</p> <p>1 whether it was the New York AG or the DOJ 2 or whoever the many people were who were 3 doing all the interviews. 4 He was being interviewed in 5 New York by somebody, and it was reported 6 in the press. 7 Q. And you talked to him 8 about -- did you talk to him before 9 his -- the interview or after the 10 interview? 11 A. I talked to him after. I 12 don't think I talked to him before. 13 Q. And did you talk to him 14 about the subject of the interview? 15 A. Yes. 16 Q. And what did he say about 17 the interview? 18 A. He told me that he -- he 19 said that he couldn't remember whatever 20 it was that they were asking him about, 21 which I think was meetings or phone calls 22 or something, I think it was phone calls 23 with somebody. 24 And he told me that there</p>

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1 **were 13 reporters waiting --**
 2 **photographers and reporters waiting for**
 3 **him when he left the building. And he**
 4 **remembered how many people were in the**
 5 **room.**
 6 Q. But he didn't talk to you
 7 about the substance of the --
 8 **A. No.**
 9 Q. -- of the -- of the
 10 transaction?
 11 **A. No.**
 12 Q. Does -- is your book going
 13 to be -- present Mr. Buffett in a
 14 favorable light?
 15 **A. It's going to present him in**
 16 **a truthful light.**
 17 Q. And is your -- returning
 18 back to your advance, is your -- is your
 19 advance contingent on your actually
 20 publishing the book?
 21 **A. Yes. Part of it is.**
 22 Q. Is it -- is it contingent on
 23 the book having a certain level of sales
 24 to justify -- in other words, do you have

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1 to forfeit part of your advance if your
 2 sales don't hit a certain point?
 3 **A. No.**
 4 Q. Did you ever discuss -- have
 5 any discussions with the U.S. Attorney or
 6 U.S. Department of Justice concerning Mr.
 7 Buffett?
 8 **A. Yes.**
 9 Q. And what was -- what -- what
 10 were those discussions about?
 11 **A. They wanted to know the same**
 12 **thing you did, basically. They wanted to**
 13 **know what we talked about.**
 14 Q. And did --
 15 **A. And --**
 16 Q. And you -- you said
 17 basically what you just said?
 18 **A. Yes. And -- and they asked**
 19 **me something else.**
 20 Q. What else did they ask you?
 21 MR. FISHMAN: Why don't
 22 we -- why don't we take a minute
 23 so I can -- she, apparently, is
 24 looking over at me and --

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1 MR. DWYER: Let's take a
 2 break.
 3 - - -
 4 VIDEO TECHNICIAN: It's
 5 2:49. We're off the record.
 6 - - -
 7 (Whereupon, a discussion off
 8 the record occurred.)
 9 - - -
 10 VIDEO TECHNICIAN: It's now
 11 2:53. We're back on the record.
 12 - - -
 13 MR. DWYER: Why don't we
 14 read the question back so we --
 15 MR. FISHMAN: Finish what
 16 you were doing.
 17 THE WITNESS: Right.
 18 MR. DWYER: And then -- then
 19 we can go.
 20 - - -
 21 (Whereupon, the court
 22 reporter read the following
 23 testimony:
 24 "Answer: And -- and they

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1 asked me something else.
 2 Question: What else did
 3 they ask you?")
 4 - - -
 5 THE WITNESS: Okay. Okay.
 6 So I'm -- I've been thinking of
 7 all the things I've talked to Mr.
 8 Buffett about and then also what
 9 the DOJ asked me. So I'd like to
 10 go back and add to what I just
 11 told you about what the DOJ people
 12 have asked me about a
 13 conversation -- I'm sorry, I'm
 14 getting confused.
 15 I wanted to go back and add
 16 to what Mr. Buffett and I have
 17 talked about, because I thought of
 18 a couple -- a few more things,
 19 okay.
 20 One is that he's talked a
 21 lot about how much he likes and
 22 admires Mr. Greenberg.
 23 Another is that he's talked
 24 about the Hartford case verdict

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1 and how he believes that it's a
 2 travesty and that the outcome is
 3 very disproportionate to the
 4 crime, although he -- you know, he
 5 just believes it's a very
 6 disproportionate outcome.
 7 And, also, that he offered
 8 to go down to Washington and try
 9 to save Mr. Brandon, and Mr.
 10 Brandon volunteered to leave on
 11 his own because he felt that that
 12 would scuttle the settlement or
 13 make it more difficult. And his
 14 general surprise that things
 15 have -- have come to such a pass,
 16 I would say.
 17 And what else did the DOJ
 18 ask me about? They asked me about
 19 Mr. Buffett's memory and whether
 20 his memory is as reliable as it
 21 used to be. And I told them that
 22 it is not.
 23 BY MR. DWYER:
 24 Q. And did you have any --

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1 obviously, you took notes of your various
 2 conversations with Mr. Buffett through
 3 the -- through your process.
 4 Did you have any specific
 5 notes on -- on the -- on the Gen Re
 6 transaction or with AIG or what he told
 7 you about his interview with the DOJ?
 8 **A. No. I didn't take notes on**
 9 **that.**
 10 MR. DWYER: I -- I have no
 11 further questions.
 12 MR. FISHMAN: Did you have
 13 one other thing you wanted to --
 14 THE WITNESS: Yes. I wanted
 15 to come back.
 16 At the end of the last
 17 section when you were listing some
 18 things that would also cause
 19 reserves to potentially decrease,
 20 and I think you listed some
 21 transactions such as --
 22 BY MR. DWYER:
 23 Q. To increase, actually. The
 24 question was to increase.

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1 **A. To increase?**
 2 Q. Yes.
 3 **A. It was to increase.**
 4 **Ceding -- ceding less**
 5 **reinsurance, there were some items like**
 6 **that.**
 7 Q. Yeah. The items -- the
 8 item I -- the questions I asked you, and
 9 I'll combine them as -- in one statement,
 10 is were there -- were there other ways a
 11 company, an insurance company, could
 12 increase its property and casualty loss
 13 reserves. And the three examples I gave
 14 were, one, not entering into new
 15 reinsurance transactions as the ceding
 16 party; two, terminating existing
 17 reinsurance contracts; three, writing
 18 more longer-tailed policies such as
 19 workman's comp.
 20 **A. Okay. And I just wanted to**
 21 **refine my answer to say that those**
 22 **actions in and of themselves wouldn't**
 23 **cause an increase in reserves, but the**
 24 **financial consequences of them could**

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1 **cause somebody in the company to**
 2 **determine that more reserves were needed.**
 3 **That judgment is made by an**
 4 **individual at a company. It's a fine**
 5 **point, but --**
 6 Q. Okay.
 7 MR. DWYER: I still have no
 8 further questions.
 9 THE WITNESS: Okay.
 10 MS. SMITH: Does Mr. Smith's
 11 counsel have any questions?
 12 MS. SCHUMACHER: We don't.
 13 - - -
 14 EXAMINATION
 15 - - -
 16 BY MS. SMITH:
 17 Q. Ms. Schroeder, my name is
 18 Alisha Smith, I'm with the New York State
 19 Attorney General. I have some questions
 20 for you also. And if at any time you
 21 need to take a break, the same rules
 22 apply; let me know, and we'll break.
 23 MR. FISHMAN: Will you need
 24 the books?

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1 MS. SMITH: Yes. I'm going
 2 to use the books for the most
 3 part, and then I'll mark a few
 4 other exhibits that weren't
 5 marked.
 6 BY MS. SMITH:
 7 Q. Ms. Schroeder, in your role
 8 as an equity -- let me back up.
 9 Would you consider yourself
 10 an equity analyst during the 2000 to 2003
 11 time period?
 12 A. **Yes, I would.**
 13 Q. Does the role of an equity
 14 analyst include analyzing trends and
 15 financial information?
 16 A. **Yes, it does.**
 17 Q. What are some examples of
 18 trends that you would analyze?
 19 A. **Growth rates of premiums,**
 20 **increases or decreases in expense rates,**
 21 **changes in the rate of earning investment**
 22 **income, underwriting gains and losses.**
 23 Q. Are you done?
 24 A. **Yes.**

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1 Q. Okay. Did you use specific
 2 metrics in your analysis of insurance
 3 companies during the 2000 to 2003 time
 4 period?
 5 A. **Yes.**
 6 Q. Can you tell me about the
 7 metrics?
 8 A. **There are a lot of different**
 9 **metrics. They are -- the metrics are**
 10 **ratios. They are normally growth rates**
 11 **or rates of change from one period to**
 12 **another of income, expenses, losses or**
 13 **they're ratios of ratios to each other.**
 14 **So, it's the -- for example, the**
 15 **percentage change in premiums this year**
 16 **versus the last year compared to the**
 17 **percentage change in reserves. That's a**
 18 **metric.**
 19 **Or the percentage of losses**
 20 **paid this year compared to the percentage**
 21 **of losses that occurred, the ratio, and**
 22 **then compare that ratio to the same ratio**
 23 **last year. That would be a metric.**
 24 Q. Okay. You mentioned

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1 something in that answer, sorry, I can't
 2 remember the wording, but you were
 3 comparing the changes in premiums to the
 4 changes in reserves.
 5 Can you elaborate on that --
 6 A. **Yes.**
 7 Q. -- metric?
 8 A. **So typically when an**
 9 **insurance company is either raising**
 10 **prices or adding new customers, or both,**
 11 **their premiums grow. And they grow at a**
 12 **rate of, you know, 5 percent or 10**
 13 **percent or whatever a quarter. And you**
 14 **see that growth rate and it might**
 15 **accelerate.**
 16 **As they -- as they take on**
 17 **more customers and grow, their exposure**
 18 **to loss grows with it. You expect to see**
 19 **them recording a provision for losses**
 20 **that also grows. So you would expect to**
 21 **see the ratio between those two numbers**
 22 **show some relationship to each other that**
 23 **was more constant as opposed to**
 24 **diverging.**

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1 Q. Okay. For example, if
 2 premiums went up, would you expect loss
 3 reserves to go up in the same quarter?
 4 A. **You would.**
 5 Q. And if premiums go down,
 6 would you expect loss reserves to
 7 decrease in the same quarter?
 8 A. **Generally. But --**
 9 **generally, yeah.**
 10 Q. Did you review AIG's SEC
 11 filings for the purpose of analyzing
 12 insurance companies during the 2000 to
 13 2003 time period?
 14 A. **Yes.**
 15 Q. Did you review AIG's -- I'm
 16 sorry, let me rephrase that question. I
 17 think I said that wrong.
 18 Did you review AIG's SEC
 19 filings for the purposes of analyzing the
 20 company during the 2000 to 2003 time
 21 period?
 22 A. **Yes.**
 23 Q. As an analyst, did you rely
 24 on the accuracy of AIG's SEC filings,

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1 including the financials, during the 2000
 2 to 2003 time period?
 3 **A. Yes, I did.**
 4 Q. I believe you testified that
 5 you reviewed AIG's press releases for
 6 purposes of analyzing AIG during the 2000
 7 to 2003 time period, correct?
 8 **A. Correct.**
 9 Q. Did you rely on the accuracy
 10 of the information contained in AIG's
 11 press releases during the 2000 to 2003
 12 time period?
 13 **A. Yes, we did.**
 14 Q. We talked -- strike that.
 15 You reviewed AIG's statutory
 16 filings in connection with your analysis
 17 of AIG, correct?
 18 **A. Yes.**
 19 Q. As an analyst, did you rely
 20 on the accuracy of the information
 21 contained in AIG's statutory filings
 22 during the 2000 to 2003 time period?
 23 **A. Not to the same degree as**
 24 **the GAAP.**

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1 Q. Why?
 2 **A. They're prepared under a**
 3 **different basis of accounting which isn't**
 4 **meant to be used for investors to rely**
 5 **on. It's prepared for the purpose of**
 6 **regulating solvency and for insurance**
 7 **regulators to glean the information they**
 8 **need to regulate an insurance company.**
 9 **The statutory statements are**
 10 **audited -- or the -- the insurance**
 11 **companies go through a triennial**
 12 **examination by insurance regulators, but**
 13 **it is not the same as the annual audit**
 14 **that they go through -- that the GAAP**
 15 **statements are subject to.**
 16 **And the GAAP financial**
 17 **statements are intended to be complete in**
 18 **and of themselves and reliable, and they**
 19 **represent the information that investors**
 20 **are supposed to be able to draw the**
 21 **complete picture view from.**
 22 Q. During the 2000 to 2003 time
 23 period, did you look at trending when
 24 reviewing AIG's earnings releases?

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1 **A. Yes.**
 2 Q. During the 2000 to 2003 time
 3 period, did you look at P&Ls when
 4 reviewing AIG's earnings releases?
 5 **A. Yes.**
 6 Q. During the 2000 to 2003 time
 7 period, did you look at premium growth
 8 when reviewing AIG's earnings releases?
 9 **A. Yes, we did.**
 10 Q. During the 2000 to 2003 time
 11 period, did you look at reserves when
 12 reviewing AIG's earnings releases?
 13 **A. Yes, we did.**
 14 Q. During the 2000 to 2003 time
 15 period, did you look specifically at the
 16 change in reserves when reviewing AIG's
 17 earnings releases?
 18 **A. Yes, we did.**
 19 Q. Is -- would the answer be
 20 the same for SEC filings?
 21 **A. Yes.**
 22 Q. During the 2000 to 2003 time
 23 period, did you look at operating losses
 24 when reviewing AIG's earnings releases?

