

AMERICAN INTERNATIONAL GROUP INC  
Form DEF 14A  
April 04, 2008

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**SCHEDULE 14A**

**(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities**

**Exchange Act of 1934 (Amendment No.    )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

**American International Group, Inc.**

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of filing fee (Check the appropriate box):

- No fee required.  
 Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transaction applies:
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- (1) Amount Previously Paid:
- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:
- (4) Date Filed:



AMERICAN INTERNATIONAL GROUP, INC.  
70 Pine Street, New York, N.Y. 10270

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD MAY 14, 2008**

April 4, 2008

*To the Shareholders of*  
AMERICAN INTERNATIONAL GROUP, INC.:

The Annual Meeting of Shareholders of AMERICAN INTERNATIONAL GROUP, INC. (AIG) will be held at the offices of AIG at 72 Wall Street, Eighth Floor, New York, New York, on May 14, 2008, at 11:00 a.m., for the following purposes:

1. To elect 13 directors of AIG to hold office until the next annual election and until their successors are duly elected and qualified;
2. To act upon a proposal to ratify the selection of PricewaterhouseCoopers LLP as AIG's independent registered public accounting firm for 2008;
3. To act upon a shareholder proposal relating to the human right to water;
4. To act upon a shareholder proposal relating to the reporting of political contributions; and
5. To transact any other business that may properly come before the meeting.

Shareholders of record at the close of business on March 28, 2008 will be entitled to vote at the meeting.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be held on May 14, 2008. The Proxy Statement, Annual Report to Shareholders and other Soliciting Material are available in the Investor Information section of AIG's corporate website at [www.aigcorporate.com](http://www.aigcorporate.com).

By Order of the Board of Directors  
KATHLEEN E. SHANNON  
*Secretary*

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If you plan on attending the meeting, please remember to bring photo identification with you. If you cannot be present at the meeting, please sign the enclosed proxy card and return it at once in the accompanying postage prepaid envelope or vote your shares by telephone or through the Internet.

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AMERICAN INTERNATIONAL GROUP, INC.  
70 Pine Street, New York, N.Y. 10270

**PROXY STATEMENT**

April 4, 2008

TIME AND DATE	11:00 a.m. on Wednesday, May 14, 2008.
PLACE	72 Wall Street, Eighth Floor, New York, New York 10270
ITEMS OF BUSINESS	<p>To elect 13 directors of AIG to hold office until the next annual election and until their successors are duly elected and qualified.</p> <p>To act upon a proposal to ratify the selection of PricewaterhouseCoopers LLP as AIG's independent registered public accounting firm for 2008.</p> <p>To act upon a shareholder proposal relating to the human right to water.</p> <p>To act upon a shareholder proposal relating to the reporting of political contributions.</p> <p>To transact any other business that may properly come before the meeting.</p>
RECORD DATE	You can vote if you were a shareholder of record at the close of business on March 28, 2008.
MAILING DATE	These materials are being mailed to shareholders of AIG commencing on or about April 4, 2008.
INSPECTION OF LIST OF SHAREHOLDERS OF RECORD	A list of the shareholders of record as of March 28, 2008 will be available for inspection during ordinary business hours during the ten days prior to the meeting at AIG's offices, 70 Pine Street, New York, New York 10270.
ADDITIONAL INFORMATION	Additional information regarding the matters to be acted on at the meeting is included in the accompanying proxy materials.
PROXY VOTING	PLEASE SUBMIT YOUR PROXY THROUGH THE INTERNET OR BY TELEPHONE OR MARK, SIGN, DATE AND RETURN YOUR PROXY IN THE ENCLOSED ENVELOPE.

## TABLE OF CONTENTS

	<b>Page</b>
<u>VOTING INSTRUCTIONS AND INFORMATION</u>	3
<u>ELECTION OF DIRECTORS</u>	7
<u>CORPORATE GOVERNANCE</u>	10
<u>Governance</u>	10
<u>Report of the Nominating and Corporate Governance Committee</u>	11
<u>Committees</u>	13
<u>Compensation of Directors</u>	16
<u>Compensation and Management Resources Committee Interlocks and Insider Participation</u>	18
<u>OWNERSHIP OF CERTAIN SECURITIES</u>	19
<u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	21
<u>RELATIONSHIPS AND RELATED-PARTY TRANSACTIONS</u>	21
<u>EXECUTIVE COMPENSATION</u>	22
<u>Compensation and Management Resources Committee Report</u>	22
<u>Compensation Discussion and Analysis</u>	22
<u>2007 Compensation</u>	34
<u>Exercises and Holdings of Previously Awarded Equity</u>	39
<u>Post-Employment Compensation</u>	42
<u>Potential Payments on Termination</u>	47
<u>REPORT OF AUDIT COMMITTEE AND RATIFICATION OF SELECTION OF ACCOUNTANTS</u>	52
<u>Report of the Audit Committee</u>	52
<u>Ratification of Selection of PricewaterhouseCoopers LLP</u>	54
<u>Fees Paid to PricewaterhouseCoopers LLP</u>	55
<u>SHAREHOLDER PROPOSAL Human Right to Water</u>	57
<u>Shareholder Proposal</u>	57
<u>AIG Statement in Opposition</u>	57
<u>SHAREHOLDER PROPOSAL Political Contributions</u>	58
<u>Shareholder Proposal</u>	58
<u>AIG Statement in Opposition</u>	59
<u>OTHER MATTERS</u>	60
<u>Other Matters to be Presented at the 2008 Annual Meeting</u>	60
<u>Shareholder Proposals for 2009 Annual Meeting</u>	60
<u>Incorporation by Reference</u>	60
<u>Important Notice Regarding Delivery of Shareholder Documents</u>	60
<u>Proxy Solicitation</u>	60
<u>CORPORATE GOVERNANCE GUIDELINES</u>	A-1

## VOTING INSTRUCTIONS AND INFORMATION

The enclosed proxy is solicited on behalf of the Board of Directors (Board of Directors or Board) of American International Group, Inc., a Delaware corporation (AIG), for use at the AIG Annual Meeting, to be held on May 14, 2008, or at any adjournment thereof (Annual Meeting). These proxy materials are being mailed to shareholders of AIG commencing on or about April 4, 2008.

### Who can vote at the Annual Meeting?

You are entitled to vote or direct the voting of your shares of AIG common stock, par value \$2.50 per share (AIG Common Stock), if you were a shareholder of record at the close of business on March 28, 2008. On that date, 2,495,810,587 shares of AIG Common Stock (exclusive of shares held by AIG and certain subsidiaries) were outstanding, held by 55,886 shareholders of record. You may cast one vote for each share of AIG Common Stock held by you on the record date.

### What proposals will be voted on at the Annual Meeting?

There are two proposals from AIG to be considered and voted on at the Annual Meeting:

1. To elect 13 directors of AIG to hold office until the next annual election and until their successors are duly elected and qualified; and
2. To act upon a proposal to ratify the selection of PricewaterhouseCoopers LLP as AIG's independent registered public accounting firm for 2008.

In addition, there are two proposals from shareholders to be considered and voted on at the Annual Meeting:

3. To act upon a shareholder proposal relating to the human right to water; and
4. To act upon a shareholder proposal relating to the reporting of political contributions.



You may also vote on any other business that properly comes before the Annual Meeting.

**How does the Board of Directors recommend I vote?**

AIG's Board of Directors unanimously recommends that you vote:

1. **FOR** each of the nominees to the Board of Directors.
2. **FOR** ratification of the selection of PricewaterhouseCoopers LLP as AIG's independent registered public accounting firm for 2008.
3. **AGAINST** the shareholder proposal relating to the human right to water.
4. **AGAINST** the shareholder proposal relating to the reporting of political contributions.

**Who is a shareholder of record?**

During the ten days prior to the Annual Meeting, a list of the shareholders will be available for inspection at the offices of AIG at 70 Pine Street, New York, New York 10270.

If you hold AIG Common Stock that is registered in your name on the records of AIG maintained by AIG's transfer agent, Wells Fargo Shareowner Services, you are a

shareholder  
of record.

If you hold  
AIG  
Common  
Stock  
indirectly  
through a  
broker, bank  
or similar  
institution,  
you are not  
a  
shareholder  
of record,  
but instead  
hold in  
street name.

If you are a shareholder of record, these proxy materials are being sent to you directly. If you hold shares in street name, these materials are being sent to you by the bank, broker or similar institution through which you hold your shares.

**What do I need to attend the Annual Meeting?**

If you plan on attending the Annual Meeting, please remember to bring photo identification with you, such as a driver's license.

In addition, if you hold shares in street name and would like to attend the Annual Meeting, you should bring an account statement or other acceptable evidence of ownership of AIG Common Stock as of the close of

business on March 28, 2008, the record date for voting. In order to vote at the Annual Meeting, you will also need a valid legal proxy, which you can obtain by contacting your account representative at the broker, bank or similar institution through which you hold your shares. See How do I vote?

### **How do I vote?**

You may cast your vote in one of four ways:

**By Internet.** Go to the following website:  
[www.eproxy.com/aig](http://www.eproxy.com/aig).  
Internet voting is available 24 hours a day. Enter the information requested on your computer screen and follow the simple instructions. If you choose to vote by Internet, then you do not need to return the proxy card. To be valid, your vote by Internet must be received by 11:59 a.m., Eastern Daylight Saving Time, on May 13, 2008. Please have your proxy card and the last four digits of your Social Security number or tax identification number available.

**By Telephone.** To vote using the telephone (within U.S. and Canada), call toll free 1-800-560-1965 in the United States or Canada any time on a touch tone telephone. Telephone voting is available 24 hours a day, 7 days a week. There is NO CHARGE to you for the call. Follow the

simple instructions provided by the recorded message. If you choose to vote by telephone, then you do not need to return the proxy card. To be valid, your vote by telephone must be received by 11:59 a.m., Eastern Daylight Saving Time, on May 13, 2008.

***By Mail.*** Mark the enclosed proxy card, sign and date it, and return it in the pre-paid envelope that has been provided. To be valid, your vote by mail must be received by 10:00 a.m., Eastern Daylight Saving Time, on May 14, 2008.

***At the Annual Meeting.*** You can vote your shares in person at the Annual Meeting (see [What do I need to attend the Annual Meeting?](#) ). If you are a shareholder of record, in order to vote at the Annual Meeting, you must present an acceptable form of identification, such as a driver's license. If you hold your shares in street name, you must obtain a legal proxy, as described above, under [What do I need to attend the Annual Meeting?](#) , and bring that proxy to the Annual Meeting.

**How can I revoke my proxy or substitute a new proxy or change my vote?**

You can revoke your proxy or substitute a new proxy by:

***For a Proxy Submitted by Internet or Telephone***

Subsequently submitting in a timely manner a new proxy through the Internet or by telephone; or

Executing and mailing a later-dated proxy card that is received by AIG prior to 10:00 a.m., Eastern Daylight Saving Time, on May 14, 2008; or

Voting in person at the Annual Meeting.

***For a Proxy Submitted by Mail***

Subsequently executing and mailing another proxy card bearing a later date; or

Giving written notice of revocation to AIG's Secretary at 70 Pine Street, New

York, NY  
10270 that is  
received by  
AIG prior to  
10:00 a.m.,  
Eastern  
Daylight  
Saving Time,  
on May 14,  
2008; or

Voting in  
person at the  
Annual  
Meeting.

**If I submit a proxy by Internet, telephone or mail, how will my shares be voted?**

If you properly submit your proxy by one of these methods, and you do not subsequently revoke your proxy, your shares will be voted in accordance with your instructions.

If you sign, date and return your proxy card but do not give voting instructions, your shares will be voted as follows: FOR the election of AIG's director nominees, FOR the ratification of the appointment of PricewaterhouseCoopers LLP as AIG's independent registered public accounting firm for 2008, AGAINST each of the shareholder proposals and otherwise in accordance with the judgment of the persons voting the proxy on any other matter properly brought before the Annual Meeting.

**If I hold my shares in street name and do not provide voting instructions, can my broker still vote my shares?**

Under the rules of the New York Stock Exchange (NYSE), brokers that have not received voting instructions from their customers ten days prior to the Annual Meeting date may vote their customers' shares in the brokers' discretion on the proposals regarding the election of directors and the ratification of the appointment of independent auditors because these are considered discretionary under NYSE rules. If your broker is an affiliate of AIG, NYSE policy specifies that, in the absence of your specific voting instructions, your shares may only be voted in the same proportion as all other shares are voted with respect to each proposal.

Under NYSE rules, each of the shareholder proposals is a non-discretionary item, which means that member brokers who have not received instructions from the beneficial owners of AIG Common Stock do not have discretion to vote the shares of AIG Common Stock held by those beneficial owners on such proposal.

**How are votes counted?**

**Election of Directors.** AIG's By-laws provide that in uncontested elections, directors must receive a majority of the votes cast. In other words, directors in an uncontested election must receive more votes for their election than against their election. In a contested election, a director will be elected by a plurality of the votes cast. Pursuant to AIG's Corporate Governance Guidelines, each nominee for director has submitted to the Board an irrevocable resignation from the Board that would become effective upon (1) the failure of such nominee to receive the required vote at the Annual Meeting and (2) Board acceptance of such resignation. In the event that a director nominee fails to receive the required vote at the Annual Meeting, the Nominating and Corporate Governance Committee will then make a recommendation to the Board on the action to be taken with respect to the resignation. The Board will accept such resignation unless the Committee recommends and the Board determines that the best interests of AIG and its shareholders would not be served by doing so.

**Ratification of the selection of PricewaterhouseCoopers LLP as AIG's Independent Registered Public Accounting Firm.** Ratification of the selection of accountants requires that a majority of the votes cast vote for ratification. Neither AIG's Restated Certificate of Incorporation nor AIG's By-laws require that the shareholders ratify the selection of PricewaterhouseCoopers LLP as its independent registered public accounting firm. AIG's Board is requesting shareholder ratification as a matter of good corporate practice. If the shareholders do not ratify the selection, the Audit Committee will reconsider whether or not to retain PricewaterhouseCoopers LLP, but may still retain PricewaterhouseCoopers LLP. Even if the selection is ratified, the Audit Committee in its discretion may change the appointment at any time during the year if it determines that such change would be in the best interests of AIG and its shareholders.

**Shareholder Proposal.** Approval of a shareholder proposal requires a for vote by a majority of the outstanding shares of AIG Common Stock.

**Broker Non-Votes.** Because directors are elected by a majority of the votes cast, an abstention or broker non-vote will have no effect on the election, although a director who receives more votes against than for his or her election will be required to resign, subject to the process described above under Election of Directors.

In the case of ratification of the appointment of PricewaterhouseCoopers LLP, only votes cast for or against the ratification will be considered; abstentions, broker non-votes and withheld votes will not be treated as a vote for or against the ratification and therefore will have no effect on the vote. Because the affirmative vote of a majority of the outstanding shares of AIG Common Stock is necessary to approve each shareholder proposal, an abstention, broker non-vote or withheld vote will have the effect of a vote against such proposal.

**How many votes are required to transact business at the Annual Meeting?**

A quorum is required to transact business at the Annual Meeting. The holders of a majority of the outstanding shares of AIG Common Stock will constitute a quorum.

Proxies marked as abstaining, and any proxies returned by brokers as non-votes on behalf of shares held in street name because beneficial owners' discretion has been withheld as to one or more matters on the agenda for the Annual Meeting, will be treated as present for purposes of determining a quorum for the Annual Meeting.



**How do I obtain more information about AIG?**

A copy of AIG's 2007 Annual Report to Shareholders, which includes AIG's Annual Report on Form 10-K for the year ended December 31, 2007 filed with the U.S. Securities and Exchange Commission (SEC), is enclosed with this Proxy Statement. **You also may obtain, free of charge, a copy of the 2007 Annual Report to Shareholders and Annual Report on Form 10-K for the year ended December 31, 2007 by writing to American International Group, Inc., 70 Pine Street, New York, New York 10270, Attention: Investor Relations.** These documents also are available in the Investor Information section of AIG's corporate website at *www.aigcorporate.com*.

**Who pays for the expenses of this proxy solicitation?**

AIG will bear the cost of this solicitation of proxies. Proxies may be solicited by mail, email, personal interview, telephone and facsimile transmission by directors, their associates, and approximately eight officers and regular employees of AIG and its subsidiaries. In addition to the foregoing, AIG has retained D.F. King & Co., Inc. to assist in the solicitation of proxies for a fee of approximately \$16,000 plus reasonable out-of-pocket expenses and disbursements of that firm. AIG will reimburse brokers and others holding AIG Common Stock in their names, or in the names of nominees, for forwarding proxy materials to their principals.

## ELECTION OF DIRECTORS

Thirteen directors are to be elected at the Annual Meeting to hold office until the next annual election and until their successors are duly elected and qualified. It is the intention of the persons named in the accompanying form of proxy to vote for the election of the nominees listed below. All of the nominees are currently members of AIG's Board of Directors. It is not expected that any of the nominees will become unavailable for election as a director, but if any should prior to the Annual Meeting, proxies will be voted for such persons as the persons named in the accompanying form of proxy may determine in their discretion. Directors will be elected by a majority of the votes cast. Pursuant to AIG's Corporate Governance Guidelines, each nominee for director has submitted to the Board an irrevocable resignation from the Board that would become effective upon (1) the failure of such nominee to receive the required vote at the shareholder meeting and (2) Board acceptance of such resignation. In the event that a director nominee fails to receive the required vote, the Nominating and Corporate Governance Committee will then make a recommendation to the Board on the action to be taken with respect to the resignation. The Board will accept such resignation unless the Board determines (after consideration of the Nominating and Corporate Governance Committee's recommendation) that the best interests of AIG and its shareholders would not be served by doing so.

