UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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| IN RE AMERICAN INTERNATIONAL GROUP, INC. 2008 SECURITIES LITIGATION | Master File No.: 08-CV-4772-LTS-DCF<br><br>ECF Case |
| This Document Relates To: All Actions | |

**JOINT DECLARATION OF JEFFREY W. GOLAN AND E. POWELL MILLER IN SUPPORT OF: (1) LEAD PLAINTIFF'S MOTION FOR FINAL APPROVAL OF CLASS ACTION SETTLEMENT AND PLAN OF ALLOCATION; AND (2) LEAD COUNSEL'S APPLICATION FOR AN AWARD OF ATTORNEYS' FEES AND REIMBURSEMENT OF LITIGATION EXPENSES**

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We, Jeffrey W. Golan of the law firm Barrack, Rodos & Bacine and E. Powell Miller of the law firm of The Miller Law Firm, P.C. (collectively with our firms, "Lead Counsel"), declare as follows:

1. The State of Michigan Retirement Systems ("SMRS" or "Lead Plaintiff") is the Court-appointed Lead Plaintiff in the above-captioned consolidated action ("Action"). We submit this Declaration in support of Lead Plaintiff's Motion for Final Approval of Settlement and Approval of Proposed Plan of Allocation, and Lead Counsel's Application for an Award of Attorneys' Fees and Reimbursement of Litigation Expenses. We have personal knowledge of the matters set forth herein based on our active participation in the prosecution and settlement of this Action.

2. The settlement includes payments from American International Group, Inc. ("AIG"), in the amount of $960 million, and from PricewaterhouseCoopers LLP ("PwC"), in the amount of $10.5 million. The $970.5 million recovery achieved through the settlement, if approved, would represent one of the largest securities class action recoveries ever achieved in an action stemming from the financial crisis of 2008. Moreover, the payment from AIG appears to be the largest ever achieved in a securities class action lawsuit in the absence of a criminal indictment, an SEC enforcement action, or a restatement of the company's financial statements.

3. This joint declaration describes (a) the legal efforts overseen by Lead Plaintiff and Lead Counsel, and the results of those efforts (PART I, ¶¶4-73); (b) the Settlement and the risks that Lead Plaintiff and Lead Counsel considered in determining that the Settlement provides an excellent recovery for the Class (PART II, ¶¶74-98); (c) the proposed Plan of Allocation and the basis for it (PART III, ¶¶99-109); and (d) the fee and expense application of Lead Counsel submitted with the approval of Lead Plaintiff (PART IV, ¶¶110-158).

## PART I – PROSECUTION OF THE ACTION

## I. INITIATION AND PROSECUTION OF THE ACTION

### A. The Filing of the Initial Complaints and Appointment of Lead Plaintiff and Lead Counsel

4. Beginning on May 21, 2008, a series of proposed class actions alleging violations of the federal securities laws by some or all of the Defendants were filed in this Court: *Jacksonville Police and Fire Pension Fund v. AIG, et al.*, Case No. 08 Civ. 4772; *James Connolly v. AIG, et al.*, No. 08 Civ. 5072; *Maine Public Employees Retirement System v. AIG, et al.*, No. 08 Civ. 5464; *Ontario Teachers' Pension Plan Board v. AIG, et al.*, No. 08 Civ. 5560; *Margaret Carroll v. AIG, et al.*, No. 08 Civ. 8659; *Harriet Bernstein and Janet Levine Cotter v. AIG, et al.*, No. 08 Civ. 9162; *Fire and Police Pension Association of Colorado, et al. v. AIG et al.*, No. 08 Civ. 10586; and *Epstein Real Estate Advisory v. Bank of America Corporation, et al.*, No. 09 Civ. 428.

5. On July 21, 2008, SMRS and other applicants filed motions seeking consolidation of the related cases filed to that point, for appointment of lead plaintiff, and for approval of the applicants' selection of counsel as lead counsel. SMRS and certain other applicants sought appointment as lead plaintiff for the entire Action, while other applicants sought appointment as lead plaintiff only for more limited segments of the overall universe of purchasers of AIG securities, the so-called "niche" motions, within the overall action.

6. Lead Counsel worked diligently to provide the Court with detailed submissions that not only included all of the information pertaining to the case and SMRS required by the Private Securities Litigation Reform Act of 1995 ("PSLRA"), but also included case law and other materials that supported SMRS's lead plaintiff motion and responded to the motions filed by each of the other applicants. Among the documents that we submitted on behalf of SMRS

were: (a) initial motion papers, with supporting declarations, a brief, a certification and loss chart on July 21, 2008; (b) an answering brief, supported by certain exhibits, submitted in opposition to the competing motion on August 7, 2008; and (c) a reply brief, supported by additional exhibits, in further support of the SMRS motion filed on August 18, 2008.

7. On March 13, 2009, the Court conducted a hearing on the competing motions, which representatives of SMRS attended and during which we presented argument in support of the SMRS motion and responded to questions posed by the Court. At the conclusion of the hearing, as confirmed in a subsequent order entered on March 20, 2009, the Court consolidated the actions (referring to them collectively as *In re American International Group 2008 Securities Litigation*, Master File No. 08 Civ. 4772 (LTS)), appointed SMRS as Lead Plaintiff, approved SMRS's selection of Barrack, Rodos & Bacine and The Miller Law Firm, P.C., as Lead Counsel, and denied all competing motions. The Court further provided Lead Plaintiff with sixty (60) days from the entry of the Order to file a consolidated complaint.

**B. The Consolidated Complaint**

8. On May 19, 2009, Lead Plaintiff filed the Consolidated Class Action Complaint (the "Complaint"), which alleged that some or all of the Defendants violated Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 and/or Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and asserted claims on behalf of all persons or entities, other than Defendants and their affiliates, who (a) purchased AIG Securities traded on a U.S. public exchange from March 16, 2006 through September 16, 2008 (the "Class Period") or (b) purchased or acquired AIG Securities in or traceable to a public offering by AIG during that period, and suffered damages as a result.

9. Lead Counsel undertook an exhaustive investigation of both public and non-public sources in order to gather information regarding the claims to be asserted in the Complaint. In addition to a thorough review of SEC filings, offering documents, press releases and other statements issued publicly by AIG, we also reviewed and analyzed numerous other public sources, including books, articles, transcripts of public hearings, analyst reports, and rating agency reports. Lead Counsel hired and consulted with an expert in the fields of investment banking and securitization of mortgage loans, and an expert in accounting and auditing matters. Lead Counsel further retained an investigator whose personnel identified and interviewed numerous confidential witnesses with first-hand knowledge of the subject-matter of this Action, several of which were thereafter cited by a "CW" designation in the Complaint.

10. Prior to filing the Complaint, Lead Counsel identified for Lead Plaintiff certain issues pertinent to the Complaint, and reached agreement with Lead Plaintiff on the following points: (1) we would assert claims on behalf of purchasers of AIG publicly traded securities during the Class Period identified above, which began with the filing of AIG's 2005 Form 10-K and ended just prior to the announcement of the $85 billion U.S. Government bailout of AIG, recognizing that defendants would likely seek dismissal of claims prior to some point in 2007 and likely after February 29, 2008, when AIG issued its 2007 Form 10-K; (2) we would include other funds and/or individuals as additional plaintiffs in the Complaint in order to present claims of investors that purchased securities in or traceable to the types of public offerings made by AIG during the Class Period other than the types of securities that had been purchased by SMRS; and (3) we would enter into a tolling agreement with junior underwriters with limited exposure on certain of the offerings.

11. Lead Counsel provided Lead Plaintiff with a draft of the Complaint on May 12, 2009, and, in addition to receiving various comments and suggestions for the Complaint from SMRS representatives, we had an extensive discussion about the Complaint on May 18, 2009, at the conclusion of which we received authorization to file the Complaint on behalf of Lead Plaintiff and the putative Class.

12. The Complaint alleged that Defendants violated the federal securities laws by making materially false and misleading statements concerning the Company's financial results, business operations, and condition, including its exposure to risky subprime mortgage debt, which caused the prices of AIG securities to be artificially inflated over the course of the Class Period. In all, the Complaint included 701 paragraphs, was 284 pages long, and included a detailed Exhibit identifying the purchases and sales of AIG securities throughout the Class Period of SMRS and each of the other Named Plaintiffs.

13. The allegations in the Complaint related primarily to financial products called credit default swaps ("CDS") that were issued by the AIG Financial Products unit ("AIGFP"), many of which insured collateralized debt obligations ("CDOs") backed by U.S. residential mortgages, including subprime debt. While defendants repeatedly assured the market that there would not be losses on this CDS portfolio, the Complaint alleged that AIG and the Executive Defendants identified in the Complaint knew or were reckless in not knowing that the risks inherent in this portfolio, including that AIG could be required to post tens of billions of dollars in collateral or record billions of dollars in unrealized losses on its balance sheet that would be charged against AIG's income, were massive and could cripple the entire Company.

14. The Complaint also alleged that the manner in which AIG invested and made disclosures concerning the cash collateral it received from its securities lending program, 75% of

which was directed for investment after the end of 2005 in residential mortgage-backed ("RMBS") and asset-backed securities, violated the federal securities laws. Specifically, Plaintiffs alleged that AIG and the Executive Defendants knew or were reckless in not knowing that if a sufficient number of borrowers demanded the return of their cash collateral without a sufficient injection of new borrowers and new cash collateral into the program, AIG would be facing a liquidity crisis and would be required to raise enormous amounts of cash to stay afloat.

15. As summarized in the Nature of the Case portion of the Complaint:

> AIG's CDS portfolio and its investments in RMBS were like ticking time bombs. Although AIG claimed that the CDS portfolio was well-insulated against the risk of loss because a catastrophic level of defaults would need to be realized before it was required to pay the "counterparties" it was insuring, the CDS portfolio posed other significant risks. Because a credit default swap is a form of guarantee, the contracts contained provisions establishing conditions that would require AIG to "post collateral" as an assurance that it would be able to perform its obligation in the event of a default. Generally, AIG could be required to post collateral if its own credit rating was downgraded or if the underlying CDOs were subject to ratings downgrades or experienced a decline in value. Thus, apart from the risk of making payments arising from defaults, the CDS portfolio subjected AIG to the risk of being required to make tens of billions of dollars in collateral postings if the underlying CDOs declined in value due to a downturn in the U.S. residential housing market.
>
> AIG's securities lending investments in RMBS also carried great risk. In a declining housing market, the RMBS investments would also decline in value and become less liquid than traditional securities lending investments such as Treasury bonds. The securities lending division was obligated to repay or roll over most of its loans every 30 days, but much of the RMBS investments matured in two to five years. Thus, if a sufficient number of borrowers demanded the return of their cash collateral without a sufficient injection of new borrowers and new cash collateral into the program, AIG could be forced to sell its RMBS investments at depressed prices or would need to raise funds elsewhere. Its options in this regard were limited since most of the funds invested by AIG Investments were needed for statutory and other capital requirements of the Company's insurance subsidiaries. As a result, both the securities lending business and the CDS portfolio, with its collateral posting requirements, posed a great risk that AIG would need to raise enormous amounts of cash, placing the Company in a liquidity vise.

16. The Complaint asserted the following claims:

- Fraud claims under sections 10(b) and 20(a) of the Exchange Act on behalf of purchasers of common stock and other U.S. exchange-traded AIG securities during the Class Period (the "fraud claims"); and
- Strict liability and negligence claims under sections 11, 12(a)(2) and 15 of the Securities Act on behalf of members of the Class who purchased or acquired AIG securities in or traceable to the Class Period offerings (the "offering claims").

The claims were asserted against:

- AIG (defendant on the fraud claims and offering claims);
- Senior Executives of AIG: Sullivan (Chief Executive Officer), Bensinger (Chief Financial Officer), Herzog (Chief Accounting Officer), and Lewis (Chief Risk Officer) (defendants on the fraud claims and offering claims);
- Senior Executives of AIGFP: Cassano (President), Frost, Forster, and Athan[1] (defendants on the fraud claims and offering claims);
- AIG's outside directors (defendants only on negligence-based offering claims);
- PricewaterhouseCoopers ("PwC"), AIG's outside auditor (defendant only on certain negligence-based offering claims); and
- Underwriters of the 101 public bond and stock offerings during the Class Period (defendants only on negligence-based offering claims).

17. As noted above, Lead Counsel undertook an extensive investigation of both public and non-public sources, and through that process gathered a wealth of new information regarding the claims asserted in the Complaint. Examples of previously non-public information alleged in the Complaint included:

- Although AIG could have protected itself by hedging its CDS deals, it did not do so because "their [AIGFP management's] bonuses were highly dependent on revenue out of that book of business" and if they had incurred the added cost of hedging "it wouldn't

[1] After the Complaint was filed, attorneys from the law firm Debevoise & Plimpton entered their appearance on behalf of Thomas Athan, who began working in the AIGFP office in London in or about April 2007. After being advised that Lead Plaintiff's claims against Athan would have to be severed and transferred to another Judge if Lead Plaintiff wished to pursue them, and after discussions with Athan's counsel, Lead Plaintiff entered into a Tolling Agreement with Athan, preserving the claims against him as well as Lead Plaintiff's ability to obtain discovery from him, while dismissing Athan from the Complaint without prejudice.

have been much of a business." As stated by a former AIGFP executive familiar with the CDS portfolio, "if you had to hedge the business it would not be an economically viable line of business." Based in part on this information, Plaintiffs alleged that even though AIG was aware of the downward turn of the mortgage market, defendants chose not to hedge the CDS portfolio because doing so would have undercut the profitability of the business and the compensation of the AIGFP executive defendants.