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1 **A. Operating earnings and**
 2 **losses or --**
 3 Q. I'm sorry, operating loss --
 4 I was going to split it up, but both.
 5 **A. Okay. Yes.**
 6 Q. Yes.
 7 MR. DWYER: I'm not sure
 8 what that question -- after the
 9 dialogue, I'm not sure what
 10 question you actually asked and
 11 the witness answered.
 12 MS. SMITH: Okay. Let me
 13 break it up, then.
 14 **BY MS. SMITH:**
 15 Q. During the 2000 to 2003 time
 16 period, did you look at operating losses
 17 when reviewing the AIG earnings releases?
 18 **A. If -- if there were losses,**
 19 **yes.**
 20 Q. During the 2000 to 2003 time
 21 period, did you look at investment
 22 losses, if there were, when -- when
 23 reviewing AIG's earnings releases?
 24 **A. You mean realized investment**

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1 **losses?**
 2 Q. Realized investment losses.
 3 **A. Yes. Yes, we did.**
 4 Q. Have you heard the term
 5 "quality of earnings"?
 6 **A. Yes.**
 7 Q. What does that mean?
 8 **A. It refers to earnings that**
 9 **are derived from the company's core**
 10 **ongoing operating business as opposed to**
 11 **items that are one off in nature and are**
 12 **not going to create an ongoing stream of**
 13 **earnings.**
 14 Q. Is the idea of quality of
 15 earnings important to analysts?
 16 MR. DWYER: Objection to
 17 form.
 18 THE WITNESS: Yeah. Yes.
 19 BY MS. SMITH:
 20 Q. During the 2000 to 2003 time
 21 period, did you look at the quality of
 22 AIG's earnings when reviewing AIG's
 23 earnings statements -- earnings releases?
 24 **A. Yes. Yes.**

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1 Q. During the 2000 to 2003 time
 2 period, did you look for any earnings
 3 surprises when reviewing AIG's earnings
 4 releases?
 5 MR. DWYER: Objection to
 6 form.
 7 BY MS. SMITH:
 8 Q. Do you understand the
 9 question?
 10 **A. I don't, actually.**
 11 Q. Okay. During the 2000 to
 12 2003 time period, when reviewing AIG's
 13 earnings releases or SEC filings, would
 14 you have looked for something that might
 15 have been -- withdrawn.
 16 I believe in a number of the
 17 exhibits that we reviewed today that you
 18 used the phrase "no surprises" --
 19 **A. Right.**
 20 Q. -- related to AIG's stock
 21 price or value.
 22 In that sense, was that a
 23 concept that was important to you as an
 24 analyst?

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1 **A. Okay. I understand.**
 2 **Yes.**
 3 Q. What does it mean if an
 4 insurance company meets guidance?
 5 **A. Companies often tell**
 6 **analysts what they expect to earn. And**
 7 **if they then earn that amount, they've**
 8 **met the guidance that they gave.**
 9 Q. Did AIG typically meet
 10 guidance during the 2000 to 2003 time
 11 period?
 12 **A. Yes.**
 13 MR. DWYER: Objection to
 14 form.
 15 THE WITNESS: Yes.
 16 BY MS. SMITH:
 17 Q. In your experience as an
 18 analyst, when a company's actual earnings
 19 do not meet previous guidance, how does
 20 the market react to that news?
 21 **A. Negatively.**
 22 Q. Specifically stock drop or
 23 are you thinking of --
 24 **A. Stock drop --**

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1 MR. DWYER: Objection to
 2 form.
 3 THE WITNESS: -- or heavy
 4 trading. A lot of people sell.
 5 Yes.
 6 BY MS. SMITH:
 7 Q. When did you first meet
 8 Charlene Hamrah?
 9 **A. Some time in the 1990s. I'm**
 10 **not sure when I first met her in person**
 11 **because I talked to her on the phone**
 12 **probably for some time before I met her**
 13 **in person.**
 14 Q. Did you meet with Charlene
 15 Hamrah in person during the 2000 to 2003
 16 time period?
 17 **A. I didn't have one-on-one**
 18 **meetings with Charlene. She attended**
 19 **meetings that I was present at.**
 20 Q. Did you speak to Ms. Hamrah
 21 on the telephone during the 2000 to 2003
 22 time period?
 23 **A. Yes.**
 24 Q. How often did you speak to

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1 Ms. Hamrah on the telephone during the
 2 2000 to 2003 time period?
 3 **A. Sometimes once, twice a**
 4 **month, sometimes less.**
 5 Q. Did Ms. Hamrah ever call
 6 you?
 7 **A. Occasionally.**
 8 Q. Why would Ms. Hamrah call
 9 you?
 10 **A. Occasionally she would call**
 11 **and ask for a copy of our earnings model**
 12 **so that the company could look at it.**
 13 Q. Did you generally give out
 14 an earnings model to insurance companies
 15 if they requested it?
 16 **A. In the 1990s, that was a**
 17 **very common practice and we did do that.**
 18 Q. What about the 2000 to 2003
 19 time period?
 20 **A. This is tough in terms of**
 21 **when. Around the time that AIG started**
 22 **formally giving earnings guidance and**
 23 **holding conference calls, I believe they**
 24 **stopped the practice of individually**

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1 **reviewing analysts models. And it's --**
 2 **you know, it's -- it's around then, but I**
 3 **can't be real specific as to the date.**
 4 Q. Around the time period when
 5 you did give AIG the earnings models --
 6 **A. Yeah.**
 7 Q. -- that Ms. Hamrah
 8 requested?
 9 **A. That's my recollection.**
 10 Q. Did you give earnings models
 11 to other insurance companies?
 12 **A. Generally not. It was not**
 13 **unheard of, but it wasn't common.**
 14 Q. Why did you give the
 15 earnings models to Ms. Hamrah?
 16 **A. They would point out things**
 17 **that they thought were errors or trends**
 18 **that were not logical. Sometimes they**
 19 **would just point out things that were**
 20 **genuine mistakes. And they would also**
 21 **give some guidance on earnings.**
 22 Q. And when you say "they," who
 23 do you mean?
 24 **A. Charlene. But she would**

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1 **sometimes involve Howie Smith. But not**
 2 **often. She was a conduit.**
 3 Q. What did you discuss with
 4 Ms. Hamrah during the 2000 to 2003 time
 5 period, if you can recall?
 6 **A. We had a lot of routine**
 7 **phone conversations over quarterly**
 8 **earnings; why did this go up, why did**
 9 **that go down.**
 10 **And I think we had a few**
 11 **conversations about the rumor mill,**
 12 **because every quarter there was a rumor**
 13 **that Mr. Greenberg was dying and it**
 14 **affected the stock for -- that went on**
 15 **for some time, that short sellers were --**
 16 **you know, wanted to cover their trades**
 17 **and -- right before earnings.**
 18 **And I -- I seem to recall,**
 19 **you know, having some phone calls with**
 20 **her where that would come up but -- you**
 21 **know, how the stock was trading.**
 22 Q. Did you exchange e-mails
 23 with Ms. Hamrah during the 2000 to 2003
 24 time period?

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1 **A. Almost never. At one point**
 2 **she maintained to me that AIG did not use**
 3 **e-mail.**
 4 Q. AIG in general did not use
 5 e-mail?
 6 **A. Yes.**
 7 Q. Did Ms. Hamrah ever complain
 8 to you about Mr. Greenberg during the
 9 2000 to 2003 time period?
 10 **A. Never.**
 11 Q. Did Ms. Hamrah ever discuss
 12 AIG's management style during the 2000 to
 13 2003 time period?
 14 **A. Only in the terms that would**
 15 **be very normal and complimentary, that an**
 16 **IR person would normally use to discuss**
 17 **their company's management.**
 18 Q. How did Ms. Hamrah describe
 19 AIG's management style?
 20 **A. Entrepreneurial,**
 21 **competitive, conservative, smart -- you**
 22 **know, smart. But I can't get into a lot**
 23 **of detail, because I really don't**
 24 **remember much.**

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1 Q. Did Ms. Hamrah specifically
 2 inquire about what information or data
 3 points you focused on in your analysis of
 4 AIG during the 2000 to 2003 time period?
 5 A. Yes. Oh, now I remember.
 6 There was some controversy during this
 7 period as -- as more companies became
 8 more forthcoming and began to produce
 9 much more detailed press releases.
 10 I think I had at least one
 11 conversation with her about the fact that
 12 AIG was being criticized for the sparse
 13 detail of its disclosures and suggested
 14 that, particularly in the life insurance
 15 area, they really needed to provide more
 16 information to investors. And I know we
 17 had at least one conversation like that.
 18 Q. Did Ms. Hamrah or AIG take
 19 your advice and give more detailed press
 20 releases?
 21 A. They did. I'm -- not
 22 necessarily because of me, but they did
 23 do it.
 24 Q. Have you ever met Mr.

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1 Greenberg?
 2 A. Yes.
 3 Q. When did you first meet Mr.
 4 Greenberg?
 5 A. I kicked over a Coke at the
 6 fireside chat the first time I went, and
 7 he glared at me.
 8 MR. DWYER: Just trying to
 9 be remembered.
 10 THE WITNESS: Yeah.
 11 BY MS. SMITH:
 12 Q. Do you remember what year
 13 that -- that was?
 14 A. It was some time in the
 15 '90s, you know, mid to late -- mid '90s,
 16 probably.
 17 Q. Did you meet with Mr.
 18 Greenberg in person during the 2000 to
 19 2003 time period?
 20 A. Yes.
 21 Q. Did you meet with Mr.
 22 Greenberg on a one-on-one basis during
 23 the 2000 to 2003 time period?
 24 A. I don't think I've ever met

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1 with him on a one-on-one basis. I think
 2 there's always been other people there.
 3 Q. Did you speak to Mr.
 4 Greenberg on the telephone during the
 5 2000 to 2003 time period?
 6 A. Yes.
 7 Q. How often did you speak to
 8 Mr. Greenberg on the telephone during the
 9 2000 to 2003 time period?
 10 A. When AIG stock started to
 11 decline, he began to call me about once a
 12 quarter for -- not during that whole
 13 period, but maybe for 18 months or so,
 14 just to commiserate.
 15 And then we had other phone
 16 calls periodically where Ms. Hamrah would
 17 set up a call to talk about something
 18 specific. So I would say I talked to him
 19 about four times a year.
 20 Q. And that's during the 2000
 21 and 2003 time period?
 22 A. Yes.
 23 Q. Did you have discussions
 24 with Mr. Greenberg after AIG's earnings

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1 releases came out?
 2 A. No. Well, maybe once, but
 3 not regularly.
 4 Q. Once.
 5 Do you remember the -- the
 6 details of that conversation?
 7 A. I don't -- I just have this
 8 vague recollection that there was one
 9 quarter where Charlene rounded up a bunch
 10 of people and he got involved, but it was
 11 mostly -- you know, Kevin Kelly and Howie
 12 and -- I mean, I seem to recall a -- kind
 13 of a round up that she did and that he
 14 may have been involved in that.
 15 He was not important in
 16 terms of communicating on a quarterly
 17 basis until they started doing conference
 18 calls.
 19 Q. I believe you just testified
 20 that you discussed AIG's stock price with
 21 Mr. Greenberg during the 2000 to 2003
 22 time period?
 23 A. Yes.
 24 Q. How did the communications

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1 with Mr. Greenberg tie into your analysis
 2 of AIG stock during the 2000 to 2003 time
 3 period?
 4 MR. DWYER: Objection to
 5 form.
 6 THE WITNESS: He was very
 7 anxious about his stock price.
 8 He, more than most CEOs, viewed it
 9 as a referendum on himself. But
 10 it didn't have any bearing, in my
 11 mind, on the quality of the
 12 company or how well the business
 13 was doing.
 14 And I didn't attribute it
 15 toward, you know -- he had a -- he
 16 has a very well-upholstered ego.
 17 And so I just -- that was not a
 18 secret. That was well known. So
 19 I didn't see it as changing my
 20 view of the company or the stock
 21 particularly.
 22 You know, he -- he was apt
 23 to communicate his feelings
 24 towards analysts in both

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1 directions. And that was not a
 2 secret, so --
 3 BY MS. SMITH:
 4 Q. Specifically related to the
 5 2000 and 2001 time period in your
 6 discussions with Mr. Greenberg, in your
 7 opinion, was Mr. Greenberg concerned
 8 about AIG's stock price during the third
 9 quarter of 2000?
 10 MR. DWYER: Objection to the
 11 form. She's not an opinion
 12 witness. She can testify as to
 13 what he said or what she said, but
 14 not her -- not opine.
 15 THE WITNESS: My
 16 recollection is that that's when
 17 he started getting really
 18 concerned because that's when the
 19 stock started to fall off its
 20 pedestal, was around then.
 21 But I can't -- I can't tell
 22 you that that quarterly earnings
 23 date has significance, that -- in
 24 other words, that he called me

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1 then.
 2 BY MS. SMITH:
 3 Q. Did other CEOs from other
 4 insurance companies call you during the
 5 2000 to 2003 time period?
 6 A. Sure.
 7 Q. How often did CEOs from
 8 other insurance companies call you during
 9 that 2000 to 2003 time period?
 10 A. You know, it ranged from
 11 once a year to yell at me to once a week.
 12 I mean, it just -- it was all over the
 13 ballpark.
 14 There were -- there were
 15 some that I talked to, you know, fairly
 16 often and there were some that never.
 17 Q. Did Mr. Greenberg
 18 specifically inquire about what
 19 information you focused on in your
 20 analysis of AIG during the 2000 to 2003
 21 time period?
 22 A. Not that I recall.
 23 Q. Have you ever heard of
 24 "Morefar"?

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1 A. Yes.
 2 Q. Have you ever been invited
 3 to Morefar?
 4 A. No.
 5 Q. During the 2000 to 2001 time
 6 period, did you discuss loss reserves
 7 with Mr. Greenberg?
 8 A. 2000 to 2001?
 9 Q. Yes.
 10 A. Yes.
 11 Q. What did you discuss related
 12 to loss reserves with Mr. Greenberg
 13 during the 2000 to 2001 time period?
 14 A. When we were upgrading the
 15 stock to a strong buy, we -- I recall
 16 that we did a check-in call and just got
 17 some reinsurance on the reserves, because
 18 that was a concern at the time.
 19 And that would have been
 20 shortly before that upgrade, if I'm
 21 getting my time periods straight here.
 22 Q. Did Mr. Greenberg, during
 23 the 2000 and 2001 time period, want to
 24 discuss loss reserves -- withdrawn.