In accordance with AIG's Corporate Governance Guidelines that provides that directors will not stand for election as a director after reaching the age of 73, Messrs. Cohen and Zarb will retire from the Board of Directors effective at the time that the directors are elected at the Annual Meeting. In addition, Mr. Hammerman has notified AIG that he does not wish to stand for re-election as a director at the Annual Meeting.

The nominees for director and certain information supplied by them to AIG are as follows:

<b>STEPHEN F. BOLLENBACH</b> Elected January 16, 2008	<b>Former Co-Chairman and Chief Executive Officer, Hilton Hotels Corporation</b> Age 65 <i>Director, KB Home Macy's, Inc. Time Warner Inc.</i>
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<b>MARTIN S. FELDSTEIN</b> Director since 1987	<b>Professor of Economics, Harvard University; President and Chief Executive Officer, National Bureau of Economic Research</b> <i>(a nonprofit economic research center)</i> Age 68
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<b>ELLEN V. FUTTER</b> Director since 1999	<i>Director, Eli Lilly and Company</i> <b>President, American Museum of Natural History</b> Age 58 <i>Director, Consolidated Edison, Inc. (also serves as Trustee of Consolidated Edison Company of New York, Inc.) JPMorgan Chase &amp; Co.</i>
<b>RICHARD C. HOLBROOKE</b> Director since 2001	<b>Vice Chairman, Perseus LLC (a merchant bank and private equity fund management company); Former United States Ambassador to the United Nations; Former Vice Chairman, Credit Suisse First Boston</b> Age 66

**FRED H. LANGHAMMER**  
Director since 2006

**Chairman, Global Affairs and Former Chief Executive Officer, The Estée Lauder Companies Inc.**  
Age 64  
*Director, Shinsei Bank, Limited*  
*The Walt Disney Company*

**GEORGE L. MILES, JR.**  
Director since 2005

**President and Chief Executive Officer, WQED Multimedia**  
Age 66  
*Director, Equitable Resources, Inc.*  
*Harley-Davidson, Inc.*  
*HFF, Inc.*  
*WESCO International, Inc.*

**MORRIS W. OFFIT**  
Director since 2005

**Chairman, Offit Capital Advisors LLC (a wealth management advisory firm); Founder and Former Chief Executive Officer, OFFITBANK (a private bank)**  
Age 71

**JAMES F. ORR III**  
Director since 2006

**Chairman of the Board of Trustees, The Rockefeller Foundation**  
Age 65

**VIRGINIA M. ROMETTY**  
Director since 2006

**Senior Vice President, Global Business Services, IBM Corporation**  
Age 50

**MARTIN J. SULLIVAN**  
Director since 2002

**President and Chief Executive Officer, AIG**  
Age 53

*Director,  
International Lease  
Finance  
Corporation and  
Transatlantic  
Holdings, Inc.,  
subsidiaries of AIG*

**MICHAEL H. SUTTON**  
Director since 2005

**Independent  
Consultant;  
Former Chief  
Accountant of  
the United States  
Securities and  
Exchange  
Commission**

Age 67  
*Director,  
Allegheny Energy,  
Inc.  
Krispy Kreme  
Doughnuts, Inc.*

**EDMUND S.W. TSE**  
Director since 1996

**Senior Vice  
Chairman Life  
Insurance, AIG**  
Age 70

**ROBERT B. WILLUMSTAD**  
Director and Chairman since 2006

**Founder and  
Partner, Brysam  
Global Partners  
(a private equity  
investment firm);  
Former  
President and  
Chief Operating  
Officer,  
Citigroup Inc.**  
Age 62

The principal occupation or affiliation of the nominees is shown above. Messrs. Sullivan and Tse have been executive officers of AIG for more than five years. Except as noted below, each other director has occupied an executive position with the company or organization listed above for at least five years. From 2004 until 2007, Mr. Bollenbach was Co-Chairman and Chief Executive Officer of Hilton Hotels Corporation. Before that, he was Hilton Hotels Corporation's Chief Executive Officer and President. Mr. Offit served as Co-Chief Executive Officer of Offit Hall Capital Management LLC from 2002 until 2007. Mr. Willumstad served in executive positions with Citigroup Inc. for more than five years prior to his retirement in September 2005. Brysam Global Partners was established in November 2006.

## CORPORATE GOVERNANCE

### GOVERNANCE

AIG's Board regularly reviews corporate governance developments and modifies its Corporate Governance Guidelines, charters and practices from time to time. AIG's Corporate Governance Guidelines are included as Appendix A. AIG's Corporate Governance Guidelines and the charters of the Nominating and Corporate Governance Committee, the Compensation and Management Resources Committee, the Finance Committee, the Audit Committee, the Public Policy and Social Responsibility Committee, and the Regulatory, Compliance and Legal Committee are available in the Corporate Governance section of AIG's corporate website at [www.aigcorporate.com](http://www.aigcorporate.com).

AIG's Director, Executive Officer and Senior Financial Officer Code of Business Conduct and Ethics and a Code of Conduct for employees are available, without charge, in the Corporate Governance section of AIG's corporate website at [www.aigcorporate.com](http://www.aigcorporate.com) or in print by writing to American International Group, Inc., 70 Pine Street, New York, New York 10270, Attention: Investor Relations. Any amendment to AIG's Director, Executive Officer and Senior Financial Officer Code of Business Conduct and Ethics and any waiver applicable to AIG's directors, executive officers or senior financial officers will be posted on AIG's website within the time period required by the SEC and the NYSE.

Using the current AIG Director Independence Standards that are included in the Corporate Governance Guidelines, the Board, on the recommendation of the Nominating and Corporate Governance Committee, determined that Ms. Futter, Ms. Rometty and Messrs. Bollenbach, Cohen, Feldstein, Hammerman, Holbrooke, Langhammer, Miles, Offit, Orr, Sutton, Willumstad and Zarb are independent under NYSE listing standards and AIG's Director Independence Standards.

In making the independence determinations, the Nominating and Corporate Governance Committee considered relationships arising from (1) contributions by AIG to charitable organizations with which Messrs. Bollenbach, Cohen, Feldstein, Hammerman, Holbrooke, Langhammer and Offit, and Ms. Futter or members of their immediate families are affiliated, (2) in the case of Ms. Rometty, transactions between AIG and IBM Corporation and (3) in the case of certain directors, investments and insurance products provided to them by AIG in the ordinary course of business and on the same terms made available to third parties. Except as described in the following paragraph, none of these relationships exceeded the thresholds set forth in the AIG Director Independence Standards.

In 2007, AIG made payments totaling \$527,500 to the Asia Society, of which Mr. Holbrooke is chairman of the board of directors, for membership fees, sponsorship costs and general contributions. In addition, to date in 2008, AIG has made a payment of \$50,000 for sponsorship costs. Under AIG's Director Independence Standards that are used to assist the Board in making independence determinations, the Board must consider the materiality of any contributions for a calendar year made to a charitable organization with which a director is affiliated if the contributions exceed \$200,000. The Board, on the recommendation of the Nominating and Corporate Governance Committee, considered the payments to the Asia Society and determined that they do not impair Mr. Holbrooke's independence. In making this determination, the Nominating and Corporate Governance Committee and the Board evaluated all facts they considered relevant, including that Mr. Holbrooke does not serve as an executive officer and does not receive compensation from the Asia Society, that he did not solicit the payments and that, given the significance of AIG's operations in Asia, the Board and AIG management believe that the payments to the Asia Society will enhance AIG's reputation and standing in Asia.

There were nine meetings of the Board during 2007. The non-management directors meet in executive session, without any management directors present, in connection with each regularly scheduled Board meeting. Mr. Willumstad presided at these executive sessions. For 2007 and 2006, all of the directors attended at least 75 percent of the aggregate of all meetings of the Board and of the committees of the Board on which they served. Under AIG's Corporate Governance Guidelines, any director who, for two consecutive calendar years, attends fewer than 75

percent of the regular meetings of the Board and the meetings of all committees of which such director is a voting member, will not be nominated for reelection at the annual meeting in the next succeeding calendar year, absent special circumstances that may be taken into account by the Board and the Nominating and Corporate Governance Committee in making its recommendations to the Board.

Directors are expected to attend the annual meetings of shareholders. All directors serving at the time of the 2007 annual meeting of shareholders attended that meeting.

AIG has adopted policies on reporting of concerns regarding accounting and other matters and on communicating with non-management directors. These policies are available in the Corporate Governance section of AIG's corporate website at [www.aigcorporate.com](http://www.aigcorporate.com). Interested parties may make their concerns known to the non-management members of AIG's Board of Directors as a group or the other members of the Board of Directors by writing care of Special Counsel and Secretary to the Board, American International Group, Inc., 70 Pine Street, New York, NY 10270 or by email to: [boardofdirectors@aig.com](mailto:boardofdirectors@aig.com).



## REPORT OF THE NOMINATING AND CORPORATE GOVERNANCE COMMITTEE

### Overview

The role of the Nominating and Corporate Governance Committee is to identify individuals qualified to become Board members and recommend these individuals to the Board for nomination as members of the Board and its committees, to advise the Board on corporate governance matters and to oversee the evaluation of the Board and its committees.

### Committee Organization and Operation

**Committee Charter.** The Committee's charter is available in the Corporate Governance section of AIG's corporate website at [www.aigcorporate.com](http://www.aigcorporate.com).

**Independence.** The Board of Directors has determined that each member of the Committee is independent, as required by NYSE listing standards.

**Conduct of meetings and governance process.** During 2007, the Committee held six meetings. In discussing governance initiatives and in preparation for meetings, the Committee Chairman and Mr. Eric N. Litzky, Vice President - Corporate Governance and Special Counsel and Secretary to the Board of Directors, met and consulted frequently with Mr. Willumstad and other Committee and Board members.

### Board Membership and Composition

**Nomination and Election of Directors.** Fifteen directors were elected at AIG's annual meeting of shareholders in May 2007. In light of the pending retirement of Messrs. Cohen and Zarb, the Committee has been actively considering potential director candidates. As part of this search, Mr. Bollenbach was identified as a potential candidate by Heidrick & Struggles, an executive search firm. Mr. Bollenbach was nominated by the Committee and elected by the Board as a director in January 2008. Mr. Hammerman notified AIG in February 2008 that he did not wish to stand for re-election as a director. As a result, the Committee evaluated and recommended to the Board of Directors the 13 incumbent directors as nominees standing for election at the 2008 Annual Meeting, based on the criteria set forth in AIG's Corporate Governance Guidelines. A description of the nominees recommended by the Committee is set forth above under the caption "Election of Directors." The process for identification of director nominees when standing for election for the first time is provided below under the caption "Committees' Nominating and Corporate Governance Committee."

Mr. Willumstad has served as Chairman since November 2006, and his election as Chairman was in accordance with the policy set forth in AIG's By-laws and Corporate Governance Guidelines that the position of Chairman should be separate from Chief Executive Officer and should be selected from the independent directors.

**Independence.** The Board of Directors, on the recommendation of the Committee, determined that each of AIG's 11 non-management directors is independent within the meaning of the NYSE listing standards. Mr. Sullivan, who serves as Chief Executive Officer, and Mr. Tse, who serves as Senior Vice Chairman - Life Insurance, are the only directors who hold AIG management positions and, therefore, are not independent directors.

### Corporate Governance Initiatives in 2007

**Director Compensation and Stock Ownership Guidelines.** The Board reviewed and adopted recommendations of the Committee with respect to director compensation and stock ownership guidelines applicable to directors in 2007. Under the guidelines, directors should own at least 10,000 shares of AIG Common Stock (which includes deferred stock and Deferred Stock Units (DSUs)). Until such time as a director achieves beneficial ownership of AIG Common

Stock at the required level, such director is required to retain the shares of AIG Common Stock received upon the exercise of stock options, net of shares used to satisfy the exercise price and shares withheld or sold to satisfy tax withholding obligations.

***Amendment of By-laws and Corporate Governance Guidelines.*** On the recommendation of the Committee, the Board adopted a majority vote by-law described under Election of Directors. The Committee completed a review of AIG's Corporate Governance Guidelines in 2007 and adopted several amendments, which were posted in the Corporate Governance section of AIG's corporate website at [www.aigcorporate.com](http://www.aigcorporate.com).

**Conclusion**

During 2007, the Committee has continued its efforts to strengthen the Board of Directors and its governance structure. The Committee plans to keep AIG in the forefront of good corporate governance in 2008 and beyond.

Nominating and Corporate Governance Committee  
American International Group, Inc.

George L. Miles, Jr., Chairman  
Marshall A. Cohen  
Ellen V. Futter  
James F. Orr III  
Robert B. Willumstad, *ex-officio*  
Frank G. Zarb, non-voting member

**COMMITTEES**

The following table sets forth the current membership on each standing committee of the Board and the number of committee meetings held in 2007. On January 17, 2007, Ms. Rometty became a member of the Compensation and Management Resources Committee, Mr. Langhammer became a member of the Finance Committee and Mr. Feldstein became a member of the Regulatory, Compliance and Legal Committee. Mr. Offit became a member of the Public Policy and Social Responsibility Committee on November 14, 2007. Mr. Bollenbach became a member of the Board and the Audit Committee on January 16, 2008.

<b>Director</b>	<b>Audit Committee</b>	<b>Nominating and Corporate Governance Committee</b>	<b>Compensation and Management Resources Committee</b>	<b>Finance Committee</b>	<b>Public Policy and Social Responsibility Committee</b>	<b>Regulatory, Compliance and Legal Committee</b>
Stephen F. Bollenbach	P					
Marshall A. Cohen		P	P (C)			
Martin S. Feldstein				P		P
Ellen V. Futter		P				P
Stephen L. Hammerman					P	P (C)
Richard C. Holbrooke					P (C)	
Fred H. Langhammer			P	P		
George L. Miles, Jr.	P	P (C)			P	
Morris W. Offit	P			P (C)	P	
James F. Orr III		P	P			
Virginia M. Rometty			P			

Martin J. Sullivan

P

Michael H.  
Sutton

P (C)

P

Edmund S.W.  
TseRobert B.  
Willumstad

\*

\*

\*

\*

\*

\*

Frank G. Zarb

\*

\*

\*

\*

\*

\*

**Number of  
meetings****14****6****9****10****4****6**

P = Member; C = Chair

\* Mr. Willumstad is an *ex-officio* member and Mr. Zarb is a non-voting member of each committee.**Audit Committee**

The Audit Committee, which held 14 meetings during 2007, assists in the Board's oversight of AIG's financial statements and compliance with legal and regulatory requirements, the qualifications and performance of AIG's independent registered public accounting firm and the performance of AIG's internal audit function. The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the work of AIG's independent registered public accounting firm. In its oversight of AIG's internal audit function, the Audit Committee also is involved in performance reviews and determining compensation of AIG's chief internal auditor.

The Board has determined, on the recommendation of the Nominating and Corporate Governance Committee, that all members of the Audit Committee are independent under both NYSE listing standards and SEC rules. The Board has also determined that all members of the Audit Committee are financially literate, as defined by NYSE listing standards, and that a majority of the members of the Committee are audit committee financial experts, as defined by SEC rules. For purposes of SEC rules, the Board of Directors has designated Mr. Sutton the named audit committee financial expert and, on the recommendation of the Nominating and Corporate Governance Committee, has determined that Mr. Sutton has accounting or related financial management expertise, as defined by NYSE listing standards. Although designated as an audit committee financial expert, Mr. Sutton does not act as an accountant for AIG and, under SEC rules, is not an expert for purposes of the liability provisions of the Securities Act of 1933, as amended (the Securities Act), or for any other purpose. Under the Federal securities laws, Mr. Sutton does not have any responsibilities or obligations in

addition to those of the other Audit Committee members; for these purposes, all Audit Committee members have identical duties and responsibilities.

### **Nominating and Corporate Governance Committee**

The Nominating and Corporate Governance Committee held six meetings in 2007. The Board has determined that all members of the Nominating and Corporate Governance Committee are independent under NYSE listing standards. The primary purposes of the Nominating and Corporate Governance Committee are to review and recommend individuals to the Board of Directors for nomination, election or appointment as members of the Board and its committees, to advise the Board on corporate governance and to oversee the evaluation of the Board and its committees.

The AIG Corporate Governance Guidelines include characteristics that the Nominating and Corporate Governance Committee considers important for nominees for director and information for shareholders with respect to director nominations. The Nominating and Corporate Governance Committee will consider director nominees recommended by shareholders and will evaluate shareholder nominees on the same basis as all other nominees. Shareholders who wish to submit nominees for director for consideration by the Nominating and Corporate Governance Committee for election at the 2009 annual meeting of shareholders may do so by submitting in writing such nominees' names, in compliance with the procedures described under "Other Matters - Shareholder Proposals for 2009 Annual Meeting" in this Proxy Statement.