- Contrary to AIG's public pronouncements that it only insured CDOs of the highest quality, AIGFP actually tended to prefer CDOs known as "mezzanine deals" (which were comprised of lower quality collateral, including in many cases up to 100% of subprime risk exposure), because AIGFP could write more of them than the high grade deals and thereby generate more revenue. Whereas in earlier multi-sector CDO deals there were many different types of uncorrelated assets, the CDOs became "almost entirely all subprime" by late 2005. Based on this information, Plaintiffs alleged in the Complaint that defendants recklessly ignored the fact that these CDOs would fall in value much faster – since they included overall lesser credit-worthy loans – and would result in even faster collateral calls and balance sheet losses.

- AIGFP failed to adequately review the CDSs into which it was entering, even though AIGFP executives were telling the public that they engaged in a thorough and adequate review of each of the CDOs' underlying assets. For instance, AIGFP would routinely ask a potential counterparty to provide only the "underlying and offering documents," but would not request the counterparties' own loan level valuation or analysis materials, which would have allowed AIGFP to properly price and evaluate the risks associated with the CDS deals. Moreover, unbeknownst to AIG investors, many of the CDS contracts written by AIGFP were "very biased in favor of the banks." These contracts typically contained an "unusual feature" whereby the counterparty bank was designated as the calculation agent for determining the valuation of the referenced CDO for purposes of determining when collateral had to be posted. Thus, the banks were the presumptive prevailing party as to the valuation of the CDOs, since it was the counterparties' "decision on how they mark it and that's how collateral is posted."

- AIGFP's Asset/Credit group, which was headed by defendant Cassano and which was responsible for writing the multi-sector CDO-based credit default swaps at issue in the case, had effectively separated itself from the rest of the AIGFP unit and from the parent company (AIG). The Asset/Credit business was "definitely treated differently and wasn't as transparent as the other businesses." For example, the Assets/Credit group did not utilize AIG's standard, company-wide, Windows-based management information system that housed all the data sent to AIG's risk management, accounting, and other departments to make business decisions pertaining to AIGFP. Instead, Cassano maintained information regarding the CDS business on a separate spreadsheet, which was managed out of the London office and to which the risk management and accounting functions at AIG did not have access. In a similar vein, AIGFP executives would attend weekly marketing and trading meetings headed by defendant Cassano, where the performance of each of AIGFP's businesses was reviewed, and pertinent risk management issues were discussed. However, the CDS business was an exception, as risk management issues pertaining to this business were not covered at these weekly meetings. In fact, it is not clear that the Asset/Credit group ever provided risk analyses to corporate management with respect to the CDS portfolio.

- The CDS business was also "purposely isolated in London" and its risk management and exposure were "never subject to [the] rigorous process" that applied to the rest of AIG. The investigators were told that the head of global risk management at AIGFP was intentionally excluded by certain of the AIGFP executive defendants from adequately

performing the risk management function with respect to the Asset/Credit group. Moreover, the financial reporting decisions concerning the CDS portfolio were made separately by certain AIGFP executives and the valuation process relating to the CDS portfolio was deliberately conducted outside the purview of AIG's and AIGFP's risk management and financial and accounting functions. Thus, as Plaintiffs allege in the Complaint, despite AIG's impressive internal controls for most of its businesses, the absence of effective controls over the CDS business allowed a huge area of potential exposure to be uncontrolled.

- AIGFP's models for valuing its CDS portfolio also allowed Defendants to repeatedly underestimate the market valuation losses it was experiencing in connection with the CDS portfolio. For example, as alleged in the Complaint, AIGFP's valuation models were based on theoretical default rates for the underlying CDOs, whereas the counterparties relied on actual market data. Similarly, AIGFP's valuation models were intended only to predict whether the level of defaults in the underlying collateral would rise to the point where AIGFP's obligation to make payments to the counterparties would be triggered; they were not, however, intended to predict whether or when the referenced CDOs would decline in value or whether the collateral posting triggers would be reached. Thus, as alleged in the Complaint, unbeknownst to the investing public, the models failed to measure or predict important asset valuation and liquidity risks posed by the CDS portfolio.

### C. Briefing and the Court's Rulings on Defendants' Motions to Dismiss

18. On August 5, 2009, defendants moved to dismiss the Complaint. Each defendant, including the Underwriter Defendants as a group and the Outside Director Defendants as a group, filed motions to dismiss the Complaint. The briefs were filed by AIG (74 pages); CEO Sullivan (20 pages); CFO Bensinger (21 pages); Principal Accounting Officer Herzog (12 pages); Chief Risk Officer Lewis (18 pages); AIGFP head Cassano (29 pages); and AIGFP executives Frost (16 pages) and Forster (19 pages); as well as various persons and entities that were sued only in connection with the stock and debt offerings made during the Class Period, consisting of auditor PwC (35 pages), the Underwriter Defendants (40 pages), the Outside Director Defendants (6 pages), and one other officer / director (3 pages). In all, 293 pages of briefs, and a box of exhibits, were filed to support defendants' motions to dismiss.

19. On October 2, 2009, on behalf of SMRS and the other Plaintiffs named in the Complaint, Lead Counsel filed an omnibus 232-page response in opposition to defendants' motions to dismiss. In the responding brief, Lead Counsel provided a detailed fact section laying

out the course of defendants' alleged wrongful actions, and provided extensive arguments supporting that Plaintiffs had adequately alleged false and misleading statements made by the Section 10(b) Defendants throughout the Class Period and had sufficiently pleaded that such statements were made with scienter. Lead Counsel further drew from the Complaint and case law to support that the Complaint adequately alleged loss causation with respect to the Section 10(b) claims; the Court should not truncate the Class Period; the claims were filed on a timely basis; and the claims made pursuant to the Securities Act of 1933 with respect to the Company's public offerings were adequately alleged under Sections 11, 12(a)(2) and 15 of the Securities Act.

20. In addition to filing a brief in opposition to the dismissal motions, on behalf of SMRS and the other named Plaintiffs, Lead Counsel also filed a motion to strike certain of the exhibits that defendants had presented to the Court in support of their dismissal motions. The primary ground for that motion was that defendants had sought improperly to introduce at the pleading stage of the case evidence and facts contrary to the facts alleged in the Complaint, and that as a matter of federal procedure, such evidence should not be considered on a motion to dismiss.

21. On December 3, 2009, defendants submitted their reply briefs in further support of their dismissal motions, along with an opposition to the motions to strike certain of their exhibits. These briefs were limited in size by a Court order. They were filed by AIG (29 pages); CEO Sullivan (10 pages); CFO Bensinger (10 pages); Principal Accounting Officer Herzog (5 pages); Chief Risk Officer Lewis (6 pages); AIGFP head Cassano (10 pages); and AIGFP executives Frost (10 pages) and Forster (10 pages); as well as the defendants on the Securities Act claims only, consisting of PwC (15 pages), the Underwriter Defendants (15 pages and a

supporting declaration), the Outside Director Defendants (5 pages), and one other officer / director (2 pages).

22. Upon review of the reply briefs, Lead Counsel – after consultation with Lead Plaintiff – made the decision not to seek leave to file a sur-reply because it did not appear that defendants had raised any new arguments in their reply briefs.

23. In addition to filing the reply briefs, on December 3, 2009, AIG also filed a brief on behalf of all defendants in opposition to Plaintiffs' motion to strike certain of the exhibits submitted by defendants in support of their dismissal motions. The primary points made in defendants' opposition to the motion to strike were that the documents defendants submitted were appropriate for the Court to consider on a motion to dismiss because the documents were relevant to the case, "integral to" topics raised in the Complaint, and matters within the public record concerning the financial crisis and what other companies and regulators were doing and saying with respect to the financial crisis and subprime markets.

24. Lead Counsel, on behalf of SMRS and the other named Plaintiffs, filed a reply brief in further support of the motion to strike on January 7, 2010.

25. Thereafter, the parties submitted and responded to notices of supplemental authority with respect to the motions to dismiss. Lead Counsel's submissions included a notice of supplemental authority filed March 2, 2010, a response filed on March 17, 2010 to notices submitted by AIG and the Underwriter Defendants, and a notice of supplemental authority filed July 19, 2010.

26. On September 27, 2010, the Court issued an Opinion and Order denying defendants' motions to dismiss. The Court held that the Complaint adequately alleged material misstatements and omissions concerning AIG's credit default swap portfolio as well as its

securities lending program. The Court upheld Lead Plaintiff's claims under sections 10(b) and 20(a) of the Exchange Act, holding that the "various general disclosures cited by [the defendants] were insufficient to fulfill defendants' disclosure obligations," and that the facts alleged in the Complaint supported a strong inference of fraudulent intent on the part of the company and certain corporate executives at AIG and its London-based subsidiary, AIGFP. The Court also upheld each of the claims brought under sections 11, 12(a)(2) and 15 of the Securities Act for the stock, corporate units, notes and bonds issued by AIG during the Class Period.

27. On October 12, 2010, the Underwriter Defendants filed a motion for reconsideration supported by a memorandum of law filed the same day, which motion was joined by the AIG Executive Defendants. Lead Counsel, on behalf of Lead Plaintiff, filed an opposition to the motion on October 19, 2010, and the Underwriter Defendants filed their reply on October 26, 2010. The Court issued an Order denying the reconsideration motions on February 8, 2011.

28. On November 24, 2010 and December 10, 2010, defendants filed their respective answers to the Complaint. Defendants denied the claims and asserted a number of affirmative defenses.

**D. Prosecution of the Action through Fact Discovery**

29. On November 5, 2010, the Court conducted a hearing to set the schedule and protocols for further proceedings in the Action. In advance of the hearing, the parties consulted extensively about a proposed case management order and confidentiality agreement, which the parties had submitted to the Court prior to the hearing. Among many other items in the parties' proposals to the Court was an agreement that Lead Counsel had reached with counsel for AIG and PwC that those entities would produce, on an expedited basis, all of the documents they had

previously produced to the SEC, DOJ and FCIC (Financial Crisis Inquiry Committee) pursuant to the investigations conducted by those entities. Lead Counsel was informed at the time that there were about 260,000 such documents, totaling approximately 12 million pages that would be produced in this "first wave" production.

30. On November 5, 2010, the Court entered Pretrial Scheduling Order No. 1, an Order Referring Case to Magistrate Judge, and Case Management Order No. 1. Thereafter, on November 8, 2010, the Court entered as an Order of the Court the parties' Confidentiality Stipulation and Order. Among other things, Case Management Order No. 1 required defendants to substantially complete their documents productions by April 15, 2011, and for all fact discovery to be completed by December 30, 2011. Ultimately, pursuant to subsequent Case Management Orders, the deadline for fact witness discovery was extended until June 2012.

31. Fact discovery in the Action commenced in November 2010 and was substantially completed in June 2012. On November 12, 2010, in pursuit of the production of certain documents subject to the initial production, Lead Plaintiff moved to compel the production of documents by AIG and PwC notwithstanding foreign secrecy laws, which motion was supported by a memorandum of law and attorney declaration. AIG filed an opposition on November 18, 2010, to which Lead Plaintiff responded in further support of the motion on November 22, 2010. The Court granted the motion by Order entered December 1, 2010.

32. In anticipation of the "first wave" and subsequent productions, Lead Counsel undertook an RFP process to select a qualified database provider. We received proposals from eight firms, and selected US Legal Support (https://www.uslegalsupport.com/) based on the services it could offer, a demonstration of its system, referrals from other law firms, and its pricing proposal. Lead Counsel thereafter established an electronic database, utilizing US Legal

as the vendor, to provide a platform for efficiently and productively reviewing, coding and analyzing the documents produced by AIG, other defendants and various third parties pursuant to subpoenas.[2] The Parties entered into an Electronic Discovery Stipulation and Order, which was entered as an Order of the Court on February 25, 2011.

33. The process of obtaining, reviewing and analyzing the millions of pages of documents produced by defendants and certain non-parties was an enormous task. Lead Counsel participated in numerous conferences with defense counsel – by letter and email, by telephone, and through in-person meetings – to establish search terms, custodians and time periods for which defendants would produce various types of documents. We established protocols for the productions of documents that AIG and PwC had earlier produced to the SEC, DOJ and FCIC; the productions of documents over and above those produced to the Government agencies pertaining to AIGFP and the CDS portfolio, documents relating to the securities lending program, documents relating to AIG's risk management and internal controls, AIG board and committee documents, PwC auditing and review materials, and Underwriter Defendant documents. We further issued subpoenas, as warranted, to outside entities that included other firms retained by AIG in consultant capacities as well as AIGFP counterparties.

34. In all, Lead Counsel reviewed over 36 million pages of documents in the course of the Action. Lead Counsel geared up for this expansive project by expanding their litigation teams and training additional lawyers at their own firms, and overseeing assistance provided by

[2] Lead Counsel reached agreements with counsel for the plaintiffs pursuing claims in the related ERISA action, as well as counsel for certain plaintiffs that had filed individual actions, to share the database of documents produced by defendants and other non-parties, as well as transcripts and exhibits from depositions taken by Lead Counsel in the course of the Action. By reaching such agreements, Lead Counsel was able to significantly reduce the Class' cost of hosting the documents on computer servers. In addition, this agreement not only furthered the efficiency of the overall process for litigants other than Plaintiffs and the putative Class in this Action, but also kept disputes that might have otherwise arisen from requiring action by the Court.

certain of the other firms involved in this case. All of the document review work was conducted by attorneys. The documents entailed extremely complex derivative financial transactions conducted by AIGFP and AIG Investments, and all of the review undertaken by our firms was high-level substantive analysis of these complex documents – not merely coding for relevance or privilege. Further, the documents produced included transcripts of extensive phone recordings made by AIGFP traders in its London office, as well as transcripts of interviews and testimony in connection with federal investigations. All of the review was done in conjunction with and under the careful oversight and supervision of senior lawyers at each of the Lead Counsel firms. For instance, we had supervising attorneys at the Lead Counsel firms reviewing coding forms and checking designations of documents as "hot," "relevant" and "irrelevant" on a regular basis. We conducted extensive training sessions on the issues involved in the Action, including sessions at which we had expert consultants explain particular topics and their importance and relevance to the case. We conducted daily and weekly sessions at which lawyers reviewing documents presented summaries of new types of documents they were seeing, circulating regular summaries of their analyses of important documents along with copies of documents that they and the supervising attorneys felt it was important for all of the reviewing lawyers to review.