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1 During the 2000 and 2001
 2 time period, did Mr. Greenberg ever bring
 3 up and ask you questions about loss
 4 reserves?
 5 **A. Not that I recall.**
 6 Q. Do you recall speaking to
 7 Mr. Greenberg about anything else during
 8 the 2000 to 2003 time period?
 9 **A. No. I mean, I'm getting**
 10 **confused between him and Howie and who --**
 11 **I mean, when -- on the reserves, also,**
 12 **when we called. I'm trying to remember**
 13 **if it was him or Howie that we talked to.**
 14 **And I can't -- now I can't remember.**
 15 **I'm backing up a question**
 16 **here.**
 17 Q. Yes. I believe you
 18 testified --
 19 **A. I can't remember.**
 20 Q. -- at the Hartford trial
 21 that it was Mr. Greenberg that you spoke
 22 to.
 23 **A. I think it was. I think it**
 24 **was, but I'm getting -- you know, every**

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1 **month that passes, it's -- I'm trying**
 2 **to -- the amnesia is setting in.**
 3 **Okay. So did we talk to**
 4 **any -- to Mr. Greenberg about anything**
 5 **else?**
 6 **He was pretty focused on his**
 7 **stock price, you know. He wanted -- he**
 8 **wanted to commiserate. I mean, from time**
 9 **to time he would be, like, you know,**
 10 **Let's go have a drink and he wanted to**
 11 **cry on my shoulder. But, I mean, he was**
 12 **really, really down about his stock**
 13 **price.**
 14 **I -- I didn't go.**
 15 Q. All right. I know you just
 16 said you -- you confused them, but we're
 17 going to move on to Howard Smith now.
 18 During the 2000 to 2003 time
 19 period, did you ever speak to Howie
 20 Smith?
 21 **A. Yes.**
 22 Q. What did you speak to him
 23 about?
 24 **A. Whenever there was something**

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1 **that was more difficult financially that**
 2 **required a higher level of**
 3 **sophistication, Charlene would bring**
 4 **Howie in on a call.**
 5 **So typically if it involved,**
 6 **you know, something -- well, reserve**
 7 **would be a good example, something where**
 8 **there was a more complicated explanation,**
 9 **she would periodically set up a little**
 10 **conference call with Howie, or sometimes**
 11 **other members of management. And so we**
 12 **did that from time to time.**
 13 Q. What other members of
 14 management were on some of these phone
 15 calls?
 16 **A. I remember the guy that ran**
 17 **the aircraft leasing operation, whose**
 18 **name is escaping me, we did one with him.**
 19 **IL -- ILFC.**
 20 **We did one with Howie over**
 21 **derivatives, and I think the person who**
 22 **ran the derivatives unit was on the call.**
 23 **We did -- I think we did**
 24 **something when the PNC transaction was in**

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1 **the headlines, I think we did something**
 2 **with Howie and I think somebody else was**
 3 **on that call.**
 4 Q. Did you ever discuss AIG's
 5 stock price with Howie Smith?
 6 **A. I don't think so.**
 7 Q. I believe you just said that
 8 you discussed loss reserves with Howie
 9 Smith.
 10 **A. Yeah.**
 11 Q. Do you remember the
 12 substance of any of those --
 13 **A. I --**
 14 Q. -- communications?
 15 **A. I don't. I mean, those**
 16 **would tend to be the routine kind of**
 17 **questions.**
 18 Q. For example, what do you
 19 consider routine?
 20 **MR. DWYER: Objection to**
 21 **form.**
 22 **THE WITNESS: Well, the**
 23 **company would give an explanation**
 24 **in -- either in its press release**

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1 or later in a conference call and
 2 then we would look at the numbers
 3 and we would call and ask for more
 4 details and ask for a more
 5 thorough explanation.
 6 Or we would look at numbers
 7 in the press release and we would
 8 do some calculations and then we
 9 would call and we would say, We
 10 see this and this and this number,
 11 can you explain to us what this
 12 means?
 13 Often Charlene would just go
 14 get the answer but sometimes she
 15 would put us on with Howie.
 16 BY MS. SMITH:
 17 Q. During the 2000 to 2003 time
 18 period, did you consider the quality of
 19 management when analyzing an insurance
 20 company's financial performance?
 21 A. Yes.
 22 Q. Why?
 23 A. The -- an insurance company
 24 sells promises on a piece of paper. So

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1 at the end of the day, the quality of the
 2 management is all it has, if you really
 3 boil it down, and some money and capital
 4 to pay out claims.
 5 Q. During the 2000 to early
 6 2005 time period, do you know who at AIG
 7 had the primary responsibility for
 8 overseeing the preparation of AIG's
 9 financial statements?
 10 A. I had assumed and do assume
 11 it was Howie Smith.
 12 Q. In order to write your
 13 research reports during the 2000 and 2003
 14 time period, did you rely on information
 15 that you received from Mr. Greenberg?
 16 A. Yes.
 17 Q. In order to write your
 18 research reports during the 2000 to 2003
 19 time period, did you rely on information
 20 you received from Howie Smith?
 21 A. Yes.
 22 Q. Do you know the term
 23 "earnings per share"?
 24 A. Yes.

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1 Q. What is earnings per share?
 2 A. It's the company's earnings
 3 divided by the number of shares
 4 outstanding, the weighted average number
 5 of shares.
 6 Q. Does a change in a company's
 7 stock price impact earnings per share?
 8 A. No.
 9 Q. As an analyst during the
 10 2000 to 2003 time period, did you
 11 consider a change in an insurance
 12 company's loss reserves to be an
 13 important factor in determining what to
 14 write in your earnings notes on that
 15 company?
 16 MR. DWYER: Objection to
 17 form.
 18 THE WITNESS: Yes.
 19 BY MS. SMITH:
 20 Q. Why?
 21 A. Loss reserves are the single
 22 largest item on a company's balance
 23 sheet, other than investments. And so we
 24 always monitored what a company was doing

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1 with loss reserves. And we looked at it
 2 as an indicator of whether the company
 3 would have money to pay future claims and
 4 whether the -- you know, whether the
 5 earnings number was accurate, overstated
 6 or understated.
 7 Q. How would you know if it was
 8 adequate, understated or overstated?
 9 A. You -- you can't know. But
 10 if you look at the reserves over a period
 11 of time, there are patterns. And you can
 12 make decisions about whether the reserves
 13 are conservatively stated or management
 14 is being aggressive in its accounting and
 15 you can factor that into your stock
 16 rating.
 17 Q. What do you mean by
 18 management is being aggressive in their
 19 accounting related to loss reserves?
 20 A. You can -- you can make a
 21 judgment that it appears that a
 22 management is putting up less reserves
 23 than -- there's a range, okay, of
 24 reserves that you might put up for any

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1 claim or estimated claim.
 2 And actuaries develop a
 3 range; high, low, mid point. And
 4 practices have evolved over time. But
 5 some companies pick the mid point, some
 6 pick the low, some pick the high and some
 7 pick who knows what. And you can get an
 8 idea, if you look at their numbers over
 9 time, of what -- which way they're doing
 10 it.
 11 And any kind of little data
 12 point can be a signal of a change. So
 13 you look at all kinds of data to signal
 14 you what might be happening.
 15 Q. What might be happening to
 16 the loss reserves of the company --
 17 A. Yes.
 18 Q. -- is that correct?
 19 A. Yes.
 20 Q. Did you discuss the concept
 21 of loss reserves with your clients during
 22 the 2000 to 2003 time period?
 23 A. Yes.
 24 Q. Do you remember the

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1 substance of any of those conversations?
 2 A. Not any single one.
 3 Q. Do you generally remember
 4 conversations with your clients during
 5 the 2000 to 2003 time period related to
 6 loss reserves?
 7 MR. DWYER: Objection to the
 8 form.
 9 THE WITNESS: Are you asking
 10 if I remember the aggregate
 11 general substance or the --what
 12 are you asking?
 13 BY MS. SMITH:
 14 Q. I'm asking a yes-or-no
 15 question.
 16 A. Yes.
 17 Q. Based on discussions with
 18 clients -- your clients during the 2000
 19 to 2003 time period, do you have an
 20 understanding as to whether your clients
 21 considered a change in loss reserves
 22 important when making an investment
 23 decision related to an insurance company?
 24 MR. DWYER: Objection to the

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1 form.
 2 THE WITNESS: Yes.
 3 BY MS. SMITH:
 4 Q. During the 2000 to 2003 time
 5 period, did you tell your clients that a
 6 change in loss reserves was an important
 7 factor to consider when evaluating an
 8 insurance company?
 9 MR. DWYER: Objection to
 10 form.
 11 THE WITNESS: Was? Was or
 12 wasn't? Was?
 13 BY MS. SMITH:
 14 Q. Was, I'm sorry. Let me
 15 restate the question.
 16 During the 2000 to 2003 time
 17 period, did you tell your clients that a
 18 change in loss reserves was an important
 19 factor to consider when evaluating an
 20 insurance company?
 21 MR. DWYER: Objection to
 22 form.
 23 THE WITNESS: Yes.
 24 BY MS. SMITH:

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1 Q. All right. Let's go back to
 2 what I believe is Schroeder Exhibit-11.
 3 It should be the third quarter 2000 AIG
 4 press release.
 5 After you read this document
 6 in October 2000, would you have looked at
 7 the change in loss reserves?
 8 A. Yes.
 9 Q. What was the change in loss
 10 reserves for the third quarter of 2000?
 11 A. It was down \$59 million.
 12 Q. What was the change in
 13 premiums for the third quarter of 2000?
 14 A. Up 8 percent.
 15 Q. All right. If you can turn
 16 to Schroeder Exhibit-12, it should be
 17 your October 27th, 2000, report on AIG.
 18 A. Okay.
 19 Q. The third bullet point,
 20 Concerns over reserves appear overblown.
 21 The amounts are immaterial and the
 22 explanation for the decline is logical.
 23 We are projecting reserves up for the
 24 full year and more significant additions

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1 in 2001.
 2 Did you write that
 3 statement?
 4 **A. I did.**
 5 Q. Did you believe it at the
 6 time that you wrote it?
 7 **A. I did.**
 8 Q. On what basis did you
 9 project that AIG's reserves would be up
 10 for the full year?
 11 **A. We were projecting that the**
 12 **premiums would grow at a certain rate and**
 13 **that the reserves would begin to grow**
 14 **more in line with the premiums. We**
 15 **backed out the catastrophe losses and**
 16 **normalized what we thought the reserves**
 17 **would have been without them and then**
 18 **turned it off of that.**
 19 Q. All right. Page 2 of that
 20 report, the second column you wrote about
 21 reserves: Reserves were not concerned.
 22 The market was disturbed by AIG's net
 23 reserve decrease of \$59 million.
 24 Did you write this

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1 statement?
 2 **A. I did.**
 3 Q. Did you believe it to be
 4 true at the time you wrote it?
 5 **A. I did.**
 6 Q. What did you mean by "the
 7 market was disturbed"?
 8 **A. We got a lot of phone calls**
 9 **from clients and salespeople that were**
 10 **saying that they thought there was**
 11 **something wrong because the reserves were**
 12 **down. They were concerned that AIG was**
 13 **shorting the reserves. And in this case,**
 14 **the stock price was down.**
 15 Q. What does "shorting their
 16 reserves" mean?
 17 **A. Shorting reserves is**
 18 **intentionally not putting up enough**
 19 **reserves.**
 20 Q. Why would an insurance
 21 company short reserves?
 22 **A. To meet consensus would be**
 23 **one reason, or just to make a certain**
 24 **earnings number.**

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1 Q. The next paragraph down you
 2 wrote, We do care a lot about reserves
 3 and if we saw a steady trend of
 4 unexplained releases during a period of
 5 premium growth, we'd definitely be
 6 concerned. But that's not the case here.
 7 Did you write that
 8 statement?
 9 **A. I did.**
 10 Q. First, the number we are
 11 talking about is small - 0.2 percent of
 12 AIG's reserves - and represents only a
 13 single quarter's data point, not a trend.
 14 Did you write that
 15 statement?
 16 **A. I did.**
 17 Q. Did you believe it to be
 18 accurate when you wrote it?
 19 **A. I did.**
 20 Q. During the 2000 to 2001 time
 21 period, what would you consider to be a
 22 trend?
 23 MR. DWYER: Objection to
 24 form.