### **Compensation and Management Resources Committee**

The Compensation and Management Resources Committee, which held nine meetings during 2007, is responsible for reviewing and approving the compensation awarded to AIG's Chief Executive Officer (subject to ratification or approval by the Board) and to the other key employees under its purview, including the performance measures and goals relevant to that compensation. The Committee is also responsible for making recommendations to the Board with respect to AIG's compensation programs for key and other employees and for oversight of AIG's management development and succession planning programs. These responsibilities, which may not be delegated to persons who are not members of the Compensation and Management Resources Committee, are set forth in the Committee's charter, which is available in the Corporate Governance section of AIG's corporate website at [www.aigcorporate.com](http://www.aigcorporate.com).

Nineteen key employees are currently under the purview of the Compensation and Management Resources Committee, including all of the executive officers named in the 2007 Summary Compensation Table. Mr. Sullivan participates in meetings of the Compensation and Management Resources Committee and makes recommendations with respect to the annual compensation of employees under the Committee's purview other than himself. Pursuant to AIG's By-laws, the Board ratifies the determination of the Compensation and Management Resources Committee as to the compensation paid or to be paid to Mr. Sullivan in his capacity as AIG's Chief Executive Officer.

The Compensation and Management Resources Committee does not determine the compensation of the Board of Directors. The compensation of directors is recommended by the Nominating and Corporate Governance Committee and is approved by the Board.

To provide independent advice, the Compensation and Management Resources Committee selected Frederic W. Cook & Co. as a consultant and has used the services of the Cook firm since 2005. The Compensation and Management Resources Committee directly engaged the Cook firm to review and comment on AIG's executive compensation framework in relation to the objectives of the framework and market practices. Members of the Cook firm regularly participate in Committee meetings and provide information on compensation trends along with specific views on AIG's compensation programs.

The Cook firm has advised the Committee that the design and operation of AIG's executive compensation programs reflect a pay-for-performance compensation philosophy that is reasonable and competitive with companies in the financial services industry. The Cook firm has also provided advice to the Nominating and Corporate Governance Committee on AIG director compensation and market practices with respect to director compensation. The Cook firm reports directly to the Chairman of the Compensation and Management Resources Committee and does not provide any services to AIG's management.

The Board has determined, on the recommendation of the Nominating and Corporate Governance Committee, that all members of the Compensation and Management Resources Committee are independent under NYSE listing standards.

## Other Committees

The Finance Committee assists the Board in its oversight responsibilities by reviewing and making recommendations to the Board with respect to AIG's financial and investment policies, provides strategic guidance to management as to AIG's capital structure, use of capital in its businesses, methods of financing its businesses and other related strategic initiatives. The Committee also assists the Board in its oversight responsibilities with respect to AIG's risk management processes insofar as they relate to matters considered by the Committee pursuant to its charter. The Committee also has the power to approve certain issuances, investments, dispositions and other transactions and matters. The Committee held 10 meetings in 2007. The Committee's charter is available in the Corporate Governance section of AIG's corporate website at [www.aigcorporate.com](http://www.aigcorporate.com).

The Public Policy and Social Responsibility Committee is responsible for reviewing the position and policies of AIG relating to current and emerging corporate social responsibility and political and public policy issues of significance to AIG, that may affect AIG's business operations, performance or corporate reputation. The Committee's charter is available in the Corporate Governance section of AIG's corporate website at [www.aigcorporate.com](http://www.aigcorporate.com). The Public Policy and Social Responsibility Committee held four meetings in 2007.

The Regulatory, Compliance and Legal Committee held six meetings during 2007. The principal purpose of the Regulatory, Compliance and Legal Committee is to assist the Board in its oversight of AIG's legal, regulatory and compliance matters. The Committee's charter is available in the Corporate Governance section of AIG's corporate website at [www.aigcorporate.com](http://www.aigcorporate.com).



## COMPENSATION OF DIRECTORS

Each non-management director of AIG receives a retainer of \$75,000 per year. In lieu of committee annual retainers and meetings fees, Mr. Willumstad, as Chairman of the Board and an *ex-officio* member of all standing committees of the Board, receives an additional annual retainer of \$200,000, and Mr. Zarb, as a non-voting member of all standing committees, receives an additional annual retainer of \$150,000. Other non-management directors receive committee meeting attendance fees of \$1,500 per meeting, which includes attendance, upon request, at meetings of committees of which they are not members and attendance at meetings of AIG's International Advisory Board. The chairman of each committee receives an annual committee retainer of \$15,000, except the chairman of the Audit Committee, who receives \$25,000. For each other member of each committee, the annual committee retainer is \$5,000. Retainers are paid in equal installments each quarter in advance of service and meetings fees are paid each quarter for service in the prior quarter. See Committees for information on current committee memberships and committee memberships during 2007.

Prior to May 16, 2007, non-management directors received 1,000 shares of AIG Common Stock per year in equal quarterly grants, receipt of which is deferred until retirement from the Board, and 2,500 options on AIG Common Stock per year in an annual grant, which became exercisable after one year and will remain exercisable for nine years thereafter. The options were granted with an exercise price equal to the closing sale price of AIG Common Stock on the date of grant. The Board made two quarterly grants of shares of AIG Common Stock in 2007 under this compensation program, but did not grant any options.

On May 16, 2007, the Board, upon the recommendation of the Nominating and Corporate Governance Committee, approved changes to the compensation of non-management directors. Effective on that date, the non-management directors no longer receive 1,000 shares and 2,500 options per year and instead receive an annual award of DSUs with a value of \$125,000, with the number of units determined based on the closing price of AIG Common Stock on the date of grant. DSUs are granted under the Amended and Restated 2007 Stock Incentive Plan (2007 Stock Incentive Plan). Each DSU provides that one share of AIG Common Stock will be delivered when a director ceases to be a member of the Board. Beginning in 2008, the annual retainer amounts, the committee retainer amounts and the meeting fee amounts for service after that date may be deferred, at the election of the directors, into DSUs. DSUs include dividend equivalent rights that entitle the director to a quarterly payment, in the form of DSUs, equal to the amount of any regular quarterly dividend that would have been paid by AIG if the shares of AIG Common Stock that underlie the DSUs had been outstanding.

Under director stock ownership guidelines adopted by the Board in 2007, non-management directors should own at least 10,000 shares of AIG Common Stock (including deferred stock and DSUs). Until such time as a non-management director achieves beneficial ownership of AIG Common Stock at the required level, such director is required to retain the shares of AIG Common Stock received upon the exercise of stock options granted, net of shares used to satisfy the exercise price and shares withheld or sold to satisfy tax withholding obligations.

To provide independent advice and guidance, certain of AIG's non-management directors also serve on the boards of directors of subsidiaries of AIG. With the exception of AIG Global Trade & Political Risk Insurance Company, which pays directors an annual retainer of \$10,000, these directorships do not pay retainer fees but instead pay a fee of \$1,500 per meeting attended.

In response to two unrelated derivative actions filed against AIG, which are described in AIG's Annual Report on Form 10-K for the year ended December 31, 2007, AIG's Board of Directors appointed special litigation committees of independent directors to review the matters asserted in the complaints. The first special litigation committee was established in 2002. Messrs. Cohen and Sutton are the current members, with Mr. Sutton joining in October 2005. The second special litigation committee was established in 2005, and Messrs. Hammerman and Miles were the members until Mr. Hammerman's resignation from the committee in February 2008. Mr. Miles is currently the only member of the special litigation committee established in 2005. Fees for these special litigation committees are set by the Board

and may be reviewed and adjusted by the Board if the amount of work is greater than originally anticipated.

There may be limited occasions when spouses of non-management directors of AIG travel with the directors on AIG aircraft. In these instances, AIG has been reimbursed by the directors for their spouses' travel in an amount equal to the cost of commercial first-class airfare.

The following table contains information with respect to the compensation of the individuals who served as non-management directors of AIG in 2007.

### 2007 Non-Management Director Compensation

Non-Management Members of the Board in 2007	Fees Earned or Paid in Cash(1)	Stock Awards(2)	All Other Compensation(3)	Total
Marshall A. Cohen	\$ 164,000	\$ 159,819	\$ 624	\$ 324,443
Martin S. Feldstein	\$ 113,750	\$ 159,819	\$ 624	\$ 274,193
Ellen V. Futter	\$ 103,000	\$ 159,819	\$ 624	\$ 263,443
Stephen L. Hammerman	\$ 114,500	\$ 159,819	\$ 624	\$ 274,943
Richard C. Holbrooke	\$ 107,500	\$ 159,819	\$ 624	\$ 267,943
Fred H. Langhammer	\$ 118,000	\$ 159,819	\$ 624	\$ 278,443
George L. Miles, Jr.	\$ 139,000	\$ 159,819	\$ 624	\$ 299,443
Morris W. Offit	\$ 140,000	\$ 159,819	\$ 624	\$ 300,443
James F. Orr III	\$ 109,000	\$ 159,819	\$ 624	\$ 269,443
Virginia M. Rometty	\$ 93,750	\$ 159,819	\$ 624	\$ 254,193
Michael H. Sutton	\$ 140,000	\$ 159,819	\$ 624	\$ 300,443
Robert B. Willumstad	\$ 275,000	\$ 159,819	\$ 624	\$ 435,443
Frank G. Zarb	\$ 225,000	\$ 159,819	\$ 624	\$ 385,443

- (1) This column represents annual retainer fees, committee and chairmanship fees and committee meeting attendance fees. The amounts also include the following amounts in meeting attendance fees for meetings of the boards of directors of subsidiaries of AIG and retainer fees with respect to Mr. Holbrooke's membership on the Board of Directors

of AIG Global  
Trade & Political  
Risk Insurance  
Company:  
Cohen \$39,000;  
Feldstein \$6,000;  
Holbrooke \$10,000;  
Offit \$4,500; and  
Sutton \$1,500. For  
Messrs.

Hammerman and  
Miles, the amount  
does not include a  
fee of \$150,000  
paid in April 2008  
for services  
rendered in 2005,  
2006 and 2007 in  
connection with the  
special litigation  
committee  
established in 2005.  
Messrs.

Hammerman and  
Miles each received  
fees in connection  
with such services  
of \$50,000 and  
\$25,000 in 2005  
and 2006,  
respectively. No  
fees were paid in  
2007 in connection  
with their service in  
the special litigation  
committee  
established in 2005.

Messrs. Sullivan  
and Tse serve on  
the Board but do  
not receive any  
compensation for  
their service as  
directors. See the  
2007 Summary  
Compensation  
Table in 2007  
Compensation for  
the compensation  
awarded to Messrs.

Sullivan and Tse in 2007.

- (2) This column represents the expense in accordance with FAS 123R of stock-based awards granted by AIG in 2007, calculated using the assumptions described in Note 17 to the Consolidated Financial Statements included in AIG's Annual Report on Form 10-K. The grant date fair values for the deferred stock and DSUs were calculated by multiplying the number of shares or DSUs awarded by the closing price of AIG Common Stock on the date of grant. On each of January 3, 2007 and April 2, 2007, AIG made grants of deferred stock to non-management directors, consisting of 250 shares of AIG Common Stock each. On May 16, 2007, AIG made grants of DSUs representing 1,725 shares. On July 2, 2007 and October 1, 2007, each recipient of such DSUs received 4 and 5 DSUs, respectively,

representing dividends on the DSUs. The grant date fair values in accordance with FAS 123R of these stock-based awards are: for deferred stock, January 3, 2007 \$72.15 per share; and April 2, 2007 \$67.15 per share; and for DSUs, May 16, 2007 \$72.46 per share July 2, 2007 \$70.20 per share and October 1, 2007 \$68.59 per share. Receipt of deferred stock and shares underlying DSUs is deferred until the director ceases to be a member of the Board.

AIG did not grant options to non-management directors in 2007. However, in preparing its 2007 Proxy Statement, AIG determined that the expenses for 2006 option awards to non-management directors were not properly recognized in accordance with FAS 123R for financial statement reporting purposes in 2006, resulting in the under-recording of expense for these awards by approximately

\$250,000. AIG corrected its financial statements in 2007 for these awards. The amount recognized as expense for these awards in 2007 totalled: \$21,073 for each of Messrs. Cohen, Feldstein, Hammerman, Holbrooke, Miles, Offit, Orr, Sutton and Zarb and Ms. Futter; \$4,660 for each of Messrs. Langhammer and Willumstad; and \$40,069 for Ms. Rometty.

- (3) Represents DSUs awarded as dividend equivalents. As described above, the value of the DSUs awarded as dividend equivalents was calculated by multiplying the number of DSUs awarded by the closing price of AIG Common Stock on the date of grant.

The following table sets forth information with respect to the option and stock awards outstanding at December 31, 2007 for the non-management directors of AIG.

**Stock and Option Awards Outstanding at December 31, 2007**

<b>Non-Management Members of the Board in 2007</b>	<b>Option Awards(1)</b>	<b>Deferred Stock(2)</b>	<b>Deferred Stock Units(3)</b>
Marshall A. Cohen	20,500	2,875	1,734
Martin S. Feldstein	20,500	2,875	1,734
Ellen V. Futter	20,500	2,875	1,734
Stephen L. Hammerman	5,000	2,000	1,734
Richard C. Holbrooke	17,500	2,875	1,734
Fred H. Langhammer	5,000	1,500	1,734
George L. Miles, Jr.	5,000	1,875	1,734
Morris W. Offit	5,000	1,875	1,734
James F. Orr III	2,500	1,000	1,734
Virginia M. Rometty	2,500	750	1,734
Michael H. Sutton	5,000	1,625	1,734
Robert B. Willumstad	5,000	1,500	1,734
Frank G. Zarb	17,500	2,875	1,734

(1) These columns represent each director's outstanding option awards made by AIG in 2006 and prior years. All options are exercisable.

(2) Includes 500 shares of deferred stock awarded in 2007 and deferred



stock  
awarded in  
prior years.  
Receipt of  
deferred  
stock is  
deferred  
until the  
director  
ceases to be  
a member of  
the Board.

- (3) Includes  
1,725 DSUs  
awarded in  
2007 and 9  
DSUs  
awarded as  
dividend  
equivalents  
thereon.  
Receipt of  
shares of  
AIG  
Common  
Stock  
underlying  
DSUs is  
deferred  
until the  
director  
ceases to be  
a member of  
the Board.

**COMPENSATION AND MANAGEMENT RESOURCES COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

No member of the Compensation and Management Resources Committee has served as an officer or employee of AIG at any time or has any relationship with AIG requiring disclosure as a related-party transaction. During 2007, none of AIG's executive officers served as a director of another entity, one of whose executive officers served on the Compensation and Management Resources Committee; and none of AIG's executive officers served as a member of the compensation committee of another entity, one of whose executive officers served as a member of the Board of Directors of AIG.

**OWNERSHIP OF CERTAIN SECURITIES**

The following table contains information regarding the only persons who, to the knowledge of AIG, beneficially own more than five percent of AIG Common Stock.

Name and Address	Shares of Common Stock Beneficially Owned	
	Number	Percent(1)
FMR LLC and Edward C. Johnson 3d (collectively, the FMR Group)(2) 82 Devonshire Street Boston, MA 02109	144,915,088	5.714 %
C.V. Starr & Co., Inc.; Edward E. Matthews; Maurice R. Greenberg; The Maurice R. and Corinne P. Greenberg Family Foundation, Inc.; Maurice R. and Corinne P. Greenberg Joint Tenancy Company, LLC; Starr International Company, Inc. (SICO); Universal Foundation, Inc.; C.V. Starr & Co., Inc. Trust (collectively, the Starr Group)(3) 399 Park Avenue 17th Floor New York, NY 10022(4)	354,987,261	13.6 %

(1) Percentages calculated based on AIG Common Stock outstanding as set forth in the Schedule 13G and the Schedule 13D described in notes 2 and 3 below.

(2) Based on a Schedule 13G filed February 14, 2008 by FMR LLC (FMR Schedule 13G). FMR LLC is the parent company of

various entities that provide investment advisory and management services to the Fidelity Group of mutual funds and is the beneficial owner of these shares. Item 7 of the FMR Schedule 13G provides details as to the voting and investment power of each member of the FMR Group, as well as the right of each member of the FMR Group to acquire AIG Common Stock within 60 days. It also provides information as to Fidelity International Limited, which operates as a separate entity from FMR LLC and beneficially owns 3,906,336 shares of AIG Common Stock. The FMR Schedule 13G states that FMR LLC and Fidelity

International  
are of the view  
that they are  
not a group  
and the shares  
held by the  
other do not  
need to be  
aggregated.

- (3) Based on an amended Schedule 13D dated March 20, 2007 by each member of the Starr Group (Starr Group Schedule 13D), the members of the Starr Group do not affirm the existence of a group and disclaim beneficial ownership of each other member of the group; provided, however, that Maurice R. Greenberg does not disclaim beneficial ownership of the shares of AIG Common Stock held by the Maurice R. and Corinne P. Greenberg Joint Tenancy Company, LLC and C.V. Starr & Co.,

Inc. does not disclaim beneficial ownership of the shares of AIG Common Stock held by the C.V. Starr & Co., Inc. Trust. Item 5 to the Starr Group Schedule 13D provides details as to the voting and investment power of each member of the Starr Group, as well as the right of each member of the Starr Group to acquire AIG Common Stock within 60 days. All information provided in Ownership of Certain Securities with respect to the Starr Group is provided based solely on the information set forth in the Starr Group Schedule 13D. This information has not been updated to reflect changes in the ownership by the members of the Starr

Group of AIG  
Common  
Stock that are  
disclosed in  
filings made  
by one or  
more members  
of the Starr  
Group under  
Section 16 of  
the Securities  
Exchange Act  
of 1934, as  
amended (the  
Exchange  
Act). In each  
case, this  
information  
may not be  
accurate or  
complete and  
AIG takes no  
responsibility  
therefor and  
makes no  
representation  
as to its  
accuracy or  
completeness  
as of the date  
hereof or any  
subsequent  
date.

