

AMERICAN INTERNATIONAL GROUP INC

Form 424B2

March 09, 2007

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**Prospectus Supplement**

**Filed Pursuant to Rule 424(b)(2)  
Registration Nos. 333-106040**

(To Prospectus dated July 24, 2006)

**American International Group, Inc.**

*1,000,000,000*

*4.875% Series A-3 Junior Subordinated Debentures  
in denominations that are even multiples of 50,000*

The Series A-3 Junior Subordinated Debentures will bear interest on their principal amount from the date they are issued to but excluding March 15, 2017 at the annual rate of 4.875% of their principal amount, payable annually in arrears on each March 15, beginning on March 15, 2008, and commencing on March 15, 2017 at an annual rate equal to three-month EURIBOR plus 1.73%, payable quarterly in arrears on each March 15, June 15, September 15 and December 15, beginning on June 15, 2017. We have the right, on one or more occasions, to defer the payment of interest on the Series A-3 Junior Subordinated Debentures for one or more consecutive interest periods that do not exceed five years without being subject to our obligations under the alternative payment mechanism described in this prospectus supplement and for one or more consecutive interest periods that do not exceed 10 years without giving rise to an event of default. If we defer interest for more than two years and then file for bankruptcy, holders will have no claim for any interest other than for the earliest two years that remain unpaid at the time of filing.

We will be required to repay the principal amount of the Series A-3 Junior Subordinated Debentures on March 15, 2037, or, if that date is not a business day, on the next business day (the scheduled maturity date) only to the extent that we have sold qualifying capital securities during a 180-day period ending on a notice date not more than 30 or less than 10 business days prior to the scheduled maturity date. We will use our commercially reasonable efforts, subject to market disruption events, to sell enough qualifying capital securities to permit repayment of the Series A-3 Junior Subordinated Debentures in full on the scheduled maturity date. If any amount is not paid on the scheduled maturity date, it will remain outstanding and continue to bear interest at a floating rate and we will continue to use our commercially reasonable efforts to sell enough qualifying capital securities to permit the repayment of any remaining principal amount of the Series A-3 Junior Subordinated Debentures in full. On March 15, 2067, we must pay any remaining principal and interest on the Series A-3 Junior Subordinated Debentures in full whether or not we have sold qualifying capital securities.

The Series A-3 Junior Subordinated Debentures may be redeemed, in whole but not in part, at any time prior to March 15, 2017, at their principal amount or, if greater, a make-whole price calculated as described herein, in either case plus accrued and unpaid interest through the date of redemption. The make-whole price will be lower if we redeem the Series A-3 Junior Subordinated Debentures in connection with a tax event or a rating agency event, as described herein. On or after March 15, 2017, we may redeem the Series A-3 Junior Subordinated Debentures, in whole or in part, on any interest payment date, at their principal amount plus accrued and unpaid interest through the date of redemption.

If we become obligated to pay additional amounts to non U.S. persons, other than as a result of an event that would, upon receipt of the opinion required under tax event, constitute a tax event as described herein, we may redeem the Series A-3 Junior Subordinated Debentures at any time in whole but not in part, at their principal amount plus accrued and unpaid interest through the date of redemption.

The Series A-3 Junior Subordinated Debentures will be subordinated to all of our existing and future senior, subordinated and junior subordinated debt, except for any trade accounts payable and accrued liabilities arising in the ordinary course of business and any future debt that by its terms is not superior in right of payment, and will be effectively subordinated to all liabilities of our subsidiaries.

AIG has previously offered \$1,000,000,000 of 6.25% Series A-1 Junior Subordinated Debentures and is concurrently offering £750,000,000 of 5.75% Series A-2 Junior Subordinated Debentures. The offering of the Series A-3 Junior Subordinated Debentures is not conditioned on the completion of any other offering. The Series A-3 Junior Subordinated Debentures will rank *pari passu* with the Series A-1 Junior Subordinated Debentures and the Series A-2 Junior Subordinated Debentures.

We will apply to list the Series A-3 Junior Subordinated Debentures on the New York Stock Exchange. Trading of the Series A-3 Junior Subordinated Debentures on the New York Stock Exchange is expected to begin within 30 days after they are first issued.

**An investment in the Series A-3 Junior Subordinated Debentures involves a high degree of risk. You should carefully consider the risks described under Risk Factors beginning on page S-7 before purchasing the Series A-3 Junior Subordinated Debentures.**

Neither the Securities and Exchange Commission nor any state securities commission or other regulatory body has approved or disapproved of these securities or determined that this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Price to Public	Underwriting Commissions	Proceeds to American International Group, Inc.
Per Series A-3 Junior Subordinated Debenture	99.798% <sup>(1)</sup> )	1.000% <sup>(2)</sup> )	98.798% <sup>(2)</sup> )
Total	997,980,000 <sup>(1)</sup>	10,000,000 <sup>(2)</sup>	987,980,000 <sup>(2)</sup>

(1) Plus interest accrued on the Series A-3 Junior Subordinated Debentures since March 15, 2007, if any.