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1 THE WITNESS: A trend would
 2 be more than one quarter. It
 3 could be two quarters, depending
 4 on the size of the dollar amounts,
 5 or three quarters.
 6 **BY MS. SMITH:**
 7 Q. Did AIG meet earnings
 8 expectations in the third quarter of
 9 2000?
 10 **A. Yes --**
 11 **Q. Page 2 -- okay.**
 12 **A. -- it did.**
 13 Q. Let's go on to Schroeder
 14 Exhibit-17. It should be the fourth
 15 quarter 2000 and year-end 2000 results,
 16 AIG's press release -- earnings release.
 17 Page 3 at the top,
 18 Commenting on fourth quarter and full
 19 year 2000, AIG chairman, M.R. Greenberg,
 20 said -- now the third paragraph down --
 21 We added \$106 million to AIG's general
 22 insurance net loss and loss adjustment
 23 reserves for the quarter and together
 24 with the acquisition of HSB Group, Inc.,

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1 increased the total of these reserves to
 2 \$25 billion at year end 2000.
 3 Did you rely on the
 4 statement that AIG added \$106 million to
 5 its loss reserves?
 6 **A. Yes.**
 7 Q. You can put that one aside.
 8 Schroeder Exhibit-7.
 9 MR. FISHMAN: Schroeder-7,
 10 did you say?
 11 MS. SMITH: Yes, 7, which
 12 should be --
 13 THE WITNESS: Twitchy
 14 report.
 15 MS. SMITH: -- your --
 16 right, twitchy report of February
 17 9th, 2001.
 18 MR. DWYER: Twitchy?
 19 THE WITNESS: If only I had
 20 known.
 21 MR. FISHMAN: It makes you
 22 want to read the book, doesn't it?
 23 **BY MS. SMITH:**
 24 Q. Why did you name the report

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1 or entitle the report, "No Reason to Get
 2 Twitchy"?
 3 **A. Because -- sorry, I'm trying**
 4 **to remember now.**
 5 **There was nervousness in**
 6 **anticipation of the next quarter -- there**
 7 **had been nervousness in anticipation of**
 8 **this quarter that there would be another**
 9 **reserve down quarter. There wasn't, it**
 10 **was up. And so we were saying everything**
 11 **is okay.**
 12 **And the reason it was future**
 13 **oriented, get twitchy, is that the**
 14 **fireside chat was coming up and we were**
 15 **saying we didn't expect another -- you**
 16 **know, that the quarter was fine, but you**
 17 **were going to hear something in the**
 18 **fireside chat that would negate the good**
 19 **quarter.**
 20 Q. Page 2 of your report, in
 21 the middle of the first paragraph on the
 22 left side it begins, However, we believe
 23 this valuation is discounted to AIG's
 24 intrinsic value, which we estimate in

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1 line with our target, and is justified by
 2 AIG's mid teens earnings growth rate.
 3 Did you write that
 4 statement?
 5 **A. Yes.**
 6 Q. Did you believe it at the
 7 time that you wrote it?
 8 **A. Yes.**
 9 Q. What methodology or metric
 10 did you use to arrive at AIG's intrinsic
 11 value?
 12 **A. Morgan Stanley had a**
 13 **valuation method that was applied by all**
 14 **analysts, and it was essentially a**
 15 **discounted cash flow method but it used a**
 16 **ten-year projection. And so we would**
 17 **model out earnings, cash flow and balance**
 18 **sheets for ten years and then discount**
 19 **them.**
 20 Q. What does the term
 21 "intrinsic value" mean?
 22 **A. Intrinsic value is the value**
 23 **of -- of a business that is inherent to**
 24 **the business regardless of what investors**

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1 **think of the stock. A business has an**
 2 **intrinsic value because it can produce**
 3 **cash and you can go buy your groceries**
 4 **with it, and that enables you to figure**
 5 **out how much you paid for that business.**
 6 **Whereas if there were a**
 7 **piece of art hanging in here on the wall,**
 8 **it has no intrinsic value because its**
 9 **value is purely determined by people's**
 10 **opinion of that artist and the merit of**
 11 **the art at any point in time, and it can**
 12 **be worth zero as people suddenly decide**
 13 **we don't like that artist anymore.**
 14 Q. Same page, Page 2, third
 15 paragraph down you wrote, We think this
 16 quarter was a good example of what -- AIG
 17 doing what it does best, growing fast and
 18 making the numbers.
 19 Did you write that
 20 statement?
 21 **A. I did.**
 22 Q. Did you believe it at the
 23 time that you wrote it?
 24 **A. I did.**

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1 Q. What did you mean by what
 2 AIG does best, making the numbers?
 3 **A. Investors during this time**
 4 **period placed a great deal of emphasis on**
 5 **a company being predictable of earnings.**
 6 **This is still the late-stage bubble era**
 7 **when meet or beat earnings was extremely**
 8 **important.**
 9 **And AIG had among the most**
 10 **predictable earnings of any company --**
 11 **was the most predictable of any company I**
 12 **followed. It was among the most**
 13 **predictable, I think, of -- of most**
 14 **industries, even. And there were a lot**
 15 **of investors who placed a premium**
 16 **valuation on it because of that.**
 17 Q. Is it fair to say that AIG
 18 was adept at meeting analysts'
 19 expectations during the 2000 to 2001 time
 20 period?
 21 **A. Yes.**
 22 MR. DWYER: Objection to
 23 form.
 24 THE WITNESS: Well, it did

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1 meet them.
 2 BY MS. SMITH:
 3 Q. Further down that same
 4 paragraph, As important was the change in
 5 reserves. AIG added \$106 million to
 6 reserves.
 7 Did you write that
 8 statement?
 9 **A. I did.**
 10 Q. Did you believe it to be
 11 true at the time that you wrote it?
 12 **A. I did.**
 13 Q. Did you feel that a change
 14 in reserves was important to discuss?
 15 MR. DWYER: Objection to
 16 form.
 17 MS. SMITH: Withdrawn. Let
 18 me rephrase it.
 19 BY MS. SMITH:
 20 Q. You thought the change in
 21 reserves was important, correct?
 22 **A. Yes.**
 23 Q. Page 3, the paragraph on the
 24 right-hand side, Finally -- Finally, AIG

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1 put to rest a minor controversy from last
 2 quarter by adding \$106 million to
 3 reserves worth 7.1 points on the combined
 4 ratio.
 5 Did you write that
 6 statement?
 7 **A. Yes.**
 8 Q. Did you believe it to be
 9 accurate at the time that you wrote it?
 10 **A. I did.**
 11 Q. Did you write it based on
 12 information that you received from AIG in
 13 their earnings release for the fourth
 14 quarter of 2000?
 15 **A. Yes.**
 16 Q. What was the minor
 17 controversy?
 18 **A. That was the \$59 million**
 19 **reserve decrease from the quarter before.**
 20 Q. And why do you use the word
 21 "minor"?
 22 **A. I had told investors the**
 23 **quarter before not to be overly concerned**
 24 **about it because I thought it would**

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1 **reverse and reserves would increase the**
 2 **next quarter and it would not become a**
 3 **trend. And so I was reemphasizing that I**
 4 **thought other people had overreacted.**
 5 Q. I believe we talked briefly
 6 about a soft market. I'm not sure --
 7 **A. Yes.**
 8 Q. -- if you were asked what
 9 the term "soft market" means.
 10 What does it mean?
 11 **A. Soft market is the same**
 12 **thing as a down cycle and it's a price**
 13 **war.**
 14 Q. Was the insurance industry
 15 going through a soft market during
 16 February of 2001?
 17 **A. It was emerging from one.**
 18 Q. Did the \$106 million
 19 increase in loss reserves for the fourth
 20 quarter 2000 seem like a large increase
 21 during a soft market?
 22 MR. DWYER: Objection to the
 23 form.
 24 THE WITNESS: No, it wasn't

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1 large.
 2 BY MS. SMITH:
 3 Q. Why?
 4 A. Premiums were growing --
 5 Q. I believe -- are you looking
 6 for the premium growth?
 7 A. Yeah.
 8 Q. That's on Page 2, third
 9 paragraph down.
 10 A. Okay. So premiums for
 11 property casualty were up 12 percent or
 12 14 percent in non dollars. And the
 13 reserves -- you know, in terms of
 14 reserves versus premiums, the \$106
 15 million was 7 points on the combined
 16 ratio. So it was still lagging the
 17 premiums. But it was -- it was beginning
 18 to move.
 19 So it was a step in the
 20 right direction, but it was still not
 21 moving at the rate of premiums.
 22 MS. SMITH: All right. Why
 23 don't we take a break right now.
 24 I know we need to change the tape,

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1 so this is a good time.
 2 - - -
 3 VIDEO TECHNICIAN: It's
 4 3:49. This is the end of Tape 4,
 5 and we're off the record.
 6 - - -
 7 (Whereupon, a brief recess
 8 was taken.)
 9 - - -
 10 VIDEO TECHNICIAN: It's now
 11 4 -- pardon me, 3:59. We're back
 12 on the record and this is the
 13 beginning of Tape Number 5.
 14 - - -
 15 BY MS. SMITH:
 16 Q. All right. Ms. Schroeder,
 17 if I can have you turn to Schroeder
 18 Exhibit-21, the next book. That should
 19 be your report dated -- on AIG dated
 20 March 14th, 2001, Upgrading the global
 21 giant to strong buy.
 22 Why did you upgrade AIG
 23 stock?
 24 A. Because the price had

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1 dropped so much.
 2 Q. What factors did you
 3 consider in your decision to upgrade AIG
 4 stock during March of 2001?
 5 A. We looked at the growth
 6 opportunities and we had essentially the
 7 same viewpoint on the company that we had
 8 had before as to the drivers. But
 9 because the stock had come down to below
 10 \$80 and was down 24 percent, there was so
 11 much upside to our target, which was
 12 unchanged, that mathematically it became
 13 a strong buy.
 14 Q. In your decision to upgrade
 15 AIG stock during March 2001, did you
 16 consider AIG's reported increase in loss
 17 reserves and premiums from the fourth
 18 quarter 2000?
 19 A. Yes.
 20 Q. Did you speak to Mr.
 21 Greenberg prior to your decision to
 22 upgrade AIG stock during March of 2001?
 23 A. Yes.
 24 Q. What did you discuss with

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1 Mr. Greenberg?
 2 A. We got a --
 3 MR. DWYER: Excuse me, can I
 4 hear the question back? I got
 5 distracted.
 6 - - -
 7 (Whereupon, the court
 8 reporter read the pertinent part
 9 of the record.)
 10 - - -
 11 THE WITNESS: We had a
 12 check-in call on the reserves
 13 because there had been this issue
 14 over the reserves. And we wanted
 15 some comfort that everything was
 16 okay and there were not going to
 17 be any surprises.
 18 BY MS. SMITH:
 19 Q. What do you mean by "this
 20 issue"?
 21 A. Oh, the reserves declining
 22 and trending downward or trending in a
 23 different direction, diverging from the
 24 premium growth.

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1 Q. Your upgrade on AIG stock,
 2 March 14th, 2001, was that prior to the
 3 release of AIG's first quarter 2001
 4 results?
 5 **A. At this point, I can't even**
 6 **remember.**
 7 Q. Actually, I can answer my
 8 own --
 9 **A. Yes, it was.**
 10 Q. Okay. During your
 11 conversation with Mr. Greenberg related
 12 to the comfort you wanted related to --
 13 strike that.
 14 During your conversation
 15 with Mr. Greenberg prior to upgrading AIG
 16 stock, did he give you an idea about a
 17 change in loss reserves that AIG would
 18 report for the first quarter 2001?
 19 MR. DWYER: Objection to
 20 form.
 21 **BY MS. SMITH:**
 22 Q. Do you need me to clarify?
 23 **A. No.**
 24 **He didn't give us any**

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1 **quantitative guidance. He just expressed**
 2 **confidence in the reserves.**
 3 Q. As a result of that
 4 conversation with Mr. Greenberg, did you
 5 believe that AIG's loss reserves would
 6 continue to increase?
 7 MR. DWYER: Objection to the
 8 form.
 9 THE WITNESS: Yes.
 10 **BY MS. SMITH:**
 11 Q. Did this conversation with
 12 Mr. Greenberg play a role in your
 13 decision to upgrade AIG stock?
 14 **A. Yes.**
 15 Q. Would you have upgraded
 16 AIG's stock had you known that loss
 17 reserves had decreased for the two
 18 previous quarters?
 19 MR. DWYER: Objection to
 20 form. Hypothetical. It calls for
 21 speculation. She's a fact
 22 witness. She can't answer that
 23 question.
 24 MR. FISHMAN: She can. I

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1 mean, she can answer it.
 2 MS. SMITH: Do you
 3 understand?
 4 MR. DWYER: I didn't mean
 5 I'm instructing her. I just mean
 6 as a technical matter.
 7 MR. FISHMAN: I understand
 8 your objection.
 9 But you can answer the
 10 question, if you remember it.
 11 THE WITNESS: Okay. I'm
 12 sorry, now I'm going to have to
 13 ask you to repeat it because so
 14 much chitchat has occurred here.
 15 **BY MS. SMITH:**
 16 Q. Okay. Would you have
 17 upgraded AIG's stock during March of 2001
 18 if you had known that loss -- loss
 19 reserves had decreased for the previous
 20 two quarters, meaning third quarter 2000
 21 and fourth quarter 2000?
 22 MR. DWYER: Objection. Same
 23 objection.
 24 THE WITNESS: If I had known

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1 about both the actual results in
 2 the third quarter and I had known
 3 the real results in the fourth
 4 quarter as opposed to the reported
 5 results, I do not believe I would
 6 have upgraded the stock.
 7 **BY MS. SMITH:**
 8 Q. As a result of that
 9 conversation, as well as other
 10 conversations you had during the 2000 and
 11 2003 time period with Mr. Greenberg, did
 12 you understand whether the state of AIG's
 13 loss reserves was something that Mr.
 14 Greenberg was interested in or followed
 15 closely?
 16 MR. DWYER: Objection to
 17 form.
 18 THE WITNESS: Mr. Greenberg,
 19 I think, was very knowledgeable,
 20 by all appearances, about all
 21 important aspects of the company.
 22 He was clearly very hands-on.
 23 He did defer to Mr. Smith on
 24 many numerical questions when he

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1 was in meetings, but I -- when it
 2 came to understanding the
 3 fundamental, you know, balance
 4 sheet and important numbers of the
 5 company, clearly he knew -- you
 6 know, he was the CEO. That was
 7 his job.
 8 BY MS. SMITH:
 9 Q. What does the term "earnings
 10 consistency" mean?
 11 A. **Could you give me some
 12 context?**
 13 Q. Rephrase that, maybe?
 14 Have you ever heard the
 15 terminology "earnings consistency" or
 16 company's having consistent earnings?
 17 A. **And I'm afraid that I wrote
 18 it, and you're going to tell me that.
 19 Because I -- because I don't -- I mean,
 20 I --**
 21 Q. Let me try to --
 22 A. **I'm -- I'm -- it could mean
 23 more than one thing, so I'm hesitating.**
 24 Q. Okay. Let me see if I can

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1 help you out this way: As an analyst, do
 2 you believe that the market rewards
 3 stocks with a consistent record of
 4 meeting or beating analysts'
 5 expectations?
 6 MR. DWYER: Object to the
 7 form.
 8 THE WITNESS: Oh, yes. And
 9 certainly at that time very much
 10 so, yes.
 11 BY MS. SMITH:
 12 Q. Why at that time?
 13 A. **During the late stages of
 14 the Internet bubble and immediately
 15 thereafter, the practice of guidance and
 16 television coverage of earnings came
 17 together to create a climate in which
 18 people could speculate and trade heavily
 19 on earnings, on whether a company would
 20 meet earnings.**
 21 **And during this period,
 22 hedge funds began to proliferate who also
 23 were short sellers. And so the amount of
 24 short selling in the market became far**

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1 **more prevalent.**
 2 **The combination of all these
 3 things in a market that was somewhat
 4 speculative to begin with meant that
 5 there was a very huge emphasis on the
 6 consensus number, which is now not as
 7 important because many of those factors
 8 have changed.**
 9 Q. If I use the term "earnings
 10 consistency" in a few more questions --
 11 A. Okay.
 12 Q. -- you understand what I
 13 mean -- what I mean?
 14 A. Yes.
 15 Q. Were AIG's earnings
 16 consistent during the 2000 to 2003 time
 17 period?
 18 MR. DWYER: Objection.
 19 THE WITNESS: Yes. Until
 20 the charge, yes.
 21 BY MS. SMITH:
 22 Q. And by "charge," do you mean
 23 the 2003 charge related to loss reserves?
 24 A. Yes.