- (4) This is the principal office for all individuals and entities in the Starr Group, other than Starr International Company, Inc., which has a principal office at 101 Baarerstrasse, CH 6300 Zug, Switzerland; the Universal

Foundation,  
which has a  
principal  
office at  
Mercury  
House, 101  
Front Street,  
Hamilton HM  
12, Bermuda;  
and the  
Maurice R.  
and Corinne P.  
Greenberg  
Joint Tenancy  
Company,  
LLC, which  
has a principal  
office at 35  
Ocean Reef  
Drive, Key  
Largo, Florida  
33037.

The following table summarizes the ownership of equity securities of AIG by the directors, by the executive officers named in the 2007 Summary Compensation Table in 2007 Compensation and by the directors and current executive officers as a group. None of the shares of AIG Common Stock listed in the following table have been pledged as security.

<b>Equity Securities of AIG Owned Beneficially as of January 31, 2008(1)</b>		
<b>AIG Common Stock</b>		
	<b>Amount and Nature of Beneficial Ownership(2)(3)</b>	<b>Percent of Class</b>
Steven J. Bensinger	78,395	(4 )
Stephen F. Bollenbach	2,503	(4 )
Marshall A. Cohen	75,538	(4 )
Martin S. Feldstein	83,444	(4 )
Ellen V. Futter	26,171	(4 )
Stephen L. Hammerman	11,740	(4 )
Richard C. Holbrooke	27,314	(4 )
Fred H. Langhammer	48,617	(4 )
George L. Miles, Jr.	8,615	(4 )
Win J. Neuger	285,226	.01
Morris W. Offit	23,615	(4 )
James F. Orr III	20,617	(4 )
Virginia M. Rometty	5,310	(4 )
Robert M. Sandler	520,878	.02
Martin J. Sullivan	353,467	.01
Michael H. Sutton	11,365	(4 )
Edmund S.W. Tse	1,627,956	.06
Robert B. Willumstad	8,240	(4 )
Jay S. Wintrob	2,098,389	.08
Frank G. Zarb	27,115	(4 )
All Directors and Executive Officers of AIG as a Group (31 individuals)	7,268,342	.29

- (1) Amounts include shares as to which the individual shares voting and investment power



as follows:

Tse 1,118,661  
shares with a  
corporation, and  
Feldstein 23,727  
shares with a  
corporation.

- (2) Amount of equity securities shown includes shares of AIG Common Stock subject to options which may be exercised within 60 days as follows:
- Bensinger 76,670  
shares,  
Cohen 20,500  
shares,  
Feldstein 20,500  
shares,  
Futter 20,500  
shares,  
Hammerman 5,000  
shares,  
Holbrooke 17,500  
shares,  
Langhammer 5,000  
shares, Miles 5,000  
shares,  
Neuger 234,296  
shares, Offit 5,000  
shares, Orr 2,500  
shares,  
Rometty 2,500  
shares,  
Sandler 200,000  
shares,  
Sullivan 308,412  
shares, Sutton 5,000  
shares, Tse 445,625  
shares,  
Willumstad 5,000  
shares,  
Wintrob 287,500  
shares, Zarb 17,500  
shares, and all  
directors and  
current executive  
officers of AIG as

a group 3,442,762 shares. Amount of equity securities shown also includes: (i) shares granted to each non-employee director with delivery deferred until the director ceases to be a member of the Board as follows: Cohen 2,875 shares, Feldstein 2,875 shares, Futter 2,875 shares, Hammerman 2,000 shares, Holbrooke 2,875 shares, Langhammer 1,500 shares, Miles 1,875 shares, Offit 1,875 shares, Orr 1,000 shares, Rometty 750 shares, Sutton 1,625 shares, Willumstad 1,500 shares and Zarb 2,875 shares, and (ii) DSUs granted to each non-employee director with delivery of the underlying AIG Common Stock deferred until such director ceases to be a member of the Board as follows: Bollenbach 2,503 shares, Cohen 2,161 shares, Feldstein 1,740 shares, Futter 1,740 shares, Hammerman 1,740 shares,

Holbrooke 2,139  
shares,  
Langhammer 2,117  
shares, Miles 1,740  
shares, Offit 1,740  
shares, Orr 2,117  
shares,  
Rometty 1,740  
shares, Sutton 1,740  
shares,  
Willumstad 1,740  
shares and  
Zarb 1,740 shares.  
Amount of equity  
securities shown  
excludes shares  
with delivery  
deferred upon  
exercise of options  
as follows:  
Feldstein 38,109  
shares and  
Sandler 17,729  
shares.

- (3) Amount of equity securities shown also excludes the following securities owned by or held in trust for members of the named individual s immediate family as to which securities such individual has disclaimed beneficial ownership:  
Sullivan 424 shares,  
Tse 3,555 shares,  
Wintrob 4,008  
shares, Zarb 6,245  
shares, and all  
directors and  
current executive  
officers of AIG as  
a group 31,004  
shares.

(4) Less than .01  
percent.

20

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## **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires directors, executive officers, and ten percent holders of AIG Common Stock to file reports with respect to their ownership of AIG equity securities. Based solely on the review of the Forms 3, 4 and 5 and amendments thereto furnished to AIG and certain representations made to AIG, AIG believes that the only filing deficiencies under Section 16(a) by its directors, executive officers, and ten percent holders during 2007 were one late report by Mr. Orr, a director, reporting the purchase of 5,000 shares in November 2007; one late report by each of Messrs. Martin, Neuger, Sullivan, Tse and Wintrob, all executive officers, reflecting the purchase by each of them, through the Employee Stock Purchase Plan, of 177 shares on April 1, 2007; and one late report by each of Messrs. Frenkel, Herzog, Sandler and Tse reflecting the acquisition of 2,016 restricted stock units (RSUs), 630 RSUs, 15,311 RSUs and 22,404 RSUs, respectively, on December 13, 2007; and 19 late reports by individuals and entities in the Starr Group reflecting the acquisition of an aggregate of 3,852,038 shares and the disposition of an aggregate of 5,704,064 shares resulting from 61 transactions.

## **RELATIONSHIPS AND RELATED-PARTY TRANSACTIONS**

### **Co-Investments with AIG**

AIG has established employee investment funds to permit selected employees to participate alongside AIG's merchant banking, venture capital and similar funds. This fund has a fee structure that is generally more favorable than that offered by AIG to non-employees. Three of AIG's current executive officers have invested in this fund. There were no distributions from this fund in 2007. A named executive invested in a similar fund, the SunAmerica Venture Fund 2000, LP, and received tax distributions related to such fund in 2007. See the 2007 Summary Compensation Table, note 6 in 2007 Compensation .

### **Related-Party Transactions Approval Policy**

The Board of AIG has adopted a related-party transaction approval policy. Under this policy, any transaction that involves more than \$120,000 and would be required to be disclosed in AIG's Proxy Statement, between AIG or any of its subsidiaries and any director or executive officer, or their related persons, must be approved by the Nominating and Corporate Governance Committee. In determining to approve a related-party transaction, the Nominating and Corporate Governance Committee will consider:

whether the terms of the transaction are fair to AIG and on terms at least as favorable as would apply if the other party was not or did not have an affiliation with a director, executive officer or

employee of  
AIG;

whether there  
are  
demonstrable  
business  
reasons for  
AIG to enter  
into the  
transaction;

whether the  
transaction  
would impair  
the  
independence  
of a director;  
and

whether the  
transaction  
would present  
an improper  
conflict of  
interest for  
any director,  
executive  
officer or  
employee of  
AIG, taking  
into account  
the size of the  
transaction,  
the overall  
financial  
position of the  
director,  
executive  
officer or  
employee, the  
direct or  
indirect nature  
of the interest  
of the  
director,  
executive  
officer or  
employee in  
the  
transaction,

the ongoing nature of any proposed relationship, and any other factors the Nominating and Corporate Governance Committee or its chairman deems relevant.

## EXECUTIVE COMPENSATION

### COMPENSATION AND MANAGEMENT RESOURCES COMMITTEE REPORT

The Compensation and Management Resources Committee has reviewed and discussed the Compensation Discussion and Analysis with management. Frederic W. Cook & Co. has also reviewed and discussed the Compensation Discussion and Analysis with management and outside counsel on behalf of the Compensation and Management Resources Committee. Based on such review and discussions, the Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement and incorporated by reference into AIG's Annual Report on Form 10-K for the year ended December 31, 2007.

Compensation and Management Resources Committee  
American International Group, Inc.

Marshall A. Cohen, Chairman  
Fred H. Langhammer  
James F. Orr III  
Virginia M. Rometty  
Robert B. Willumstad, *ex-officio*  
Frank G. Zarb, non-voting member

### COMPENSATION DISCUSSION AND ANALYSIS

AIG's compensation decisions for 2007 reflect the extraordinary market conditions in 2007 which significantly affected AIG's financial performance for the year. AIG's net income for 2007 was \$6.20 billion or \$2.39 per diluted share, compared to \$14.05 billion or \$5.36 per diluted share year for 2006. Included in 2007 net income were charges of approximately \$11.47 billion pretax (\$7.46 billion after tax) for a net unrealized market valuation loss related to the AIG Financial Products Corp. (AIGFP) super senior credit default swap portfolio. 2007 results also included significant net realized capital losses, primarily from other-than-temporary impairment charges.

The Committee determined that compensation should reflect these conditions on a graduated basis, with the performance compensation of more senior executives being more substantially affected. Accordingly, the Committee significantly reduced the annual cash bonuses for AIG's Chief Executive Officer, Chief Financial Officer and the senior executives with direct responsibility for Financial Services and Asset Management operations to reflect the impact on AIG of the results of those operations. In addition, the Committee negatively adjusted the Partners Plan earnout for the 2006-2007 performance period, with AIG's most senior executive team receiving a larger negative adjustment than other executives. As a general matter, however, the Committee determined that the AIGFP unrealized market valuation losses in 2007 (and future reversals of such losses) would not be taken into account in determining the financial metrics applicable to the general bonus pool for AIG's senior executives or the amounts earned under AIG's long-term compensation plans. The Committee determined that it was more consistent with AIG's expectations, and appropriate given the manner in which AIG's long-term compensation plans operate, to reflect any credit impairment losses on the AIGFP super senior credit default swap portfolio realized by AIGFP if and when they are incurred.

The Committee's decisions with respect to 2007 are discussed in more detail under the heading "Compensation Decisions for 2007" below.

#### Objectives and Design of Compensation Framework

AIG's compensation framework is designed to attract, motivate and retain key employees. The Committee's philosophy for achieving these goals was to:



***Emphasize at risk elements of compensation***

through the use of awards that will have value if AIG produces strong financial performance and shareholder returns during current and subsequent performance periods.

***Foster an owner/management culture*** through a

partnership compensation approach that recognizes career milestones and ensures senior management accountability for a variety of company-wide strategic goals.

***Align the long-term economic interests of key employees with those of shareholders***

by ensuring that a substantial component of each key employee's compensation and net worth is represented by AIG Common Stock.

***Centralize administration and control***

over individual compensation components.

***Multiple components reward balanced short-term and long-term performance.*** The nature of AIG's businesses requires its compensation programs to take a balanced approach to short-term and long-term performance and to different types of long-term performance. AIG's compensation framework for the executives named in the 2007 Summary Compensation Table in 2007 Compensation (named executives) uses four performance-based components to emphasize the mix of performance measures that AIG believes need to be addressed to deliver shareholder value: (1) annual cash bonuses, (2) time-vested equity awards, (3) performance-based restricted stock units (Performance RSUs) under the Partners Plan and (4) long-term performance cash awards under the Senior Partners Plan. The primary elements of performance rewarded by these components are:

***Growth in adjusted net income and return on equity***

are yearly financial metrics considered in setting the annual cash bonus pool for employees at

the Senior Partner level. The annual bonus pool is also affected by company performance against non-financial strategic and operational goals.

***Growth in adjusted net income (earnings) per share*** is the performance measure used to determine the number of Performance RSUs earned under the Partners Plan and is measured over two-year periods.

***Growth in adjusted book value per share*** is used to determine the value of long-term performance cash awards under the Senior Partners Plan and is measured over three-year periods.

***Growth in  
market price  
of AIG  
Common  
Stock***

determines  
the value of  
time-vested  
equity awards  
and affects  
the value of  
Performance  
RSUs earned  
under the  
Partners Plan.

The three long-term components (time-vested equity awards, Partners Plan and Senior Partners Plan) provide a hierarchy of reward opportunities that match key points in career growth, with employees progressing on the basis of performance from participating in time-vested equity-based awards, to becoming a Partner in the management group and, for select key employees, advancing to a Senior Partner level. Approximately 8,000 of AIG's approximately 116,000 employees receive time-vested equity grants, approximately 700 participate in the Partners Plan and approximately 70 are Senior Partners. All of the named executives are Senior Partners.

The three long-term components were designed to utilize different weightings of financial performance and share price performance. The value of time-vested equity awards is entirely dependent on the market price of AIG Common Stock. The value ultimately realized from an award under the Partners Plan depends on both AIG's financial performance (which determines the number of Performance RSUs earned) and the market price of AIG Common Stock (which determines the value of each Performance RSU earned under the plan). Finally, the value of an award under the Senior Partners Plan is entirely dependent on AIG's financial performance (growth in adjusted book value per share) and is not affected by the market price of AIG Common Stock.

AIG's long-term compensation framework fulfills two principal objectives. First, it ensures that AIG, under the management of a group of Senior Partners, must achieve a variety of performance goals to realize the full value of long-term awards. Second, multiple performance goals provide a balance of financial and market incentives covering annual, mid-term and long-term measurement periods.

The Committee considers the value of annual compensation opportunities, long-term cash-based compensation opportunities and long-term equity-based compensation opportunities and compares these values to the similar opportunities that AIG's Senior Partners historically have received. This approach is reevaluated periodically to ensure that it is consistent with the objectives of AIG's compensation framework. In addition, the opportunities that Messrs. Sullivan and Bensinger were eligible to receive in 2007 were determined in part by the terms of their employment agreements.

## Compensation Components

AIG divides compensation components into two general categories: direct compensation and indirect compensation. For employees at the Senior Partner level in 2007 (which includes all of the named executives), these components were:

### Direct Compensation

Base salary

Annual cash  
bonus

Time-vested  
grants of  
equity in the  
form of stock  
options and  
RSUs

Performance  
RSUs  
granted  
under the  
Partners  
Plan, based  
on two-year  
growth in  
adjusted  
earnings per  
share

Long-term  
performance  
cash awards  
granted  
under the  
Senior  
Partners  
Plan, based  
on three-year  
growth in  
adjusted  
book value  
per share

### Indirect Compensation

Retirement  
benefits

Perquisites

Welfare  
benefits

Termination  
benefits

### **Direct Compensation Components**

**Base salary.** Senior Partners, including the named executives, receive a relatively small portion of their overall compensation as base salary. The Committee intends to pay base salary at a reasonable range around the market median, based on demonstrated performance, responsibilities, tenure (including historic salary levels) and individual experience. Base salaries are set at or below \$1 million in order to be tax-deductible.

**Annual cash bonus.** Annual cash bonuses are intended to reward overall AIG, business unit and individual performance during the year. The bonus paid to each participant in the executive bonus pool is generally based on an assessment of business unit performance and individual performance for the year, taking into account the individual's target bonus level for the year.

In addition, to provide the overall AIG performance element, the Committee establishes the annual executive bonus pool for participants (excluding the Chief Executive Officer) at the beginning of the year based on a total bonus level intended to be comparable to market competitors. The annual pool is adjusted by the Committee at year-end within a range of 0 to 150 percent based on AIG's overall results relative to the current year's performance objectives, the prior year's performance, market conditions and estimated performance of competitors. This adjusted pool amount acts as a ceiling for the total annual bonuses to participants and provides an overall AIG performance component.

**Time-vested grants of stock options.** AIG provides long-term equity-based compensation through time-vested equity grants. AIG generally grants time-vested RSUs to employees below the Senior Partner level and grants time-vested option awards to Senior Partners. The Committee has determined to grant options to Senior Partners because options have value only if market price appreciates, providing a significant performance component that is directly aligned with the market value of AIG's stock.

AIG options are granted with an exercise price equal to the closing sale price of AIG Common Stock on the NYSE on the date of grant. In 2007, the Committee followed its regular practice of making its yearly grant of time-vested equity-based awards at its December meeting. For 2008, the Committee plans to make its yearly grant of time-vested equity-based awards at a meeting during the first quarter of 2009 rather than in December 2008. For new hires, promotions and retention purposes, the Committee also granted equity-based awards, primarily time-vested RSUs, at its meetings throughout the year. The authority to grant equity-based awards to employees other than Senior Partners and executives under the purview of the Committee has been delegated to any two of the Chief Executive Officer, the Chief Financial Officer and the Chief Human Resources Officer, acting jointly.