(2) The underwriters have agreed to reimburse AIG for up to 1,000,000 of its out-of-pocket expenses incurred in connection with this offering.

We expect to deliver the Series A-3 Junior Subordinated Debentures to investors through the book-entry facilities of Euroclear Bank S.A./N.V., as operator of the Euroclear System, and Clearstream Banking, *société anonyme*, on or about March 15, 2007.

*Joint Bookrunning Managers*

**ABN AMRO**

**Credit Suisse**

**Citigroup**  
*(Joint Structuring  
Advisor)*

**Deutsche Bank**  
*(Joint Structuring  
Advisor)*

**JPMorgan**  
*(Joint Structuring  
Advisor)*

March 8, 2007

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*Unless otherwise mentioned or unless the context requires otherwise, all references in this prospectus supplement to the Company, AIG, we, our, us and similar references mean American International Group, Inc. and not its subsidiaries.*

**You should rely only on the information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference therein. We have not authorized anyone to provide you with different information. We are offering to sell the Series A-3 Junior Subordinated Debentures only in jurisdictions where offers and sales are permitted. The information contained in this prospectus supplement and the accompanying prospectus is accurate only as of the date on the front of those documents, regardless of the time of delivery of those documents or any sale of the Series A-3 Junior Subordinated Debentures.**

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**SUMMARY**

In this summary, we have highlighted certain information in this prospectus supplement and the accompanying prospectus. This summary does not contain all of the information that is important to you. To understand the terms of the Series A-3 Junior Subordinated Debentures, as well as the considerations that are important to you in making a decision to purchase the Series A-3 Junior Subordinated Debentures, you should carefully read this entire prospectus supplement and the accompanying prospectus. You should also read the documents we have referred you to in *Where You Can Find More Information* on page 44 in the accompanying prospectus.

**About this Prospectus Supplement**

This prospectus supplement summarizes the specific terms of the securities being offered and supplements the general descriptions set forth in the accompanying prospectus. This prospectus supplement also updates and supersedes information in the accompanying prospectus. In the case of inconsistencies, this prospectus supplement will apply. We use terms in this prospectus supplement as they are defined in the accompanying prospectus.

**American International Group, Inc.**

AIG, a Delaware corporation, is a holding company which, through its subsidiaries, is engaged in a broad range of insurance and insurance-related activities in the United States and abroad. AIG's principal executive offices are located at 70 Pine Street, New York, New York 10270, and its main telephone number is (212) 770-7000. The Internet address for AIG's corporate website is [www.aigcorporate.com](http://www.aigcorporate.com). Except for the documents referred to under *Where You Can Find More Information* in the accompanying prospectus, which are specifically incorporated by reference into this prospectus supplement, information contained on AIG's website or that can be accessed through its website does not constitute a part of this prospectus supplement. AIG has included its website address only as an inactive textual reference and does not intend it to be an active link to its website.

**The Series A-3 Junior Subordinated Debentures**

**Issuance in Euro**

Initial holders of the Series A-3 Junior Subordinated Debentures will be required to pay for the Series A-3 Junior Subordinated Debentures in euro. Depending on the holder's home currency, an investment in the Series A-3 Junior Subordinated Debentures may present currency related risks as described in *Risk Factors*. An investment in the Series A-3 Junior Subordinated Debentures by a purchaser whose home currency is not the euro entails significant risks.

**Repayment of Principal**

We are required to repay the principal amount of the Series A-3 Junior Subordinated Debentures, together with accrued and unpaid interest, on March 15, 2037, or, if that date is not a business day, on the next business day (the *scheduled maturity date*), subject to the limitations described below.

We are required to repay the Series A-3 Junior Subordinated Debentures on the scheduled maturity date only to the extent of the applicable percentage of the net proceeds we have received from the issuance of qualifying capital securities, as these terms are defined under *Replacement Capital Covenant*, that we have sold during a 180-day period ending on a notice date not more than 30 or less than 10 business days prior to such date. If we have not sold a

sufficient amount of qualifying capital securities to permit repayment of all of the Series A-3 Junior Subordinated Debentures on the scheduled maturity date, the unpaid amount will remain outstanding and continue to bear interest at a floating rate until repaid. This obligation will continue to apply on each subsequent interest payment date until the earliest to occur of

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the redemption of all the Series A-3 Junior Subordinated Debentures;

an event of default which results in acceleration of the Series A-3 Junior Subordinated Debentures occurs; and

March 15, 2067, the final maturity date for the Series A-3 Junior Subordinated Debentures.