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1 Q. Was earnings predictability
 2 important to you as an analyst?
 3 A. **It was important to
 4 investors. You know, my job was to
 5 predict earnings and I needed to know
 6 what investors cared about in valuing or
 7 rating a stock.**
 8 **To me personally, no. But
 9 my job was to figure out what it was
 10 investors cared about and factor that in,
 11 if that makes sense.**
 12 Q. Do you think investors cared
 13 about earnings consistency with regard to
 14 AIG's releases, earnings releases?
 15 A. Yes, they cared very much.
 16 Q. And why would you say that?
 17 A. **Well, it was a company that
 18 had garnered a reputation for very
 19 consistent earnings and even highlighted
 20 that to investors. And as a result, you
 21 had a lot of investors who owned it --
 22 institutional investors who owned it in
 23 part for that reason.**
 24 **There were other companies**

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1 that didn't, you know, give guidance,
 2 didn't care about consistent earnings and
 3 there were investors who owned them who
 4 didn't care.
 5 **So, in effect, they had**
 6 **investors whom they had attracted partly**
 7 **for that feature.**
 8 Q. If I can have you turn to
 9 Schroeder Exhibit-22, which is the AIG
 10 earnings release for the first quarter of
 11 2001, dated April 26th, 2001.
 12 And if I can have you turn
 13 to Page 3 -- well, on Page 2 it says,
 14 Commenting on the first quarter results,
 15 AIG chairman, M.R. Greenberg, said -- and
 16 I'm looking at a quote on Page 3
 17 attributed to him: We added \$63 million
 18 to AIG's general insurance net loss and
 19 loss adjustment reserves for the quarter,
 20 bringing the total of those reserves to
 21 \$25 billion at March 31st, 2001.
 22 Did you rely on this
 23 statement when you read the earnings
 24 release?

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1 **A. Yes.**
 2 Q. Did you believe this
 3 statement to be accurate?
 4 **A. Yes.**
 5 Q. Let me represent to you that
 6 in an analyst report that you wrote about
 7 AIG on August 22nd, 2001, you wrote,
 8 quote, One of AIG's greatest strengths is
 9 the flatness of its organization and the
 10 knowledge and involvement of its CEO in
 11 many aspects of the organization.
 12 Do you remember what you
 13 meant by that?
 14 **A. Yes. AIG had a culture of**
 15 **low expenses and also of Mr. Greenberg**
 16 **being a very hands-on manager, so that**
 17 **there were not layers of bureaucracy**
 18 **between him and the people underneath**
 19 **him. And he had a lot of people who, in**
 20 **effect, reported to him directly.**
 21 Q. Let me represent to you in
 22 an analyst report that you wrote about
 23 AIG on October 1, 2001, you wrote, quote,
 24 As the world's largest purchaser of

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1 reinsurance in nominal terms, AIG is one
 2 client no reinsurer can afford to
 3 alienate.
 4 Do you remember writing
 5 that?
 6 **A. I do.**
 7 Q. What did you mean when you
 8 wrote that statement?
 9 **A. What I meant was that they**
 10 **had buying power in the market and that**
 11 **they got favorable pricing and terms.**
 12 Q. Did you believe that
 13 statement at the time that you wrote it?
 14 **A. I did.**
 15 MS. SMITH: I'd like to mark
 16 an exhibit. This will be
 17 Schroeder-35.
 18 - - -
 19 (Whereupon, Exhibit
 20 Schroeder-35 was marked for
 21 identification.)
 22 - - -
 23 **BY MS. SMITH:**
 24 Q. I'll give you a moment to

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1 look over the article. Just let me know
 2 when you're ready. I'm only going to
 3 focus on a portion of it.
 4 **A. Okay.**
 5 Q. For the record, Exhibit-35
 6 is a news article that was published on
 7 April 15th, 2002, with the headline,
 8 "Yeah, But What Does Alice Schroeder
 9 Think? Q and A."
 10 Do you recognize this
 11 article?
 12 **A. Yes, I do.**
 13 Q. Do you remember --
 14 MR. DWYER: What's the
 15 publication of this?
 16 MS. SMITH: Q and A, I
 17 presume, is the publisher of the
 18 article.
 19 **BY MS. SMITH:**
 20 Q. Am I correct?
 21 **A. I believe it's from a**
 22 **magazine called Risk and Insurance.**
 23 Q. Risk and Insurance.
 24 Do you -- that actually was

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1 written here, sorry.
 2 Do you remember the Q and A
 3 with Risk and Insurance during 2002?
 4 **A. I do.**
 5 Q. If I can have you turn to
 6 Page 3 at the bottom, Question: How much
 7 confidence do you have in insurance
 8 industry accounting? Do you think
 9 insurers face bigger problems because of
 10 their own accounting or because of
 11 potential problems with their clients?
 12 Page 4. I'm going to break
 13 down your answer. Answer: Insurance
 14 companies have not won investors'
 15 confidence for transparent accounting,
 16 particularly in the area of loss
 17 reserves.
 18 Did you make this statement
 19 to Risk and Insurance during 2002?
 20 **A. I did.**
 21 Q. What did you mean by that
 22 statement?
 23 **A. That for the past year**
 24 **insurance companies had been making**

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1 **reserve charge after reserve charge,**
 2 **which indicated that their past results**
 3 **had been misstated. And we were keeping**
 4 **something we called "The Kitchen Sink**
 5 **Table" in our weekly newspaper that every**
 6 **week we added whoever had made a new**
 7 **announcement, and it had become fairly**
 8 **lengthy. And the industry's credibility**
 9 **had become eroded.**
 10 Q. You said the industry's --
 11 **A. Credibility.**
 12 Q. -- credibility had become
 13 eroded -- eroded?
 14 Was that your view or the
 15 general view in the insurance analyst
 16 views?
 17 **A. Investors had become cynical**
 18 **enough that a stock might actually rise**
 19 **when a company took a charge, because it**
 20 **would be anticipated that companies in**
 21 **many cases would take charges. And,**
 22 **therefore, when they actually took the**
 23 **charge, then investors would decide it**
 24 **was time to buy. It was so expected.**

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1 Q. Second paragraph of your
 2 answer: But the somewhat obvious
 3 manipulations of reserves that
 4 occasionally seem to take place and the
 5 use of finite reinsurance to manage
 6 results, along with other accounting
 7 issues, I think, have troubled investors
 8 and they do trouble me.
 9 Did you make this statement
 10 to Risk and Insurance during 2000?
 11 **A. I did.**
 12 Q. Why did you use -- strike
 13 that.
 14 Why did the use of finite
 15 reinsurance to manage results, along with
 16 other accounting issues, trouble you?
 17 **A. I was actually referring to**
 18 **a very specific type of finite**
 19 **reinsurance here. The EITF 93-6 outlawed**
 20 **the use of funding covers, or, rather, it**
 21 **governed how to account for them and, in**
 22 **effect, did away with them. And it had**
 23 **come to my attention that a number of**
 24 **insurance companies were simply not**

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1 **following the rules through the use of**
 2 **secret side agreements. And it was**
 3 **blatantly simply not following the rules.**
 4 **But the accountants were signing off on**
 5 **it.**
 6 **I had had discussions with**
 7 **some insurance companies and they, in**
 8 **private, admitted to me that they knew**
 9 **they weren't following the rules. And I**
 10 **thought it was egregious and outrageous.**
 11 **And I was referring to,**
 12 **actually, a couple of specific companies**
 13 **that were selling these product, none of**
 14 **which involved the situation here.**
 15 Q. What do you mean when you
 16 use the term "secret side agreements"?
 17 **A. A secret side agreement**
 18 **would be when there's a reinsurance**
 19 **contract and the terms are laid out in**
 20 **the contract between you, Mr. Reinsurer,**
 21 **and me, the company. And they purport to**
 22 **express that in exchange for so much**
 23 **premium you accept so much risk of loss.**
 24 **But then on the side, you and I go and**

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1 make a deal that obviates that, so that
 2 the deal is going to be something
 3 different.
 4 In the case that I'm talking
 5 about here, defending covers were used to
 6 transfer earnings from one period to
 7 another, and the secret side agreements
 8 would turn a one-year contract into a
 9 four-year contract by saying, I'm going
 10 to take the loss this year but I'll pay
 11 it back to you next year. And it would
 12 change the timing of things.
 13 It -- it turned insurance
 14 into a banking loan, in effect, or a
 15 deposit.
 16 Q. Is finite reinsurance --
 17 strike that.
 18 Is a loss portfolio
 19 transaction a type of finite reinsurance?
 20 A. Yes.
 21 Q. In determining whether there
 22 is risk transfer in a loss portfolio
 23 transaction or transfer, do the
 24 accounting rules state that you must

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1 consider the entirety of the contract as
 2 well as any secret side deal if you know
 3 of the deal?
 4 MR. DWYER: Objection to the
 5 form.
 6 THE WITNESS: The rules
 7 state that you have to include the
 8 entire substance of the agreement,
 9 everything; oral, written,
 10 everything.
 11 It's the same kind of
 12 concept as in a legal contract
 13 where if it's a binding agreement,
 14 it's a contract.
 15 BY MS. SMITH:
 16 Q. How did you know that the
 17 use of finite reinsurance to manage
 18 results along with other accounting
 19 issues troubled investors?
 20 A. Just talking to clients.
 21 There was one company, Saint Paul, that
 22 had done a large transaction and they had
 23 disclosed it. But they had done it
 24 specifically to manage earnings. And it

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1 had attracted a lot of kind of noise
 2 around it and it had -- it -- the topic
 3 had become a common thing to talk about
 4 with investors.
 5 Q. A few paragraphs down, at
 6 the end of your answers you say, I simply
 7 think that insurers would benefit from
 8 remembering that the shareholders are the
 9 owners of the company. They're entitled
 10 to the information about the economics of
 11 the company and its results. And as the
 12 employees of the shareholders, the
 13 management does not have the right to
 14 manipulate those results to suit itself.
 15 Did you make this statement
 16 to Risk and Insurance during the 2002
 17 time period?
 18 A. Yes, I did.
 19 Q. What did you mean by "the
 20 management does not have the right to
 21 manipulate those results to suit itself"?
 22 A. What I meant was that the
 23 financial statements are supposed to
 24 report what happened, not what somebody

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1 wishes would have happened. And that
 2 some companies were being accused of
 3 meeting earnings in order to get their
 4 stock price to be at a certain level
 5 because they had stock options vesting or
 6 their bonuses or for various other
 7 reasons. And that, you know, that's not
 8 servicing the shareholders.
 9 Q. Do you believe that the
 10 statements that we just covered in this
 11 article accurately reflect your
 12 statements to Risk and Insurance during
 13 2002?
 14 A. I do.
 15 Q. Okay. Let me represent to
 16 you that you wrote a report on October
 17 28th, 2002, a general report related to
 18 insurance-proper -- property and
 19 casualty. I guess -- "Insurance and Risk
 20 Briefing," is what it was called.
 21 Do you recall this report?
 22 A. That was our newsletter, so
 23 I don't know which specific one that is.
 24 I mean, we put it out every week, I

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1 **believe so you'd have to tell me which**
 2 **article you're referring to.**
 3 Q. In the report -- strike
 4 that.
 5 The report contains
 6 information about a Standard and Poor's
 7 report on loss reserve (in) adequacy that
 8 was released in October 2002.
 9 Do you recall this Standard
 10 and Poor's report generally?
 11 **A. I do.**
 12 MR. DWYER: Alisha --
 13 MS. SMITH: Yeah?
 14 MR. DWYER: These three --
 15 these three reports that you've
 16 referenced, the August 22 '01,
 17 October 1, '01, and October 28,
 18 '02, are those documents that
 19 you've produced to us?
 20 MS. SMITH: Yes. I can
 21 actually --
 22 MR. DWYER: So afterwards
 23 you can give them to me?
 24 MS. SMITH: I can give them

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1 to you. I just -- for the
 2 record --
 3 MR. DWYER: That's fine.
 4 MS. SMITH: For the record
 5 I'll just say in the interest in
 6 time I didn't --
 7 MR. DWYER: As long as I can
 8 find them.
 9 MS. SMITH: Yes. I'll give
 10 them to you right after.
 11 **BY MS. SMITH:**
 12 Q. In the Insurance and Risk
 13 briefing related to the S&P reports on
 14 loss reserves (in) adequacy you wrote,
 15 The authors strike another chord with us
 16 in their comment that, quote,
 17 Understanding the adequacy of a company's
 18 reserves is critical in assessing its
 19 financial strength. The single most
 20 relevant element of quality of earnings
 21 and capital is the degree of confidence
 22 with respect to loss reserves, end quote.
 23 Why did that statement
 24 strike a chord with you?

