



Securities Litigation Managed by the Ohio Attorney General's Office

- Ohio Attorney General Richard Cordray is pursuing an aggressive strategy to hold accountable those Wall Street companies and executives who harm Ohio investors, retirees, workers and families through violations of the securities laws. Attorney General Cordray's office has built upon the groundwork laid by previous Attorneys General to target fraud and deceit on Wall Street that threaten the stability of the investments and retirement benefits of Ohio workers.
- In 2009 and 2010, the Ohio Attorney General's office is serving or has served as counsel to the plaintiff or lead plaintiff in nine major securities actions brought on behalf of the Ohio pension funds and the Ohio Bureau of Workers' Compensation.
- Although several actions are ongoing, the securities litigation initiated and managed by the Ohio Attorney General's office has recently resulted in substantial settlements benefiting investors and retirees in Ohio and across the nation, including settlements of: \$1.0095 billion with AIG (\$725 million with main defendant AIG; \$72 million with Gen Re; \$97.5 million with PricewaterhouseCoopers; and \$115 million with former AIG CEO Hank Greenberg and related defendants); \$400 million with Marsh; \$475 million with Merrill Lynch; and \$922 million with UnitedHealth.
- In addition to recouping losses suffered by Ohio investors, retirees, workers and families through state investments, the Ohio Attorney General's securities litigation portfolio serves to hold Wall Street companies, executives and officers accountable for their actions and to signal to them that future wrongdoing will not be tolerated.
- As counsel in these lawsuits, Ohio Attorney General Richard Cordray is working to protect the hard-earned retirement benefits and financial futures of tens of millions of investors, retirees, workers and families hailing from all fifty states.
- Where appropriate, the Ohio Attorney General's office also is seeking corporate governance reforms to lessen the likelihood of future harm to Ohio workers and retirees.
- The following pages detail eight major securities lawsuits managed by the Ohio Attorney General in 2009 and 2010. Drawing upon the expertise of special counsel, the Ohio Attorney General's securities litigation portfolio recently has included lawsuits against AIG, Bank of America, BP, Fannie Mae, Freddie Mac, Marsh, Merrill Lynch, the Rating Agencies and UnitedHealth, as well as certain current and former executives and officers of those companies.
- Our efforts will not stop with these lawsuits. As we become aware of future violations of the securities laws that jeopardize the hard-earned investments and retirement benefits of Ohio investors, retirees, workers and families, the Ohio Attorney General's office will continue to take aggressive steps to hold accountable those companies and executives who are responsible for the harm done.



Common name	AIG
Caption	<i>In re American International Group, Inc. Securities Litigation</i>
Court	Southern District of New York
Judge	Batts
Docket number	04-CV-8141
AG clients	Ohio Police and Fire Pension Fund; Ohio Public Employees Retirement System; and State Teachers Retirement System of Ohio
At issue	Securities fraud relating to AIG's participation in an illegal, industry-wide market division scheme involving the payment of improper "steering" contingent commissions and bid-rigging, as well as accounting fraud.
Status	Proposed settlement announced July 16, 2010 pending final court approval.

- This case involves losses to investors based on AIG's participation in an illegal, industry-wide market division scheme involving the payment of improper "steering" contingent commissions as well as bid-rigging and accounting fraud.
- The court has named three Ohio pension funds lead plaintiff in a lawsuit against AIG alleging securities fraud arising from the company's steering contingent commissions and bid-rigging.
- Soon after Ohio became lead plaintiff, AIG announced that it was the subject of new investigations for additional impropriety, this time regarding a fraudulent reinsurance transaction with General Re (a subsidiary of Warren Buffett's Berkshire Hathaway Inc.) and other accounting improprieties. The news resulted in major losses to AIG investors and the expansion of Ohio's lawsuit.
- The fallout from AIG's bid-rigging and accounting frauds has been substantial and includes four guilty pleas and a criminal conviction for AIG executives.
- As a result of the disclosures of these frauds, the Ohio Funds and other investors suffered billions of dollars in losses.
- The Ohio Attorney General's office has reached favorable settlements with all defendants in this case. The Attorney General announced a proposed settlement of \$725 million with the main defendant, AIG, on July 16, 2010. The Attorney General's office also has reached favorable settlements with several secondary defendants, including a \$72 million settlement with Gen Re; a \$97.5 million settlement with AIG's auditors, PricewaterhouseCoopers; and a \$115 million settlement with AIG's former CEO, Hank Greenberg, and certain related defendants.
- The total recovery in this case is expected to be \$1.0095 billion, the tenth largest securities class action settlement in U.S. history and the first and only billion-dollar class action settlement since the financial crisis began to unfold in 2008.