Our failure to pay the Series A-3 Junior Subordinated Debentures on the scheduled maturity date will not constitute an event of default under the junior debt indenture governing the Series A-3 Junior Subordinated Debentures. See

Description of Terms of the Series A-3 Junior Subordinated Debentures Events of Default Remedies If an Event of Default Occurs and Risk Factors Holders have limited rights of acceleration for a discussion of the limited remedies holders of the Series A-3 Junior Subordinated Debentures have if AIG fails to repay the Series A-3 Junior Subordinated Debentures on the scheduled maturity date.

We will use our commercially reasonable efforts, subject to a market disruption event, as described under Description of Terms of the Series A-3 Junior Subordinated Debentures Market Disruption Events, to sell sufficient qualifying capital securities to permit repayment of the Series A-3 Junior Subordinated Debentures in full on the scheduled maturity date in accordance with the preceding paragraph. If we are unable for any reason to issue sufficient qualifying capital securities to permit repayment of the Series A-3 Junior Subordinated Debentures in full, we will use our commercially reasonable efforts, subject to a market disruption event, to sell sufficient qualifying capital securities to permit repayment of any outstanding Series A-3 Junior Subordinated Debentures on the following interest payment date, and on each interest payment date thereafter, until all of the Series A-3 Junior Subordinated Debentures are paid in full.

Any unpaid principal amount of the Series A-3 Junior Subordinated Debentures, together with accrued and unpaid interest, will be due and payable on March 15, 2067, regardless of the amount of qualifying capital securities we have sold by that time.

We are not required to issue any securities pursuant to the obligation described above other than qualifying capital securities.

## **Interest**

The Series A-3 Junior Subordinated Debentures will bear interest from and including March 15, 2007 to but excluding March 15, 2017 at the annual rate of 4.875%, payable annually in arrears on March 15 of each year, beginning on March 15, 2008. The Series A-3 Junior Subordinated Debentures will bear interest from and including March 15, 2017 at a rate equal to three-month EURIBOR (as defined under Description of Terms of the Series A-3 Junior Subordinated Debentures Interest Rate and Interest Payment Dates ) plus 1.73%, payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year, beginning on June 15, 2017. We refer to each annual or quarterly date on which interest is payable as an interest payment date.

## **Ranking**

The Series A-3 Junior Subordinated Debentures will constitute one series of the junior subordinated debentures referred to in the accompanying prospectus and will be issued by AIG under the junior debt indenture referred to in the accompanying prospectus. The Series A-3 Junior Subordinated Debentures will be unsecured, will rank junior in payment to all of our existing and future senior debt, as defined under Description of Terms of the Series A-3 Junior Subordinated Debentures Subordination, will rank *pari passu* with the U.S. Dollar Debentures and the Sterling

Debentures (each as defined under "Related Offerings" below), and will be effectively subordinated to all liabilities of our subsidiaries. Substantially all of our existing indebtedness is senior debt.

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### **Deferral of Interest**

We have the right, on one or more occasions, to defer the payment of interest on the Series A-3 Junior Subordinated Debentures for one or more consecutive interest periods that do not exceed five years without being subject to our obligations under the alternative payment mechanism described under Description of Terms of the Series A-3 Junior Subordinated Debentures Alternative Payment Mechanism, and for one or more consecutive interest periods that do not exceed 10 years without giving rise to an event of default under the terms of the Series A-3 Junior Subordinated Debentures. However, the failure to pay all accrued and unpaid interest at the conclusion of the 10-year deferral period will, after the lapse of 30 days, constitute an event of default permitting acceleration of the Series A-3 Junior Subordinated Debentures. Interest on unpaid interest installments on the Series A-3 Junior Subordinated Debentures will accrue during the deferral period at the then applicable interest rate, compounding on each interest payment date.

During any deferral period, we generally will not be permitted to make any payments of deferred interest or distributions from any source other than eligible proceeds, as defined under Description of Terms of the Series A-3 Junior Subordinated Debentures, and we will not be required to make any interest or distribution payments other than pursuant to the alternative payment mechanism after five years or, if earlier, the first interest payment date on which we pay current interest.

Following the earlier of (i) the fifth anniversary of the commencement of a deferral period and (ii) a payment of current interest on the Series A-3 Junior Subordinated Debentures during a deferral period, we will be required to pay deferred interest pursuant to the alternative payment mechanism. Under the alternative payment mechanism, after that date we must, subject to market disruption events, use our commercially reasonable efforts to sell APM qualifying securities, as defined under Alternative Payment Mechanism below, and apply the eligible proceeds to pay accrued and unpaid deferred interest on the Series A-3 Junior Subordinated Debentures.

