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**Trial Reports**

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**General American case settles for \$100 million****Goldman Sachs was final defendant in lawsuit over insurer's collapse***By Heather Cole*

A \$100 million settlement with Goldman Sachs marked the end of the road for litigation over the 1999 collapse of [General American Life](#).

The settlement, which includes \$30,000 in court costs, was approved Nov. 13. The parties arrived at the amount through court-ordered mediation before a February trial date.

The settlement brought to \$242 million the total collected from former [General American](#) directors and advisers. It also concludes the investigation of and litigation against third parties, according to Albert Riederer, special deputy liquidator for [General American Mutual Holding Co.](#), the owner of [General American Life](#) stock.

Riederer and the Missouri Department of Insurance had sought \$3 billion in punitive damages from Goldman Sachs over the investment bank's actions as a potential creditor and an adviser to [General American](#) on its sale to MetLife.

"There's no magic formula," plaintiffs' attorney Paul Kovacs, of Armstrong Teasdale, said of the settlement amount. "It finally gets to the point where you think you've pushed the envelope as far as it can go, and the client makes the call."

The lawsuit claimed Goldman Sachs failed to provide promised credit of up to \$2 billion when [General American](#) suffered a liquidity crisis; undervalued [General American](#) by up to \$700 million when the investment bank said MetLife's offer of \$1.2 billion for the insurance company's assets

was fair; and failed to disclose that MetLife was a Goldman Sachs client before the investment bank gave its opinion on the sale.

The lawsuit was filed after **General American** collapsed when investors sought to redeem \$6.5 billion worth of a high value investment product within a week.

The settlement amount reflects the merits of the lawsuit, which attorneys thought was a good **case**, said plaintiffs' attorney Rick Lombardo, a partner with Kansas City firm Shaffer Lombardo Shurin.

**General American** management didn't understand that a downgrade on the investment product from a single ratings agency might cause a "run on the bank," Lombardo said.

"Goldman Sachs, on the other hand, was acutely aware, if one agency downgraded, the consequences could be disastrous," according to an internal Goldman Sachs memo, Lombardo said. "They never gave that advice to **General American**."

A Goldman Sachs spokesman declined to comment.

Armstrong Teasdale and Shaffer Lombardo are taking home \$21.1 million in contingency fees from the Goldman Sachs settlement.

Goldman Sachs was added to the lawsuit in 2007. Most of the other defendants settled earlier, with investment bank Morgan Stanley Cos. paying the most, \$95 million, under a 2006 agreement.

One defendant, Leonard Rubenstein, who had been the president and chief executive of **General American** subsidiary Conning Corp., was dropped without explanation from the **case** April 30.

The plaintiffs were on the hook for at least \$3.1 million in Rubenstein's legal defense fees, under the conditions of two settlements and a 1999 stock purchase agreement for the \$1.2 billion sale of **General American** Life Insurance Co. to Metropolitan Life.

David Wells, a Thompson Coburn attorney representing Goldman Sachs, said in a July hearing that the plaintiffs paid Rubenstein's \$1 million in attorneys' fees for a year to keep the **case** from being moved to federal court.

Keeping Rubenstein in the **case** for a year after Goldman Sachs was added destroyed diversity of citizenship, which allows a federal district court to hear a **case** if the parties on either side are from different states, Wells said in the hearing before St. Louis City Circuit Court Judge Steven Ohmer. If one defendant is a resident of the same state as the plaintiff, the **case** has to be heard in a state court. Rubenstein is a Missouri resident.

It was inappropriate to allow the plaintiffs "to manipulate the system" that way, Wells said in unsuccessfully arguing a motion to reconsider dismissing Goldman Sachs from the **case**.

When Ohmer asked Kovacs at the hearing why Rubenstein had been dropped from the **case**, Kovacs declined to answer, saying he didn't have an obligation to discuss his trial strategies in front of his opponents. Kovacs also wouldn't comment when a reporter put the same question to him in a telephone interview.

### **\$100,005,000 settlement**

Breach of fiduciary Duty

n **Court:** St. Louis City and Cole County circuit courts

n **Case Number/Date:** 22042-7300-01/Nov. 4, 2008

n **Judge:** Steven Ohmer, Patricia Joyce

n **Plaintiffs' Experts:** Benjamin Akande, Webster University, St. Louis (generally accepted business practices, ethics); Kevin Carlie, CPA, Stone Carlie, St. Louis (certified public accountant, valuation); Donna Smith, Brown Smith Wallace, St. Louis (certified public accountant, business, finance); William Horton, San Francisco, Calif. (investment banking)

n **Defendants' Experts:** Robert Fleischer, New York (investment banking); Bruce Foudree, Chicago (insurance); David Stowell, professor, Northwestern University Kellogg School of Management, Winnetka, Ill. (financial adviser); Paul Gompers, Harvard Business School, Boston (accounting, damages, economics); Steve Grenadier, Stanford Graduate School of Business, Stanford, Calif. (valuation); Alfred Osborne Jr., University of California, Los Angeles Anderson School of Management, Los Angeles (corporate governance); Victor Modugno, Rodondo Beach, Calif. (actuary)

n **Caption:** Scott B. Lakin, As Receiver of General American Mutual Holding Co. v. Goldman Sachs & Co.

n **Plaintiffs' Attorneys:** Paul Kovacs, Daniel Nelson, Craig Moore and Mark Sophir, Armstrong Teasdale, St. Louis; Richard F. Lombardo and Kathleen Kopach-Woods, Shaffer Lombardo Shurin, Kansas City

n **Defendants' Attorneys:** Gandolfo V. DiBlasi, Sullivan & Cromwell, New York; David Wells, Thompson Coburn, St. Louis

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