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1 **A. That is -- the reserve**
 2 **number is an estimate and it's the**
 3 **largest item on the balance sheet other**
 4 **than the investments so it is the most**
 5 **likely to cause a misstatement that's**
 6 **significant to earnings and that can make**
 7 **your future estimates be wrong -- earning**
 8 **estimates be wrong because of its size**
 9 **and because it's an estimate.**
 10 Q. When did you become aware of
 11 the -- the loss portfolio transaction
 12 that we've been referring to as the Gen
 13 Re transaction?
 14 **A. I think late 2005 it started**
 15 **to be reported in the press. And -- it**
 16 **was when the Spitzer investigations of**
 17 **the industry started.**
 18 Q. As part of the restatement,
 19 do you understand that AIG determined
 20 that the Gen Re transaction should not
 21 have been recorded as retroactive
 22 reinsurance and, therefore, AIG
 23 overstated its loss reserves related to
 24 the Gen Re transaction for the fourth

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1 quarter of 2000, the years 2001, 2002,
 2 2003 and for the quarters ended March
 3 31st, June 30th and September 30th, 2004?
 4 **A. Yes, I do.**
 5 MR. DWYER: Objection to
 6 form.
 7 **BY MS. SMITH:**
 8 Q. Do you know --
 9 MR. DWYER: What was the
 10 answer?
 11 **THE WITNESS: Yes, I do.**
 12 **BY MS. SMITH:**
 13 Q. Do you know if the Gen Re
 14 transaction was implemented in two
 15 tranches, one in the fourth quarter of
 16 2000 and one in the first quarter of
 17 2001?
 18 **A. I believe that's been**
 19 **stipulated.**
 20 Q. Do you understand that AIG's
 21 loss reserves as of December 31st, 2000,
 22 were overstated by \$250 million related
 23 to the first tranche of the Gen Re
 24 transaction?

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1 MR. DWYER: Objection to the
 2 form.
 3 THE WITNESS: Yes.
 4 BY MS. SMITH:
 5 Q. Do you understand that AIG's
 6 year-end 2001 loss reserves were
 7 overstated by \$500 million related to the
 8 first and second tranches of the Gen Re
 9 transaction?
 10 MR. DWYER: Objection to
 11 form.
 12 THE WITNESS: Yes.
 13 BY MS. SMITH:
 14 Q. Do you understand that the
 15 \$500 million of artificial loss reserves
 16 related to the Gen Re transaction
 17 remained on AIG's financial statements
 18 during 2002 and 2003?
 19 MR. DWYER: Objection to
 20 form.
 21 THE WITNESS: Yes.
 22 BY MS. SMITH:
 23 Q. Are you aware that AIG
 24 commuted one tranche of the Gen Re

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1 transaction in 2004?
 2 A. Yes. Yes.
 3 Q. Do you understand that AIG's
 4 loss reserves for the year-end 2004 were
 5 overstated by \$250 million as a result of
 6 the commute of one tranche of the Gen Re
 7 transaction?
 8 MR. DWYER: Object to the
 9 form.
 10 THE WITNESS: Yes.
 11 BY MS. SMITH:
 12 Q. Do you remember from
 13 Schroeder Exhibit-17 that Mr. Greenberg
 14 touted an increase of \$106 million in
 15 AIG's loss reserves for the fourth
 16 quarter of 2000?
 17 MR. DWYER: Objection to
 18 form.
 19 THE WITNESS: I do.
 20 BY MS. SMITH:
 21 Q. In light of the restatement,
 22 do you understand that AIG should have
 23 reported \$250 million less in loss
 24 reserves for the fourth quarter of 2000?

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1 MR. DWYER: Objection to
 2 form.
 3 THE WITNESS: Yes.
 4 BY MS. SMITH:
 5 Q. Therefore, for the fourth
 6 quarter 2000, AIG should have reported a
 7 decrease of \$144 million in loss
 8 reserves, correct?
 9 MR. DWYER: Objection to the
 10 form.
 11 THE WITNESS: Yes.
 12 BY MS. SMITH:
 13 Q. Do you remember from
 14 Schroeder Exhibit-22 that AIG reported an
 15 increase of \$63 million in loss reserves
 16 for the first quarter of 2001?
 17 A. Yes.
 18 Q. In light of the restatement,
 19 do you understand that AIG should have
 20 reported \$250 million less in loss
 21 reserves --
 22 A. Yes.
 23 MR. DWYER: Objection to
 24 form.

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1 BY MS. SMITH:
 2 Q. -- for the first quarter of
 3 2001?
 4 Therefore, for the first
 5 quarter of 2001, AIG should have reported
 6 a decrease of \$187 million in loss
 7 reserves, correct?
 8 A. That's correct.
 9 MR. DWYER: Object to the
 10 form.
 11 BY MS. SMITH:
 12 Q. During the 2000 and 2001
 13 time period, did you know that AIG's loss
 14 reserves for the fourth quarter 2000
 15 actually had decreased \$144 million, not
 16 increased \$506 million?
 17 MR. DWYER: Objection to
 18 form.
 19 THE WITNESS: No, I did not.
 20 BY MS. SMITH:
 21 Q. During the 2000 to 2001 time
 22 period, did you believe from AIG's
 23 financial statements and AIG's earning
 24 releases, as well as Mr. Greenberg's

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1 statements in AIG's press releases, that
 2 AIG's loss reserves increased by \$106
 3 million in the fourth quarter of 2000?
 4 **A. Yes, I did.**
 5 **Q. During the 2001 time**
 6 **period --**
 7 **MR. DWYER: I'm just --**
 8 **okay.**
 9 **BY MS. SMITH:**
 10 **Q. During the 2001 time period,**
 11 **did you know that AIG's loss reserves for**
 12 **the first quarter 2001 actually had**
 13 **decreased \$187 million, not increased by**
 14 **\$63 million?**
 15 **MR. DWYER: Objection to the**
 16 **form.**
 17 **THE WITNESS: No, I did not.**
 18 **BY MS. SMITH:**
 19 **Q. During the 2001 time period,**
 20 **did you believe from AIG's financial**
 21 **statements and Mr. Greenberg's statements**
 22 **in AIG's press releases and earnings**
 23 **releases that AIG's loss reserves**
 24 **increased by \$63 million for the first**

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1 quarter of 2001?
 2 **A. Yes, I did.**
 3 **Q. Therefore, based on the**
 4 **numbers that AIG actually reported for**
 5 **the fourth quarter 2000 and first quarter**
 6 **2001, did you believe that AIG's loss**
 7 **reserves had increased during the fourth**
 8 **quarter 2000 and first quarter 2001?**
 9 **A. I did.**
 10 **Q. As an analyst, the increase**
 11 **in loss reserves that AIG reported in the**
 12 **fourth quarter of 2000 and the first**
 13 **quarter of 2001 were important because**
 14 **AIG had reported a decrease in loss**
 15 **reserves for the third quarter 2000,**
 16 **correct?**
 17 **MR. DWYER: Objection to**
 18 **form.**
 19 **THE WITNESS: That's**
 20 **correct.**
 21 **BY MS. SMITH:**
 22 **Q. During the 2000 and 2001**
 23 **time period, did you believe that these**
 24 **increases in loss reserves -- reserves**

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1 quashed the concerns in the industry
 2 about the decline of AIG's loss reserves
 3 during the third quarter 2000?
 4 **MR. DWYER: Objection to**
 5 **form.**
 6 **THE WITNESS: I did believe**
 7 **that.**
 8 **BY MS. SMITH:**
 9 **Q. As a result of the**
 10 **restatement, do you understand that AIG's**
 11 **loss reserves continued to decrease**
 12 **during the fourth quarter of 2000 and the**
 13 **first quarter of 2001?**
 14 **MR. DWYER: Objection to**
 15 **form.**
 16 **THE WITNESS: Yes, I do.**
 17 **BY MS. SMITH:**
 18 **Q. Would the fact that AIG's**
 19 **loss reserves had actually decreased**
 20 **during the fourth quarter of 2000 and the**
 21 **first quarter of 2001 have been important**
 22 **to you as an analyst during the 2000 and**
 23 **2001 time period?**
 24 **MR. DWYER: Objection to**

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1 **form.**
 2 **THE WITNESS: Yes, it would.**
 3 **BY MS. SMITH:**
 4 **Q. Would the fact that AIG's**
 5 **loss reserves had actually decreased**
 6 **during the fourth quarter 2000 and first**
 7 **quarter 2001 have been material to your**
 8 **analysis of AIG during the fourth quarter**
 9 **2000 and first quarter 2001?**
 10 **A. Yes, it would.**
 11 **MR. DWYER: Objection to**
 12 **form.**
 13 **BY MS. SMITH:**
 14 **Q. What would have been your**
 15 **reaction to the -- withdrawn.**
 16 **Would you have written your**
 17 **earnings reports about AIG differently**
 18 **had you known that AIG's loss reserves**
 19 **continued to decrease --**
 20 **MR. DWYER: Objection.**
 21 **BY MS. SMITH:**
 22 **Q. -- during the fourth quarter**
 23 **2000 and first quarter 2001?**
 24 **MR. DWYER: Objection to the**

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1 form.
 2 THE WITNESS: Yes, I would.
 3 BY MS. SMITH:
 4 Q. As an analyst, do you have
 5 an understanding as to what would have
 6 been the likely market response to this
 7 information?
 8 MR. DWYER: Objection to
 9 form. Hypothetical and calls for
 10 speculation.
 11 BY MS. SMITH:
 12 Q. Do you understand?
 13 A. Yeah. Yeah, I do.
 14 Yeah, I mean, the market was
 15 concerned to begin with. It would have
 16 probably been as concerned or more
 17 concerned.
 18 Q. You upgraded AIG stock on
 19 March 14th, 2001, after AIG's fourth
 20 quarter 2000 press release and a
 21 conversation with Mr. Greenberg about
 22 AIG's loss reserves, correct?
 23 A. Correct.
 24 Q. Do you think that you would

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1 have upgraded AIG's stock after the
 2 fourth quarter press release and your
 3 conversation with Mr. Greenberg if you
 4 had known that AIG's loss reserves had
 5 actually continued to decline for three
 6 quarters in a row?
 7 MR. DWYER: Objection to
 8 form.
 9 THE WITNESS: I almost
 10 certainly would not.
 11 BY MS. SMITH:
 12 Q. Based on your communications
 13 with your clients during the 2000 and
 14 2001 time period, do you think your
 15 clients would have wanted to know that
 16 AIG's loss reserves had declined for
 17 three quarters in a row?
 18 MR. DWYER: Objection to
 19 form.
 20 THE WITNESS: I'm sure they
 21 would have.
 22 BY MS. SMITH:
 23 Q. As an analyst, if AIG had
 24 reported a decline in loss reserves for

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1 three quarters in a row, would that lead
 2 you to believe that AIG might need to
 3 take a charge in the near future?
 4 MR. DWYER: Objection to
 5 form.
 6 THE WITNESS: It would cause
 7 us to do more work, because that
 8 possibility would be stronger. It
 9 would raise the risk.
 10 BY MS. SMITH:
 11 Q. Does taking a charge related
 12 to loss reserves affect an insurance
 13 company's quality of earnings?
 14 A. Yes.
 15 MR. DWYER: Objection to
 16 form.
 17 BY MS. SMITH:
 18 Q. In what way?
 19 A. Because the charge is a
 20 sweeping up of losses that should have
 21 been reported in prior periods, the
 22 quality of the earnings in those prior
 23 periods was -- was poor. It was
 24 apparently better than it really was --

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1 poor -- it wasn't poor, it was apparently
 2 better than it really was.
 3 Q. I believe we touched on the
 4 topic of a soft market a little bit. I
 5 just want to ask a few more questions
 6 related to soft market.
 7 How is a soft market created
 8 in the insurance industry or
 9 what causes -- withdrawn.
 10 What causes a soft market?
 11 A. Insurance is not a growth
 12 business and so when insurance companies
 13 are profitable, they don't have any way
 14 to use their profits. They just
 15 accumulate money and they have excess
 16 capital.
 17 And after this continues for
 18 even a couple of years, they begin to
 19 compete with each other for market share.
 20 Since they're not a growth business, they
 21 begin to cut prices in order to gain
 22 market share and prices begin to fall,
 23 and eventually they fall to the point
 24 that they lose money on the business that

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1 they sell.
 2 That's oversimplified, but
 3 it's the basic dynamic.
 4 Q. Was there a soft market
 5 during the 1987 through 2001 time period?
 6 A. Yes.
 7 MR. DWYER: You said --
 8 THE WITNESS: Not the
 9 entire --
 10 MR. DWYER: -- 1987 to 2001.
 11 MS. SMITH: 1987 to 2001.
 12 THE WITNESS: There was one,
 13 but not the whole period.
 14 BY MS. SMITH:
 15 Q. Okay. Can you correct me?
 16 A. Sure.
 17 Q. In what time periods were
 18 the soft market?
 19 A. The market began to soften
 20 around 1997, is when it really began to
 21 soften. And it bottomed in '99. There
 22 were claims that it was softened earlier,
 23 but it really was '97 through '99. It
 24 began to turn up in 2000.