If we defer payments of interest on the Series A-3 Junior Subordinated Debentures, the Series A-3 Junior Subordinated Debentures will be treated as being issued with original issue discount for United States federal income tax purposes. This means that you must include interest income with respect to the deferred distributions on your Series A-3 Junior Subordinated Debentures in gross income for United States federal income tax purposes, even though we will not make actual payments on the Series A-3 Junior Subordinated Debentures during a deferral period. See Certain United States Federal Income Tax Consequences United States Holders Interest Income and Original Issue Discount and Risk Factors Deferral of interest payments will have negative United States federal income tax consequences and is likely to adversely affect the market price of the Series A-3 Junior Subordinated Debentures for a further discussion of the federal income tax consequences of an interest deferral.

### **Limitations on Claims in the Event of Our Bankruptcy, Insolvency or Receivership**

In the event of our bankruptcy, insolvency or receivership, a holder of Series A-3 Junior Subordinated Debentures will only have a claim for deferred and unpaid interest (including compounded interest thereon) to the extent such interest (including compounded interest thereon) relates to the earliest two years of the portion of the deferral period for which interest has not so been paid, as further described under Description of Terms of the Series A-3 Junior Subordinated Debentures Limitation on Claims in the Event of Our Bankruptcy, Insolvency or Receivership.

### **Certain Payment Restrictions**

During any period in which an event of default has occurred and is continuing or we have given notice of our election to defer interest payments but the related deferral period has not yet commenced or a deferral period is continuing, we and our subsidiaries generally may not make payments on or redeem or repurchase our capital stock or our debt

securities or guarantees ranking *pari passu* with or junior to the Series A-3 Junior Subordinated Debentures, subject to the exceptions described under Description of Terms of the Series A-3 Junior Subordinated Debentures Dividend and Other Payment Stoppages during Interest Deferral and under Certain Other Circumstances. In addition, if any deferral period lasts longer than one year, subject to the

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exceptions described under Description of Terms of the Series A-3 Junior Subordinated Debentures Dividend and Other Payment Stoppages during Interest Deferral and under Certain Other Circumstances, we will not be permitted to repurchase any securities ranking junior to or *pari passu* with any APM qualifying securities the proceeds of which were used to settle deferred interest during the relevant deferral period until the first anniversary of the date on which all deferred interest has been paid.

### **Alternative Payment Mechanism**

Unless a market disruption event has occurred, and subject to certain limitations and conditions described under Description of Terms of the Series A-3 Junior Subordinated Debentures Alternative Payment Mechanism, if we defer interest on the Series A-3 Junior Subordinated Debentures, we will be required, not later than (i) the first interest payment date during a deferral period on which we elect to pay current interest, or (ii) if earlier, the business day following the fifth anniversary of the commencement of a deferral period, to issue APM qualifying securities until we have raised an amount of eligible proceeds sufficient to pay the deferred interest (and compounded interest thereon) in full. We will not pay deferred interest (and compounded interest thereon) on the Series A-3 Junior Subordinated Debentures from any source other than the eligible proceeds from the sale of APM qualifying securities, unless otherwise required at the time by any applicable regulatory authority, the deferral period is terminated on the interest payment date following certain business combinations or an event of default has occurred and is continuing. We refer to this process as the alternative payment mechanism. See Description of Terms of the Series A-3 Junior Subordinated Debentures Alternative Payment Mechanism for a more detailed description of this mechanism.

The following securities are APM qualifying securities for purposes of the alternative payment mechanism:

- common stock ;
- qualifying warrants ; and
- qualifying non-cumulative preferred stock,

in each case as defined under Description of Terms of the Series A-3 Junior Subordinated Debentures Alternative Payment Mechanism.

Although our failure to comply with our obligations with respect to the alternative payment mechanism will breach a covenant of the junior debt indenture, it will not constitute an event of default thereunder or give rise to a right of acceleration or similar remedy. The remedies of holders of the Series A-3 Junior Subordinated Debentures will be limited in such circumstances as described under Risk Factors Holders have limited rights of acceleration.

### **Early Redemption of Series A-3 Junior Subordinated Debentures**

We may redeem the Series A-3 Junior Subordinated Debentures, in whole but not in part, prior to March 15, 2017 at their principal amount or, if greater, a make-whole price calculated as described herein, in either case plus accrued and unpaid interest through the date of redemption. If we redeem the Series A-3 Junior Subordinated Debentures prior to March 15, 2017 in connection with a tax event or a rating agency event, the discount rate used to calculate the make-whole price will be the then current yield on the comparable Bundesobligationen issue plus 0.50%. In all other cases, the discount rate used to calculate the make-whole price will be the then current yield on the comparable Bundesobligationen issue plus 0.25%. For descriptions of tax event, rating agency event, comparable Bundesobligationen issue and how the make-whole price will be calculated, see Description of Terms of the Series A-3 Junior Subordinated Debentures Early Redemption below. On or after March 15, 2017, we may redeem the Series A-3 Junior Subordinated Debentures, in whole or in part, on any interest payment date, at their principal

amount plus accrued and unpaid interest through the date of redemption.