Common name	Bank of America
Caption	<i>In re Bank of America Corp. Securities, ERISA & Derivative Litigation</i>
Court	Southern District of New York
Judge	Castel
Docket number	Multiple; lead is 09-CV-0580
AG clients	Ohio Public Employees Retirement System and State Teachers Retirement System of Ohio
At issue	Securities fraud in connection with the merger between Bank of America and Merrill Lynch and secret bonuses paid to Merrill Lynch executives.
Status	Ohio became lead plaintiff July 1, 2009; Amended Complaint filed September 25, 2009.

- This lawsuit concerns securities fraud and inaccurate proxy statements in connection with the merger between Bank of America and Merrill, Lynch & Co., one of the largest mergers in Wall Street history.
- On September 15, 2008, Bank of America and Merrill Lynch announced that they would merge. During the months after that announcement but before shareholders approved the merger, Bank of America and Merrill Lynch suffered serious financial losses—Merrill Lynch lost at least \$15.3 billion, and Bank of America had projected that it was on track to lose \$1.4 billion in 2008, the first loss in company history. In violation of securities law, however, the companies did not disclose these losses to investors and in fact misrepresented their financial strength to the Securities and Exchange Commission.
- The companies also failed to disclose, and in fact misleadingly represented, Bank of America’s secret agreement to allow Merrill Lynch to pay up to \$5.8 billion in discretionary year-end bonuses to executives and other employees.
- On December 5, 2008, shareholders of Bank of America, unaware of these losses and bonuses, approved the merger. The merger closed on January 1, 2009.
- News about Merrill Lynch’s losses did not begin to enter the market until mid-January 2009. On January 12, 2009, after the first news of the loss was published, Bank of America’s stock fell 12%. On January 16, 2009, Bank of America revealed \$21 billion in losses by Merrill Lynch during the fourth quarter and an additional \$1.8 billion in losses by Bank of America. Bank of America’s shares then lost half their value, resulting in a loss of \$25 billion of market capitalization in just three trading days. After news emerged about the Merrill Lynch bonuses, Bank of America stock fell an additional 15% on January 22, 2009.
- The Ohio pension funds, along with three other public pension funds, are lead plaintiffs in a securities class action based on this conduct and brought against Bank of America, Merrill Lynch, certain executives and board members of Bank of America and Merrill Lynch, and underwriters Banc of America Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Inc.



Common name	BP
Caption	<i>Ludlow v. BP PLC</i>
Court	District Court for the Western District of Louisiana
Judge	Haik
Docket number	6:10-cv-00818-RTH-CMH
AG clients	Ohio Police & Fire Pension Fund; Ohio Public Employees Retirement System; School Employees Retirement System of Ohio; and State Teachers Retirement System of Ohio
At issue	False and misleading statements regarding safety protocols, operations, safety record and ability to respond to a major oil spill
Status	Motion for Lead Plaintiff filed July 20, 2010