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1 Q. You used the term "excess
 2 capital."
 3 What is excess capital?
 4 A. Excess capital is earnings
 5 that the company has retained rather than
 6 paid out as dividends to shareholders
 7 that it can't redeploy in the business
 8 through growth.
 9 Q. Why can't it redeploy in the
 10 business with growth?
 11 A. The industry itself is not
 12 growing and so it doesn't have natural
 13 sources from new customers to get other
 14 than by cannibalizing them away from
 15 other insurers. And the only way to do
 16 that is by cutting prices. So the choice
 17 is to either sit on the capital and not
 18 use it or cut prices.
 19 Q. Did insurance companies use
 20 excess capital to undercut their
 21 competitors and cause a prolonged period
 22 of underpricing in the industry --
 23 A. Yes.
 24 Q. -- during the 2000 -- the

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1 1999 to 2000 time period?
 2 A. Yes.
 3 Q. Do you see a difference
 4 between underwriting direct insurance
 5 business or insurance or underwriting
 6 reinsurance during a soft market?
 7 MR. DWYER: Objection to
 8 form.
 9 THE WITNESS: Classically,
 10 reinsurers have performed worse,
 11 taken bigger losses in a soft
 12 market and made more money in a
 13 hard market. More recently, they
 14 performed worse in both markets,
 15 meaning they take -- they takes
 16 their clients' excess losses.
 17 BY MS. SMITH:
 18 Q. When you talked about the
 19 reinsurer, are you talking about a
 20 reinsurer who is ceding business?
 21 A. Assuming.
 22 Q. Assuming business.
 23 If you know, why do
 24 reinsurance companies underwrite more

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1 business during a soft market?
 2 A. It's not a simple answer.
 3 But as simply as I can answer it, if
 4 you're an underwriter or marketer, you
 5 don't get a paycheck if you just stop
 6 working and say that, Today I'm not going
 7 to sell insurance because the prices are
 8 too low. The way you get a paycheck is
 9 you keep selling insurance.
 10 And so you convince
 11 yourselves and your boss and your boss's
 12 boss convince themselves that they're
 13 doing better, they're -- they're pricing
 14 better than all the other young companies
 15 out there and that they'll be better off
 16 on a relative basis and they rationalize
 17 for all kinds of different reasons.
 18 They tell themselves that
 19 the extra market share will be worse, the
 20 losses, all these different things.
 21 Q. Could an insurance company
 22 get a better return on reinsurance
 23 business during a soft market?
 24 MR. DWYER: Objection to

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1 form.
 2 THE WITNESS: I'm not sure I
 3 follow the question.
 4 BY MS. SMITH:
 5 Q. Let me see if I can rephrase
 6 it.
 7 Can an insurance company
 8 make more money on reinsurance business
 9 during a soft market than a hard market?
 10 MR. DWYER: Objection to
 11 form.
 12 THE WITNESS: By selling or
 13 buying the reinsurance?
 14 BY MS. SMITH:
 15 Q. Both. First, selling.
 16 A. Yes.
 17 Q. Why?
 18 A. **If it's more -- if it's**
 19 **charging higher prices than the**
 20 **underlying insurance is being sold for,**
 21 **which rarely happens but it -- it could,**
 22 **in theory, charge a premium versus the**
 23 **underlying policies and make more money.**
 24 Q. Now with regard to buying.

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1 A. **Buying.**
 2 MR. DWYER: Objection to
 3 form.
 4 THE WITNESS: Yes. This is
 5 more common. The ceding -- the
 6 company that's buying the
 7 reinsurance drives a hard bargain
 8 with its reinsurer and it, in
 9 effect, does what's called
 10 arbitrage, which is where if it's
 11 selling, you know, workers'
 12 compensation at a loss of 5 cents
 13 on the dollar, it makes -- the
 14 reinsurer ends up losing 10 cents
 15 on the dollar and the company --
 16 the primary insurer comes out
 17 whole.
 18 I know you're wondering why.
 19 I know. It's not explainable in
 20 normal economical terms, but it
 21 happens.
 22 BY MS. SMITH:
 23 Q. Would it make sense for an
 24 insurance company to attempt to grow or

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1 increase their assumed reinsurance
 2 business during a soft market?
 3 MR. DWYER: Objection to
 4 form.
 5 THE WITNESS: It's a -- you
 6 know, it generally doesn't. But
 7 you can't rule out that there
 8 would never be a case where it
 9 would.
 10 BY MS. SMITH:
 11 Q. If you know, during a soft
 12 market, would a company -- an insurance
 13 company be able to make a better return
 14 from underwriting an assumed reinsurance
 15 transaction than underwriting direct
 16 insurance business?
 17 A. **Usually not.**
 18 Q. I'd like to go back to
 19 Schroeder Exhibit-2.
 20 MR. FISHMAN: Are you going
 21 to be much longer? Because we
 22 told her she would be out of here
 23 before 5. She has an appointment
 24 downtown.

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1 THE WITNESS: I need to just
 2 let people know. Can I take just
 3 a one-minute break?
 4 MS. SMITH: Take as much
 5 time as you need.
 6 - - -
 7 (A discussion off the record
 8 occurred.)
 9 - - -
 10 VIDEO TECHNICIAN: The time
 11 is 4:46. We're off the record.
 12 - - -
 13 (Whereupon, a brief recess
 14 was taken.)
 15 - - -
 16 VIDEO TECHNICIAN: It's
 17 4:54. We're back on the record.
 18 - - -
 19 BY MS. SMITH:
 20 Q. All right. Ms. Schroeder,
 21 hopefully I only have a few more
 22 questions for you.
 23 If you go back to Schroeder
 24 Exhibit-3, it was an analyst report that

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1 we discussed earlier from your time at
 2 Oppenheimer.
 3 Do you see that, May 18th,
 4 1998, analyst report?
 5 **A. Okay.**
 6 Q. Now, I'm trying to remember
 7 what you said on direct, so I may
 8 paraphrase, please correct me if I'm
 9 wrong.
 10 **A. I won't remember, so don't**
 11 **worry about it.**
 12 Q. I think you talked about
 13 1998 being the beginning of a severe
 14 downturn?
 15 **A. Yes.**
 16 Q. But you did not see, I think
 17 you said, cheating and lying about loss
 18 reserves?
 19 **A. Yes.**
 20 Q. What did you mean --
 21 **A. The cheating phase of the**
 22 **cycle.**
 23 Q. The cheating phase.
 24 What did you mean by that?

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1 **A. As my --**
 2 MR. DWYER: That -- that
 3 question was asked and answered.
 4 MS. SMITH: Actually, I
 5 think you're right. Let me
 6 withdraw the question. I'm sorry.
 7 MR. DWYER: I wouldn't
 8 normally do that but in the
 9 interest of time.
 10 MS. SMITH: In time. And,
 11 I'm sorry, it's, you know --
 12 **BY MS. SMITH:**
 13 Q. Exhibit -- how about
 14 Schroeder Exhibit-6.
 15 The paragraph that was --
 16 that was discussed earlier, second
 17 paragraph in, We believe the market
 18 overreacted --
 19 **A. Uh-huh.**
 20 Q. -- two minor items in the
 21 property casualty business in a quarter
 22 while overlooking the big picture, a
 23 rapidly growing domestic and
 24 international life insurer with a strong

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1 financial services business and a good
 2 acquisition currency.
 3 What did you mean by "good
 4 acquisition currency"?
 5 MR. DWYER: That -- that was
 6 also asked and answered.
 7 MS. SMITH: I would -- I'd
 8 like to build on the answer,
 9 that's why I just want to ask
 10 again.
 11 THE WITNESS: Okay. Meaning
 12 a high stock price, a stock price
 13 that would be acceptable to the
 14 seller. A stock that would be
 15 acceptable to the seller.
 16 **BY MS. SMITH:**
 17 Q. Do you know if in the 2000
 18 and 2001 time period AIG acquired a
 19 company using stock as acquisition
 20 currency?
 21 **A. They did. They bought**
 22 **American General Group. Yeah.**
 23 Q. Would AIG have an interest
 24 in keeping the stock price high if they

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1 intended to use the stock as acquisition
 2 currency?
 3 MR. DWYER: Objection to
 4 form. I don't think -- I don't
 5 think AIG has any mind, so AIG
 6 can't have an intention.
 7 MS. SMITH: Well, let me
 8 withdraw that and ask it this way.
 9 **BY MS. SMITH:**
 10 Q. Would Mr. Greenberg have an
 11 interest in keeping the AIG stock price
 12 high in order to use stock as acquisition
 13 currency?
 14 MR. DWYER: Objection to
 15 form. Calls for speculation.
 16 THE WITNESS: The
 17 transaction was structured with a
 18 collar that specifically required
 19 AIG to give out more shares to the
 20 American General shareholders if
 21 AIG stock fell below a certain
 22 level. So mathematically there
 23 was an incident of -- not an
 24 incident, but mathematically there

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1 was a penalty that AIG would have
 2 to pay if the stock price fell.
 3 Whatever people's
 4 motivations were I can't speculate
 5 on. But that was the state of the
 6 situation.
 7 BY MS. SMITH:
 8 Q. Okay. And then Schroeder
 9 Exhibit-9, the very large report.
 10 MR. DWYER: You're going to
 11 do the other 270 pages I skipped.
 12 MS. SMITH: Yes. And by the
 13 way -- we're going -- and then
 14 we're going to go through --
 15 MR. DWYER: Anyone for
 16 breakfast?
 17 MS. SMITH: -- the Schedule
 18 P. We're going to go through the
 19 Schedule P line by line. No.
 20 BY MS. SMITH:
 21 Q. Page 51.
 22 Are you on Page 51?
 23 A. Yes.
 24 Q. Okay. Under general

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1 insurance operations, specifically
 2 Domestic Brokerage Group, DBG.
 3 Do you understand that DBG
 4 was a subsidiary of AIG?
 5 MR. DWYER: Objection to
 6 form.
 7 THE WITNESS: DBG was
 8 their -- their business segment
 9 that described certain
 10 subsidiaries that they classified
 11 as a segment.
 12 BY MS. SMITH:
 13 Q. I'm looking at the final
 14 paragraph on the page, the last couple of
 15 sentences. This market has been plagued
 16 for more than a decade by soft pricing
 17 with many insurers underwriting for
 18 market share. AIG is known for refusing
 19 to take this approach to underwriting,
 20 requiring instead that all underwriting
 21 activity be profitable on a standalone
 22 basis.
 23 What did you mean by that on
 24 May 8th, 2000?

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1 **A. One line of business is**
 2 **called standard commercial. And the**
 3 **standard commercial line had been**
 4 **uniquely -- well, perhaps that's**
 5 **overstating it, had been less profitable**
 6 **than most lines of insurance. It had**
 7 **been one that companies, some companies**
 8 **had avoided.**
 9 **And AIG had not only kept**
 10 **its market share fairly low in that line**
 11 **of business but also had managed to**
 12 **underwrite it without getting killed on**
 13 **it the way some companies had.**
 14 Q. And "getting killed," do you
 15 mean losing money?
 16 A. **Losing money.**
 17 Q. Now, if we can go back to
 18 Schroeder Exhibit-13, which was the
 19 report entitled, "New Rating System" on
 20 March 18th, 2002, and I'm on Page 3. I'm
 21 looking under highlights on the
 22 right-hand column.
 23 Historically, the best time
 24 to buy AIG has been on those rare

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1 occasions when confusion and worry caused
 2 investors to doubt.
 3 When you were asked this
 4 question on direct, you said
 5 generically -- I believe you said
 6 generically, yes, it's the best time.
 7 What did you mean by
 8 "generically"?
 9 **A. Typically, AIG has traded at**
 10 **a high valuation relative to other**
 11 **insurers. And so I can't say that there**
 12 **hasn't been some instance when the stock**
 13 **was attractive for some reason other than**
 14 **what this says here.**
 15 **But for the most part, there**
 16 **have been times when investors would get**
 17 **scared about something or another and the**
 18 **stock would dip. It's -- it was a stock**
 19 **that people classically said was always**
 20 **too expensive and then it would just keep**
 21 **going up for years and years and years**
 22 **because it would grow fast enough that,**
 23 **with hindsight, it didn't look expensive.**
 24 Q. This report was written on

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1 March 18th, 2002. You had a statement in
 2 that same paragraph, The value of AIG's
 3 business franchises does not rest on
 4 accounting gimmicks in our view.
 5 Would you have the same
 6 belief today?
 7 MR. DWYER: Objection to the
 8 form. There's no foundation for
 9 the notion that in the last five
 10 years she has any views at all on
 11 the insurance industry. So I -- I
 12 think there's no foundation for
 13 that question.
 14 MS. SMITH: Okay. Let me --
 15 let me try to build a foundation.
 16 BY MS. SMITH:
 17 Q. Do you still follow the
 18 insurance industry?
 19 A. **Not the stocks.**
 20 Q. Not the stocks?
 21 A. **No.**
 22 Q. In 2005, during the time of
 23 the restatement, AIG restatement, May
 24 2005, were you reviewing the insurance

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1 industry as a whole?
 2 A. **I was still pretty up to**
 3 **date.**
 4 Q. You were up to date?
 5 A. **I had not been able to let**
 6 **go.**
 7 Q. All right. Then let me
 8 restate it.
 9 In 2002 you wrote, The value
 10 of AIG's business franchises does not
 11 rest on accounting gimmicks.
 12 As of May or June 2005,
 13 would you have the same belief as what
 14 was written here?
 15 MR. DWYER: Objection. No
 16 foundation.
 17 MS. SMITH: You can answer
 18 if you understand.
 19 MR. DWYER: It calls for
 20 speculation.
 21 MR. FISHMAN: You can answer
 22 whatever you can answer.
 23 THE WITNESS: I probably
 24 would not have written some of the

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1 very confident statements in my
 2 past reports about AIG being
 3 better than the rest of the
 4 industry or less likely than the
 5 rest of the industry to take a
 6 reserve charge or use some of
 7 these gimmicks.
 8 BY MS. SMITH:
 9 Q. Okay. And as -- I'm sorry.
 10 A. **With hindsight I, you know,**
 11 **probably would not have written those**
 12 **things.**
 13 Q. And as promised, let's go to
 14 Schroeder-19, the annual statement for
 15 the year 2000, Page 3.
 16 We discussed this on direct.
 17 I think you were asked questions about
 18 the details for items, specifically 2202,
 19 retroactive reinsurance reserve assumed,
 20 the \$95 million.
 21 Page 3.
 22 A. **Sorry.**
 23 MR. FISHMAN: 834 is the
 24 stamp number.

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1 THE WITNESS: This is so --
 2 so tiny, I can't -- okay.
 3 BY MS. SMITH:
 4 Q. Do you remember being asked
 5 these questions?
 6 A. **Oh, yes.**
 7 Q. Questions about this on
 8 direct?
 9 Would you have been able to
 10 determine, after reading Page 3 of the
 11 Schedule P, that this entry related to
 12 the Gen Re transaction?
 13 A. **No.**
 14 Q. And, finally, if you can
 15 look at Schroeder Exhibit-25, which was a
 16 report you wrote on American -- I'm
 17 sorry, AIG, January 24th, 2003, and Page
 18 2, related to other risks.
 19 I believe there were
 20 questions on direct about reserve
 21 adequacy and whether any of the risks
 22 that you listed dealt with reserve
 23 adequacy.
 24 Do you remember that?