In addition, we may redeem the Series A-3 Junior Subordinated Debentures, in whole but not in part, at any time if we become obligated to pay additional amounts, as described under Description of Terms of

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the Series A-3 Junior Subordinated Debentures Additional Amounts below, to non U.S. persons, other than as a result of an event that would, upon receipt of the opinion required under tax event, constitute a tax event, at their principal amount plus accrued and unpaid interest through the date of redemption.

Any redemption of the Series A-3 Junior Subordinated Debentures must be made in accordance with the Replacement Capital Covenant and Alternative Payment Mechanism.

## **Events of Default**

The following events are *events of default* with respect to the Series A-3 Junior Subordinated Debentures:

default in the payment of interest, including compounded interest, in full on any Series A-3 Junior Subordinated Debenture for a period of 30 days after the conclusion of a deferral period that lasts for 10 years; or

default in the payment of the principal of any Series A-3 Junior Subordinated Debenture at the final maturity date or upon a call for redemption; or

certain events of bankruptcy, insolvency and reorganization involving AIG.

The occurrence of an event of default described in the first bullet point will permit the indenture trustee or holders of at least 25% in principal amount of the Series A-3 Junior Subordinated Debentures to accelerate the principal amount of all then outstanding Series A-3 Junior Subordinated Debentures, and the occurrence of an event of default described in the third bullet point will result in an automatic acceleration of the principal amount of all then outstanding Series A-3 Junior Subordinated Debentures. In the case of any other default or breach of the junior debt indenture by AIG, including an event of default under the second bullet point in the definition of that term, there is no right to declare the principal amount of the Series A-3 Junior Subordinated Debentures immediately due and payable. See Risk Factors Holders have limited rights of acceleration for a further discussion of the limited ability of holders to exercise the remedy of acceleration.

## **Additional Amounts**

Subject to the exceptions and limitations described under Description of Terms of the Series A-3 Junior Subordinated Debentures Additional Amounts, we will pay additional amounts ( additional amounts ) on the Series A-3 Junior Subordinated Debentures with respect to any beneficial owner of the Series A-3 Junior Subordinated Debentures that is a non U.S. person (as defined under Description of Terms of the Series A-3 Junior Subordinated Debentures Additional Amounts ) to ensure that each net payment to that non U.S. person on Series A-3 Junior Subordinated Debentures that it beneficially owns will not be less, due to the payment of U.S. withholding tax, than the amount then otherwise due and payable. For this purpose, a net payment on a Series A-3 Junior Subordinated Debenture means a payment by us or any paying agent, including payment of principal and interest, after a deduction for any present or future tax, assessment, or other governmental charge on the additional amounts. Additional amounts will constitute interest on the Series A-3 Junior Subordinated Debentures. In addition, if we become obligated to pay additional amounts, we may redeem the Series A-3 Junior Subordinated Debentures in whole at any time upon the terms described herein.

## **Related Offerings**

AIG has previously offered \$1,000,000,000 of 6.25% Series A-1 Junior Subordinated Debentures (the *U.S. Dollar Debentures* ) and is concurrently offering £750,000,000 of 5.75% Series A-2 Junior Subordinated Debentures (the

*Sterling Debentures* ). The offering of the Series A-3 Junior Subordinated Debentures is not conditioned on the completion of any other offering. The Series A-3 Junior Subordinated Debentures will rank *pari passu* with the U.S. Dollar Debentures and the Sterling Debentures. The U.S. Dollar Debentures and the Sterling Debentures will be subject to a replacement capital covenant that is similar to the replacement capital covenant applicable to the Series A-3 Junior Subordinated Debentures.



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**Book-Entry**

The Series A-3 Junior Subordinated Debentures will initially be evidenced by one or more global securities registered in the name of, and deposited with, a common depository on behalf of Euroclear Bank S.A./N.V., as operator of the Euroclear System ( *Euroclear* ), and Clearstream Banking, *société anonyme* ( *Clearstream* ). This means that you will not receive a certificate for your Series A-3 Junior Subordinated Debentures and Series A-3 Junior Subordinated Debentures will not be registered in your name, except under certain limited circumstances described under Legal Ownership and Book-Entry Issuance.

**Listing**

We will apply to list the Series A-3 Junior Subordinated Debentures on the New York Stock Exchange. Trading of the Series A-3 Junior Subordinated Debentures on the New York Stock Exchange is expected to commence within 30 days after they are first issued.