35. We also developed books of potential deposition exhibits, by topic (CDS portfolio, CDS portfolio valuation, internal controls and risk management, securities lending program, and the like), by witness, and by types of documents (e.g., PwC work papers; AIG board and committee materials; underwriting documents; and the like).

36. In the course of the litigation, we further met and conferred with counsel for defendants to seek additional documents, and to discuss the basis for document redactions or the withholding of documents.

37. In short, the process of reviewing the millions of documents produced in the Action, analyzing them for use with particular witnesses, and developing our chronology and theories of the case, constituted an enormous undertaking, even for Lead Counsel firms, such as ours, that had vast experience in large securities class actions like the AIG case. The time expended in the case by Lead Counsel and the other firms ("Assisting Counsel") is more fully set forth in Part IV, below.

38. Lead Counsel prepared for and took 45 fact witness depositions (in addition to the class depositions, described below). Most of the depositions were completed within a day, while 6 of them extended to two days. Lead Counsel planned out and worked cooperatively with counsel for defendants to obtain and take the depositions in less than a year from the first deposition to the last. Lead Counsel worked to identify both "building block" and "key" witnesses in the case, so that the time for testimony taken during the depositions would not exceed the limitations set in the Case Management Orders, yet would efficiently provide the evidence Plaintiffs would need to take this case to trial.

39. As shown in greater detail in the chart below, Lead Counsel took depositions of: 36 witnesses associated with AIG, including witnesses from the AIG Investments ("AIG Inv."), AIG Financial Products ("AIGFP"), AIG Enterprise Risk Management ("AIG ERM") and AIG Investor Relations ("AIG Inv. Rel.") groups, other corporate officers, and certain directors; 2 witnesses associated with PwC; 5 witnesses associated with the Underwriter Defendants; and 2 other non-party witnesses. The following chart identifies the fact witness depositions taken by Lead Counsel from July 2011 through June 2012 and their corporate affiliations.

## In re AIG Securities Litigation Fact Witness Depositions

| | Deponent | Deposition Date | Witness ID |
|---|---|---|---|
| *1.* | *Mark Hutchings* | *July 27, 2011* | *AIG Inv.* |
| *2.* | *Jon Liebergall* | *August 3, 2011* | *AIGFP* |
| *3.* | *Teri Watson* | *August 9, 2011* | *AIG Inv. Rel.* |
| *4.* | *Craig Mitchell* | *August 24, 2011* | *AIG Inv.* |
| *5.* | *Barbara-Ann Livanou* | *September 16, 2011* | *AIG* |
| *6.* | *Richard Scott* | *September 19, 2011* | *AIG Inv.* |
| *7.* | *Robert Willumstad* | *September 21, 2011* | *AIG Director and CEO* |
| *8.* | *Adam Budnick* | *October 11, 2011* | *AIGFP* |
| *9.* | *Michael Rieger* | *October 13, 2011* | *AIG Inv.* |
| *10.* | *Thomas Athan* | *October 24, 2011* | *AIGFP* |
| *11.* | *Jake Sun* | *November 4, 2011* | *AIGFP* |
| *12.* | *Eduardo Diaz-Perez* | *November 16, 2011* | *AIGFP* |
| *13.* | *Eugene Park* | *November 30, 2011* | *AIGFP* |
| *14.* | *Thomas Fewings* | *December 1, 2011* | *AIGFP* |
| *15.* | *Michael Roemer* | *December 8, 2011* | *AIG* |
| *16.* | *George Coheleach* | *December 14, 2011* | *AIG Inv.* |
| 17. | *Greg Matthews* | *January 11, 2012* | *AIG Inv.* |
| 18. | *Henry Daubeney* | *January 11, 2012* | *PwC* |
| 19. | *Peter Adamczyk* | *January 19, 2012* | *AIG Inv.* |
| 20. | *Win Neuger* | *February 8, 2012* | *AIG Inv.* |
| 21. | *Joseph St. Denis* | *February 10, 2012* | *AIG* |
| 22. | *Morgan Stanley 30(b)(6) – Jared Abbey* | *February 16, 2012* | *Und. Def.* |
| 23. | *Robert Gender* | *February 24, 2012* | *AIG* |
| 24. | *Timothy Ryan (2 days)* | *February 28-29, 2012* | *PwC* |
| 25. | *Bank of America 30(b)(6) – Susan Maros* | *March 2, 2012* | *Und. Def.* |
| 26. | *Alan Frost* | *March 8, 2012* | *AIGFP* |
| 27. | *Morris Offit* | *March 9, 2012* | *AIG Director* |
| 28. | *Charlene Hamrah* | *March 13, 2012* | *AIG Inv. Rel.* |
| 29. | *Michael Sutton* | *March 15, 2012* | *AIG Director* |
| 30. | *Citigroup 30(b)(6) – Peter Bickford* | *March 23, 2012* | *Und. Def.* |
| 31. | *Kevin McGinn* | *March 26, 2012* | *AIG ERM* |
| 32. | *Pierre Micottis* | *March 28, 2012* | *AIGFP* |
| 33. | *Elias Habayeb* | *April 3, 2012* | *AIG* |
| 34. | *Brian Schreiber* | *April 4, 2012* | *AIG* |
| 35. | *Charlie Shamieh* | *April 9, 2012* | *AIG* |
| 36. | *Robert Lewis (2 days)* | *April 18-19, 2012* | *AIG ERM* |
| 37. | *Joseph Cassano (2 days)* | *April 23-24, 2012* | *AIGFP* |
| 38. | *Andrew Forster (2 days)* | *April 26-27, 2012* | *AIGFP* |

| | Deponent | Deposition Date | Witness ID |
|---|---|---|---|
| 39. | *Goldman Sachs 30(b)(6) – Andrea Vittorelli* | *April 27, 2012* | *Und. Def.* |
| 40. | *J.P. Morgan 30(b)(6) – Tim Stambaugh* | *May 1, 2012* | *Und. Def.* |
| 41. | *Goldman Sachs CDS 30(b)(6) – Thomas Harrop* | *May 24, 2012* | *Other* |
| 42. | *Steve Black (J.P. Morgan)* | *May 29, 2012* | *Other* |
| 43. | *William Dooley* | *May 30, 2012* | *AIG* |
| 44. | *Steven Bensinger (2 days)* | *May 31-June 1, 2012* | *AIG CFO* |
| 45. | *Martin Sullivan (2 days)* | *June 6-7, 2012* | *AIG CEO* |

40. Further, after completion of the deposition program, Lead Counsel prepared and served comprehensive responses to defendants' contention interrogatories, setting out in detail the statements upon which Plaintiffs were pursuing Securities Act claims, the statements upon which Plaintiffs were pursuing Exchange Act claims, a narrative of the evidence supporting Plaintiffs' claims, and a summary of the evidence supporting Plaintiffs' control person liability claims. This constituted a significant effort on the part of Lead Counsel and, had the case progressed to summary judgment and/or trial, it would have provided Lead Plaintiff and the other named Plaintiffs with a significant leg up in terms of responding to summary judgment motions that defendants may have filed and preparing the case for trial.

**E. Class Motion Proceedings**

41. On April 1, 2011, Lead Plaintiff moved for certification of a class of all persons or entities, other than defendants and their affiliates, who purchased AIG Securities traded on a U.S. public exchange during the Class Period, including all persons or entities who purchased AIG Securities in or traceable to a public offering by AIG during that period, and suffered damages as a result. On May 6, 2011, in light of the Supreme Court's grant of certiorari in *Erica P. John Fund, Inc. v. Halliburton*, No. 09-1403 (U.S. Jan. 7, 2011) (*Halliburton I*), at the parties'

suggestion, the Court terminated the motion without prejudice to renewal following the Supreme Court's decision in that case.

42. On July 6, 2011, Lead Plaintiff filed a renewed motion for class certification. Defendants conducted document and deposition discovery with respect to the class motion, and thereafter filed their opposition to the motion on August 17, 2011. On November 2, 2011, the Court terminated the motion without prejudice pending the completion of class certification-related discovery. The parties continued with discovery pertaining to the motion, which involved further expert reports and depositions.

43. On March 30, 2012, Lead Plaintiff again filed its motion for class certification, supported by a revised brief and a new set of exhibits. Defendants filed their opposition to the motion on May 24, 2012, and Lead Plaintiff filed its reply on June 22, 2012.

44. In connection with the motion for class certification, Lead Counsel, and when appropriate other Assisting Counsel, worked with the Plaintiffs to respond to defendants' document requests addressed to all Plaintiffs. These included the three institutional investor plaintiffs (SMRS, State of Maine Public Employees Retirement System, and Amalgamated Transit Union Local 85 (ATU 85)), and five individual investor named plaintiffs (Michael Epstein of Epstein Real Estate Advisory, Randy Decker, Michael Conte, Roger Wilson, and Lynette Yee). Lead Counsel contacted and worked with twenty-six (26) investment advisers and custodians of investment records of the three institutional investor plaintiffs, in response to document and/or deposition subpoenas issued to them by defendants. Lead Counsel further conducted numerous meet and confers with defendants' counsel concerning the document requests and subpoenas, and setting a schedule for the class-related depositions that defendants sought to take.

45. In connection with the motion for class certification, Lead Plaintiff and Defendants also retained a total of six experts, each of whom submitted a declaration. Certain of the experts also submitted reply declarations. Each of the experts was deposed, as were 11 other non-expert class-related witnesses. Lead Counsel conducted the depositions of the defendants' experts; we also prepared Lead Plaintiff's experts for their depositions and defended them at the depositions.

46. The following chart identifies the class-related fact witness and expert witness depositions taken by the parties from May 2011 through March 2012.

**In re AIG Securities Litigation Class-Related Depositions**

| | Deponent | Deposition Date | Witness ID |
|---|---|---|---|
| *1.* | *Michael Epstein* | *May 25, 2011* | *Plaintiff* |
| *2.* | *Randy Decker* | *June 15, 2011* | *Plaintiff* |
| *3.* | *Michael Conte* | *June 21, 2011* | *Plaintiff* |
| *4.* | *Paul Hayes* | *June 23, 2011* | *Pl. Rep.* |
| *5.* | *James Abate* | *June 23, 2011* | *Pl. Inv. Adv.* |
| *6.* | *Aline Avzaradel* | *July 7, 2011* | *Pl. Inv. Adv.* |
| *7.* | *Lawrence Bancroft* | *July 12, 2011* | *Pl. Inv. Adv.* |
| *8.* | *Kelly Ko* | *July 13, 2011* | *Pl. Inv. Adv.* |
| *9.* | *Kelly Moffat* | *July 19, 2011* | *Pl. Rep.* |
| *10.* | *Jack Behar* | *July 19, 2011* | *Pl. Rep.* |
| *11.* | *Kenneth Levy* | *August 1, 2011* | *Pl. Inv. Adv.* |
| *12.* | *Steven Feinstein* | *July 22, 2011* | *Pl. Expert* |
| *13.* | *Steven Feinstein* | *February 8, 2012* | *Pl. Expert* |
| *14.* | *Bradford Cornell* | *October 19, 2011* | *Def. Expert* |
| *15.* | *Mukesh Bajaj* | *November 3, 2011* | *Def. Expert* |
| *16.* | *Mukesh Bajaj* | *March 14, 2012* | *Def. Expert* |
| 17. | *Vinita Juneja* | *November 30, 2011* | *Def. Expert* |
| 18. | *Richard Roll* | *January 31, 2012* | *Pl. Expert* |
| 19. | *Owen Lamont* | *March 9, 2011* | *Def. Expert* |

47. On June 21, 2012, AIG filed a motion to preclude the declarations, testimony and opinions of Lead Plaintiff's expert, Dr. Steven P. Feinstein. Lead Plaintiff filed its opposition to the motion on June 29, 2012, and AIG filed its reply on July 20, 2012.

48. On February 27, 2013, while Lead Plaintiff's motion for class certification was pending, the U.S. Supreme Court issued its decision in *Amgen Inc. v. Connecticut Retirement Plans & Trust Funds*, 133 S. Ct. 1184 (2013). In *Amgen*, the Supreme Court considered two questions: (1) whether a plaintiff is required to prove the materiality element of a claim under Section 10(b) of the Exchange Act in order to demonstrate that common questions predominate over individual questions for the purposes of satisfying Fed. R. Civ. P. 23(b)(3); and (2) whether a defendant must be allowed to present evidence rebutting the element of materiality before a class can be certified. As to the first question, the Supreme Court held that "proof [of materiality] is not a prerequisite to class certification." As the Court explained, "Rule 23(b)(3) requires a showing that *questions* common to the class predominate, not that those questions will be answered, on the merits, in favor of the class… The alleged misrepresentations and omissions, whether material or immaterial, would be so equally for all members of the class." On the second question, the Court held that the district court properly refused to consider rebuttal evidence on materiality because "the potential immateriality of Amgen's alleged misrepresentations and omissions is no barrier to finding that common questions predominate."