**Time-vested grants of RSUs.** Historically, AIG paid quarterly cash bonuses to certain employees, including the named executives. These quarterly cash bonuses also included cash compensation opportunities previously provided by SICO and Starr. In November 2007, the Committee approved changes to the quarterly cash bonus program as part of a transition away from this component of compensation. As of January 1, 2008, salaries of participating employees other than Mr. Sullivan were adjusted to include up to \$100,000 of the amounts previously paid as quarterly cash bonuses. Those employees whose quarterly cash bonuses had been

in excess of \$100,000 per year were given the opportunity to elect to receive annual grants of time-vested RSUs with a value equal to 125 percent of the excess cash bonus amount. Once made, such election is irrevocable. Those employees not electing to receive RSUs will continue to receive quarterly cash bonuses of the amount in excess of \$100,000 and will have a yearly opportunity to make the election to receive RSUs instead. The Committee expects to periodically review this arrangement to determine whether employees will continue to receive quarterly cash bonuses in future years. While options continue to be the primary component of time-vested equity compensation for employees at the Senior Partner level, the use of time-vested RSUs provides an additional retention incentive and further aligns recipients of the grants with AIG's shareholders. Because these RSUs are not subject to the Executive Incentive Plan, they may not be tax-deductible. See Executive Incentive Plan.

**Performance RSUs granted under the Partners Plan.** The Committee grants Performance RSUs each year to participants in the Partners Plan. The number of Performance RSUs earned by a Partner will depend on growth in AIG's adjusted earnings per share over a two-year performance period relative to pre-established goals and will range from 0 to 150 percent of the Partner's target award. Grants of Performance RSUs under the Partners Plan do not guarantee that compensation will be earned. Performance RSUs will be forfeited, and no shares will be earned, if growth in AIG's adjusted earnings per share falls below a minimum or threshold level over a two-year performance period (unless the Committee uses the discretion provided by the Plan to adjust plan formulas). Twenty-five percent of Performance RSUs granted will be earned if performance is at the threshold level, 100 percent will be earned if performance is within a target corridor of performance and 150 percent will be earned if performance is at or above the maximum level, with amounts determined on a straight-line basis between threshold, target and maximum level.

In establishing performance goals for earning Performance RSUs for the 2008-2009 performance period (2008 Performance RSUs), AIG management recommended that target levels be long-term aspirational in nature, with the expectation that once established, such target levels would change infrequently rather than on a regular basis. The Committee established a threshold level of four percent growth in AIG's adjusted earnings per share, a target performance corridor of 10 percent to 12 percent growth in AIG's adjusted earnings per share and a maximum level of 16 percent growth in AIG's adjusted earnings per share for the 2008 Performance RSUs. These targets have been used for each of the performance periods applicable to the Partners Plan awards granted to date, have been disclosed in the limited context of AIG's compensation programs and should not be understood to be estimates of future results or other guidance. AIG specifically cautions investors not to apply these targets to other contexts. For a discussion of the Committee's assessment of management's performance in 2007 and the Performance RSUs earned for the 2006-2007 performance period, see Compensation Decisions for 2007 below.

**Vesting.** Performance RSUs earned under the Partners Plan for the two-year performance period ended December 31, 2007 (2006 Performance RSUs) were converted to time-vested RSUs and will vest in two equal installments promptly after the fourth and sixth anniversaries of the first day of the performance period. The same vesting schedule will apply to any Performance RSUs earned for the 2007-2008 performance period (2007 Performance RSUs). Beginning with the 2008 Performance RSUs, the Committee decided to shorten the vesting schedule so that the earned time-vested RSUs will vest promptly after the third and fourth anniversaries of the first day of the performance period. In establishing this new vesting schedule, the Committee believed that the vesting schedule would assist in recruitment efforts and in promoting Partner retention, given competitive market practice. Any unvested Performance RSUs generally will be forfeited if the participant ceases employment with AIG.

**Long-term performance cash awards granted under the Senior Partners Plan.** The Committee grants participants in the Senior Partners Plan units (referred to as Senior Partner Units) that determine their share of an aggregate incentive pool. The aggregate incentive pool for each year is based on a weighted average of the growth in AIG's adjusted book value over a three-year period, determined by multiplying the percentage growth in adjusted book value per share during each year by adjusted book value at the beginning of the year. Accordingly, the Senior Partners Plan provides long-term incentive compensation based on factors that are not share price-related.

Currently, up to 0.85 percent of the yearly growth in AIG's adjusted book value is available for the incentive pool under the Senior Partners Plan. This amount has been used for each of the performance periods for the Senior Partners Plan awards granted to date. A maximum of 30,000 Senior Partner Units are available for awards to Senior Partners each year. The value per Senior Partner Unit at the end of each year is determined by dividing 0.85 percent of the weighted-average growth in book value for the three-year period then ending by 30,000.



Senior Partners also participate in the Partners Plan and therefore are aligned with the Partners in achieving the performance targets of that plan. In addition, no value will be earned under the Senior Partners Plan for the performance period ending in any year in which no Performance RSUs are earned under the Partners Plan for the performance period ending that year. As a result, there will not be a year in which Senior Partners accrue compensation under the Senior Partners Plan, but Partners do not earn time-vested RSUs under the Partners Plan.

Continued participation in the Senior Partners Plan is evaluated by the Committee each year based on each Senior Partner's level of performance and accountability. The number of Senior Partner Units awarded each year is based on the participant's Senior Partner Units for the prior year. Significant year-to-year variability is not expected.

*Vesting.* For Senior Partners Plan performance periods ending through December 31, 2007, the value accrued in respect of each Senior Partner Unit was deferred and will be paid in cash in two equal installments promptly after the fourth and sixth anniversaries of the beginning of the final year of a performance period. The Committee decided to shorten the vesting schedule beginning with the 2006-2008 performance period, so that the earned Senior Partner Units will vest promptly after the third and fourth anniversaries of the first day of the beginning of the final year of the performance period. In establishing this vesting schedule, the Committee believed that the vesting schedule would assist in promoting retention of AIG's most senior executives, given competitor market practice. Any unvested Senior Partner Units generally will be forfeited if the participant ceases employment with AIG.

### **Indirect Compensation Components**

***Retirement benefits.*** AIG provides a number of retirement benefits to eligible employees, including both traditional pension plans (called defined benefit plans) and contribution plans (such as 401(k) plans).

*Defined benefit plans.* AIG's defined benefit plans include a tax-qualified pension plan, the Excess Retirement Income Plan and the Supplemental Executive Retirement Plan (SERP). Each of these plans provide for a yearly benefit based on years of service and the employee's salary over a three-year period. The Excess Retirement Income Plan is designed to pay the portion of the benefit under the tax-qualified plan that is not payable under that plan due to restrictions imposed by the Code. The SERP provides for a different, generally higher benefit to a small number of key employees selected by the Board, but this benefit is offset by payments under the tax-qualified plan and the Excess Retirement Income Plan. These plans and their benefits are described in greater detail in Post-Employment Compensation Pension Benefits. AIG believes that these plans provide substantial retention and competitive advantages.

Mr. Sullivan also participated in AIG's United Kingdom pension plan during his years of service in the United Kingdom, as described in greater detail in Post-Employment Compensation Pension Benefits.

*Defined contribution plans.* AIG's defined contribution plans include a tax-qualified plan (401(k)), the Supplemental Incentive Savings Plan (SISP) and the Executive Deferred Compensation Plan (EDCP). The 401(k) plan and the SISP, which is designed to allow highly compensated employees to defer up to an additional \$11,500 of annual compensation on a basis that is not tax-qualified, allow participants to receive credited earnings based on the returns of externally managed mutual funds among which participants may choose. Designated key employees may also participate in the EDCP, under which participants may defer higher amounts and receive credited earnings based on the returns of a different, smaller set of externally managed mutual funds. These plans are described in greater detail in Post-Employment Compensation Nonqualified Deferred Compensation. AIG matches participants' contributions to the 401(k) plan up to the annual maximum contribution limit of \$15,750, but does not otherwise provide matching contributions to the SISP or the EDCP.

Mr. Tse participates in a different defined contribution plan in connection with his years of service in Hong Kong, as described in greater detail in Post-Employment Compensation Nonqualified Deferred Compensation.

***Perquisites.*** To facilitate the performance of their management responsibilities, AIG provides certain key employees with automobile allowances and parking, financial and tax planning and club memberships and recreational opportunities.

As a result of recommendations in independent third-party security studies, AIG's Board policy requires Mr. Sullivan, his spouse and his children under the age of 18 to use corporate aircraft for personal travel. In addition, AIG's Board has determined to provide Mr. Sullivan with a dedicated automobile and driver and has provided security enhancements for Mr. Sullivan's home, both as the result of an outside security review. In addition, AIG

provides Mr. Tse with an automobile and driver and pays a portion of his living expenses, consistent with benefits AIG provides to certain other senior executives living in Hong Kong. In March 2008, AIG resolved certain foreign payroll tax obligations relating to amounts paid to employees by AIG and its affiliates in overseas jurisdictions prior to 2007. Under these arrangements, AIG made payments to the Hong Kong taxing authority on behalf of affected AIG employees based in Hong Kong, including Mr. Tse.

AIG has not historically had a formal perquisite policy, although the Committee reviewed perquisites for AIG's key employees in 2007. AIG believes the perquisites are reasonable in comparison to those typically provided by peer companies and that perquisites constitute a small component of total compensation for each named executive. The Committee's review of AIG's practices with respect to perquisites is ongoing.

***Welfare and other indirect benefits.*** AIG senior executives participate in the same broad-based health, life, and disability benefit programs as its other employees.

***Termination benefits and policies.*** For the past three years, AIG has provided severance benefits to its senior executives, including the named executives. As previously noted, the Committee reviewed AIG's severance arrangements in light of their scheduled expiration in 2008. As a result of this review, the Committee determined in March 2008 to revise and extend these arrangements as described below.

***Employment agreements and executive severance plan.*** In connection with the promotions of Messrs. Sullivan and Bensinger in March 2005, the Committee negotiated a three-year employment agreement with each executive. In March 2008, the Committee determined to extend the term of these employment agreements by one year, until March 13, 2009.

The agreements have a fixed term and provide for assurances as to position and responsibility, the structure of compensation for the term of the agreement and, in specified circumstances, severance payments. The agreements also contain non-competition and non-solicitation covenants that would apply on any separation during the term. The Committee believes the agreements are consistent with competitive market practice and determined that a one-year extension at this time was appropriate in light of the retention benefits the agreements provide and in light of the benefit that AIG receives from extension of the restrictive covenants.

In 2005, the Committee also established a plan that provided severance payments and benefits to a select group of AIG employees, including the other named executives. This plan was replaced by an expanded Executive Severance Plan (ESP) in March 2008. The ESP will continue in effect until it is terminated by the Committee, subject to 12 months notice and a minimum term of two years. The Committee believed that it was appropriate to establish a consistent level of severance benefits at this time to attract and retain talent.

The ESP extends to all U.S.-based participants in the Partners Plan, who would be eligible for severance payments and benefits if terminated by AIG without cause. ESP participants who are both Senior Vice Presidents or higher and are participants in the Senior Partners Plan are also eligible for termination payments and benefits on termination by the participant for good reason.

In the event of a qualifying termination, the participant will be eligible for a severance period that is based on the executive's seniority or length of service. All of the named executives would have a severance period of two years (which is the maximum for any current participant in the plan).

During the severance period, the executive is eligible to receive an annual amount equal to the sum of salary, annual quarterly bonuses and three-year-average performance-based bonuses. In addition, unvested long-term awards (including options, Performance RSUs earned under the Partners Plan for prior performance periods and earned amounts under the Senior Partners Plan) that would have vested during the severance period will vest as if the executive had continued to be employed during that time. The ESP does not provide for golden parachute or other tax

gross-up payments.

While their employment agreements are in effect, Messrs. Sullivan and Bensinger do not participate in the ESP. However, as part of the March 2008 extension of their respective employment agreements, each executive was made eligible for continued vesting of long-term awards upon termination of employment as if he participated in the ESP.

To receive post-employment benefits under any of the individual employment agreements, the prior severance plan or the ESP, employees must execute a release of claims and comply with non-competition and non-solicitation covenants.

*Termination and retirement provisions in long-term awards.* AIG's normal retirement age is 65. For employees who retire after reaching normal retirement age, time-vested equity-based awards (other than RSUs granted in lieu of quarterly cash bonuses) will generally vest upon retirement. Additionally, earned but unvested

SICO benefits and earned but unvested awards under the DCP, the Partners Plan and the Senior Partners Plan will generally vest and be delivered shortly thereafter. For employees who retire during a performance period under the Partners Plan or the Senior Partners Plan, a pro-rated portion of the award that is ultimately earned will vest at the end of the performance period. Additionally, a pro-rated portion of time-vested RSU awards may vest upon Committee-approved early retirement after reaching age 55 but before reaching age 65.

Other than as provided in the ESP and the employment agreements, no other severance protection applies to long-term compensation. With the approval of the Committee, outstanding vested options generally may be exercised for three months after a termination of employment, but only to the extent those options were exercisable as of the termination date.

*No change-in-control benefits.* None of AIG's compensation components has a change-in-control trigger. AIG's equity plans and the Senior Partners Plan do not accelerate vesting on a change-in-control, and the ESP does not provide for special severance or similar rights as a result of a change in control. However, payments owed to an employee on termination may be subject to an additional golden parachute excise tax under the Code if they follow a change-in-control of AIG. Mr. Sullivan's and Mr. Bensinger's employment agreements provide that, if any payments or benefits are subject to this excise tax, AIG will increase the payment or benefit so that the executive is not affected by the tax.

### Compensation Decisions for 2007

As noted above, the Committee's decisions with respect to 2007 compensation for the named executives reflect the extraordinary market conditions in 2007 which significantly affected AIG's financial performance for the year. In reporting AIG's earnings, Mr. Sullivan characterized the results as clearly unsatisfactory and, as a consequence, the Committee reduced incentive compensation earned on a graduated basis.

The Committee believed that reductions should most significantly affect AIG's most senior executive team and the executives with direct responsibility for Financial Services and Asset Management operations and that a broader group of key employees also should be affected to a lesser extent. At the same time, the Committee's decision to use the discretion available to it under the Partners Plan and the Senior Partners Plan to allow Performance RSUs and Senior Partner Units to be earned under these plans, notwithstanding the effect of unrealized market valuation losses on AIG's 2007 financial results, was designed to acknowledge the efforts of key employees during 2007 and aid in retention while continuing management's alignment with shareholders.

The following supplemental table shows the changes from 2006 to 2007 in the amount of year-end performance-based compensation earned by each named executive.

### Year-End Performance-Based Compensation Earned

Name	Year	Year-end Cash Bonus	Year-end Option Award (\$ Fair Value on Date of Grant)	Performance- based RSUs Earned(1) (\$ Value as of Year-end)	Senior Partners Plan(2) (\$ Earned)	Total
Martin J. Sullivan	2007	\$ 2,500,000	\$ 3,000,012	\$ 1,342,066	\$ 5,434,000	\$ 12,276,078
	2006	\$ 9,000,000	\$ 4,130,000	\$ 4,586,240	\$ 5,783,750	\$ 23,499,990

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Steven J. Bensinger	2007	\$ 700,000	\$ 1,255,200	\$ 671,033	\$ 2,717,000	\$ 5,343,233
	2006	\$ 2,500,000	\$ 1,215,400	\$ 2,293,120	\$ 2,065,625	\$ 8,074,145
Edmund S.W. Tse	2007	\$ 600,000	\$ 1,255,200	\$ 1,342,066	\$ 4,754,750	\$ 7,952,016
	2006	\$ 600,000	\$ 1,416,000	\$ 4,586,240	\$ 5,783,750	\$ 12,385,990
Robert M. Sandler	2007	\$ 175,000	\$ 732,200	\$ 943,760	\$ 3,056,625	\$ 4,907,585
	2006	\$ 190,000	\$ 826,000	\$ 2,866,400	\$ 3,718,125	\$ 7,600,525
Jay S. Wintrob	2007	\$ 1,000,000	\$ 1,255,200	\$ 1,006,550	\$ 2,717,000	\$ 5,978,750
	2006	\$ 1,000,000	\$ 1,416,000	\$ 3,439,680	\$ 2,478,750	\$ 8,334,430
Win J. Neuger	2007	\$ 425,000	\$ 1,255,200	\$ 1,140,756	\$ 2,377,375	\$ 5,198,331
	2006	\$ 815,000	\$ 1,416,000	\$ 3,898,304	\$ 2,891,875	\$ 9,021,179

(1) Amounts in this column change from year to year as a result of three factors: (1) change in value of AIG Common Stock at year-end, (2) change in the percentage of target awards earned and (3) change in grant

levels. In particular, Performance RSUs earned in 2007 represented the transition to annual grant cycles from the two-year cycle of the prior plans.

- (2) Amounts in this column change from year to year as a result of two factors: (1) change in the amount earned per Senior Partner Unit and (2) changes in the number of Senior Partner Units awarded to each named executive. In particular, Mr. Sullivan and Mr. Bensinger both were awarded additional Senior Partner Units for 2007.

**Performance objectives.** Based on recommendations from Mr. Sullivan, the Committee established annual performance objectives for 2007. The objectives pertained to financial performance (based on growth in adjusted net income and return on equity, both in absolute terms and relative to competitors); articulation of business strategy; improving internal controls and cost savings; diversity; and organization management. The Committee determined not to establish a particular formula for evaluating performance, and the objectives were not weighted. The Committee concluded that AIG would be best served with a discretionary approach in light of the fact that the long-term incentive components of its compensation program are formula-based.