**Replacement Capital Covenant**

We agree in the replacement capital covenant, only for the benefit of persons that buy, hold or sell a specified series of our long-term indebtedness ranking senior to the Series A-3 Junior Subordinated Debentures, that the Series A-3 Junior Subordinated Debentures will not be repaid, redeemed, defeased or purchased by us or any of our subsidiaries on or before March 15, 2047, unless the principal amount repaid or defeased, or the applicable redemption or purchase price does not exceed a maximum amount determined by reference to the aggregate amount of net cash proceeds we have received from the sale of common stock, rights to acquire common stock, mandatorily convertible preferred stock, debt exchangeable for equity, certain qualifying capital securities, the market value of any common stock ( rights to acquire common stock ) we and our subsidiaries have delivered as consideration for property or assets in an arms length transaction and the market value of any common stock issued in connection with the conversion or exchange of any convertible or exchangeable securities, other than securities for which we or any of our subsidiaries have received equity credit from any rating agency, in each case within the applicable measurement period. The replacement capital covenant, including the definitions of common stock, mandatorily convertible preferred stock, debt exchangeable for equity, qualifying capital securities and other important terms, is described in more detail under Replacement Capital Covenant below.

If an event of default resulting in the acceleration of the Series A-3 Junior Subordinated Debentures occurs, we will not have to comply with the replacement capital covenant. Our covenant in the replacement capital covenant will run only to the benefit of the covered debtholders. It may not be enforced by the holders of the Series A-3 Junior Subordinated Debentures. The initial class of covered debtholders are the holders of our 6.25% Notes due 2036, CUSIP No. 026874AZ0.

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**RISK FACTORS**

Before deciding to purchase any Series A-3 Junior Subordinated Debentures, you should pay special attention to the following risk factors, as well as the risk factors set forth in Item 1A. of Part I of AIG's Annual Report on Form 10-K for the year ended December 31, 2006 (to obtain this document, see [Where You Can Find More Information](#) in the accompanying prospectus).

***Our obligations to make payments on the Series A-3 Junior Subordinated Debentures are subordinate to our payment obligations under our senior debt.***

Our obligations under the Series A-3 Junior Subordinated Debentures are unsecured and rank junior in right of payment to all of our existing and future senior debt. See [Description of Terms of the Series A-3 Junior Subordinated Debentures Subordination](#) for the definition of senior debt. As of December 31, 2006, there was approximately \$89.4 billion of outstanding senior debt of AIG.

This means that, unless all senior debt is repaid in full, we cannot make any payments on the Series A-3 Junior Subordinated Debentures if our unsecured indebtedness for borrowed money with a principal amount in excess of \$100 million is accelerated, in the event of our bankruptcy, insolvency or liquidation or in the event of the acceleration of the Series A-3 Junior Subordinated Debentures.

Substantially all of our existing indebtedness is senior debt. The terms of the junior debt indenture do not limit our ability to incur additional debt, including secured or unsecured debt.

***The Series A-3 Junior Subordinated Debentures will be effectively subordinated to the obligations of our subsidiaries.***

We are a holding company that conducts substantially all of our operations through subsidiaries. As a result, our ability to make payments on the Series A-3 Junior Subordinated Debentures will depend primarily upon the receipt of dividends and other distributions from our subsidiaries. Various legal and regulatory limitations restrict the extent to which our subsidiaries may extend credit to, pay dividends or other funds to, or otherwise engage in transactions with, us.

Our right to participate in any distribution of assets from any subsidiary upon the subsidiary's liquidation or otherwise is subject to the prior claims of creditors of that subsidiary, except to the extent that we are recognized as a creditor of that subsidiary. As a result, the Series A-3 Junior Subordinated Debentures will be effectively subordinated to all existing and future liabilities of our subsidiaries. You should look only to the assets of AIG as the source of payment for the Series A-3 Junior Subordinated Debentures, and not those of our subsidiaries.

***Our obligation to repay the Series A-3 Junior Subordinated Debentures on the scheduled maturity date is subject to our ability to issue qualifying capital securities.***