- The April 20, 2010 explosion on Deepwater Horizon, a mobile offshore drilling unit operated by BP in the Gulf of Mexico, caused eleven fatalities and led to the largest offshore oil spill in United States history. The disaster is now inflicting tremendous financial harm upon workers, retirees and investors across the United States and around the world.
- Prior to the disaster, BP claimed that its operations were safe and that the company was capable of effectively responding to oil spills. As new facts are uncovered each day after the spill, however, it is becoming clear that BP’s safety protocols and preparations were woefully inadequate. Making matters worse, it is also becoming clear that BP was aware of these problems but chose to misrepresent them to investors, in violation of the securities laws.
- In the wake of the disaster, BP’s stock value has fallen more than \$70 billion, losing approximately 40% of the company’s total market capitalization. This dramatic decline has devastated investments worldwide, including those of New York and Ohio retirees. According to initial loss estimates, the New York and Ohio funds represented in the case together lost between \$181 million and \$229.4 million, including between \$113.9 million and \$125.9 million in losses suffered by the Ohio funds alone.
- On July 20, 2010, the Ohio Attorney General’s office, together with the Comptroller of New York, filed a motion to be appointed Lead Plaintiff in the class action securities lawsuits against BP. The Ohio Attorney General’s office serves as counsel in this case to four Ohio pension funds, the Ohio Police & Fire Pension Fund, the Ohio Public Employees Retirement System, the School Employees Retirement System of Ohio and the State Teachers Retirement System of Ohio. The Ohio funds are seeking lead plaintiff status in partnership with two New York pension funds, the New York State and Local Retirement System and the New York State Common Retirement Fund. The court must decide whether to appoint the New York and Ohio funds as lead plaintiff, a role served by the Ohio funds in some of the largest securities class action cases ever resolved.
- The lawsuit alleges that BP made false and misleading statements regarding its safety protocols, operations and safety record, as well as its ability to respond to a major oil spill. These statements inflated BP’s stock value. Now that the truth about BP’s conduct is becoming clear, the company’s stock value has plummeted, causing immense harm to investors.



Common name	Fannie Mae
Caption	<i>Ohio Public Employees Retirement System v. Fannie Mae</i> (part of <i>In re Fannie Mae Securities Litigation</i>)
Court	District Court for the District of Columbia
Judge	Leon
Docket number	04-CV-01639
AG clients	Ohio Public Employees Retirement System and State Teachers Retirement System of Ohio
At issue	Earnings management securities fraud by Fannie Mae and its executives.
Status	Fact discovery is ongoing in the case. Once fact discovery concludes, the case can be set for trial.

- The Ohio Attorney General is aggressively prosecuting an earnings management securities fraud class action on behalf of investors harmed through securities violations by Fannie Mae and its executives between April 17, 2001 and December 22, 2004.
- The lawsuit alleges that Fannie Mae and certain former officers and executives of the company employed a scheme to defraud the public and made untrue statements of material fact and/or omitted to state material facts necessary in order to make their public statements not misleading, violating securities laws.
- The case has been called one of the largest accounting fraud cases in U.S. corporate history. After the fraud, Fannie Mae restated its financial statements in December 2006, wiping out \$10.3 billion of its previously reported earnings and admitting to violating Generally Accepted Accounting Principles in *30 areas*. Fannie Mae also took the extraordinary step of suing its auditor, KPMG, for accounting malpractice.
- Over 30 million pensioners in all fifty states were damaged by the defendants' fraud and are covered in the class action, including retired firemen, policemen, teachers, health care providers, transportation workers, public safety workers, judges, and other public service employees. A large percentage of these pensioners are women and minorities.
- The court appointed Ohio Public Employees Retirement System and State Teachers Retirement System of Ohio as Plaintiff Class Representatives.
- The Ohio Attorney General has successfully defeated all the motions to dismiss filed by Fannie Mae, Raines, Howard, Spencer and KPMG in the case.