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1 A. Yes.
 2 Q. Why were you concerned with
 3 reserve adequacy?
 4 A. In general?
 5 Q. In general.
 6 A. Because the reserves, being
 7 the largest number on the balance sheet
 8 and being an estimate, it is where
 9 problems are most likely to arise in
 10 property casualty businesses.
 11 Q. If reserves are inadequate,
 12 is it possible a company can become
 13 insolvent?
 14 A. Yes.
 15 Q. Would you ever expect AIG to
 16 have a reserve inadequacy to the point
 17 that it would become insolvent, based on
 18 your experience as an analyst?
 19 MR. DWYER: Objection to
 20 form.
 21 THE WITNESS: No. Because
 22 of its business mix and just the
 23 nature of the company and the
 24 quality of the company, no.

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1 BY MS. SMITH:
 2 Q. Would you say that the
 3 changes in loss reserves would be more
 4 relevant than the reserve adequacy
 5 related to AIG?
 6 MR. DWYER: Objection to the
 7 form.
 8 THE WITNESS: Yes.
 9 MS. SMITH: I have no
 10 further questions.
 11 Any redirect?
 12 MR. DWYER: Yes.
 13 - - -
 14 EXAMINATION
 15 - - -
 16 BY MR. DWYER:
 17 Q. In your -- I'm going to ask
 18 you questions about the testimony you
 19 just gave in response to Ms. Smith's
 20 questions.
 21 When you talked about
 22 funding covers and -- and, you know,
 23 abuses relating to funding covers, are
 24 you -- are you familiar enough with the

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1 transaction -- the loss portfolio
 2 transaction between AIG and Gen Re that
 3 occurred in 2000, 2001 to testify as to
 4 whether that was a funding cover?
 5 A. Yes. It was not a funding
 6 cover.
 7 Q. Second question. In
 8 Exhibit-35, which is the exhibit that was
 9 marked by Ms. Smith, the Risk and
 10 Insurance article --
 11 A. Right.
 12 Q. -- and you were -- you
 13 answered some questions -- you answered
 14 the question at the bottom of Page 3 and
 15 you answered at the top of Page 4, in
 16 terms of -- of the timing of this, April
 17 15th, 2002, were -- in terms of the
 18 companies that you're talking about in
 19 that answer, which you don't identify,
 20 were you talking about AIG in terms of
 21 any of those companies?
 22 A. No.
 23 Q. You used a couple of terms
 24 in your testimony, one was guidance and

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1 another was consensus number.
 2 Am I correct in
 3 understanding that guidance is something
 4 that a -- a company gives and a consensus
 5 number is something that is some sort of
 6 weighted average of analysts' estimates
 7 of earnings?
 8 A. Yes.
 9 Q. Now, are you -- and when you
 10 were an analyst, there was certainly a
 11 consensus number with regard to AIG's
 12 earnings?
 13 A. Yes, there was.
 14 Q. When you were an analyst at
 15 Oppenheimer, Paine Webber and Morgan
 16 Stanley, did AIG have a practice of not
 17 providing guidance on its earnings to the
 18 industry?
 19 A. They guided analysts
 20 individually, and then when they began
 21 having conference calls, I don't
 22 remember, but I think they did give
 23 guidance. I think. I'm not sure.
 24 Q. So it's -- it's possible --

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1 in terms of your recollection, it's
 2 possible that AIG did not actually
 3 provide guidance numbers to the industry
 4 the way that other companies do about
 5 their earnings forecasts?
 6 **A. Well, before they had**
 7 **conference calls they did.**
 8 Q. Provided them to --
 9 **A. They gave -- they looked at**
 10 **models and they gave guidance.**
 11 Q. To individual --
 12 **A. Yes.**
 13 Q. They gave them to you?
 14 **A. Yes.**
 15 Q. Now, did they -- did they --
 16 when did they start having the conference
 17 calls?
 18 **A. I can't tell you the exact**
 19 **date. It was around, I would say, around**
 20 **2001 or 2. It was -- it was around the**
 21 **Enron era, but I can't tell you the exact**
 22 **date.**
 23 Q. And after that did they
 24 provide guidance on earnings?

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1 **A. So much has changed. I**
 2 **don't remember, I'm sorry.**
 3 Q. Now, you said -- different
 4 topic. You said that GAAP financial
 5 statements are supposed to record, quote,
 6 what happened, closed quote.
 7 That's not literally true,
 8 is it? I mean, that's -- that's more of
 9 what a general ledger does, is record
 10 what's -- what happened?
 11 **A. GAAP financial statements --**
 12 **sure, it's true. Yeah, it's true. They**
 13 **record the financial position of the**
 14 **company, the changes in the financial**
 15 **position, what the company earned.**
 16 **That's what happened.**
 17 Q. And they apply -- but they
 18 apply a series of rules that are
 19 sufficiently complicated that there's a
 20 whole industry called the accounting
 21 profession that applies those rules.
 22 So that, for example, in --
 23 in terms of inventory, the fact that your
 24 inventory goes down by 10 percent doesn't

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1 mean that anybody has actually counted
 2 those things, they've -- they've sampled
 3 or on a period-to-period basis they've
 4 been consistent in their approach?
 5 **A. That's --**
 6 **MS. SMITH: Objection.**
 7 **THE WITNESS: That's right,**
 8 **yes. But they're supposed to**
 9 **represent -- they're supposed to**
 10 **fairly present what happened.**
 11 **BY MR. DWYER:**
 12 Q. But -- but by applying
 13 accounting rules and principles?
 14 **A. Sure.**
 15 Q. And conventions?
 16 **A. Sure.**
 17 Q. Now, by the time the
 18 restatement came out in May of -- late
 19 May of 2005, you hadn't been an analyst
 20 for about two years, correct?
 21 **A. Almost exactly two years,**
 22 **yes.**
 23 Q. And, in fact, you never did
 24 an analysis of how -- of AIG and what

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1 your recommendations would have been
 2 if -- if you had taken the restatement
 3 treatment of AIG's accounting records
 4 back into time?
 5 **A. No.**
 6 Q. And if -- am I correct in
 7 assuming that if -- if in the fourth
 8 quarter of 2000 AIG had reported a
 9 decline in property and casualty reserves
 10 rather than an increase, the first thing
 11 you would have done would have been to
 12 ask AIG for an explanation?
 13 **MS. SMITH: Objection.**
 14 **THE WITNESS: Yes -- well, I**
 15 **don't know if it would have been**
 16 **the first thing, but I would have**
 17 **asked for an explanation.**
 18 **BY MR. DWYER:**
 19 Q. And you would have listened
 20 to their explanation before deciding what
 21 you would have -- what -- what your
 22 report was going to say about that?
 23 **A. Of course.**
 24 **MS. SMITH: Objection.**

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1 BY MR. DWYER:
 2 Q. And as -- and you might have
 3 been in a situation, as you were in the
 4 third quarter of 2000, where you thought
 5 the explanation made sense and you wrote
 6 a report that said, Pass the popcorn,
 7 we've seen this before?
 8 MS. SMITH: Objection.
 9 THE WITNESS: Given that the
 10 change was a second data point in
 11 a trend and it was larger, I think
 12 that the explanation would have
 13 had to be new, compelling and more
 14 supported.
 15 And if I were to simply
 16 maintain my rating, what you say
 17 might be true. But the question
 18 here is whether I would have
 19 upgraded the stock.
 20 BY MR. DWYER:
 21 Q. Well, I'm talking now about
 22 the fourth -- the fourth quarter of 2000,
 23 is my question.
 24 A. **The fourth quarter.**

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1 Q. So you would have -- you
 2 would have listened --
 3 A. **It's possible -- I would**
 4 **have listened, yeah.**
 5 Q. You would have listened and
 6 then you would have made a decision --
 7 MS. SMITH: Objection.
 8 BY MR. DWYER:
 9 Q. -- correct?
 10 A. **Yeah.**
 11 Q. And -- and then with regard
 12 to the first quarter of 2001, you would
 13 have done the same thing, except you
 14 might have held it to an even higher
 15 degree of scrutiny because it would have
 16 been the third quarter?
 17 A. **That's right.**
 18 MS. SMITH: Objection.
 19 BY MR. DWYER:
 20 Q. And in both cases you would
 21 have -- you would have asked AIG for an
 22 explanation and then you would have
 23 considered that and other factors and
 24 then made a decision?

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1 MS. SMITH: Objection.
 2 THE WITNESS: Right.
 3 BY MR. DWYER:
 4 Q. And if the -- if the -- if
 5 the stock price had -- had gone down as a
 6 result of declines in property and
 7 casualty loss reserves, you might have
 8 seen that as an opportunity to -- to buy;
 9 is that correct?
 10 MS. SMITH: Objection.
 11 THE WITNESS: Not
 12 necessarily.
 13 BY MR. DWYER:
 14 Q. But possibly?
 15 A. **The nature of it -- I can't**
 16 **recall having done that. But I'll grant**
 17 **you it's possible.**
 18 Q. And you would have -- you
 19 would have -- you would have considered
 20 that as a -- as part of your analysis?
 21 A. **Sure.**
 22 MS. SMITH: Objection.
 23 MR. DWYER: I have no
 24 further questions.

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1 MS. SMITH: I just have two
 2 quick follow-ups.
 3 -- --
 4 EXAMINATION
 5 -- --
 6 BY MS. SMITH:
 7 Q. First, you talked about
 8 consensus earlier.
 9 During the 2000 and 2003
 10 time period, do you recall if AIG met
 11 consensus frequently?
 12 A. **Yes. They, I believe,**
 13 **nearly always did.**
 14 MS. SMITH: And, I'm sorry,
 15 I'm going to have to ask the court
 16 reporter to read back -- there was
 17 a question recently by Mr. Dwyer,
 18 it might have been the
 19 second-to-last question.
 20 -- --
 21 (A discussion off the record
 22 occurred.)
 23 -- --
 24 (Whereupon, the court

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1 reporter read the following
 2 testimony:
 3 "Question: And if the -- if
 4 the -- if the stock price had --
 5 had gone down as a result of
 6 declines in property and casualty
 7 loss reserves, you might have seen
 8 that as an opportunity to -- to
 9 buy; is that correct?
 10 "MS. SMITH: Objection.
 11 "Answer: Not necessarily.
 12 "Question: But possibly?
 13 "Answer: The nature of
 14 it -- I can't recall having done
 15 that. But I'll grant you it's
 16 possible."
 17 - - -
 18 BY MS. SMITH:
 19 Q. What did you mean by "not
 20 necessarily"?
 21 A. Well, when a stock price
 22 declines because of reserve problems,
 23 there's an old saying in insurance, and
 24 I'm trying to remember the old saying,

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1 but it has to do with a rule of threes.
 2 That, basically, there's
 3 never one reserve problem, there's always
 4 three. And that if a company takes a
 5 charge, they're going to do it again.
 6 And if there's -- and if reserves are
 7 starting to head in the direction that
 8 makes you think they're going to take a
 9 charge, they're probably going to take a
 10 charge.
 11 So if you see a trend that
 12 makes you think they're going to take a
 13 reserve charge, then it would -- you
 14 would have to overcome an awful lot of
 15 skepticism to upgrade a stock in the face
 16 of that, because the pattern in the
 17 industry is that if a black-and-white
 18 animal walks across your front lawn, it's
 19 a skunk.
 20 And so that's why I was
 21 very, very hesitant to answer that
 22 question in a way that made it sound like
 23 it was, you know, sure, everyday
 24 experience to just upgrade a stock just

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1 **because the price fell. The price**
 2 **falling is -- is one of many factors you**
 3 **consider.**
 4 MS. SMITH: I have no
 5 further questions.
 6 MR. DWYER: Nothing further.
 7 The deposition is closed.
 8 MS. SMITH: Thank you.
 9 - - -
 10 VIDEO TECHNICIAN: It's
 11 5:17. This day is over, and we're
 12 off the record.
 13 - - -
 14 (Whereupon, the deposition
 15 concluded at 5:17 p.m.)
 16 - - -
 17
 18
 19
 20
 21
 22
 23
 24

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1 CERTIFICATE
 2
 3
 4 I HEREBY CERTIFY that the
 5 witness was duly sworn by me and that the
 6 deposition is a true record of the
 7 testimony given by the witness.
 8
 9
 10
 11 Amanda Dee Maslynsky-Miller, CRR
 12 Dated: July 10, 2008
 13
 14
 15
 16
 17 (The foregoing certification
 18 of this transcript does not apply to any
 19 reproduction of the same by any means,
 20 unless under the direct control and/or
 21 supervision of the certifying reporter.)
 22
 23
 24

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Please read your deposition over carefully and make any necessary corrections. You should state the reason in the appropriate space on the errata sheet for any corrections that are made.

After doing so, please sign the errata sheet and date it.

You are signing same subject to the changes you have noted on the errata sheet, which will be attached to your deposition.

It is imperative that you return the original errata sheet to the deposing attorney within thirty (30) days of receipt of the deposition transcript by you. If you fail to do so, the deposition transcript may be deemed to be accurate and may be used in court.

ACKNOWLEDGMENT OF DEPONENT

I, _____, do hereby certify that I have read the foregoing pages, 1 - PGS, and that the same is a correct transcription of the answers given by me to the questions therein propounded, except for the corrections or changes in form or substance, if any, noted in the attached Errata Sheet.

WITNESS NAME DATE

Subscribed and sworn to before me this _____ day of _____, 20____.

My commission expires: _____

Notary Public

ERRATA

PAGE LINE CHANGE

Table with 3 columns for page, line, and change, with rows 1-24.

LAWYER'S NOTES

PAGE LINE

Table with 3 columns for page, line, and notes, with rows 1-24.

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