Our obligation to repay the Series A-3 Junior Subordinated Debentures on the scheduled maturity date, March 15, 2037, is limited. We are required to repay the Series A-3 Junior Subordinated Debentures on the scheduled maturity date only to the extent that we have sold sufficient qualifying capital securities (as defined under [Replacement Capital Covenant](#) ) within a 180-day period ending on a notice date not more than 30 or less than 10 business days prior to such date. If we have not sold sufficient qualifying capital securities to permit repayment of the Series A-3 Junior Subordinated Debentures in full on the scheduled maturity date, the unpaid amount will remain outstanding and

continue to bear interest at a floating rate until repaid, and we will not be required to repay the Series A-3 Junior Subordinated Debentures until (i) we have issued sufficient qualifying capital securities to permit repayment in accordance with this requirement, (ii) payment on the Series A-3 Junior Subordinated Debentures is accelerated upon the occurrence of an event of default or (iii) the final maturity date for the Series A-3 Junior Subordinated Debentures on March 15, 2067. Our ability to issue qualifying capital securities will depend on, among other things, market conditions at the time the obligation arises, as well as the acceptability to prospective investors of the terms of these securities. Although we have agreed to use our commercially reasonable efforts to issue sufficient qualifying capital securities to repay the Series A-3 Junior Subordinated Debentures during the 180-day period referred to above and from interest payment date to interest payment date thereafter until the Series A-3 Junior Subordinated Debentures are repaid in full, our failure to do so would not be an event of default or give rise to a right of acceleration or similar remedy until March 15, 2067, and we will be excused from using our commercially reasonable efforts

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if certain market disruption events occur. Accordingly, there could be circumstances where we may have sufficient cash to repay the Series A-3 Junior Subordinated Debentures, but are restricted from doing so because we were unable to sell a sufficient amount of qualifying capital securities. In addition, the U.S. Dollar Debentures and the Sterling Debentures have the same scheduled maturity date as the Series A-3 Junior Subordinated Debentures. Accordingly, if these debentures are outstanding on the scheduled maturity date, we will be required to repay them on a *pro rata* basis with the Series A-3 Junior Subordinated Debentures if we are unable to sell a sufficient amount of qualifying capital securities to repay all three series in full, and the unpaid amount of each such series will remain outstanding as described above. See **Holder's rights of acceleration** below for a further discussion of the limited consequences of our failure to issue qualifying capital securities.

Moreover, we are entering into a replacement capital covenant for the benefit of holders of a designated series of our indebtedness that ranks senior to the Series A-3 Junior Subordinated Debentures pursuant to which we will covenant that neither we nor any of our subsidiaries will repay, redeem, defease or purchase Series A-3 Junior Subordinated Debentures on or before March 15, 2047 unless during the applicable measurement period we or our subsidiaries have sold sufficient common stock, rights to acquire common stock, mandatorily convertible preferred stock, debt exchangeable for equity or certain qualifying capital securities. The holders of the Series A-3 Junior Subordinated Debentures are not parties to or beneficiaries of the replacement capital covenant. As a result, we may amend the replacement capital covenant at any time without the consent of the holders of the Series A-3 Junior Subordinated Debentures, except that under the terms of the junior debt indenture an amendment that imposes additional restrictions on the type or amount of qualifying capital securities that are considered for purposes of determining the principal amount of the Series A-3 Junior Subordinated Debentures that we are permitted to repay requires the consent of holders of a majority in principal amount of Series A-3 Junior Subordinated Debentures.

We have no obligation to issue any securities other than qualifying capital securities in connection with our obligation to repay the Series A-3 Junior Subordinated Debentures on the scheduled maturity date.

***We have the right to defer interest for 10 years without causing an event of default.***

We have the right to defer interest on the Series A-3 Junior Subordinated Debentures for a period of up to 10 consecutive years. Although we would be subject to the alternative payment mechanism after the earlier of the fifth anniversary of the commencement of the deferral period and the first interest payment date on which we make any payment of current interest during a deferral period, if we are unable to raise sufficient eligible proceeds, we may defer payment of accrued interest on the Series A-3 Junior Subordinated Debentures for a period of up to 10 consecutive years without causing an event of default. During any such deferral period, holders of Series A-3 Junior Subordinated Debentures will receive limited or no current payments and, so long as we are otherwise in compliance with our obligations, such holders will have no remedies against us for nonpayment unless within 30 days after the end of the 10-year deferral period we fail to pay all previously deferred interest (including compounded interest).

***Interest payments may be made on pari passu securities even though interest has not been paid on the Series A-3 Junior Subordinated Debentures.***

We may in the future issue debt securities that upon our liquidation rank *pari passu* with the Series A-3 Junior Subordinated Debentures ( *pari passu securities* ) but as to which during a deferral period we are required to make payments of interest that are not made *pro rata* with payments of interest on the Series A-3 Junior Subordinated Debentures or other *pari passu* securities and that, if not made, would cause us to breach the terms of the instrument governing the *pari passu* securities. The terms of the Series A-3 Junior Subordinated Debentures permit us during a deferral period to make any payment of current interest on *pari passu* securities during a deferral period that is made *pro rata* to the amounts due on *pari passu* securities and the Series A-3 Junior Subordinated Debentures and any payment of deferred interest on *pari passu* securities that, if not made, would cause us to breach the terms of the

instrument governing such *pari passu* securities; *provided* that such payments are made in accordance with the last paragraph under Description of Terms of the Series A-3 Junior Subordinated Debentures Alternative Payment Mechanism Remedies and Market Disruptions to the extent it applies. The U.S. Dollar Debentures and the Sterling Debentures constitute *pari passu* securities and will not require AIG to

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make interest payments on those securities while interest is being deferred on the Series A-3 Junior Subordinated Debentures, other than pursuant to an alternative payment mechanism that is substantially the same as the alternative payment mechanism for the Series A-3 Junior Subordinated Debentures.