49. Recognizing the importance of these rulings to various arguments that defendants had made in response to the class motion, Lead Counsel sent a letter to the Court on March 1, 2013, noting the holdings in the decision and noting that defendants' oppositions to the motion had been based, in large measure, on their assertion that certain of the misstatements and omissions alleged by Plaintiffs were immaterial and on their proffer of evidence that they contended supported that assertion. The parties thereafter submitted various letters to the Court with respect to the *Amgen* decision and its impact on the class motion and on AIG's motion to preclude the declarations, testimony and opinions of Lead Plaintiff's expert. Specifically, in

addition to Lead Counsel's initial letter of March 1, 2013, Lead Counsel sent a second letter to the Court on March 12, 2013, in response to letters submitted by AIG, PwC and the Underwriter Defendants on March 6, March 7, and March 8, 2013.

50. On March 15, 2013, the Court issued an Order stating that the Court would hear expert testimony and oral argument in connection with AIG's pending exclusion motion and Lead Plaintiff's contention that the market for AIG securities was efficient throughout the Class Period. The Order further set forth an array of issues upon which the parties were directed to focus their experts' testimony and their own presentations.

51. Pursuant to the March 15, 2013 Order, from April 29, 2013 through May 1, 2013, the Court held an evidentiary hearing in connection with Lead Plaintiff's motion for class certification and AIG's motion to preclude the declarations, testimony and opinions of Lead Plaintiff's expert. The parties met and conferred in advance of the hearing and reached an understanding of the expert witnesses that would and would not be presented for testimony to the Court. Lead Counsel further worked with Dr. Feinstein in preparation for the testimony that he would present at the hearing, and on cross-examinations of the defendants' two testifying experts.

52. At the hearing, Lead Plaintiff presented the testimony of Dr. Feinstein and AIG presented the testimony of Dr. Vinita Juneja and Dr. Mukesh Bajaj, with each side also questioning the other side's experts. On May 1, 2013, the Court also held oral argument on the motions. Representatives of Lead Plaintiff attended both days of testimony on April 29-30 as well as oral arguments on May 1.

### F. Other Motion Proceedings

#### 1. Defendants' Motion for Judgment on the Pleadings

53. After issuance of a decision by the Second Circuit Court of Appeals in the case, *Fait v. Regions Financial Corp.*, No. 10-23111-cv (2d Cir. Aug. 23, 2011), the defendants against which Lead Plaintiff had asserted claims pursuant to Section 11, 12(a)(2) and 15 of the Securities Act of 1933 filed a motion for judgment on the pleadings, arguing that with the change in the law under the *Fait* case, certain of Lead Plaintiff's claims were no longer viable.

54. Specifically, on October 12, 2011, PwC, the Underwriter Defendants, and the Director Defendants moved for judgment on the pleadings pursuant to Rule 12(c) of the Federal Rules of Civil Procedure, seeking dismissal of certain claims relating to alleged false and misleading statements in AIG's financial statements under the Second Circuit's decision in *Fait v. Regions Financial Corp.*, 655 F.3d 105 (2d Cir. 2011). Lead Counsel, on behalf of Lead Plaintiff, filed its opposition to the motion on December 2, 2011, supported by an affidavit of Lead Plaintiff's accounting expert. The moving Defendants filed their reply on December 16, 2011. Thereafter, with leave of the Court, Lead Counsel, on behalf of Lead Plaintiff, filed a sur-reply on December 30, 2011, supported by a supplemental affidavit of Lead Plaintiff's accounting expert. On September 10, 2012, AIG and the Executive Defendants filed a joinder to the motion.

55. On April 2, 2013, the Court held oral argument on the motion, which representatives of Lead Plaintiff attended. On April 26, 2013, the Court issued a Memorandum Opinion and Order ("April 26, 2013 Order") granting the motion. In its April 26, 2013 Order, the Court dismissed all claims against PwC. The Court also dismissed Lead Plaintiff's Securities Act claims against AIG, its outside directors, the Underwriter Defendants and certain of the

Individual Defendants to the extent those claims were based on statements of opinion. On May 14, 2013, the Court entered a Stipulation and Conforming Order that, among other things: specified the particular allegations subject to dismissal as a result of the Court's April 26, 2013 Order; provided that the Stipulation did not dismiss any claims under the Securities Exchange Act of 1934; reserved all arguments, claims or defenses as to the applicability of the April 26, 2013 Order to Lead Plaintiff's claims under the Securities Exchange Act of 1934; and preserved Lead Plaintiff's appeal rights with respect to the April 26, 2013 Order and the May 14, 2013 Stipulation and Conforming Order.

56. Thus, as of the date of the Settlement, the particular allegations that were the subject of the April 26, 2013 Order were dismissed, which included all claims against PwC, and Lead Plaintiff retained its appeal rights with respect to the April 26, 2013 Order and the May 14, 2013 Stipulation and Conforming Order.

**2. Lead Plaintiff's Motion to Compel Risk Management Consultant Records**

57. During the course of fact witness discovery, Lead Plaintiff brought a motion to compel discovery concerning findings, observations and recommendations of an outside consulting firm retained by AIG with respect to AIG's risk management systems.

58. Specifically, on April 17, 2012, Lead Plaintiff filed a motion to compel the production of documents relating to work that Deloitte Consulting ("Deloitte") did in assessing and making recommendations for AIG's risk management structures and practices. Facts surrounding Deloitte's work were uncovered in documents and during deposition testimony of certain AIG risk management personnel. On May 21, 2012, the Magistrate Judge granted Lead Plaintiff's motion, finding that AIG could not claim any attorney work product protection with regard to Deloitte's report or other documents summarizing or reflecting its findings,

observations and recommendations. Under the Magistrate Judge's ruling, AIG, PwC and Deloitte would have been required to produce documents they previously withheld, and Lead Plaintiff would have had the right to continue certain depositions of AIG witnesses.

59. However, AIG filed Objections to the Magistrate Judge's Order on June 4, 2012, thereby staying the Magistrate Judge's Order. Lead Plaintiff responded to the Objections on June 11, 2012.

### 3. Defendants' Motion to Compel Identification of Confidential Witnesses

60. During the course of the Action, AIG brought a motion to compel Lead Plaintiff to identify the "Confidential Witnesses" ("CWs") referenced in the Complaint. Specifically, on June 9, 2011, AIG requested a conference with the Magistrate Judge regarding Lead Plaintiff's objection to providing the identity of the CWs referenced in the Complaint, to which Lead Plaintiff responded by letter of June 16, 2011. After the submission of certain additional materials by the parties, by Order of March 6, 2012, the Magistrate Judge ordered Lead Plaintiff to identify the CWs no later than March 13, 2012, which Lead Counsel thereafter provided to counsel for AIG by the Court's deadline.

61. In further connection with the CWs referred to in the Complaint, Lead Plaintiff had earlier provided AIG's counsel with the identity of one of the CWs that Lead Plaintiff had noticed for deposition. That deposition, of Eugene Park, was taken on November 30, 2011. Among the submissions subsequently presented by the parties on the CW issue to the Court, Lead Counsel included portions of his testimony in a detailed letter dated December 16, 2011, which was filed under seal.

62. Depositions were not taken of any of the other CWs.

## II. THE PARTIES' MEDIATION EFFORTS

63. In April 2012, Lead Plaintiff and AIG agreed to a mediation of the Action before the Honorable Layn R. Phillips, a former federal district court judge in the United States District Court for the Western District of Oklahoma. In advance of the mediation, Lead Plaintiff and AIG made several detailed submissions to Judge Phillips. In addition, on July 13, 2012, each side made an extensive in-person *ex parte* presentation to Judge Phillips, outlining their respective views of the relative merits of the claims and defenses and setting forth their respective positions as to settlement. Representatives of Lead Plaintiff along with Lead Counsel attended this session. Then, on July 25 and 26, 2012, Judge Phillips conducted a mediation session in New York City attended by representatives of Lead Plaintiff, AIG and their respective counsel. This mediation did not result in an agreement to resolve the Action. As a result, the parties proceeded with testimony and oral arguments from April 29-May 1, 2013, described above.

64. Subsequent to the three days of testimony and oral arguments from April 29-May 1, 2013, another mediation before Judge Phillips was held on September 3-4, 2013, also attended by representatives of Lead Plaintiff. In advance of this mediation, Lead Plaintiff and AIG made further written submissions to Judge Phillips, which included as exhibits, among other things, all of the documents from the evidentiary hearing and oral argument on Lead Plaintiff's class motion, the Court's ruling on defendants' motion for judgment on the pleadings, and Lead Plaintiff's responses to defendants' contention interrogatories. Lead Counsel and counsel for AIG participated in a follow-on session to the September 3-4, 2013 mediation session on November 12, 2013. These mediation sessions did not result in an agreement to resolve the Action.

65. On November 15, 2013, the Supreme Court granted certiorari in *Halliburton Co. v. Erica P. John Fund, Inc.* ("*Halliburton II*"), in which the Supreme Court agreed to consider the viability of the fraud-on-the-market presumption of reliance necessary to certify a class of putative securities fraud plaintiffs under Section 10(b) of the Securities Exchange Act of 1934 and alternatively what is needed to invoke and rebut the presumption. On December 19, 2013, after letter submissions from the parties, the Court ordered Lead Plaintiff to show cause why the Action should not be stayed pending the issuance of a decision in *Halliburton II*. On January 6, 2014, Lead Plaintiff submitted its response to the December 19, 2013 order. AIG filed its reply to Lead Plaintiff's response on January 10, 2014, and Lead Plaintiff filed a further response on January 14, 2014. On January 30, 2014, the Court stayed the Action pending a decision in *Halliburton II*.

66. Given the centrality of the *Halliburton II* appeal to the Action, Lead Counsel Barrack, Rodos & Bacine participated in the appeal by working with a Duke University School of Law professor and, on February 5, 2014, filing with the Supreme Court an *amicus curiae* brief on behalf of fourteen renowned financial economists, including Nobel Laureate Eugene Fama. The brief explained that while financial economists may disagree about whether markets perfectly process information and how quickly they do so, there is generally no disagreement about whether market prices respond to material information for securities that trade in well-developed markets. The brief further explained that under the Efficient Capital Market Hypothesis, financial economists generally believe that stock prices respond to material information in a predicable direction and that the primary debate among economists is whether stock prices reflect fundamental value – the actual value of the company – not whether stock prices will move in response to material information. Accordingly, the brief sought to

demonstrate that the premise upon which the fraud-on-the-market theory rests is widely accepted by financial economists, and took the position that the Supreme Court should not overrule or significantly modify the fraud-on-the-market presumption enunciated in *Basic*.

67. On June 23, 2014, the Supreme Court decided *Halliburton II*, sustaining the fraud-on-the-market presumption, affirming what a plaintiff must demonstrate to invoke the presumption, and providing that defendants may rebut the presumption at the class certification stage with evidence that the alleged misstatements had no impact on the price of the security at issue. Notably, the brief filed by Barrack, Rodos & Bacine on behalf of the financial economists was cited by the Supreme Court in support of its decision. On July 14, 2014, the parties submitted letters to the Court regarding the impact of *Halliburton II* on the Action.

68. Following the Supreme Court's decision, the parties reached out to retired Judge Phillips to explore the potential of renewed settlement discussions. After a series of presentations and discussions, on July 15, 2014, counsel for AIG and Lead Counsel, on behalf of their respective clients, accepted a mediator's proposal from Judge Phillips to settle and release all claims asserted in the Action against the Settling Defendants other than PwC in return for a cash payment of $960 million for the benefit of the Class, subject to the execution of a formal Stipulation of Settlement and related papers.

69. Following this settlement, Lead Plaintiff and PwC agreed to a mediation of the claims that Lead Plaintiff had asserted against PwC on behalf of the Class, but which had been dismissed by the April 26, 2013 Order. Judge Phillips conducted a mediation session in New York City on July 30, 2014, at which no agreement was reached. However, on August 1, 2014, counsel for PwC and Lead Counsel, on behalf of their respective clients, accepted a mediator's proposal from Judge Phillips to settle and release all claims asserted in the Action against PwC in

return for a cash payment of $10.5 million for the benefit of the Class, again subject to the execution of a formal Stipulation of Settlement and related papers.

70. The parties thereafter engaged in briefing and argument on August 26, 2014, before Judge Phillips, with respect to the Confidential Supplemental Agreement that Lead Plaintiff, AIG and PwC entered into as part of the Settlement.

71. Ultimately, on September 12, 2014, the parties to the Settlement entered into and filed with the Court the Stipulation and Agreement of Settlement (the "Stipulation"), with exhibits reflecting the parties' proposed Notice, Summary Notice, Proof of Claim form, Preliminary Approval Order, and form of Judgment and Final Order, and Lead Plaintiff filed a motion for preliminary approval of the settlement for purposes of providing Notice to the proposed Settlement Class.

72. Lead Plaintiff thereafter responded to an objection filed by certain putative class members to the motion for preliminary approval of the Settlement. The objection pertained to the parties' proposed opt out deadline, which the objectors sought to extend in light of the pendency of an appeal that was then pending before the Supreme Court from the Second Circuit's decision in *Police & Fire Ret. Sys. v. IndyMac MBS, Inc*. Lead Plaintiff submitted its response to the Objection on September 26, 2014, and thereafter notified the Court on September 29, 2014, of the Supreme Court's dismissal of the appeal. As a result of the Supreme Court's dismissal of the *IndyMac* appeal, the objectors withdrew their objection on September 29, 2014.

73. Lead Counsel, with the consent of counsel for AIG and PwC, provided the Court with a modified Notice, taking into account the dismissal of the appeal in *IndyMac*, after which the Court entered the Order Preliminarily Approving Proposed Settlement and Providing for Notice on October 7, 2014.