The Committee evaluated the performance of AIG and its key employees against these objectives at its December 2007 meeting. At the meeting, the Committee granted Performance RSUs and Senior Partner Units for 2008 and options for 2007 and made preliminary year-end decisions on 2008 base salaries and 2007 annual bonuses for the named executives and other executives under its purview (other than Mr. Sullivan), subject to further review when AIG's 2007 financial results became available. The Committee deferred making 2008 Partners Plan and Senior Partners Plan grants to Mr. Sullivan until the March meeting, as part of its plan to begin granting all performance-based awards at that time of year. However, the Committee made Mr. Sullivan's year-end option grant at the same time options were granted to other Senior Partners so that the exercise price of the awards would be the same.

In March 2008, the Committee finalized its decisions with respect to the 2007 annual bonuses for the named executives and other executives under its purview. The Committee also made a final evaluation of Mr. Sullivan's performance based on an evaluation of actual 2007 results and made year-end decisions on Mr. Sullivan's 2007 annual bonus and 2008 Performance RSUs and Senior Partner Units at that time. Decisions regarding Mr. Sullivan's annual compensation were subject to ratification by the Board, which occurred at the Board's meeting on March 12, 2008.

**Cash bonuses.** In November 2007, the Committee approved 2007 bonus funding at 110% of target. Based on AIG's results for the year, the Committee awarded Mr. Sullivan a year-end cash bonus of \$2,500,000 and, based on his recommendation, awarded the other named executives the bonus amounts set forth in the preceding table.

Awards to Messrs. Sullivan and Bensinger took into account target performance-based compensation values set under their employment agreements. For 2007, Mr. Sullivan's target performance-based bonus was \$5,000,000. The Committee awarded Mr. Sullivan a year-end performance-based bonus of \$2,500,000. The Committee determined that Mr. Sullivan's bonus would reflect the unrealized market valuation losses related to AIGFP's portfolio of super senior credit default swaps and the related material weakness in internal control described in AIG's Annual Report on Form 10-K. The Committee considered and discussed AIG's belief that except to the extent of any credit impairment losses, the AIGFP unrealized market valuation losses will reverse over the life of the portfolio. The Committee discussed that, to the extent those losses are reversed into income in the future, the Committee would take such reversals into account with respect to Mr. Sullivan's bonus for the relevant year (which could result in a bonus above any maximum that would otherwise be applicable). Together with the \$1,125,000 in quarterly bonuses required by his employment agreement, Mr. Sullivan's 2007 bonuses totaled \$3,625,000.

For 2007, Mr. Bensinger's target performance-based bonus was \$1,400,000. After consideration of Mr. Sullivan's recommendation, the Committee awarded Mr. Bensinger a year-end performance-based bonus of \$700,000. As discussed above, the Committee determined that, like the award made to Mr. Sullivan, Mr. Bensinger's bonus would reflect the AIGFP unrealized market valuation losses and related material weakness as well as his contributions to AIG's financial and non-financial goals and his level of responsibility within AIG. The Committee discussed that, similarly to their thoughts with respect to Mr. Sullivan, future reverses of such losses into income will be taken into account with respect to Mr. Bensinger's bonus amounts for the relevant year. Together with \$750,000 in quarterly bonuses required by his employment agreement, Mr. Bensinger's 2007 bonuses totaled \$1,450,000.

The Committee determined that Mr. Neuger's bonus would reflect the effect on AIG's results of the realized and unrealized capital losses suffered by AIG's investment portfolios, as well as his contributions to AIG's



financial and non-financial goals, including, specifically, the performance of AIG's asset management operations. Following its assessment, the Committee awarded Mr. Neuger a year-end performance-based bonus of \$425,000, well below his target bonus. To the extent AIG's losses are recovered through investment income in future years, the Committee has indicated that it will take that factor into consideration in future years. Together with the \$798,000 paid to him in quarterly bonuses, Mr. Neuger's 2007 bonuses totaled \$1,223,000.

The year-end performance based bonuses paid to Messrs. Tse, Sandler and Wintrob were based upon their contributions to AIG's financial and non-financial goals, including, specifically for Mr. Tse, the performance of AIG's life insurance operations, specifically for Mr. Sandler, the performance of AIG's domestic personal lines operations, and specifically for Mr. Wintrob, the performance of AIG's retirement services operations, consistent with prior years. Additionally, see 2007 Grants of Plan-Based Awards for a description of time-vested RSUs granted to Messrs. Tse and Sandler in lieu of quarterly bonus payments.

**Grants of time-vested stock options.** For 2007, Mr. Sullivan received an option award of 143,404 shares compared to 175,000 shares in 2006. The 2006 option award had been increased to reflect AIG's strong performance that year and the fact that Mr. Sullivan had historically received small option awards. The Committee views the \$3 million value of the 2007 option award as a more customary amount.

Year-end option awards in 2007 for the other named executives were largely consistent with 2006 year-end option awards. However, upon the recommendation of Mr. Sullivan, Mr. Bensinger's year-end option award increased from 51,500 shares in 2006 to 60,000 shares in 2007 to bring his award level in line with that of other senior executives.

**Performance RSUs earned under the Partners Plan.** Performance RSUs for the 2006-2007 performance period were earned at 119.9 percent of target for members of AIG's Group Executive Committee, which is AIG's most senior management group, and at 134.9 percent of target for the other Partners Plan participants. The earned Performance RSUs will vest in two equal installments in 2010 and 2012.

In calculating AIG's adjusted earnings per share for purposes of the 2006-2007 performance period under the Partners Plan, the Committee used the discretion included in the plan to make adjustments in addition to those provided in the plan definitions. First, the Committee excluded extraordinary losses that were incurred in 2005 (including reserve and settlement charges) in determining adjusted earnings per share for the 2005 base year. These adjustments increased adjusted earnings per share for 2005, and thereby raised the performance requirement for 2006 and 2007. The Committee determined that limiting the effect of these items gave a more accurate picture of growth over this period.

Second, the Committee excluded the unrealized market valuation losses attributable to the AIGFP super senior credit default swap portfolio in determining adjusted earnings per share for 2007. The Committee determined that it was more appropriate to reflect any credit impairment losses relating to this AIGFP portfolio in the calculations under the plan for the years in which they are realized and not to reflect either the 2007 unrealized market valuation losses or any future reversals of those losses in the calculations. If all 2007 unrealized market valuation losses had been included, the Partners Plan would have been affected for multiple cycles because the losses would have eliminated growth in adjusted earnings per share for 2007 and significantly reduced average growth for the 2007-2008 performance period. Moreover, 2007 would have been an exceptionally low base year for the 2008-2009 performance period and any subsequent reversals of the 2007 unrealized market valuation losses could significantly increase adjusted earnings per share for that or any subsequent performance period. As a result, the number of Performance RSUs earned would be effectively disconnected from management performance for several performance periods.

Finally, in light of AIG's 2007 results, the Committee determined that it would be appropriate to reduce amounts earned after giving effect to the preceding two adjustments. Accordingly, the Committee reduced the amounts earned by members of AIG's Group Executive Committee by 20 percent and reduced the amounts earned by other participants by 10 percent. To determine 2007 adjusted earnings per share for purposes of determining amounts earned with respect to the 2007 and 2008 Performance RSUs, the Committee will use adjusted earnings per share as calculated

giving effect to the earnout at 134.9 percent of target.

The Committee believes that the effect of its actions was to provide an award reflective of AIG's overall financial results in 2007 and to ensure that Partners Plan participants will benefit from strong performance in future years.

***Long-term performance cash awards earned under the Senior Partners Plan.*** In connection with the Committee's exercise of its discretion to make adjustments to the definitions under the Partners Plan, the Committee also exercised its discretion to adjust the definition of adjusted book value as used in the formula for

the Senior Partners Plan to exclude the effect of the AIGFP unrealized market valuation losses, although the effect of the unrealized decrease in value of the AIG investment portfolios was not excluded. As a result of the adjustments, the value of each Senior Partner Unit earned for the 2005-2007 performance period was \$2,717, compared to \$3,305 for each Senior Partner Unit earned for the 2004-2006 performance period. The Committee determined that the definition for adjusted book value for future performance periods would also be adjusted to assure that any income received from reversals of the AIGFP unrealized market losses is excluded, and that any credit impairment losses realized with respect to the AIGFP super senior credit default swap portfolio are included in the calculations.

**Decisions regarding future compensation opportunities.** The following supplemental table shows the compensation decisions the Committee has made regarding future compensation opportunities, comparing future compensation opportunities granted in 2006 with those granted in 2007. For 2007, salary increases were effective as of December 31, 2007, grants of Performance RSUs were for the 2008-2009 performance period and grants of Senior Partners Units were for the 2006-2008 performance period.

#### Compensation Opportunities Granted for Future Years

Name	Year	Year-end Salary Increase	Partners Plan  (# of Performance RSUs Granted)	Senior Partners Plan  (# of Senior Partner Units Granted)
Martin J. Sullivan	2007	\$ 0	38,400	2,000
	2006	\$ 0	38,400	2,000
Steven J. Bensinger	2007	\$ 150,000	25,000	1,250
	2006	\$ 0	19,200	1,000
Edmund S.W. Tse	2007	\$ 100,000	38,400	1,750
	2006	\$ 0	38,400	1,750
Robert M. Sandler	2007	\$ 100,000	24,000	1,125
	2006	\$ 20,000	24,000	1,125
Jay S. Wintrob	2007	\$ 100,000	31,200	1,000
	2006	\$ 0	31,200	1,000
Win J. Neuger	2007	\$ 58,000	33,600	1,000
	2006	\$ 0	33,600	875

**Base salaries.** The Committee considered salary levels of the named executives at year-end, and salary levels generally remained at 2007 levels other than the increases in connection with the changes to the quarterly cash bonus program discussed above. In addition to a \$100,000 increase for such changes, Mr. Bensinger's salary was increased by \$50,000 to bring his salary more in line with other senior executives.

**Performance RSUs granted under the Partners Plan.** For the named executives other than Mr. Bensinger, grants of 2008 Performance RSUs were made at the same level as 2007 Performance RSUs. Mr. Bensinger's 2008 award increased from 19,200 Performance RSUs to 25,000 Performance RSUs to bring his award in line with other senior executives.

***Long-term performance cash awards granted under the Senior Partners Plan.*** As described above, continued participation in the Senior Partners Plan is evaluated each year based on each Senior Partner's level of performance and accountability, but substantial year-to-year variability is not expected. The Committee considered participation for awards for 2008 (the 2006-2008 performance period) at the end of 2007. Mr. Sullivan's Senior Partner Units were 2,000, which is unchanged from 2007. Mr. Bensinger's Senior Partner Units were increased from 1,000 for 2007 to 1,250 for 2008 to bring his total compensation into line with his internal and external peers. Mr. Neuger's Senior Partner Units were increased from 875 to 1,000 for 2008 to bring him into line with his peer group within AIG.

### **Process for Compensation Decisions**

The Compensation and Management Resources Committee determines the compensation of Mr. Sullivan, and the Board approves or ratifies the amounts to be awarded to him. Based on Mr. Sullivan's recommendation, the Committee reviews and approves the compensation of the other key employees under its purview, which includes all of the other named executives. Nineteen employees are currently under the Committee's purview. The Committee also makes recommendations to the Board with respect to AIG's compensation programs for key employees and oversees AIG's management development and succession planning programs.

Mr. Sullivan's total compensation for 2007 is higher than that of the other named executives because the Committee has determined in its discretion that the amount awarded is commensurate with his greater responsibility for such management and oversight. There are no material differences in the compensation policies applicable to the named executives. The decisions made with respect to compensation of each named executive for 2007 were based on an individual assessment of the executive's level of responsibility for the oversight and management of AIG's businesses and the executive's contribution to AIG's performance. Furthermore, these decisions generally take the form of incremental increases and decreases in individual components of each named executive's compensation. As discussed above, the incremental changes in the annual cash bonuses for 2007 for Messrs. Sullivan, Bensinger and Neuger differed significantly from those of Messrs. Tse, Sandler and Wintrob.

**Independent consultant.** To provide independent advice, the Committee has used the services of Frederic W. Cook & Co. since 2005. Senior consultants of the Cook firm regularly attend the Committee's meetings and are instructed to provide independent, analytical and evaluative advice about AIG's compensation programs for senior executives, including comparisons to industry peers and comparisons to best practices in general. The Cook firm responds on a regular basis to questions from the Committee and the Committee's other advisors, providing their opinions with respect to the design and implementation of current or proposed compensation programs. The Cook firm has advised the Committee that the design and operation of compensation programs reflect a pay-for-performance compensation philosophy that is reasonable and competitive with companies in the financial services industry. Frederic W. Cook & Co. does not provide any other services to AIG or its management except with respect to director compensation.

**Consideration of competitive compensation levels.** In reviewing compensation decisions over the year and in making decisions about the compensation of the named executives, the Committee is provided with competitive market information. As a general matter, the Committee intends to position salary in a reasonable range around the market median. However, the Committee intends that total direct compensation opportunities, including Partners Plan and Senior Partners Plan awards, will be at or above the 75th percentile of the relevant market, based on achieved performance.

For compensation purposes, the Committee currently considers a competitor group of ten financial companies that is broader than the group of peer insurance companies used in AIG's Annual Report on Form 10-K. These companies are listed below:

Allstate  
American Express  
Bank of America  
Citigroup  
HSBC Holdings  
JPMorgan Chase  
MetLife  
Prudential Financial  
St. Paul Travelers  
Wells Fargo

The Committee believes that its current peer group provides an appropriate cross-section of industry and human-resource competitors with the global scope, market capitalization and operational complexity of AIG and with comparable compensation practices.

**Consideration of prior years' compensation.** The cumulative amounts realizable from prior years' equity-based and other long-term awards generally are not considered in determining the amount or the components of current year compensation. The Committee and AIG management believe that this approach is most consistent with the goal of motivating strong performance in each year by enabling key employees to continue to earn competitive compensation in exchange for achievement of annual and long-term financial and market goals.

**Other Factors Affecting Compensation**

***Executive Incentive Plan.*** The Executive Incentive Plan (EIP), which AIG shareholders adopted in 2006, allows AIG to maximize the deductibility of compensation payments while allowing for the operation of annual bonuses, the Partners Plan and the Senior Partners Plan and for future compensation frameworks.

The EIP was adopted in response to Section 162(m) of the Internal Revenue Code (the Code), which prohibits companies from deducting more than \$1 million annually of the compensation paid to their chief executive officer and four most highly compensated executive officers unless specific requirements are met. The

EIP is designed to meet these requirements and should allow AIG to deduct the full amount of performance-based compensation paid to these executive officers.

Under the EIP, each participating employee's covered yearly maximum performance compensation is first determined based on AIG's adjusted net income for the year. The Committee may then reduce a participant's performance-based compensation to an amount that is less than the formula amount. Each year, the Committee designates a small group of key employees (fewer than 20) as participants in the EIP to ensure that the performance-based compensation ultimately paid to the named executives is covered. Each of AIG's named executives currently participates in the EIP.

The Committee has designated the annual cash bonus program, the Partners Plan and the Senior Partners Plan as the components of performance-based compensation authorized by the EIP. In other words, after the EIP formula amount is established, the authorized performance-based compensation for each participant will be delivered through annual cash bonuses, Performance RSUs earned under the Partners Plan and long-term performance cash awarded under the Senior Partners Plan. If the total amount earned under these plans is less than the EIP formula amount, the Committee expects to pay only the amount earned (by using its authority under the plan to reduce the formula amount). If the total amount that would otherwise be earned under the annual cash bonus plan, the Partners Plan and the Senior Partners Plan would be more than the EIP formula amount, the total would be reduced to the EIP formula amount.

Compensation attributable to the exercise of options is already deductible, so grants of options are not included under the EIP. The grant of RSUs in lieu of quarterly cash bonuses as described under *Direct Compensation Components* Time-vested grants of RSUs also is not included in the EIP formula and therefore may not be tax-deductible.

The EIP sets each participant's covered yearly maximum performance compensation at 0.3 percent of AIG's adjusted net income for the year (which is generally AIG's consolidated net income before FAS 133 gains and losses, realized gains or losses, changes in accounting treatment or tax laws and other extraordinary items). This level was established because AIG and the Committee believe that it will accommodate a wide range of future compensation decisions, including operation of the Partners Plan and the Senior Partners Plan, and therefore permit AIG to deduct the performance compensation it expects to pay to its named executives. The maximum amount of performance-based compensation that could be earned by each named executive under the EIP for 2007 was \$27.9 million.

Although the Committee does not currently intend to do so, it has reserved the right to award to participants in the EIP other performance-based compensation outside of the EIP. This compensation may not be deductible in whole or in part.

***Share ownership guidelines.*** In 2007, AIG adopted share ownership guidelines. These guidelines establish levels of ownership of AIG Common Stock at five times salary for the Chief Executive Officer and three times salary for other officers at the level of Senior Vice President and above. Until the guidelines are met, such officers are required to retain 50 percent of the shares of AIG Common Stock received upon the exercise of stock options or upon the vesting of RSUs granted by AIG. Shares held for purposes of the guidelines include stock owned outright by the officer or his or her spouse, stock earned based on performance criteria or contingently allocated that, in each case, remains subject to time-vesting conditions and stock held in trust for the benefit of the officer or his or her immediate family members.