Common name	Freddie Mac
Caption	<i>Scott Reimer v. Federal Home Loan Mortgage Corp.</i>
Court	Northern District of Ohio
Judge	Adams
Docket number	08-CV-00160
AG client	Ohio Public Employees Retirement System
At issue	Freddie Mac and its officers' fraud and making of untrue statements of material fact and/or omissions of material facts necessary in order to make their public statements not misleading, in violation of federal securities laws.
Status	Currently in early stage of litigation.

- This lawsuit alleges that Freddie Mac and its former officers and executives falsely assured investors regarding the safety and soundness of the company's loan portfolios, capital position, and underwriting policies.
- The lawsuit also alleges that the defendants misrepresented or hid from investors a number of internal problems including: (i) deficient underwriting guidelines and defendants' knowing violations of those guidelines; (ii) obsolete loan analysis software and virtually non-existent fraud detection systems; (iii) reckless credit risk management procedures and resulting poor credit performance; (iv) significant and rapidly increasing exposure to subprime and other nontraditional mortgage related losses; and (v) the resulting negative impact of all of the foregoing on Freddie Mac's required capital position, including the rate and extent to which the company's capital position had deteriorated to an unsafe and unsound condition.
- The impact of the defendants' fraud has been devastating. The value of Freddie Mac's common stock, which traded as high as \$66.07 during the class period, collapsed to near worthlessness when defendants' fraud and Freddie Mac's financial condition were finally disclosed.
- In addition, on September 6, 2008, the federal government took the unprecedented step of placing Freddie Mac into conservatorship under its regulator, the Federal Housing Finance Agency, and shortly thereafter terminated several company executives who are defendants in the Ohio lawsuit.
- The Ohio Attorney General, on behalf of lead plaintiff Ohio Public Employees Retirement System, is vigorously pursuing a securities fraud class action lawsuit on behalf of the purchasers of Freddie Mac common stock who were harmed by the misdeeds of Freddie Mac and some of its former officers and executives.
- Most recently, on May 21, 2009, the Ohio Attorney General's office filed a motion seeking to obtain documents that the defendants provided to the federal government which may support the claims included in the Ohio Attorney General's lawsuit.



Common name	Marsh
Caption	<i>In re Marsh & McLennan Cos., Inc. Securities Litigation</i>
Court	Southern District of New York
Judge	McMahon
Docket number	04-CV-8144
AG clients	Ohio Bureau of Workers' Compensation; Ohio Public Employees Retirement System; and State Teachers Retirement System of Ohio
At issue	Misrepresentations regarding revenue derived from illegal, anticompetitive agreements with insurance providers.
Status	The court entered final approval of a \$400 million settlement agreement on December 23, 2009.

- This lawsuit alleged that Marsh & McLennan Companies (“MMC”) and certain former officers and executives made materially false and misleading statements to investors in connection with “contingent commissions”—payments made by insurance companies to brokers in exchange for alleged services provided to the insurance companies.
- The allegations included that these “contingent commissions” were in reality based mainly on the amount of business that insurance companies directed to Marsh Inc. (“Marsh”). They provided huge incentives for Marsh to “steer” business to carriers based on the amount of money those carriers would kick back to Marsh, rather than based on the clients’ best interests. Former Marsh employees have testified in criminal plea allocutions that, in some instances, Marsh was creating fake bids in order to steer its clients to choose Marsh’s preferred insurance carrier.
- These improper business practices came to light on October 14, 2004, when a New York Attorney General investigation revealed an industry-wide scandal involving improper steering and bid manipulation activities. Since then, more than one dozen former Marsh employees have pleaded guilty to crimes related to Marsh’s improper business practices.
- After the truth about MMC’s business model and improper activity was revealed, MMC lost billions of dollars in market capitalization. Shareholders collectively lost billions of dollars.
- The Public Employees Retirement System of Ohio, State Teachers Retirement System of Ohio, and Ohio Bureau of Workers’ Compensation served as co-lead plaintiffs, together with the State of New Jersey, in a securities fraud class action filed on behalf of investors who were harmed by these securities law violations. Defendants in the lawsuit included MMC, Marsh, Jeffrey Greenberg (MMC’s former CEO), and Roger Egan (Marsh’s former president and COO).
- In January 2005, MMC settled with the New York Attorney General and paid \$850 million to compensate certain *clients* harmed through the scheme. The Ohio lawsuit sought redress for defrauded *shareholders*.
- On November 13, 2009, the Ohio Attorney General announced a \$400 million settlement in this litigation. The court entered final approval of the settlement agreement on December 23, 2009.