## PART II – THE SETTLEMENT

74. The process of achieving the Settlement was a long and arduous one. As chronicled above, the settlement was reached only after more than six years of intense litigation, two and a half years of extensive discovery, and two years of negotiations under the auspices of one of the premier mediators in securities class actions. As a result, at the time the settlement was reached, Lead Plaintiff and Lead Counsel had a full understanding of the strengths, weaknesses and risks in the litigation.

75. The $970.5 million recovery, if approved, would represent one of the largest securities class action recoveries ever achieved in an action stemming from the financial crisis of 2008.

76. The settlement includes payments from AIG, in the amount of $960 million, and from PwC, in the amount of $10.5 million. The payment from AIG appears to be the largest ever achieved in a securities class action lawsuit in the absence of a criminal indictment, an SEC enforcement action, or a restatement of the company's financial statements. The payment from PwC is notable, among other reasons, because all of the claims asserted by Plaintiffs against PwC had been dismissed in the Court's ruling on the motion filed by PwC and certain of the other defendants in the wake of the Second Circuit's decision in *Fait v. Regions Financial Corp.*, No. 10-23111-cv (2d Cir. Aug. 23, 2011), which was issued during the course of the litigation.

### I. THE SETTLEMENT IS FAIR, REASONABLE AND ADEQUATE, AND SHOULD BE APPROVED

77. Subject to Court approval, Lead Plaintiff, on behalf of the proposed Class, has agreed to settle all claims in the Action in exchange for a cash payment of $970.5 million (the "Settlement Amount"), of which $960 million would be paid by AIG and $10.5 million would be paid by PwC. The claims that will be resolved by the Settlement include all claims that were or

could have been asserted in the Action related to all Persons (a) who purchased AIG Securities on a U.S. public exchange during the Class Period or (b) who purchased or acquired AIG Securities in or traceable to a public offering, and who were damaged thereby. Pursuant to the terms of the Stipulation and the Court's Order of October 7, 2014, the Settlement Amount has been paid by AIG and PwC, and deposited into an interest-bearing escrow account (the "Settlement Fund").

78. The Settlement provides an immediate, certain recovery for the claims asserted in this Action. If approved by the Court, it will end all the claims of the Plaintiffs and all Settlement Class members against the Defendants in the Action and avoid the uncertainties and costs of further litigation and any future trial. Assuming the Settlement is approved, affected investors will be eligible to receive compensation once the claims made against the Net Settlement Fund are validated, calculated and presented to the Court for payment, rather than after the time it would take to resolve future motions for class certification and summary judgment, conduct additional expert discovery, have a trial and exhaust all appeals.

79. As summarized above, Lead Plaintiff, through Lead Counsel, conducted an extensive investigation of the claims and underlying events and transactions relating to the Action, including analyzing more than 36 million pages of documents produced by the Parties, and conducting depositions of 45 fact witnesses. In addition, Lead Counsel had retained merits experts, and was prepared to go forward with expert discovery in the Action, which would have required close to another year of litigation, with multiple experts being presented by Lead Plaintiff and Defendants on such fields of expertise as the U.S. residential mortgage market, valuation of credit default swaps, accounting matters, corporate risk management and internal controls, due diligence, and loss causation and damages. Absent a settlement of the Action,

completion of expert discovery would have then been followed by summary judgment and other *in limine* motions, by pre-trial proceedings, by a trial (assuming Plaintiffs' claims survived the anticipated summary judgment motions), and the likelihood of appeals.

80. As further summarized above, Lead Plaintiff and Lead Counsel also participated in protracted and hard-fought arm's-length negotiations and mediations with AIG, PwC and their counsel, before an experienced mediator prior to entering into the Settlement. In Judge Phillips' opinion, "the proposed Settlement is the result of vigorous arm's-length negotiation by all involved Parties. I believe, based on my extensive discussions with the Parties and the information made available to me both before and during the mediation, that the Settlement was negotiated in good faith and that the Settlement is fair and reasonable."

81. The Defendants affirmatively deny, and have consistently denied, all allegations of liability contained in the Complaint and deny that they are liable to the Class, or that the entire Class Period should be certified. Throughout the proceedings before this Court on Defendants' motions to dismiss and motion for judgment on the pleadings, and Lead Plaintiff's motion for class certification, as well as through depositions and the mediation process, the Parties aired their significant differences concerning the strengths and weaknesses of each side's claims and defenses, as well as the potential damages that might be presented by each side to a jury.

82. Another factor favoring approval of the Settlement is that it was reached notwithstanding the fact that a number of investor funds (a) had earlier brought and settled their claims against AIG and other Defendants, (b) had filed and still have pending their own, individual lawsuits, and/or (c) entered into tolling agreements with AIG. The Settlement was negotiated with the recognition that all of these entities would likely exclude themselves from the Settlement Class. Specifically, given the holdings of Starr International and its affiliates, which

are not members of the Settlement Class based on the earlier settlement of their claims against AIG, and the holdings of the known, expected opt outs, the Settlement Class is expected to consist of only approximately 80% of AIG's shareholders as of the end of the Class Period. This leaves the entire Net Settlement Fund to be distributed to far fewer than the totality of impacted AIG shareholders.[3]

## II. THE RISKS FACING PLAINTIFFS IN THE ACTION

83. During the course of the litigation, defendants raised a number of defenses that Lead Plaintiff would have had to overcome to obtain a recovery in the Action. These defenses, if successful, could well have undercut Lead Plaintiff's ability to defeat motions for summary judgment and take the case to trial. Thus, as has happened in other securities class actions, including cases that were litigated through jury trials and appeals, or that were dismissed on the basis of summary judgment motions, it was possible that the Settlement Class could have recovered nothing from this Action. Moreover, the Court may not have granted the class certification motion in full, thereby impacting some of the Settlement Class Members from obtaining a meaningful recovery, or preventing them from obtaining any recovery at all. And even if some or all of Lead Plaintiff's claims survived, a jury verdict may well have been in an amount less than the $970.5 million recovery achieved through the Settlement. While

[3] The Notice of Class Action, Proposed Settlement, Motion for Attorneys' Fees and Expenses, and Settlement Hearing (the "Notice") and Proof of Claim and Release Form (the "Claim Form") (collectively, the "Notice Packet"), were provided to potential Settlement Class Members in accordance with the Order Preliminarily Approving Proposed Settlement and Providing for Notice, entered October 7, 2014. *See* Affidavit of Michael Joaquin Regarding Mailing of the Notice and Proof of Claim, Publication of the Summary Notice, and Responses to Notice, attached hereto as Exhibit 1. As of December 16, 2014, more than 1.6 million Notice Packets were mailed to potential Settlement Class Members who could be identified as of that date. *Id.* ¶8. While the deadline for submission of Claim Forms is not until May 5, 2015, as of December 16, 2014, the Claims Administrator had received 12,923 Claim Forms from putative Settlement Class Members. *Id.* ¶13. The deadline for filing objections is January 5, 2015. As of the date of the present filing, no objections to the settlement or plan of allocation have been submitted.

defendants raised certain of these defenses in response to Lead Plaintiff's motion for class certification, even after the Supreme Court's ruling in *Amgen*, the defenses going to the materiality of the alleged misstatements and omissions in the case remained as defenses to the merits of Lead Plaintiff's claims.

84. For instance, defendants attacked on various grounds the claims that Lead Plaintiff asserted on behalf of purchasers of AIG securities during the early part of the Class Period (from March 2006 through July 2007) and during the later part of the Class Period (from March 2008 through September 16, 2008). In terms of the class motion, defendants argued that a purchaser of AIG common stock in March 2006 had "a very different claim" than a purchaser of common stock in March 2008, "*after* the credit crisis had begun in the summer of 2007, *after* AIG had disclosed billions of dollars of valuation losses related to its subprime-exposed investments, and *after* AIG had warned in great detail of the precise risks that Lead Plaintiff says were hidden." AIG Memorandum in Law in Opposition to Lead Plaintiff's Motion for Class Certification, ECF 354, at 2 (filed May 24, 2012) (emphasis in original). Thus, defendants argued that the Class Period was too long, and that claims of purchasers during the early part of the Class Period did not share any common facts or circumstances with claims of purchasers during the later part of the Class Period.

85. With respect to the claims of purchasers during the early part of the Class Period, defendants also argued that the lack of a statistically significant price movement in response to the disclosures made by the Company in August 2007, when AIG first presented to the market the details of its CDS portfolio and securities lending portfolio, undercuts Lead Plaintiff's claim that the alleged misrepresentations and omissions from March 2006 through July 2007 were material. *Id.* at 17 ("AIG's expert … has demonstrated that AIG's August 2007 disclosures did

not result in a statistically significant decline in AIG's stock price – indicating that the information was not material to investors.") (emphasis in original). While Lead Plaintiff had and presented credible responses to this argument, this issue still posed a potential risk both for the class motion and with respect to the merits of this portion of the case.

86. Defendants also argued that Plaintiffs could not assert viable claims on behalf of purchasers of stock or other AIG securities during the later part of the Class Period. In this regard, defendants pointed to the fact that in the Form 10-K issued after the close of the market on February 28, 2008, AIG disclosed, among other things: (1) a $11.472 billion valuation loss in the CDS portfolio, and warned there could be no assurance that AIG would not recognize unrealized market valuation losses from this portfolio in future periods; (2) that the Company had posted $5.3 billion of collateral to CDS counterparties and warned that declines in the value of the underlying bonds covered by the CDS or a decline in AIG's credit rating could lead to additional collateral calls that could, in turn, lead to liquidity problems for AIG; (3) that the Company had a material weakness in the modeling of its CDS portfolio; (4) the Company's exposure to sub-prime mortgages in its securities lending portfolio, that it realized a $5 billion valuation loss on the RMBS in the portfolio, and that there was a growing "mismatch" of more than $6 billion between the current fair value of the reinvested cash collateral from this program ($75.7 billion) and the obligations owed to borrowers in the program upon the return of the securities on loan ($82 billion); and (5) a significant risk to AIG's overall liquidity position relating to the securities lending program if AIG required a significant amount of cash on short notice to post or return collateral to its borrowers. *Id.* at 19-20. PwC argued in its opposition to the class motion that "the alleged misrepresentations or omissions in the prior years' audited financial statements were cured in AIG's 2007 Form 10-K issued on February 28, 2008. In

February 2008, AIG disclosed the full extent of its subprime exposure and, in a clear warning to investors, PwC, AIG's independent auditor, issued a 'material weakness' opinion on AIG's internal control over the valuation of its [CDS] portfolio." *See* PricewaterhouseCoopers LLP's Memorandum of Law in Opposition to Lead Plaintiff's Motion for Class Certification, ECF 350, at 2-3 (filed May 24, 2012). Again, while Lead Plaintiff had and presented credible responses to these arguments, including facts that Lead Plaintiff asserted continued to be misrepresented in and omitted from the late February 2008 disclosures, this issue too posed a potential risk both for the class motion and with respect to the merits of this part of the case.

87. Even with respect to claims asserted on behalf of purchasers of AIG common stock from August 2007 through February 2008, defendants asserted various defenses that, if accepted by the Court or a jury, could also have significantly undercut these claims. Defendants pointed to the extensive presentations that AIG made to investors and filed with the SEC in August, November and December 2007, which included significant information and details about the Company's CDS portfolio and how AIG was seeking to value the portfolio and the unrealized losses in that portfolio, and about the configuration and types of investments that AIG had made with the cash collateral provided to it by counterparties in the securities lending program. Defendants further pointed to the significant market turbulence during this time period, and the differing opinions within the industry, and among outside auditors, as to how companies in AIG's position should be valuing their RMBS portfolios, especially in AIG's case where much of the exposure was through a CDS portfolio. Thus, defendants argued not only that AIG's valuations and loss reserves were "judgments" that were not susceptible to claims by the Plaintiffs and Class, but also that AIG was operating in a rapidly evolving (and deteriorating) market where there were no standard or generally accepted methodologies to value the CDS

portfolio, and further that AIG's dealings with its counterparties on the CDS portfolio led AIG to conclude that the counterparties themselves were arriving at widely varying valuations of the CDS portfolio, some of which were very similar to AIG's own valuations.

88. Hence, even with respect to the claims asserted on behalf of purchasers during the part of the Class Period from August 2007 through February 2008, AIG and the other defendants raised significant issues with Plaintiffs' claims. While Lead Plaintiff and Lead Counsel had developed responses and counter-arguments to the defenses, these issues too, if accepted by the Court or a jury, would have posed problems even for this part of the case for Plaintiffs and the putative Class.

89. With respect to the claims made on behalf of purchasers of AIG bonds and other securities, defendants argued, among other things, that none of the alleged misrepresentations and omissions asserted in connection with Plaintiffs' claims for offerings from March 2006 to February 2008 was material. Defendants noted that even after the disclosures made in AIG's Form 8-K on February 11, 2008, and in its 2007 Form 10-K filed February 28, 2008, there were no statistically significant declines in the market prices of any of the AIG bonds, debentures or notes that had been issued during the Class Period up to that point. As PwC argued, the disclosures during February 2008 generally had no statistically significant effect on the price of AIG's non-stock securities and, in fact, as of March 3, 2008, "most of the AIG bonds for which Plaintiffs' expert was able to obtain trading data were trading *above* their offering price." PwC Memorandum of Law, ECF 350, at 3 (emphasis in original).

90. Defendants also attacked Plaintiffs' claims pertaining to the Company's issuances of stock and corporate units in May 2008. They argued that not only had there been significant disclosures made by AIG in February 2008 that explicitly placed the market on notice of the

losses and exposures that AIG faced on its CDS and securities lending portfolios, but that in the Company's first quarter results issued in May 2008 – prior to the offerings – AIG had included updated information on the increased collateral call payments and unrealized losses in the portfolios, and had also included a third-party evaluation that pegged the loss in AIG's CDS portfolio at between $9 and $11 billion. They further noted that even with all of these disclosures, the Company was able to raise approximately $20 billion in public and private financing in May 2008, thereby showing the market's confidence in the Company.