***Adjustment or recovery of awards.*** AIG's compensation framework reserves discretion for the Committee to adjust earned compensation for a restatement of financial results. Both the Partners Plan and the Senior Partners Plan provide that the Committee can adjust outstanding awards for any restatement of financial results. The Senior Partners Plan specifically notes that adjustments may take into account the fact that prior vested awards may have been overpaid. No misconduct on the part of a participant is required for the Committee to exercise this authority. Because of the vesting periods, a substantial amount of each Senior Partner's compensation is subject to these provisions.

AIG's compensation framework also provides the Committee with specific authority to cancel certain awards if an employee engages in misconduct. Outstanding RSUs, including Performance RSUs granted under the Partners Plan,

may be cancelled if an employee engages in any conduct detrimental to AIG, including any violation of applicable securities laws, any violation of any AIG policy concerning confidential or proprietary information and any disparagement of AIG.

**Conclusion**

AIG's compensation framework is designed to retain and motivate key employees and to reward them for both individual and AIG performance. AIG believes that the actions it has taken appropriately reflect the performance of its executive team during 2007 and provide a suitable basis for evaluating performance against the challenges of 2008.



**2007 COMPENSATION****Summary Compensation Table**

The following tables contain information with respect to AIG's Chief Executive Officer, Chief Financial Officer and four other most highly paid executive officers. See note 2 to the table below for an explanation of why AIG has included more than the required number of named executives. This presentation differs substantially from the manner in which AIG's Compensation and Management Resources Committee administers the compensation of key employees. Please see the Compensation Discussion and Analysis for additional detail regarding the Committee's compensation philosophy, practices and 2007 compensation decisions.

**2007 Summary Compensation Table**

Name and Principal Position	Year	Salary	Bonus(1)	Stock Awards(2)	Option Awards(3)	No. Incentive Comp
Martin J. Sullivan President and Chief Executive Officer	2007	\$ 1,000,000	\$ 3,625,000	\$ 921,876	\$ 2,448,490	\$
	2006	\$ 1,000,000	\$ 10,125,000	\$ 1,370,657	\$ 1,916,232	\$
Steven J. Bensinger Executive Vice President and Chief Financial Officer	2007	\$ 751,923	\$ 1,450,000	\$ 598,408	\$ 860,637	\$
	2006	\$ 750,000	\$ 3,250,000	\$ 757,690	\$ 617,358	\$
Edmund S.W. Tse(7) Senior Vice Chairman Life Insurance	2007	\$ 848,776	\$ 1,863,963	\$ (470,227 )	\$ 2,597,852	\$
	2006	\$ 848,776	\$ 1,838,455	\$ 3,729,295	\$ 3,354,527	\$
Robert M. Sandler Executive Vice President Domestic Personal Lines	2007	\$ 480,000	\$ 973,750	\$ 3,182,880	\$ 2,216,572	\$
	2006	\$ 460,769	\$ 988,750	\$ 3,529,625	\$ 1,023,798	\$
Jay S. Wintrob Executive Vice President Retirement Services	2007	\$ 775,000	\$ 1,742,500	\$ 491,466	\$ 1,590,733	\$
	2006	\$ 775,000	\$ 1,742,500	\$ 820,751	\$ 1,716,783	\$
Win J. Neuger Executive Vice President and Chief Investment Officer	2007	\$ 942,000	\$ 1,223,000	\$ 1,223,230	\$ 1,571,908	\$
	2006	\$ 942,000	\$ 1,613,000	\$ 1,499,042	\$ 1,519,196	\$

(1) This column represents (1) annual performance cash

bonuses and (2) payments under AIG's quarterly bonus program.

- (2) This column represents the dollar amount recognized for financial statement reporting purposes (without regard to any estimate of forfeiture related to service-based vesting conditions) of outstanding stock-based awards under AIG's stock option and stock incentive plans, the Partners Plan, the DCPPP and the SICO plans. The amount recognized for these awards was calculated using the assumptions described in Note 17 to the Consolidated Financial Statements included in AIG's Annual Report on Form 10-K. In 2007, no compensation cost was recognized, and compensation cost recognized in 2006 was reversed, with respect to awards under the Partners Plan, because the performance threshold was not met. In March 2008, the Compensation Committee adjusted the Partners Plan definition of adjusted earnings

per share for 2007 resulting in a new grant of these awards for accounting purposes. Assuming no change in employment status, amounts recognized in 2008 with respect to the 2006 and 2007 Performance RSUs for the named executives will be as follows:

Sullivan \$434,288;  
Bensinger \$217,144;  
Tse \$1,202,329;  
Sandler \$803,837;  
Wintrob \$338,900;  
and

Neuger \$374,418. AIG considers these amounts related to these Performance RSUs to be attributable to 2007 performance even though not expensed in 2007. If these amounts had been expensed in 2007, Mr. Neuger could have replaced Mr. Wintrob as the third most highly paid executive officer other than AIG's Chief Executive Officer and Chief Financial Officer. Compensation information is therefore presented for both Mr. Neuger and Mr. Wintrob throughout the compensation tables. See the Stock Awards table below for additional detail

regarding the amounts recognized in this column.

- (3) This column represents the dollar amount recognized for financial statement reporting purposes (without regard to any estimate of forfeiture related to service-based vesting conditions) of options granted from 2002 to 2007 under AIG's stock option and stock incentive plans. The amount recognized for these awards was calculated based on AIG's binomial option-pricing model, using the assumptions described in Note 17 to the Consolidated Financial Statements included in AIG's Annual Report on Form 10-K.

- (4) This column represents (1) long-term cash performance awards earned but unvested under the Senior Partners Plan and (2) quarterly cash payments under previously earned (but unvested) Senior Partners Plan awards.
- (5) This column represents the total change of the actuarial present value of the accumulated benefit under all of AIG's defined benefit and actuarial pension plans. These plans are described in Post-Employment Compensation Pension Benefits.
- (6) This column includes the incremental costs of perquisites and benefits, life insurance premiums paid by AIG for the benefit of the named executives and matching contributions by AIG under its 401(k) plan and the defined contribution plan in which Mr. Tse participates in Hong Kong. These matching contributions include the following amounts in 2007:  
Sullivan \$15,750;  
Bensinger \$4,500;  
Tse \$105,911;  
Sandler \$15,750;  
Wintrob \$15,750; and  
Neuger \$15,750. The

amount shown for Mr. Wintrob in this column also includes special tax distributions of \$56,623 in 2007 and \$27,795 in 2006 related to his investment in an employee co-investment fund, SunAmerica Venture Fund 2000, LP. See the Perquisites and Benefits table below and Nonqualified Deferred Compensation for additional detail regarding the amounts in this column.

- (7) Mr. Tse is based in AIG's Hong Kong office. The Committee determines the amounts of Mr. Tse's salary and bonuses in U.S. dollars. These amounts are paid to Mr. Tse in Hong Kong dollars based upon the prevailing exchange rate on the date of the relevant payment. In addition, AIG records expense for his company-provided benefits, including matching contributions, in Hong Kong dollars. The amount of this contribution included in All Other Compensation in the 2007 Summary Compensation Table for 2007 for Mr. Tse reflects conversion to U.S. dollars at a rate of

HK\$7.7984 per U.S.  
dollar, the month-end  
rate for December  
2007.

**Detail regarding amounts recognized for stock and option awards.** The amounts recognized for stock and option awards in the Summary Compensation Table are aggregate amounts that relate to annual accruals for multiple stock-based and option-based awards to each named executive (as well as, in certain instances, reversals of prior accruals). Expenses recognized in 2007 relating to stock awards are detailed in the Stock Awards table below. In the case of option awards, AIG recognized expenses in 2007 relating to the named executives' outstanding unvested options granted by AIG in 2007 and prior years.

AIG's adjusted earnings per share as defined in the Partners Plan for the 2006-2007 performance period fell below the threshold level for that performance period. Therefore, for accounting purposes only, the 2006 Performance RSUs were forfeited and AIG reversed all prior expenses related to those awards in 2007. As described in the Compensation Discussion and Analysis, in March 2008, the Committee adjusted the Partners Plan definition of adjusted earnings per share for 2007 for purposes of 2006 and 2007 Performance RSUs. For accounting purposes only, this adjustment constitutes a modification and a new grant of the earned 2006 Performance RSUs. In addition, no expenses with respect to outstanding but unearned 2007 Performance RSUs were recorded in 2007. AIG will recognize the expense related to the 2006 Performance RSUs and 2007 Performance RSUs in 2008 and future years in accordance with the vesting schedules of the awards (and, in the case of the 2007 Performance RSUs, based on the number of Performance RSUs earned or projected to be earned).

The table that follows provides additional detail regarding the stock award amounts for 2007.

#### Stock Awards

Name	Partners Plan (2006-2007)(1)	DCPPP (2005-2006)	SICO plans (before 2005)	Time-Vested RSUs	Total
Martin J. Sullivan	\$ (131,128 )	\$ 419,973	\$ 633,031	\$	\$ 921,876
Steven J. Bensinger	\$ (65,564 )	\$ 202,120	\$ 58,073	\$ 403,779 (2)	\$ 598,408
Edmund S.W. Tse	\$ (567,195 )	\$ 0	\$ 0	\$ 96,968 (3)	\$ (470,227 )
Robert M. Sandler	\$ (235,434 )	\$ 1,187,177	\$ 2,164,868	\$ 66,269 (3)	\$ 3,182,880
Jay S. Wintrob	\$ (98,346 )	\$ 283,690	\$ 306,122	\$	\$ 491,466
Win J. Neuger	\$ (111,459 )	\$ 437,256	\$ 897,433	\$	\$ 1,223,230

(1) Represents reversal of amounts expensed in

2006 for the  
2006-2007  
performance  
period. No  
expenses  
were  
recognized  
in 2007 for  
either the  
2006-2007  
or the  
2007-2008  
performance  
period.

- (2) Represents expenses recognized in 2007 relating to 2006 grant.
- (3) Represents expenses recognized in 2007 relating to 2007 grant in lieu of quarterly cash bonus.



**Perquisites, Benefits and Transactions with Officers.** The following table details the incremental cost to AIG of perquisites received by each of the named executives.

### Perquisites and Benefits

Name	Personal Use of Corporate Aircraft(1)	Personal Use of Car Service/Car Allowance/Parking(2)	Financial and Tax Planning(3)	Personal Use of Club Memberships and Recreational Opportunities	Housing, Home Security and Other Living Expenses(3)	Total(4)
Martin J. Sullivan	\$ 322,534	\$ 153,023	\$ 41,345	\$ 0 (5)	\$ 160,488	\$ 677,390
Steven J. Bensinger	\$ 10,166	\$ 5,868	\$ 13,750	\$ 0	\$ 0	\$ 29,784
Edmund S.W. Tse	\$ 0	\$ 50,437	\$ 5,481	\$ 7,295	\$ 26,327	\$ 89,540
Robert M. Sandler	\$ 0	\$ 5,868	\$ 11,250	\$ 0	\$ 0	\$ 17,118
Jay S. Wintrob	\$ 68,182	\$ 5,754	\$ 2,500	\$ 0	\$ 0	\$ 76,436
Win J. Neuger	\$ 20,215	\$ 5,868	\$ 13,750	\$ 0	\$ 0	\$ 39,833

- (1) The named executives personal use of corporate aircraft is calculated based on the aggregate incremental cost of the flight to AIG. Aggregate incremental cost is calculated based on a cost-per-flight-hour charge developed by a nationally recognized and independent service. The cost-per-flight-hour charge reflects the direct operating cost

of the aircraft, including fuel, additives and lubricants, airport fees and assessments, crew expenses and in-flight supplies and catering. In addition, the cost-per-flight-hour charge also reflects an allocable allowance for maintenance and engine restoration.

- (2) For Messrs. Sullivan and Tse, who are provided with a dedicated car and driver, car use reflects an allocated portion of the annual lease valuation of the assigned car, annual driver compensation, parking, fuel and maintenance. Although AIG provides this benefit to enhance the security and efficient travel of Messrs. Sullivan and Tse, SEC rules require that costs of commuting and other uses not directly and integrally related to AIG's business be disclosed as compensation to the executive. Because AIG does not track car use in this way, 100 percent of the preceding costs

have been allocated to compensation for days that Mr. Sullivan and Mr. Tse were locally based. For the other named executives, the incremental cost for car-related perquisites represents AIG's direct expenditures.

- (3) Incremental costs related to financial and tax planning and to housing, home security and other living expenses represent AIG's direct expenditures.
- (4) Excludes distributions to Mr. Wintrob relating to an employee co-investment fund. See also note 6 to the 2007 Summary Compensation Table.
- (5) AIG reimburses Mr. Sullivan for membership fees for a golf club used for business purposes. These costs are considered ordinary and necessary business expenses of AIG. Any personal benefit Mr. Sullivan may have derived from this club membership is regarded as incidental and no incremental cost related to any

personal benefit has  
been incurred by  
AIG.

In connection with the employment and relocation to New York of Mr. Frank G. Wisner, an executive officer, in 1997, AIG paid certain expenses involved with his purchase of a cooperative apartment and has provided (and continues to provide) credit support for his mortgage.

AIG maintains a policy of directors and officers liability insurance for itself, its directors and officers, its subsidiaries and their directors and officers. The premium for this policy for the year ending May 24, 2008 was approximately \$21.4 million.

### **2007 Grants of Plan-Based Awards**

In 2007, AIG granted performance-based awards to the named executives under three plans: the 2007 Stock Incentive Plan, the Partners Plan and the Senior Partners Plan.

**Options.** AIG provides part of its long-term compensation through time-vested option grants. All options have an exercise price equal to the closing sale price of AIG Common Stock on the NYSE on the date of grant. Historically, option grants, including all options currently held by the named executives, had four-year pro rata vesting. Beginning in 2008, new grants of options will have three-year pro rata vesting. Option grants generally are limited to Senior Partners.

**Restricted Stock Units.** Historically, AIG has paid quarterly cash bonuses, including amounts to replace cash compensation opportunities previously provided by SICO and Starr. In November 2007, the Committee

approved certain changes to the quarterly cash bonus program described in the Compensation Discussion and Analysis. Among other changes, employees whose quarterly cash bonuses had totaled in excess of \$100,000 per year were given the opportunity to elect to receive annual grants of time-vested RSUs with a value equal to 125 percent of the excess cash bonus amount. Once made, such election is irrevocable. This election was made by Messrs. Tse and Sandler for 2007. The time-vested RSUs granted to Messrs. Tse and Sandler in 2007 were scheduled to vest on the third anniversary of the date of grant, with early vesting upon retirement after December 31, 2008 and pro rata vesting if retirement occurs prior to December 31, 2008.

**Partners Plan.** The Partners Plan operates for successive overlapping two-year performance periods. The first performance period was January 1, 2006 through December 31, 2007. Participants receive Performance RSUs that entitle them to earn shares of AIG Common Stock based on the average of the percentage increase of AIG's adjusted diluted earnings per share for the first year of the performance period over the prior year and the percentage increase of AIG's adjusted diluted earnings per share for the second year of the performance period over the first year relative to pre-established goals and ranges established by the Committee at the start of the period. The number of Performance RSUs that can be earned at the end of each period ranges from 0 to 150 percent of target.

In December 2007, AIG granted Partners Plan awards for the 2008-2009 performance period (2008 Performance RSUs) other than to Mr. Sullivan. The Committee deferred on making grants to Mr. Sullivan until its March 2008 meeting, as part of its move toward making all awards to the executives under its purview at that time of year. (However, the Committee made Mr. Sullivan's year-end option grant at the same time options were granted to other Senior Partners so that the exercise price of all awards would be the same.) The grant of 2008 Performance RSUs in 2007 does not affect the operation of the awards; performance and vesting operate in the same way as if the awards had been granted in 2008.

Beginning with the 2008 Performance RSUs, earned Performance RSUs vest in two equal installments promptly after the third and fourth anniversaries of the first day of the relevant performance period. Thus, the value of the 2008 Performance RSUs will be vested and the shares will be issued in 2011 and 2012 if the conditions to receipt are satisfied. Any unvested Performance RSUs generally will be forfeited if the participant ceases employment with AIG before reaching age 65, although the Committee has the discretion to reinstate unvested Performance RSUs. Performance RSUs pay no dividends.

**Senior Partners Plan.** The Senior Partners Plan operates for successive overlapping three-year performance periods. The first performance period was January 1, 2004 through December 31, 2006. Participants are granted Senior Partner Units that entitle them to receive deferred cash awards based on a weighted average of the annual growth in AIG's adjusted book value per share during the performance period. However, no awards will be earned under the Senior Partners Plan for a performance period if Partners Plan awards are not earned for the performance period ending in the same year.

In December 2007, AIG granted Senior Partner Units for the 2006-2008 performance period (2008 SPUs) to participants other than Mr. Sullivan. As with Mr. Sullivan's award of 2008 Performance RSUs, the Committee deferred making Mr. Sullivan's award of 2008 SPUs until its March 2008 meeting.

Beginning with the 2008 SPUs, earned Senior Partner Units vest and will be paid in two equal installments promptly after the third and fourth anniversaries of the first day of the final year of the performance period. Thus, the value of the 2008 SPUs will be paid out in 2011 and 2012 if the conditions to receipt are satisfied. Any unvested Senior Partner Units generally will be forfeited if the participant ceases employment with AIG before reaching age 65, although the Committee has the discretion to reinstate unvested Senior Partner Units. The plan also provides for a quarterly cash payment on previously earned (but unvested) amounts based upon a formula relating to the cash dividends paid on AIG Common Stock.

