

## AIG Agrees to Hold Back Pay for Former CEO Sullivan (Update3)

(Adds comment from law professor in seventh paragraph.)

By Karen Freifeld

Oct. 22 (Bloomberg) -- American International Group Inc. agreed to freeze \$19 million due to its former chief and \$600 million in compensation for other executives amid criticism of such payments in light of the collapsed insurer's U.S. bailout.

New York Attorney General Andrew Cuomo announced today that AIG will withhold severance and bonus payments from former Chief Executive Officer Martin Sullivan and will not distribute funds from the \$600 million deferred compensation and bonus pools of AIG's Financial Products subsidiary.

Cuomo last week demanded that AIG, once the world's biggest insurer, stop "extravagant" expenditures and recover millions of dollars in unreasonable payments, or face legal action. The New York-based insurer submitted to a U.S. takeover last month and already has tapped two-thirds of its \$122.8 billion Federal Reserve credit line.

"Until the taxpayers recoup their investment in AIG, which is now in excess of \$120 billion plus interest, there should not even be any contemplation of bonuses for executive performance," Cuomo said today in a conference call with reporters.

Cuomo said such pay packages helped cause the problems at AIG and other companies. "There were 'toxic' assets. Let's also realize there were toxic practices," he said, alluding to executive compensation bonus plans that provided incentives "to maximize booked gains as opposed to actual value."

'Consistent'

Peter Tulupman, an AIG spokesman, declined to comment other than to say Cuomo's letter today to the company's new chairman and CEO, Edward Liddy, is "consistent with our discussions with the attorney general and with actions we've taken."

"This is going to be a recurring scenario given the rising anger of Main Street at Wall Street," said John Coffee, a securities law professor at Columbia University in New York. "Politicians have a way of seeking to channel that anger."

Sullivan was replaced by AIG's chairman, Robert Willumstad, on June 15, after two straight record quarterly losses tied to bad bets on housing markets. Sullivan last year said any losses tied to housing would be "manageable."

When Sullivan was ousted, AIG agreed to give him about \$47 million in severance and long-term compensation.

He was to receive \$15 million in severance pay, a bonus of \$4 million and equity and long-term cash awards valued at about \$28 million, the company said July 1 in a regulatory filing. AIG lost 46 percent of its market value during his three-year tenure.

Liddy Replaced Willumstad

Willumstad was replaced by Liddy last month as a condition of the government takeover of AIG.

Cuomo said he believes Joseph Cassano, former head of the financial products unit, has a \$69 million share of the \$600 million deferred compensation and bonus pools. In addition, Cuomo said, five other executives in the subsidiary have a combined share of \$93 million of those funds.

Cassano, who stepped down in March, was paid \$280 million between 2000 and 2008, according to Representative Henry Waxman, chairman of the House Committee on Oversight and Government Reform. He was also paid \$1 million a month in consulting fees after he retired, said Waxman. AIG says the payments stopped last month.

Last week, Cuomo said AIG agreed to withhold a \$10 million severance agreement with outgoing AIG Chief Financial Officer Steven Bensinger.

David Herzog, 48, who was AIG's comptroller for three years, was promoted to replace Bensinger, the company announced Oct 16.

#### Canceling Junkets, Perks

AIG also agreed last week to immediately cancel all junkets and perks, according to a statement jointly issued by Cuomo and the company.

The company has been castigated by officials since it hosted a \$440,000 conference at a California resort last month after agreeing to the federal bailout to avoid bankruptcy.

A partridge hunting trip that reportedly took place in England and cost about \$90,000 also was "unreasonable," Cuomo said today.

Cuomo said after stopping the outflow of funds to executives and other improper expenditures, he would try to "recapture money that has already been paid."

Cuomo said he also was probing other companies, which he would not identify.

Sullivan and Cassano could not be reached for comment.

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