91. Defendants further raised challenges to the breadth and scope of the Class that Lead Plaintiff sought to have certified, arguing that the AIG non-stock securities had virtually no price impact until the end of the Class Period, and that 60 of the 68 non-stock securities had so little pricing data that Lead Plaintiff's expert could not even run event studies for those securities. AIG Mem., ECF 354, at 29-30. The Underwriter Defendants argued that the breadth of the proposed Class was "unprecedented," and that it was unmanageable since, among other reasons, the Underwriter Defendants for each of the offerings would be presenting individualized "due diligence" defenses that were inherently fact-intensive and would involve distinct proof as to each offering. *See* Memorandum of Law in Support of the Underwriter Defendants' Opposition to Lead Plaintiff's Motion for Class Certification, ECF 352, at 1-2 (filed May 24, 2012). As these defendants argued: "In light of the varying fact-specific inquiries that will be necessary as to different offerings, plaintiffs cannot meet their burden of showing that common issues will predominate." *Id.* at 5.

92. While Lead Plaintiff had credible responses to these arguments, these and other arguments posed a clear risk to the claims made on behalf of purchasers of the securities that AIG issued during the Class Period.

93. Finally, defendants raised a series of issues concerning the damages that Lead Plaintiff might have asserted at trial. In this regard, defendants argued that the declines in the prices of AIG stock through the last three months of the Class Period mirrored declines in the stock prices of other companies in the financial sector, and that the declines merely reflected the realization of risks that were already known in the market stemming from AIG's previously disclosed exposure to the U.S. residential real estate market, including its known exposure to the subprime market. Defendants sought, on this basis and through a series of tests formulated by one of AIG's experts, to defeat Lead Plaintiff's motion for class certification with respect to the last three months of the Class Period.

94. Further, in this regard, defendants argued that even if the Court had allowed purchasers of AIG stock from June 16, 2008 through September 16, 2008 to remain in the Class, there should have been no damages attributed to the decline in the price of AIG's common stock during that time period. It was defendants' position that all material information about the Company had been disclosed no later than February 28, 2008, and that neither Plaintiffs nor any members of the Settlement Class have any damages (a) based on purchases of AIG common stock or any other AIG securities after February 28, 2008, or (b) arising out of the declines in the prices of AIG common stock and other securities – which would have formed the bulk of Plaintiffs' claimed damages in this case – from February 29, 2008 through the end of the Class Period.

95. Defendants further argued, in connection with Plaintiffs' claims brought on behalf of purchasers of AIG common stock, that the declines in the prices of AIG stock on the alleged curative disclosure dates were not attributable to any alleged misrepresentations or omissions, but rather, reflected non-fraud related information or declines based on overall market or

industry factors. As noted above, defendants pointed to the lack of statistically significant price movement when AIG first disclosed in August 2007 the details about its exposure to the RMBS market and the details about its CDS and securities lending portfolios, which defendants argued rebutted any loss causation or damages claimed for purchasers during the early part of the Class Period and any loss causation or damages arising from later disclosures made by the Company on these topics.

96. Defendants also raised significant damages and loss causation defenses with respect to Plaintiffs' offering claims. As noted above, defendants relied heavily on the lack of statistically significant price movements in the prices of AIG's non-stock securities after the Company issued its Form 8-K on February 11, 2008 and its Form 10-K on February 28, 2008, in arguing that Plaintiffs would be unable to show any damages arising from claimed misrepresentations or omissions in the offering documents of the bonds, debentures and notes issued from the start of the Class Period through February 2008. Defendants further pointed to the fact that almost all of the decline in the prices of AIG's non-stock securities came at the very end of the Class Period, and that those declines did not result from any alleged misrepresentations and omissions in earlier offering documents but, rather, arose from the market's growing realization that AIG's capital structure had become weakened along with the turmoil affecting all financial companies in the market. Lead Plaintiff expected that expert testimony to establish loss causation in light of the deterioration of the financial markets in the summer of 2008 would be a complex undertaking, and that defendants' arguments in response to Lead Plaintiff's anticipated expert testimony on loss causation could pose a significant risk to the Class. Indeed, on July 8, 2014, this Court issued a summary judgment opinion in *In re Pfizer, Inc. Securities Litigation*, 04-cv-09866-LTS-HBP, 5-md-1688-LTS, 2014 WL 3291230

(S.D.N.Y. July 8, 2014), in which the Court entered judgment in favor of defendants and against the plaintiff on loss causation grounds.

97. On the non-stock side of the case, defendants also pointed to the facts that even with the declines in the prices of AIG bonds, notes and debentures at the end of the Class Period, AIG did not fail to make any required payments on its bonds, notes and debentures throughout the Class Period, and many of the bonds, notes and debentures would later be redeemed at par and returned to par pricing on the markets on which they traded. Thus, for Settlement Class members that continued to hold their bonds, notes or debentures through those times, they did not lose any dividend or interest payments, and they eventually received the full value of their investments – thereby cutting off any Securities Act damages that they may have been able to claim from their investments. This defense was also considered by Lead Plaintiff and Lead Counsel, as more fully explained below, in Lead Plaintiff's proposed plan of allocation.

98. In sum, each part of Lead Plaintiff's case faced significant defenses that were raised in opposition to the motion for class certification, which remained pending at the time Lead Plaintiff reached settlements with AIG and with PwC, and significant defenses that these and the other defendants would have raised on the merits of the claims, had the case not settled. The defenses to the class motion were presented in the defendants' briefs and other submissions to the class motion, as well as through the testimony of AIG's experts, cross-examination of Lead Plaintiff's expert, and at the evidentiary hearing and oral argument before the Court on April 29, April 30 and May 1, 2013. The defenses to the merits of Lead Plaintiff's claims were presented in part through the class motion proceedings, in part in the memoranda that defendants had filed in support of their motions to dismiss the complaint, and also through testimony of fact witnesses at their depositions, through the confidential mediation statements and presentations

provided by AIG and PwC during the mediation process, and in briefing and argument on the various motions brought by the parties, some of which were decided while others were still pending at the time of the Settlement.

## PART III – THE PLAN OF ALLOCATION

### I. BACKGROUND OF THE PLAN OF ALLOCATION

99. The Stipulation provides for an allocation of the Net Settlement Fund for which Lead Plaintiff is also seeking Court approval. As stated in the Notice, the objective of the Plan of Allocation is to equitably distribute the Net Settlement Fund to those class members who suffered economic losses as a result of the alleged misrepresentations and omissions of the Defendants, as opposed to losses caused by market or industry factors or other company-specific factors. *See generally* Notice, at 11-16.

100. Toward this end, in developing the Plan of Allocation with respect to AIG common stock purchasers, Lead Plaintiff's damages expert calculated the maximum potential amount of estimated alleged artificial inflation in the per share closing prices of AIG common stock that purportedly was proximately caused by Defendants' alleged misrepresentations and material omissions. In performing this calculation, Lead Plaintiff's damages expert considered price changes in AIG common stock in reaction to certain public announcements regarding AIG in which such misrepresentations and material omissions were alleged to have been revealed to the market ("corrective disclosures"), adjusting for price changes that were attributable to market or industry forces. The corrective disclosure dates were November 8, 2007 (third quarter 2007 results and conference call); February 11, 2008 (Form 8-K filing); February 29, 2008 (2007 Form 10-K filing and conference call); May 9, 2008 (first quarter 2008 results and conference call); August 7, 2008 (second quarter 2008 results and conference call); and September 15, 16

and 17 (new information about AIG's credit rating downgrade, increased estimates of CDS portfolio collateral calls and investment portfolio losses, and eventual Government bailout). Because each of these corrective disclosures reduced the artificial inflation in stages over the course of the Class Period, the damages suffered by any particular claimant depends on when that claimant purchased and sold shares, or alternatively retained shares beyond the end of the Class Period.

101. With respect to the AIG securities at issue in the case other than AIG common stock, Lead Plaintiff's damages expert calculated the maximum potential *prima facie* damages under applicable provisions of the Securities Act. For these securities, based on the recommendation of Lead Plaintiff's expert, we determined that the Recognized Loss should be calculated as set forth in the Plan of Allocation in the Notice for each purchase or other acquisition of an Eligible Security during the Class Period. The calculation of Recognized Loss will depend upon several factors, including (i) which security was purchased or otherwise acquired, and in what amounts; (ii) when the security was purchased or otherwise acquired; (iii) whether the security was sold, and if so, when it was sold, and for what amounts; and (iv) whether the security was redeemed, called or held to maturity.

102. The Recognized Loss formulas within the Plan of Allocation with respect to AIG common stock and other AIG securities are not meant to be indicative of damages that Lead Plaintiff may have sought to present to a jury, had the case gone to trial, and do not take into account certain defenses that were and might have been raised by defendants had the case progressed to summary judgment motions and/or trial. However, since the Plan of Allocation puts each claimant on an equal footing, in terms of how their claims will be calculated, Lead Plaintiff and Lead Counsel respectfully submit that it provides a fair and reasonable method for

allocating the Net Settlement Fund to Settlement Class Members who file timely and valid claims that are accepted for payment by the Court ("Authorized Claimant").

103. As stated in the Notice, the Net Settlement Fund will not be distributed to Authorized Claimants until the Court has approved the Settlement and a plan of allocation, and the time for any petition for rehearing, appeal or review, whether by *certiorari* or otherwise, of the order(s) approving the Settlement and the plan of allocation has expired. As further explained in the Notice, the Plan of Allocation set forth in the Notice is the Plan that is being proposed by Lead Plaintiff and Lead Counsel to the Court for approval; provided, however, that the Court may approve this Plan as proposed or it may modify the Plan of Allocation without further notice to the Class.

## II. THE PLAN OF ALLOCATION IS FAIR AND REASONABLE, AND SHOULD BE APPROVED

104. In proposing the Plan of Allocation, Lead Plaintiff and Lead Counsel sought to take into account the relative estimated maximum potential damages of each group of purchasers of different AIG securities, the strengths and weaknesses of claims asserted on their behalf, certain defenses raised by defendants during class certification proceedings and in the mediation sessions, and the fact that the only claims asserted against PwC in the Action were on behalf of purchasers during the Class Period of certain of the Eligible Securities other than AIG common stock. On this basis, Lead Plaintiff and Lead Counsel are proposing that the Net Settlement Fund should be allocated to Authorized Claimants as follows: (a) purchasers of AIG common stock shall be allocated eighty percent (80%) of the Net AIG Settlement Amount; and (b) purchasers of Eligible Securities other than common stock shall be allocated twenty percent (20%) of the Net AIG Settlement Amount and one hundred percent (100%) of the Net PwC Settlement Amount.

105. We believe this is a fair and reasonable allocation of the Net Settlement Funds. This allocation roughly tracks the maximum potential damages that Lead Plaintiff's expert estimated by attributing the full stock price drops on the curative disclosure dates to fraud-related alleged misrepresentations and omissions compared to the maximum potential damages that Lead Plaintiff's expert estimated for the AIG securities that are the subject of offering claims. However, it also takes into consideration that: (a) many of the non-stock securities returned to full value after the close of the Class Period (as shown in Exhibit A to the Notice), which would diminish or wipe out entirely the Securities Act claims of class members who held their non-stock securities until they were redeemed and/or returned to full value under the damages formula in Section 11 of the Securities Act; (b) defendants had strong damages and loss causation defenses to the Securities Act claims for the bonds, debentures and notes issued from March 2006 through February 2008, yet whose market prices did not fall below par after the February 2008 disclosures made in the February 11, 2008 Form 8-K and the February 28, 2008 Form 10-K, but maintained their par or near par market valuations until very late in the Class Period; and (c) the claims made on behalf of purchasers of the corporate units issued in May 2008 were subject to the merits defense that, by that time, AIG had made very significant disclosures concerning its exposure to the U.S. residential housing market and the risks involved in that exposure, including detailed presentations that included the billions in collateral calls that AIG had already made on its CDS portfolio, the unrealized loss in the securities lending portfolio, and a third-party's estimated $9 to $11 billion loss valuation for the CDS portfolio that was included in the first quarter 2008 disclosures.

106. During the course of proceedings in the Action, including through the discovery phase of the case, the briefing and evidentiary hearing on Lead Plaintiff's motion for class

certification, and the mediation process, Lead Plaintiff and Lead Counsel continually assessed the relative strengths and weaknesses of the claims made on behalf of purchasers of the Eligible Securities over the course of the Class Period. Based on this analysis, the Plan provides that purchases of AIG common stock during the time period from August 7, 2007 through February 28, 2008, shall be fully valued based on the Recognized Loss formula set forth in Table-1 of the Notice, and that purchases of AIG Common Stock during the time period from March 16, 2006 through August 6, 2007 and from February 29, 2008 through September 16, 2008 shall be valued at eighty percent (80%) of the Recognized Loss formula set forth in Table-1. No similar adjustments are made for purchases of Eligible Securities other than AIG common stock because, among other reasons, the prices of such securities remained relatively constant (at or near par) until the end of the Class Period.

107. Lead Plaintiff and Lead Counsel believe that this allocation of the Net Settlement Fund, which fully recognizes that claims of purchasers of AIG stock from August 7, 2007 through February 28, 2008, is also fair and reasonable because the claims of purchasers of AIG stock during this middle time period are materially stronger than claims of purchasers of AIG stock earlier and later in the Class Period. As noted above, defendants raised significant defenses with respect to whether purchasers of AIG stock before August 7, 2007 and after February 28, 2008, should be included within a certified litigation class, and further with respect to the merits of the claims asserted on behalf of the early period and later period stock purchasers. While Lead Plaintiff and Lead Counsel had prepared responses to these challenges, the defenses could have presented significant issues both in terms of a decision on the class motion and, potentially, at summary judgment or at trial.