**Executive Incentive Plan.** The Partners Plan and Senior Partners Plan operate under AIG's Executive Incentive Plan, which establishes an overall formula for the maximum value of performance-based awards that can be earned by participants from all plans (other than option awards and time-vested RSUs). The EIP is described in the Compensation Discussion and Analysis and operates as an additional performance condition on awards under these plans.

**Total 2007 Grants.** The following table details all equity-based and non-equity plan-based awards granted to each of the named executives in 2007.

## 2007 Grants of Plan-Based Awards

Name	Grant Date	Units	Plan	Awards	Threshold	Target	Maximum	Estimated	Estimated
								Future Payouts Under Incentive Plan Award	Future Payouts Under Incentive Plan Award
Martin J. Sullivan									
2008 Performance RSUs		(4)							
Senior Partners Plan Grant		(4)							
2007 Options	12/13/07								
Steve J. Bensinger									
	10,000	\$0.40	08/06/19						
	08/06/09	-		10,000	\$0.40	08/06/19			

(1) Amounts, except as otherwise noted, vest one fourth in each of 2010, 2011, 2012 and 2013.

(2) Amount vest one half in 2010 and 2011,

## Option Exercises and Stock Vested

No other Named Executive Officers exercised options in 2009, and the Company did not make any stock-based Awards in 2009 other than the stock options described above.

## Pension Benefits

The Company does not currently have a pension plan available to its executives or other employees, and accordingly this table has been omitted.

## Non-Qualified Deferred Compensation

The Company does not currently have any non-qualified deferred compensation available to its executives or other employees, and accordingly this table has been omitted.

## Compensation of Directors

The following table sets forth all compensation costs of the Corporation for services rendered to it by its directors (other than any Named Executive Officer), and certain other amounts that may have been received by or allocated to

them, for the year ended December 31, 2009. The Corporation does not give stock awards and does not have pension plans or non-qualified deferred compensation plans, so those columns have been omitted.

Name	Year	Fees Earned or Paid in Cash (\$)	Stock Option Awards (expense) (\$ (1))	All Other Compensa- tion (\$)	Total (\$)	Option Grant Date	Grant Date Fair Value of Stock Option Awards (\$ (2))
Jack W. Partridge	2009	27,000	3,895	–	30,895	5/28/2009	4,129
Jerry B. Gilbert	2009	27,000	3,895	–	30,895	5/28/2009	4,129
Lorrence T. Kellar	2009	31,500	3,895	–	35,395	5/28/2009	4,129
C. Manly Molpus	2009	27,000	3,895	–	30,895	5/28/2009	4,129

- (1) These are not amounts actually paid to or received by the named directors. These are option related "compensation expenses" recognized by the Corporation under generally accepted accounting principles, computed in accordance with ASC-718-10. See Note 2 (Summary of Significant Accounting Policies Stock Based Compensation) to the Company's Financial Statements included in the 2009 Annual Report.
- (2) These are not amounts actually paid to or received by the named directors and are not the "compensation expenses" recognized by the Corporation under generally accepted accounting principles. These amounts are the full fair value on the grant date of the options awarded as computed in accordance with ASC-718-10 without regard to vesting or service period, and accordingly are likely to be different than the option expense amounts reported in this table. See Note 2 (Summary of Significant Accounting Policies Stock Based Compensation) to the Company's Financial Statements included in the 2009 Annual Report.

#### Discussion of Directors' Compensation

The Compensation Committee administers the compensation plan for its outside Directors as well as the compensation for its executives. Each member of SGRP's Board who is not otherwise an employee or officer of SGRP or any subsidiary or affiliate of SGRP (each, an "Eligible Director") is eligible to receive the compensation contemplated under the Directors Compensation Plan (as defined below).



The Compensation Committee administers the compensation of directors pursuant to SGRP's Director Compensation Plan for its outside Directors, as approved and amended by the Board (the "Directors Compensation Plan"), as well as the compensation for SGRP's executives.

Under the Directors Compensation Plan, each member of SGRP's Board who is not otherwise an employee or officer of SGRP or any subsidiary or affiliate of SGRP (each a "Non-Employee Director") is eligible to receive director's fees of \$30,000 per annum (plus an additional \$5,000 per annum for the Audit Committee Chairman), payable quarterly in cash. In February 2009, the Compensation Committee approved and recommended and the Board adopted a temporary 10% reduction in Non-Employee Director compensation for 2009.

In addition, upon acceptance of the directorship, each Non-Employee Director receives options to purchase 10,000 shares of SGRP's common stock, options to purchase 10,000 additional shares of SGRP's common stock after one year of service and options to purchase 10,000 additional shares of SGRP's common stock for each additional year of service thereafter granted by the Corporation at the regularly scheduled board meeting which coincides with the Annual Meeting. All options above have an exercise price equal to 100% of the fair market value of SGRP's common stock at the date of grant.

All of those options to Non-Employee Directors have been granted under the 2008 Plan, under which each member of the Board is eligible to participate. Non-Employee Directors will be reimbursed for all reasonable expenses incurred during the course of their duties. There is no additional compensation for committee participation, phone meetings, or other Board activities.

## COMPENSATION PLANS

### Equity Compensation Plans

The following table contains a summary of the number of shares of Common Stock of SGRP to be issued upon the exercise of stock options outstanding at December 31, 2009, under the 2008 Plan and the Prior Plans, the weighted-average exercise price of those outstanding stock options, and the number of additional shares of Common Stock remaining available for future issuance of stock options and other stock based awards under the 2008 Plan as at December 31, 2009.

### Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options and stock rights (#)	Weighted average exercise price of outstanding options and stock rights (\$)	Number of securities remaining available for future issuance of options and stock rights (#)
Equity compensation plans approved by security holders	2,385,230	\$0.48	2,327,460

Equity compensation plans not approved by security holders	–	–	–
Total	2,385,230	\$0.48	2,327,460

#### Audit and Compensation Committee Interlocks and Insider Participation

No member of the Board's Audit Committee, Compensation Committee or Governance Committee was at any time during the year ended December 31, 2009, or at any other time an officer or employee of the Company. No executive officer of the Company or Board member serves as a member of the board of directors, audit, compensation or governance committee of any other entity that has one or more executive officers serving as a member of SGRP's Board, Audit Committee, Compensation Committee or Governance Committee, except for the positions of Messrs. Brown and Bartels as directors and officers of the Company (including each of its subsidiaries) and as directors and officers of each of its affiliates, including SMS, SMSI and SIT (See - Transactions with Related Persons, Promoters and Certain Control Persons, above).

REPORT OF THE AUDIT COMMITTEE  
OF THE BOARD OF DIRECTORS

The following is the Audit Committee's report submitted to the Board.

Report

Management is responsible for the Company's internal controls and the financial reporting process (as more fully described below). Rehmann Robson, P.C. ("Rehmann"), the principal independent auditing firm for the Company, is responsible for performing an independent audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards and issuing a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes.

The Audit Committee has reviewed and discussed with management of the Company and Rehmann the audited consolidated financial statements of the Company as of December 31, 2009, for each of the two years in the period ended December 31, 2009 (the "Audited Financial Statements"), as included in the Company's Annual Report on Form 10-K for that period as filed with the Securities and Exchange Commission on April 15, 2010.

In addition, the Audit Committee has discussed with Rehmann the matters required by Codification of Statements on Auditing Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

The Audit Committee received and reviewed the written disclosures and the letter from Rehmann required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as adopted by the Public Company Accounting Oversight Board in Rule 3600T. The Audit Committee has discussed Rehmann's independence from the Company with Rehmann. The Audit Committee also discussed with management of the Company and the auditing firm such other matters and received such assurances from them, as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions and a review of the report of Rehmann with respect to the Audited Financial Statements, and relying thereon, the Audit Committee has recommended to the Company's Board of Directors that the Audited Financial Statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

AUDIT COMMITTEE (for the period ended December 31,  
2009)

Lorrence T. Kellar, its Chairman, and Jerry B. Gilbert,  
C. Manly Molpus and Jack W. Partridge

## MANAGEMENT'S REPORT ON FINANCIAL STATEMENTS

The management of the Company is responsible for the integrity and objectivity of the consolidated financial statements and other related financial information of the Company as of December 31, 2009, for each of the two years in the period ended December 31, 2009 (the "Audited Financial Statements"), as included in the Company's Annual Report on Form 10-K for that period as filed with the Securities and Exchange Commission on April 15, 2010. These financial statements were prepared in accordance with U.S. generally accepted accounting principles, as appropriate under the circumstances and consistently applied. Some of the amounts included in the financial statements are necessarily based on management's best estimates and judgment.

### Controls and Procedures

#### Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company, as such terms are defined in Exchange Act Rules 13a-15(f) and 15d-15(f). The Company has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

Management has evaluated the effectiveness of our internal control over financial reporting using the "Internal Control – Integrated Framework (1992)" created by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework. Based on this evaluation, management has concluded that internal controls over financial reporting were effective as of December 31, 2009, except for the following weakness:

The Company was not able to insure timely receipt of the auditor's report respecting the Company's subsidiary in India, SPAR Solutions India Private Limited, in order to allow completion of its consolidated reporting for the year ended December 31, 2009, which ultimately led to an extension request for filing the Company's Annual Report and filing such Annual Report in a manner that is not complete with regard to the reporting of the results of that foreign subsidiary. See - Note 1 (Business and Organization – International Merchandising Services Division) to the Company's financial statements included in the 2009 Annual Report.

Under applicable Securities Law, the Company is not yet required to obtain an attestation report from the Company's independent registered public accounting firm regarding internal control over financial reporting, and accordingly such an attestation has not been obtained or included in its Annual Report or this Proxy Statement.

#### Management's Evaluation of Disclosure Controls and Procedures

The Company's chief executive officer and chief financial officer have each reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report, as required by Exchange Act Rules 13a-15(b) and Rule 15d-15(b). Based on that evaluation, the chief executive officer and chief financial officer have each concluded that the Company's current disclosure controls and procedures are, except as noted above in respect of one foreign subsidiary, effective and adequate to insure that the information required to be disclosed by the Company in reports it files, or submits under the Exchange Act were recorded, processed, summarized and reported within the time period specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal

executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Remediation and Changes in Control Over Financial Reporting

Management believes that the aforementioned reporting weakness will be corrected by (among other things) improving the period end closing and reporting procedures related to accumulation of annual financial results and

disclosures. Management is actively reviewing its existing procedures to determine changes necessary to correct this matter for future reporting.

#### Changes in Internal Controls

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls during the year covered by this report or from the end of the reporting period to the date of this Proxy Statement.

The Company has established a plan, documented and tested its internal controls over financial reporting required by Section 404 of the Sarbanes-Oxley Act of 2002.

#### Company's Financial Statements

The Audit Committee of the Board is responsible for reviewing and monitoring the Company's financial statements and practices to ascertain that they are appropriate in the circumstances. The Audit Committee currently consists of four independent directors. It meets at least four times a year with representatives of financial management and the independent accountants, both together and separately, to review and discuss audit and financial reporting matters. The independent accountants have direct access to the Audit Committee to review the results of their audit. In addition, at the regular meetings of the Board of Directors, management and the Board discuss, among other things, financial and related matters, as appropriate. See - Report of the Audit Committee of the Board of Directors on page 24, above.

The Company's consolidated financial statements have been audited by Rehmann Robson, P.C., independent accountants, as stated in their report. The Company's principal independent accountants are appointed annually by the Audit Committee and confirmed by the Board. Their audit of the Company's consolidated financial statements was made in accordance with generally accepted auditing standards, and such audit included a study and evaluation of the Company's system of internal accounting controls they considered necessary to determine the nature, timing, and extent of the auditing procedures required for expressing an opinion on the Company's financial statements.

Gary S. Raymond  
Chief Executive Officer  
and President

James R. Segreto  
Chief Financial Officer,  
Secretary and Treasurer

## OTHER BUSINESS

SGRP is not aware of any other business to be presented at the 2010 Annual Meeting. All shares represented by SGRP proxies will be voted in favor of the proposals of SGRP described herein unless otherwise indicated on the form of proxy. If any other matters properly come before the meeting, SGRP proxy holders will vote thereon according to their best judgment.

## STOCKHOLDER COMMUNICATIONS

### Communications with SGRP and the Directors

Generally, a stockholder who has a question or concern regarding the business or affairs of SGRP should contact the Chief Financial Officer of SGRP. However, if a stockholder would like to address any such question directly to the Board, to a particular Committee, or to any individual director(s), the stockholder may do so by sending his or her question(s) in writing addressed to such group or person(s), c/o SPAR Group, Inc., 560 White Plains Road, Suite 210, Tarrytown, New York, 10591, and marked "Stockholder Communication".

SGRP has a policy of generally responding in writing to each bona fide, non-frivolous, written communication from an individual stockholder. This policy is reflected in the SPAR Group, Inc. Statement of Policy Respecting Stockholder Communications with Directors dated as of May 18, 2004, approved and recommended by the Governance Committee and adopted by the Board on May 18, 2004. You can obtain and review a current copy of this policy on the Company's web site ([www.sparinc.com](http://www.sparinc.com)), which is posted and available to stockholders and the public under the Investor Relations tab and Corporate Governance sub-tab.

In addition, questions may be asked of any director at SGRP's annual stockholders' meeting. SGRP schedules its annual stockholders' meeting on the same day as a regularly scheduled quarterly Board meeting, so all directors generally attend. All of SGRP's directors attended its 2009 annual stockholders' meeting. The Corporation believes its directors should attend all possible meetings of the Board and its committees and stockholders, but has not specified any required minimum attendance.

### Submission of Stockholder Proposals and Director Nominations

For any business, nominee or proposal to be properly brought before an Annual Meeting by a stockholder (acting in his or her capacity as stockholder), the By-Laws require that such stockholder must give timely written notice thereof by physical delivery to the Secretary of SGRP. Any stockholder who wishes to present any business, nominee or proposal for action at the 2011 annual meeting of stockholders of SGRP must notify SGRP by no later than December 10, 2010. Such stockholder's notice shall be in the form and contain the substance required under the Restated By-Laws and the rules and regulations promulgated by the Securities and Exchange Commission. Accordingly, notices of stockholder proposals and nominations submitted after December 10, 2010, or that do not conform to the requirements of the Restated By-Laws or Rule 14a-18 of the Securities Exchange Act of 1934 (relating to proposals to be presented at the meeting but not included in SGRP's proxy statement and form of proxy) will be considered untimely or incomplete, respectively, and thus such matters will not be brought before the 2011 Annual Meeting of stockholders.

The Restated By-Laws provide that a stockholder's notice to the Secretary must set forth as to each matter the stockholder proposes to bring before the Annual Meeting (i) a brief description of the business, nominee or proposal desired to be brought before the Annual Meeting and the reasons for considering the same at the Annual Meeting, (ii)

the name and address, as they appear on SGRP's books, of the stockholder proposing such business and any other stockholders known by such stockholder to be supporting such proposal, (iii) the class and number of shares of SGRP's stock which are beneficially owned by the stockholder on the date of such stockholder notice and by any other stockholders known by such stockholder to be supporting such proposal on the date of such stockholder notice, and (iv) any financial interest of such stockholder (or any affiliate or family member of such stockholder), whether current or at any time within the past three years, in such business, nominee or proposal. In addition, if the notice is a nomination of a candidate for director, the stockholder's notice also must contain (A) the proposed nominee's name and qualifications, including five year employment history with employer names and a description of the employer's business, whether such individual can read and understand basic financial statements, and board memberships (if any), (B) the reason for such recommendation, (C) the number of shares of stock of SGRP that are beneficially owned by such nominee, (D) a



description of any business or other relationship, whether current or at any time within the past three years, between such nominee (or any affiliate or family member of such nominee) and either the Company, any of its directors or officers, its auditor, or any of its customers or vendors, and (E) a description of any financial or other relationship, whether current or at any time within the past three years, between the stockholder (or any affiliate or family member of such stockholder) and such nominee (or any affiliate or family member of such nominee).

If it is determined by the Governance Committee or the presiding officer of the Annual Meeting that a stockholder proposal was not made in accordance with the terms of the Restated By-Laws or the applicable SEC Rules or is not under the circumstances required to be considered thereunder, such proposal will not be acted upon at the Annual Meeting.

#### ANNUAL REPORTS

A COPY OF SGRP'S ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2009, IS BEING MAILED TO EACH STOCKHOLDER OF RECORD TOGETHER WITH THIS PROXY STATEMENT. THE ANNUAL REPORT INCLUDES A CONFORMED COPY OF SGRP'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2009.

THE ANNUAL REPORT (INCLUDING FORM 10-K) IS NOT PART OF SGRP'S SOLICITING MATERIAL.

#### PROXIES AND SOLICITATION

The proxy accompanying this Proxy Statement is solicited on behalf of the SGRP's Board of Directors. Proxies for the 2010 Annual Meeting are being solicited by mail directly and through brokerage and banking institutions. The Company will pay all expenses in connection with the solicitation of proxies. In addition to the use of mails, proxies may be solicited by Directors, officers and regular employees of the Company (who will not be specifically compensated for such services) personally or by telephone. The Company will reimburse banks, brokers, custodians, nominees and fiduciaries for any reasonable expenses in forwarding proxy materials to beneficial owners.

All stockholders are urged to complete, sign and promptly return the enclosed proxy card.

By Order of the Board of Directors

Tarrytown, New York  
May 7, 2010

James R. Segreto  
Secretary, Treasurer and Chief Financial  
Officer