Common name	Merrill Lynch
Caption	<i>In re Merrill Lynch & Co., Inc. Securities, Derivative, and ERISA Litigation</i>
Court	Southern District of New York
Judge	Rakoff
Docket number	07-CV-9633
AG client	State Teachers Retirement System of Ohio
At issue	Securities fraud related to Merrill Lynch's exposure to residential mortgage-related debt, including subprime and collateralized debt obligations.
Status	\$475 million settlement approved August 4, 2009.

- This securities class action against Merrill Lynch & Co., Inc., which recently settled, alleged among other things that Merrill Lynch made materially false and misleading statements in its financial statements concerning its exposure to residential mortgage-related debt, including subprime and collateralized debt obligations (“CDOs”).
- As early as 2006, Merrill Lynch failed to disclose to its investors that it had been secretly accumulating on its balance sheet billions of dollars in exposures to these risky securities (which had grown to \$40 billion as of June 2007). When asked by analysts about its subprime related debt, the company and its executives falsely represented that Merrill Lynch's risk controls and hedging techniques were effectively minimizing any impact that subprime issues would have on Merrill Lynch. The company and its top executives, however, were aware that trends in the housing market and rising default rates of subprime borrowers would materially impact the subprime and CDO-related exposures that Merrill Lynch had been accumulating on its balance sheet.
- By as early as February 2007, Merrill Lynch's subprime related and CDO exposure had become substantially impaired, requiring the company to write down the exposure under applicable accounting rules. Nevertheless, Merrill Lynch only belatedly began to write down its exposure with an \$8 billion write-down in October 2007, and even then, it did not account for the full extent of its exposure. Beginning in the third quarter of 2007 and continuing through 2008, Merrill Lynch announced a series of write-downs in the billions of dollars with respect to its exposures to these risky securities. By January 2008, Merrill Lynch had written down over \$24 billion and by April 2008, it had written down more than \$30 billion in such exposures. In response to these disclosures, the company's stock price declined dramatically.
- The court appointed Ohio State Teachers Retirement System as lead plaintiff in a securities class action lawsuit alleging securities violations by Merrill Lynch concerning disclosures of exposures to CDOs and subprime related debt.
- On August 4, 2009, after intense litigation, Judge Rakoff approved a \$475 million settlement, one of the top fifteen settlements of a securities class action, and one of the top five settlements in which the defendants did not admit wrongdoing.



Common name	Rating Agencies
Caption	Ohio Police & Fire Pension Fund v. Standard & Poor's
Court	Southern District of Ohio
Judge	Graham
Docket number	09-CV-1054
AG clients	Ohio Police & Fire Pension Fund; Ohio Public Employees Retirement System; State Teachers Retirement System of Ohio; School Employees Retirement System of Ohio; and Ohio Public Employees Deferred Compensation Program
At issue	Inaccurate and misleading credit ratings of mortgage-backed securities.
Status	Ohio's Response to Motion to Dismiss filed March 22, 2010.