108. Moreover, the August 2007 to February 2008 period includes what was, in our minds, the most egregious of the misstatements made by defendants. These included defendants' statements that the risk undertaken through the CDS portfolio was "very modest and remote"; that it was hard to see a scenario "that would see us losing $1 in any of those transactions"; that the Company was "a very safe haven in stormy times"; and that AIG's valuation models had proven to be "very reliable" and provided AIG "with a very high level of comfort." This period of time also included what we viewed as highly significant omissions, including AIG's failure to disclose, until February 2008, that AIG had already made payments of more than $2 billion in collateral for the CDS portfolio, and that its total exposure to collateral calls on the CDS portfolio could be in the tens of billions of dollars. Further, this plan of allocation reflects our position that AIG was reckless in the oversight and reporting of valuation losses on the CDS portfolio during this time period, culminating in the filing of an Form 8-K by AIG on February 11, 2008, in which AIG disclosed a "material weakness in its internal control over financial reporting and oversight relating to the fair value valuation of the AIGFP super senior credit default swap portfolio."

109. For all of these reasons, Lead Plaintiff and Lead Counsel respectfully submit that the proposed Plan of Allocation is fair and reasonable, and that it should be approved by the Court.

## PART IV – THE APPLICATION FOR ATTORNEYS' FEES AND REIMBURSEMENT OF EXPENSES

110. In addition to seeking final approval of the Settlement and the Plan of Allocation, Lead Counsel is also applying to the Court for a collective award of attorneys' fees and payment of costs and expenses.

111. The fee application is being submitted by Lead Counsel with the express approval of Lead Plaintiff and is, in all respects, in accord with the retainer agreement that Lead Counsel entered into with Lead Plaintiff at the outset of the litigation.

112. Under the retainer agreement, Lead Counsel agreed to undertake this litigation on an entirely contingent basis, meaning that Lead Counsel would not be compensated at all, or reimbursed for any expenses we would incur on behalf of the Class, unless there was a recovery achieved for the Class. All other firms that assisted in the prosecution of the Action, whose time and expenses are reflected below and in the attached Exhibit 1, similarly agreed to undertake this litigation on an entirely contingent basis, and on the understanding that they could not seek any attorneys' fees or reimbursement of expenses except to the extent they were included in Lead Counsel's application.

113. Throughout the course of the litigation after the Court's appointment of SMRS to lead and oversee the prosecution of the Action, Lead Counsel provided on a regular basis case update reports to Lead Plaintiff, which included summaries of the significant developments in the Action, and summaries of the hours, lodestar and expenses incurred by Lead Counsel in the prosecution of the Action. Lead Counsel also provided Lead Plaintiff on a timely basis with drafts of proposed pleadings and briefs, and well as submissions prepared for the various mediation sessions identified above. We communicated often with SMRS representatives about all aspects of the case. Moreover, representatives of the Lead Plaintiff attended numerous Court hearings, and further attended the mediation sessions.

114. Prior to submitting the present fee and expense application, Lead Plaintiff provided Lead Counsel with a full report of the time that personnel from the State of Michigan Department of the Treasury and the Attorney General's Office spent supervising the prosecution

and settlement of this Action, as well as certain expenses of SMRS that had not already been reimbursed by Lead Counsel. That information is summarized in the Declaration of Robert Brackenbury in Support of Final Approval of Class Action Settlement, Plan of Allocation, Award of Attorneys' Fees and Reimbursement of Expenses, and Reimbursement of Expenses of Lead Plaintiff, attached hereto as Exhibit 2. Based on our in-depth knowledge of the supervisory efforts undertaken by the Treasury Department and the Attorney General's Office, we believe that the reimbursement of expenses sought by SMRS, for lost wages and its heretofore unreimbursed expenses, is eminently reasonable, and appropriate under the PSLRA and the law in this Circuit.

115. Lead Counsel also provided Lead Plaintiff with our firms' final time, expense and lodestar information through November 30, 2014, as well as time, expense and lodestar information from each of the other law firms reflected in the application. After reviewing these materials and through further consultation, Lead Plaintiff gave its approval for Lead Counsel to apply to the Court for an award of attorneys' fees and reimbursement of litigation expenses in the application being filed today.

116. Consistent with the terms of the retainer agreement and with Lead Plaintiff's approval, Lead Counsel, on behalf of all Plaintiffs' Counsel, is applying for an attorneys' fees award of $116.46 million, which constitutes 12% of the Settlement Fund, together with interest at the same rate as earned by the Settlement Fund. The fee sought is well below the 15-33% that is customarily sought in federal securities law class actions. Moreover, the fee being requested represents a multiplier of Plaintiffs' Counsels' lodestar of approximately 1.5, which is well within the range of risk multipliers routinely approved by courts in securities fraud class actions.

The total fee being sought is within the 12% figure provided in the Notice sent to potential Settlement Class members.

117. As more fully set forth below, Lead Counsel is applying for reimbursement of litigation expenses in the total amount of $4,352,327.04. Additionally, pursuant to 15 U.S.C. § 78u-4(a)(4), Lead Counsel also requests reimbursement of $80,927.34 in costs and expenses incurred by the Lead Plaintiff directly related to its representation of the Settlement Class.

118. The total amount of Plaintiffs' Counsel's out-of-pocket litigation expenses and the costs and expenses of Lead Plaintiff for which Lead Counsel is seeking reimbursement is considerably below the maximum expense amount of $6 million set forth in the Notice.

119. Respectfully, the work undertaken by Lead Counsel and the Assisting Firms in prosecuting this case and arriving at this Settlement has been challenging, and, as described below and as reflected in the Stipulation and Agreement of Settlement, Lead Counsel was opposed by eleven (11) law firms, which are among the best defense firms in the country.

120. In determining whether a requested award of attorneys' fee is fair and reasonable, district courts are guided by the factors first articulated by the Second Circuit in *City of Detroit v. Grinnell Corp.*, 495 F.2d 448 (2d Cir. 1974). As summarized more recently in *Goldberger v. Integrated Res., Inc.*, 209 F.3d 43 (2d Cir. 2000), these factors include:

> (1) The time and labor expended by counsel; (2) the magnitude and complexities of the litigation; (3) the risk of the litigation...; (4) the quality of representation; (5) the requested fee in relation to the settlement; and (6) public policy considerations.

*Goldberger*, 209 F.3d at 50. Based on consideration of these factors as further discussed below, and on the additional legal authorities set forth in the accompanying Memorandum of Law in Support of Lead Counsel's Motion for an Award of Attorneys' Fees and Reimbursement of

Litigation Expenses (the "Fee Memorandum") being filed contemporaneously herewith, we respectfully submit that Lead Counsel's requested fee should be granted.

## I. THE FEE APPLICATION

### A. The Requested Fee is Fair and Reasonable

121. For Plaintiffs' Counsel's extensive efforts on behalf of the Settlement Class, Lead Counsel is applying for a fee award from the Settlement Fund on a percentage basis. As set forth in the accompanying Fee Memorandum, the percentage method is the appropriate method of fee recovery because it aligns the lawyers' interest in being paid a fair fee with the interest of the Settlement Class in achieving the maximum recovery under the circumstances, is supported by public policy, and has been recognized as appropriate by the United States Supreme Court and the Second Circuit for cases of this nature.

122. Based on the extraordinary result achieved for the Settlement Class, the extent and quality of work performed, the significant risks of the litigation and the fully contingent nature of the representation, Lead Counsel respectfully submits that a 12% fee award is reasonable and should be approved. As discussed in the Fee Memorandum, a 12% fee award is fair and reasonable for attorneys' fees in common fund cases such as this, is within the range of percentages typically awarded in securities class actions in this Circuit, and is within the range of percentages often awarded by courts in this Circuit and across the country in securities class actions with substantial settlements.

123. Consideration of Plaintiffs' Counsel's lodestar further confirms the reasonableness of the requested fee.

124. Attached hereto as Exhibits 3A-3F are declarations from all Plaintiffs' Counsel in support of an award of attorneys' fees and reimbursements of litigation expenses. The first

page of Exhibit 3 contains a summary chart of the hours expended and lodestar amounts for each Plaintiffs' Counsel firm, as well as a summary of each firm's total litigation expenses and other expenses incurred but not yet paid. Included within each supporting declaration is a schedule summarizing hours and the lodestar of each firm, a description of the work performed by each firm, and a summary of expenses by category. The vast majority of the total lodestar in the Action – 96% – was incurred by Lead Counsel.

125. Each of the additional Plaintiffs' Counsel performed work at the direction and under the supervision of Lead Counsel. Lead Counsel also oversaw the time spent and expenses incurred by the Assisting Firms throughout the course of the litigation. These counsel performed work that assisted in the prosecution of this Action and provided a benefit to the Settlement Class by, among other things, assisting in the production of documents by certain of the other Named Plaintiffs, assisting in the deposition preparations of certain of the Named Plaintiffs, document reviews, undertaking legal research, summarizing testimony, assisting in deposition preparations, and conferring with their respective clients and Lead Counsel about the status of the litigation and settlement negotiations.

126. The significant amount of work undertaken by Lead Counsel has been time-consuming, challenging and fraught with risk. We maintained control of and monitored the work performed by all of the Plaintiffs' lawyers on this case. While we personally devoted substantial time to this case, other experienced attorneys at our firms undertook particular tasks appropriate to their levels of expertise, skill and experience, and more junior attorneys and paralegals worked on matters appropriate to their experience levels. Throughout the litigation, we allocated work assignments among the attorneys at our firms and Assisting Firms to avoid unnecessary duplication of effort.

127. As set forth on Exhibit 3, Plaintiffs' Counsel have collectively expended a total of 166,218.247 hours in the prosecution and investigation of this Action, of which 159,592.50 of the hours were expended by Lead Counsel. The resulting total lodestar is $77,487,172.40, of which $74,400,223.75 was incurred by Lead Counsel. The requested fee, therefore, yields a multiplier of 1.5. This multiplier is fair and reasonable based on the risks of the litigation, the quality of Lead Counsel's representation and the outstanding result obtained on behalf of the Settlement Class. Indeed, as discussed in further detail in the Fee Memorandum, the requested multiplier is well below the multipliers commonly awarded in securities cases, and well below the multipliers commonly awarded by courts in this Circuit and nationwide in cases involving settlements of significant magnitude, such as this one.

128. Lead Counsel and other Assisting Counsel accepted this case on a contingency basis, committed significant resources to it and prosecuted it for over six years without any compensation or guarantee of success. Based on the excellent result obtained, the quality of the work performed, the risks of the Action, and the contingent nature of the representation, Lead Counsel respectfully submits that a fee award of 12%, resulting in a multiplier of 1.5 times lodestar, is fair and reasonable and is amply supported by the fee awards courts have granted in other large cases.

129. Lead Counsel have excluded from their lodestar calculation all time spent working on their application for reimbursement of attorneys' fees and litigation expenses, and have not included any time for work incurred after November 30, 2014.

**B. The Quality of Lead Counsel's Representation**

130. A critical factor for evaluating the quality of counsel's representation is the quality of the results achieved on behalf of the Settlement Class. As noted above, if approved,

the $970.5 million recovery would be the largest recovery ever in a securities class action in the absence of criminal indictments, an SEC enforcement action, or a restatement of a company's financial statements. It would also be one of the largest recoveries in a securities class action stemming from the 2008 financial crisis, and would rank among the fifteen largest securities class action settlements in history. The quality of this result is evidence of the quality of Lead Counsel's representation.

131. Moreover, this result was obtained through Lead Counsel's hard work, persistence and skill in a highly complex case that presented very significant litigation risks. Lead Counsel achieved the Settlement without the benefit of an accounting restatement by AIG and notwithstanding that the SEC decided not to seek an enforcement action against AIG or any of the other defendants in the Action. Indeed, Lead Counsel's prosecution of the case developed evidence far beyond what the SEC had called upon AIG to produce to the Government, and as further explained above, Lead Counsel independently developed substantial evidence to support Plaintiffs' claims and convince defendants to settle. Lead Counsel conducted depositions of 45 fact witnesses, all of whom were extremely well prepared and very proficient witnesses. The fact that Lead Counsel achieved this result through its independent efforts further demonstrates that the quality of representation here was outstanding.

132. Of course, the Court may also take into account its own observations of the quality of Lead Counsel's representation during the course of this litigation. Here, the Court has personally reviewed the Complaint and Lead Plaintiff's papers submitted in connection with numerous motions, including defendants' motions to dismiss and Lead Plaintiff's motion for class certification. The Court further personally viewed the presentations, cross-examinations

and argument made by Lead Counsel during the evidentiary hearing on the class motion. Although this work represents a small portion of the total work that Lead Counsel has performed, we respectfully submit that the quality of that work reflects the quality of Lead Counsel's work on all aspects of the Action.

133. The standing and expertise of Lead Counsel is another relevant factor in assessing the quality of its work. Lead Counsel has extensive experience in successfully prosecuting some of the largest and most complex securities class actions in history. Lead Counsel has taken complex securities fraud cases to trial, and is among the few firms that have done so. Copies of firm biographies of Barrack, Rodos & Bacine and The Miller Law Firm, which include backgrounds of the attorneys at each firm who worked on this matter, are attached as Exhibits 4 and 5, respectively. Lead Counsel believes that this willingness and ability to prosecute cases through trial added valuable leverage in the settlement negotiations.

