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AIG's Ex Chief Clears A Hurdle But Faces More

By IAN MCDONALD and LESLIE SCISM
Staff Reporters of THE WALL STREET JOURNAL
November 25, 2005; Page C1

New York Attorney General Eliot Spitzer has decided against pursuing possible criminal charges against former [American International Group Inc.](#) Chairman and Chief Executive Maurice R. "Hank" Greenberg in connection with the giant insurer's accounting scandal, a person familiar with the matter said.

Instead, Mr. Spitzer's office is focusing on civil-fraud allegations it lodged against Mr. Greenberg and the company itself in late May, the person said. As part of its focus on the civil suit, Mr. Spitzer's office is expected to amend the complaint as soon as next week to reflect new information, the person familiar with the matter said.

Mr. Spitzer backed off seeking possible criminal charges against Mr. Greenberg in June, the person familiar with the matter said. Mr. Spitzer's retreat from a criminal option doesn't leave Mr. Greenberg home-free, however. Federal prosecutors are in the midst of two separate criminal probes, one headed by attorneys in the Southern District of New York and one at the Justice Department in Washington.



Eliot Spitzer

It isn't known if charges against Mr. Greenberg

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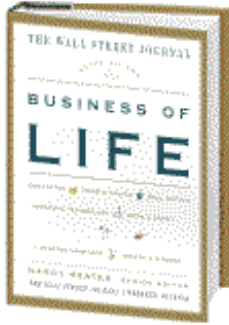
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would result from either federal probe. Mr. Greenberg's attorney has met with investigators involved in each of those probes to argue his client's case against any potential charges, two knowledgeable people said.

Spokesmen for Mr. Greenberg's legal team and the New York attorney general declined to comment. In recent months, Mr. Greenberg's lawyers have been outspoken in declaring that Mr. Greenberg doesn't believe he did anything wrong. The other investigators also have declined to comment on their probes.

While Mr. Spitzer's retreat on potential criminal charges against Mr. Greenberg came several months ago, it dovetails with other recent pullbacks. His office suffered a courtroom setback in June when the trial of a [Bank of America Corp.](#) broker ended with acquittals on 29 counts and a jury deadlock on four other charges.

Mr. Spitzer, who has announced that he will run for governor in New York, decided against a retrial after the broker settled civil charges brought by the Securities and Exchange Commission by agreeing to pay a \$200,000 fine, among other things. On Monday Mr. Spitzer dropped another set of criminal charges stemming from the mutual-fund trading scandal.



Maurice Hank R. Greenberg

Attorneys in Mr. Spitzer's office had presented evidence of alleged wrongdoing in the AIG matter to a state grand jury in the spring, people familiar with the matter have said. But indictments weren't handed down, and it isn't clear that Mr. Spitzer's office asked for any. The grand jury had been empaneled for several insurance matters, including an investigation of alleged bid-rigging at [Marsh & McLennan Cos.](#)' Marsh Inc. insurance-brokerage unit, which led to several indictments.

As AIG's accounting scandal was unfolding earlier this year, Mr. Spitzer's office seemed poised to aggressively challenge Mr. Greenberg, who had headed AIG for nearly four decades before stepping aside amid the mounting inquiries.

In a television appearance in April on ABC's "This Week" with George Stephanopoulos, Mr. Spitzer answered a question from Mr. Stephanopoulos about whether he was "moving toward an indictment" against

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Mr. Greenberg by saying: "It depends on what we will prove or can prove that Mr. Greenberg knew at the time. We have powerful evidence." He noted that both civil and criminal options were on the table.

To a separate question about whether the accounting might be improper but not criminal, he answered: "The evidence is overwhelming that these were transactions created for the purpose of deceiving the market. We call that fraud. ... It is illegal."

Separately, the probe by federal prosecutors in New York has been focused on whether Mr. Greenberg improperly manipulated trading in AIG shares, via the company's stock-buyback program, to avoid a decline in their price as the accounting probes came to light in February. The Washington probe is centered on the accounting issues themselves.

A big piece of the accounting probe is a transaction that Mr. Greenberg initiated in December 2000 with [Berkshire Hathaway Inc.](#)'s General Re unit. In the civil suit, New York authorities allege the transaction improperly bolstered AIG's financial statements by making the company's claims reserves look stronger than they actually were. Mr. Greenberg's legal team maintains that many of the accounting decisions in question in the lawsuit were judgment calls defensible at the time they were made, as well as now.

In the civil suit filed in May, Mr. Spitzer's office and the New York Insurance Department allege that AIG had used questionable accounting maneuvers to improperly boost its results over at least five years. In late May, AIG restated five years of financial results, slicing 10% off its net income. AIG is in settlement talks with New York authorities, and both sides hope to reach a pact by year end, according to people familiar with the matter.

So far, the federal prosecutors' accounting probe has yielded guilty pleas from two former Gen Re executives on criminal charges of conspiracy to commit fraud.

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