- This lawsuit seeks to recover huge losses suffered by five Ohio pension funds when the three main credit rating agencies issued inaccurate and misleading credit ratings to convince investors that pools of risky mortgages had somehow been transformed into safe investments.
- Mortgage-backed securities (MBS) involve the bundling of hundreds or thousands of individual mortgages, secured by either commercial or residential real estate, into a single investment instrument that can be purchased like a bond or stock. After the bundling occurs, it is virtually impossible for an investor to scrutinize the relative safety of the individual mortgages contained in an MBS with traditional measures like the borrower's income and credit history, the terms of the financing, or whether the property is owner-occupied or held for investment.
- Defendants Standard & Poor's Ratings Services, Moody's Investors Service, Inc., and Fitch, Inc. (collectively, the "Rating Agencies") played the role of both coach and referee, helping to structure MBS and then trying with their ratings to convince potential buyers that the risks involved were minimal. The Rating Agencies falsely represented that their MBS credit ratings were independent, objective, and based upon thoughtful and adequate methodologies. In fact, the Rating Agencies employed flawed credit models that did "not capture half of the risk" present in the MBS. As a former S&P Managing Director explained, "profit was primary, analytics were secondary." Or as another of the defendants' analysts put it, "We rate every deal. It could be structured by cows and we would rate it."
- MBS issuers paid the Rating Agencies huge fees to provide credit ratings and convince institutional investors, like the Ohio Funds, that the MBS somehow earned the highest investment grade credit ratings. And the Rating Agencies pocketed stunning profits from the MBS ratings financial windfall. For example, from 2002 to 2006, S&P's revenues increased by more than 800 percent. For five years in a row, Moody's had the highest profit margin of any company in the S&P 500. Finally, Fitch saw its earnings increase by 18 percent in 2006 and 22 percent in 2007.
- The Rating Agencies' misconduct has caused devastating losses for the five Ohio pension funds. The initial loss estimates indicate that the Ohio Funds lost \$457 million in investment value. These losses occurred despite many of these MBS investments carrying the defendants' highest investment grade ratings.



Common name	UnitedHealth
Caption	<i>In re UnitedHealth Group, Inc. Shareholder Derivative Litigation</i>
Court	District Court for the District of Minnesota
Judge	Rosenbaum
Docket number	06-CV-1216
AG clients	Ohio Public Employees Retirement System and State Teachers Retirement System of Ohio
At issue	Widespread backdating of stock options by UnitedHealth.
Status	Settlement approved July 1, 2009.

- This lawsuit involved UnitedHealth's backdating of stock options. Together with its co-lead plaintiffs, Ohio alleged that between 1996 and 2002 UnitedHealth's Board of Directors improperly backdated the grant dates on stock options issued to corporate executives and employees on over 55.4 million (split-adjusted) shares of UnitedHealth stock. This backdating resulted in gross overpayment of senior executives and material misstatements in company financial reports.
- After the Ohio Public Employees Retirement System and the State Teachers Retirement System of Ohio commenced their lawsuit and after UnitedHealth admitted to widespread backdating of stock options, numerous corporate executives cancelled or repriced significant stock options, resulting in a financial benefit to UnitedHealth valued at approximately \$400 million.
- Ultimately, UnitedHealth admitted that many of its option grants were "likely backdated." This forced the company to restate its prior earnings because of the stock option backdating scandal, taking charges for stock-based compensation expense for the period 1994-2005 from \$400 million to \$600 million, and an additional charge of between \$25 million and \$60 million for 2006.
- On July 1, 2009, the court granted final approval of the settlement in this case. The settlement included the cancellation of millions of stock options issued to senior executives and significant cash payments to the UnitedHealth, and led to the adoption of significant corporate governance reforms by UnitedHealth. At the time the settlement was announced, the monetary value of the settlement, together with previous option grants cancelled in response to the allegations in the litigation, exceeded \$922 million, representing the largest settlement achieved in a derivative case in history.
- In addition to the significant financial benefits achieved for UnitedHealth through the prosecution of the litigation and the settlement, counsel for Ohio and the other co-lead plaintiffs worked closely with attorneys for UnitedHealth to develop and recommend significant reforms in the company's corporate governance practices to ensure accountability among the company's officers and executives. UnitedHealth agreed to adopt many of these reforms as part of a separate settlement agreement.