134. Finally, the quality of work performed by Lead Counsel in obtaining the Settlement should also be evaluated in light of the quality of the opposition. Here, defendants were represented by some of the most prestigious and experienced securities defense firms nationwide, which vigorously and ably defended the Action for more than six years. Specifically, AIG was represented by very able attorneys at Weil, Gotshal & Manges; PwC was represented by highly skilled attorneys at Cravath, Swaine & Moore; the Underwriter Defendants were represented by excellent counsel at Paul, Weiss, Rifkind, Wharton & Garrison; the Outside Director Defendants were represented by very able attorneys at Simpson, Thacher & Bartlett; and highly regarded lawyers at seven other exceptional firms represented the Individual Defendants in this Action – eleven firms of exceptional quality and capabilities. Each meet and confer, every argument, every set of briefs, every deposition, and every mediation session

required Lead Counsel to go toe-to-toe with one or more of the exceptional firms on the other side of this Action. Against this formidable opposition, Lead Counsel presented a case that was sufficiently strong that Lead Plaintiff and Lead Counsel were able to negotiate the outstanding recoveries reflected in the proposed Settlement.

135. In sum, the exceptional quality of representation here supports the requested fee.

**C. The Risks of the Litigation**

136. The prosecution was undertaken by Lead Counsel on an entirely contingent basis, both as to fees and expense reimbursement. The extensive risks assumed by Lead Counsel in bringing these claims have been detailed above and those same risks are equally relevant to an award of attorneys' fees.

137. From the outset, Lead Counsel understood that it was embarking on a complex, expensive and likely lengthy litigation with no guarantee of compensation for the substantial investment of time, money and effort that the case would require. Lead Counsel understood that defendants would raise myriad challenges to liability, damages and class certification, and that there was no assurance of success.

138. In undertaking the responsibility of prosecuting this Action, Lead Counsel ensured that ample resources were dedicated to it, and that funds were available to compensate staff and to advance the significant expenses that a case of this magnitude and complexity requires. Indeed, for over six years, Lead Counsel vigorously prosecuted this Action for the benefit of the Settlement Class and received no compensation, while incurring more than $4.3 million in expenses.

139. Lead Counsel bore the risk that no recovery would be achieved. Indeed, this case presented numerous risks that could have prevented any recovery whatsoever. Despite the

vigorous efforts of Lead Counsel, success in contingent litigation such as this is never assured. Lead Counsel firmly believes that the commencement of a securities class action, or the survival of a class action after a motion to dismiss, does not guarantee settlement. To the contrary, it takes hard work and diligence by skilled counsel to develop facts and theories that are needed to induce sophisticated defendants to engage in serious settlement negotiations involving significant sums of money.

140. Moreover, the United States Supreme Court and numerous other courts have repeatedly recognized that the public has a strong interest in having experienced and able counsel enforce the federal securities laws through private actions. *See, e.g.*, *Bateman Eichler, Hill Richards, Inc. v. Berner*, 472 U.S. 299, 310 (1985) (private securities actions provide "'a most effective weapon in the enforcement' of the securities laws and are 'a necessary supplement to [SEC] action.'") (citation omitted). Further, as Congress recognized through the passage of the PSLRA, vigorous private enforcement of the securities laws can only occur if private plaintiffs, particularly institutional investors, take an active role in prosecuting securities class actions. If this important public policy is to be carried out, it is essential that plaintiffs' counsel be adequately compensated for undertaking actions with significant risk and achieving remarkable results, as Lead Counsel did here.

### D. The Significant Amount of Time and Labor Devoted to the Action by Plaintiffs' Counsel

141. The work undertaken by Lead Counsel and all Plaintiffs' Counsel in investigating and prosecuting this Action and achieving the Settlement in the face of substantial risks has been time-consuming and challenging. As explained in detail above, among other things, Lead Counsel: (a) investigated the Settlement Class's claims and filed the detailed Consolidated Complaint; (b) successfully opposed defendants' motions to dismiss; (c) filed detailed papers in

support of Lead Plaintiff's vigorously contested class certification motion, during which Lead Counsel took or defended nineteen class-related depositions, including eight expert depositions, and presented testimony and argument on the motion; (d) conducted over two years of extensive discovery, including analyzing over 36 million pages of documents, taking 45 fact witness depositions, and compiling an extensive response to defendants' contention interrogatories; (e) developed significant expert evidence in support of key portions of their claims, and located and retained other experts who would have submitted expert reports had the Action not settled; and (f) engaged in two years of a hard-fought negotiation process with experienced defense counsel and before an experienced mediator.

142. At all times, Plaintiffs' Counsel's efforts advanced the litigation and these efforts conferred a substantial benefit on the Settlement Class in the form of the Settlement. Accordingly, the substantial time and expense incurred by Plaintiffs' Counsel – the great bulk of which was invested by Lead Counsel – weighs strongly in favor of the requested fee.

**E. Lead Plaintiff's Endorsement of the Fee Application**

143. SMRS, an experienced lead plaintiff and one of the nation's largest state pension systems, has approved the Fee Application and believes it to be fair and reasonable. As set forth in the declaration submitted by Robert Brackenbury, SMRS closely supervised and monitored both the prosecution and the settlement of the Action, and has concluded that Lead Counsel have earned the requested fee based on Counsel's efforts and the outstanding recovery obtained for the Settlement Class in a case that involved serious risks. See Exhibit 2 hereto. As more fully set forth in the Fee Memorandum, Lead Plaintiff's endorsement of Lead Counsel's fee request further demonstrates its reasonableness.

144. In addition, the requested 12% fee falls within the parameters of the retainer agreement that Lead Counsel negotiated and entered into with the Lead Plaintiff at the outset of the litigation. The fact that the requested fee is authorized by an agreement that was negotiated with and agreed to by an experienced lead plaintiff and a sophisticated institution is further confirmation of its reasonableness.

## II. THE LITIGATION EXPENSE APPLICATION

145. As noted above, Lead Counsel, on behalf of themselves and the other Plaintiffs' Counsel, seek reimbursement from the Settlement Fund in the total aggregate amount of $4,352,327.04 for litigation expenses that were reasonably incurred by Plaintiffs' Counsel in connection with commencing, litigating and settling the claims asserted in this Action. Lead Counsel also seeks reimbursement of $80,927.34 for the cost and expense incurred by Lead Plaintiff directly related to its representation of the Settlement Class.

146. From the beginning of the case, Plaintiffs' Counsel were aware that they might not recover any of their expenses and, even in the event of a recovery, would not recover any of their out-of-pocket expenditures until such time as the Action might be successfully resolved. Plaintiff's Counsel also understood that, even assuming that the case was ultimately successful, reimbursement for expenses would not compensate them for the lost use of the funds advanced by them to prosecute the Action. Accordingly, Plaintiffs' Counsel were motivated to and did take appropriate steps to avoid incurring unnecessary expenses and to minimize costs without compromising the vigorous and efficient prosecution of the case.

147. As set forth in the Fee and Expense Declarations from Plaintiffs' Counsel (provided in Exhibit 3 hereto, and as summarized on the first page of Exhibit 3) the respective Plaintiffs' Counsel's law firms have incurred a total of $4,352,327.04 in unreimbursed litigation

expenses in connection with the prosecution of the Action. These expenses, as attested to in the respective firm Declarations, are reflected on the books and records maintained by each of the law firms. These books and records are prepared from expense vouchers, check records and other source materials, and provide an accurate accounting of the litigation expenses incurred in this matter. Plaintiffs' Counsel's expenses are set forth in detail in each firm's declaration, each of which identifies the specific category of expense, *e.g.*, on-line research, out-of-town travel costs, the costs of electronic discovery, photocopying, telephone, fax and postage expenses, and other costs actually incurred for which Plaintiffs' Counsel seek reimbursement. Other expenses were incurred by Lead Counsel, which firms established a litigation fund for the Action, from which major case expenses were paid. These expense items are billed separately by Plaintiffs' Counsel, and such charges are not duplicated in the respective firms' expenses. Moreover, as indicated in Exhibit 3, Lead Counsel have incurred other litigation expenses which remain outstanding, which are included in the total expenses for which we seek reimbursement.

148. Lead Counsel maintained control over the litigation expenses. Of the total amount of expenses, $1,196,985, or 27%, was incurred for work done by Lead Plaintiff's experts. As the Court is aware, Lead Counsel retained multiple experts to assist in the prosecution and resolution of the Action. Some of the experts were closely involved in the prosecution of this case from the outset. The market efficiency, loss causation and damages expert retained by Lead Counsel assisted in the preparation of the Complaint, Lead Plaintiff's class certification motion, during settlement negotiations, and in preparing the plan of allocation of the Settlement proceeds. He was called upon to submit two expert reports, conducted detailed analyses of AIG's experts' reports, was deposed twice, and provided testimony and exhibits for the evidentiary hearing on the class motion. A second market efficiency witness who responded

specifically to one of AIG's experts similarly presented an expert report and was deposed by defendants' counsel.

149. Lead Counsel's expert on accounting and auditing matters assisted in the preparation of the Complaint, our preparations for certain fact witness depositions (including the two deponents from PwC and certain of AIG's personnel), and Lead Plaintiff's opposition to the motion for judgment on the pleadings.

150. Other experts with whom Lead Counsel consulted, some of whom would have been required to expend significantly more time as merits experts had the Action not settled when it did, include experts on risk management and internal controls; credit default swaps and valuation of CDS portfolios; due diligence standards and underwriting investigations; economic capital modeling; and other issues critical to the case.

151. Another significant part of the litigation expenses, $2,310,489.65, or approximately 53%, was necessary to maintain a reliable, interactive system for Lead Counsel's electronic document discovery. Defendants and third parties produced over 36 million pages of documents in this Action either in electronic format or through the production of documents that we converted to electronic format. Thus, it was necessary for Lead Counsel to retain the services of a specialist firm to host a secure, Internet-based electronic document database that could be used to search, review, code, and organize the relevant documents. Prior to retaining this specialist firm, Lead Counsel conducted a request for proposal process, where numerous document host vendors were vetted, based on both their capabilities and cost of services. Lead Counsel selected the firm that would provide the best services for the price.

152. Other expenses incurred by Lead Counsel and Assisting Counsel over the course of the litigation included fees and costs incurred for an investigator (approximately $75,000), the

court reporter for the depositions taken and defended in the Action (approximately $87,500), transcript fees (approximately $6,900), out-of-town travel and meal expenses (approximately $270,000), the mediator (approximately $120,000), online legal and factual research (approximately $75,000), and document copying (approximately $200,000, of which approximately $162,000 was incurred directly by the Plaintiffs' Counsel and an additional $38,000 was paid from the litigation fund). Other expenses include court fees and transcripts ($3,300), long distance telephone and facsimile charges ($2,100), and postage and delivery expenses ($30,000).

153. The expenses for which Lead Counsel seek reimbursement are the types of expenses that are necessarily incurred in litigation of this scope and complexity, and routinely charged to clients billed by the hour. Further, the litigation expenses were reasonably necessary to the successful litigation of this Action, and have been approved by the Lead Plaintiff.

154. Pursuant to 15 U.S.C. § 78u-4(a)(4), on behalf of the Lead Plaintiff, we are also seeking reimbursement of SMRS's reasonable costs and expenses incurred directly in connection with its service as Lead Plaintiff in this Action and representation of the Class.

155. The amount of time and effort devoted to this Action by the Lead Plaintiff is detailed in the accompanying declaration of Mr. Brackenbury, annexed hereto as Exhibit 2. Lead Counsel respectfully submits that the requested amount is fully consistent with Congress's intent, as expressed in the PSLRA, of encouraging institutional and other plaintiffs to take an active role in bringing and supervising actions of this type.

156. As set forth in the Fee Memorandum and in the supporting declaration of Mr. Brackenbury, Lead Plaintiff has been committed to pursuing the Class's claims against the defendants for years. SMRS has actively and effectively fulfilled its obligations as the Lead

Plaintiff and as a representative of the Class, complying with all of the many demands placed upon SMRS and its personnel during the litigation and settlement of this Action. The efforts expended by the representatives of the Lead Plaintiff during the course of this Action are precisely the types of activities courts have found to support reimbursement to class representatives, and fully support Lead Plaintiff's request for reimbursement of costs and expenses.

157. The Notice informed potential Settlement Class members that Lead Counsel would be seeking reimbursement of expenses in an amount not to exceed $6 million and that the costs and expenses of the Lead Plaintiff could be sought within that amount. The costs and expenses of the Lead Plaintiff ($80,927.34), when added to the expense reimbursement request of Plaintiffs' Counsel ($4,352,327.04), for total expenses of $4,433,254.18 is well below the $6 million amount that Settlement Class members were advised could be sought. To date, no objection has been raised as to the maximum amount of litigation expenses set forth in the Notice.

158. In view of the complex nature of the Action, as well as the fact that this Action was vigorously prosecuted for over six years, the expenses incurred by Plaintiffs' Counsel were reasonable and necessary to represent the Settlement Class and achieve the Settlement. Accordingly, Lead Counsel respectfully submit that the expenses incurred by Plaintiffs' Counsel and by Lead Plaintiff are fair and reasonable and should be reimbursed in full from the Settlement Fund.

## CONCLUSION

159. For all of the reasons set forth above, Lead Plaintiff and Lead Counsel respectfully submit that the Settlement and the Plan of Allocation should be approved as fair,

reasonable and adequate. Lead Counsel further submits that the requested fee in the amount of 12% of the Settlement Fund should be approved as fair and reasonable, and the request for reimbursement of total litigation costs and expenses in the amount of $4,408,620.38 should also be approved.

In accordance with 28 U.S.C. § 1746, we hereby declare under penalty of perjury that the foregoing is true and correct.

Executed on this 19th day of December, 2014
at Philadelphia, Pennsylvania

Jeffrey W. Golan

Executed on this 19 day of December, 2014
at Rochester, Michigan

E. Powell Miller