***Our ability to pay deferred interest is limited by the terms of the alternative payment mechanism and is subject to market disruption events and other factors beyond our control.***

If we elect to defer interest payments, we will not be permitted to pay deferred interest on the Series A-3 Junior Subordinated Debentures (and compounded interest thereon) during the deferral period, which may last up to 10 years, from any source other than the issuance of common stock up to the maximum share number, qualifying warrants up to the maximum warrant number or qualifying non-cumulative preferred stock up to the preferred stock issuance cap (each as described below and defined under Description of Terms of the Series A-3 Junior Subordinated Debentures Alternative Payment Mechanism ), unless otherwise directed by a regulatory authority, the deferral period is terminated on the interest payment date following certain business combinations or an event of default has occurred and is continuing.

***Common Stock.*** The number of shares of common stock that we may sell to fund the payment of deferred interest may not exceed 100 million (subject to adjustment).

***Qualifying Warrants.*** The number of shares of common stock that underlie qualifying warrants that we may sell to fund the payment of deferred interest may not exceed 100 million (subject to adjustment).

***Qualifying non-cumulative preferred stock.*** The preferred stock issuance cap limits the net proceeds of the issuance of qualifying non-cumulative perpetual preferred stock that we may apply to the payment of deferred interest to 25% of the aggregate principal amount of the Series A-3 Junior Subordinated Debentures (and any additional Series A-3 Junior Subordinated Debentures issued as described under Description of Terms of the Series A-3 Junior Subordinated Debentures Further Issues below) initially issued.

We may increase the maximum share number or the maximum warrant number without your consent, but we may not increase the preferred stock issuance cap. These restrictions may prevent us from issuing sufficient shares of common stock, qualifying warrants or qualifying non-cumulative preferred stock for the purpose of paying all deferred interest.

The occurrence of a market disruption event may prevent or delay a sale of common stock, qualifying warrants or qualifying non-cumulative preferred stock pursuant to the alternative payment mechanism and, accordingly, the payment of deferred interest on the Series A-3 Junior Subordinated Debentures. Market disruption events include events and circumstances both within and beyond our control, such as the failure to obtain any consent or approval of our stockholders or a regulatory body or governmental authority to issue common stock, qualifying warrants or qualifying non-cumulative preferred stock notwithstanding our commercially reasonable efforts. Moreover, we may encounter difficulties in successfully marketing our common stock, qualifying warrants or qualifying non-cumulative preferred stock, particularly during times we are subject to the restrictions on dividends as a result of the deferral of interest. To the extent we do not sell sufficient common stock, qualifying warrants or qualifying non-cumulative preferred stock to fund deferred interest payments in these circumstances, we will not be permitted to pay deferred interest on the Series A-3 Junior Subordinated Debentures, even if we have cash available from other sources. In addition, the U.S. Dollar Debentures and the Sterling Debentures have comparable provisions with respect to the payment of deferred interest. Accordingly, if these debentures are outstanding during a deferral period, we will be required to pay deferred interest on them on a *pro rata* basis with the Series A-3 Junior Subordinated Debentures if we are unable to sell sufficient shares of common stock, qualifying warrants and qualifying non-cumulative preferred stock to pay the deferred interest on all three series in full. See Description of Terms of the Series A-3 Junior

Subordinated Debentures Option to Defer Interest Payments, Alternative Payment Mechanism and Market Disruption Events for a more detailed explanation of the alternative payment mechanism.

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***The junior debt indenture limits our obligation to raise proceeds from the sale of common stock and qualifying warrants to pay deferred interest during the first five years of a deferral period.***

The junior debt indenture limits our obligation to raise proceeds from the sale of common stock and qualifying warrants to pay deferred interest during the first five years of any deferral period to an amount we refer to as the stock and warrant issuance cap. This cap provides that, during the first five years of any deferral period, in order to pay deferred interest, we are not required to issue shares of our common stock or qualifying warrants to purchase a number of shares of our common stock in excess of an aggregate of 2% of the total number of issued and outstanding shares of our common stock as of the date of our then most recent publicly available consolidated financial statements. Once we reach the stock and warrant issuance cap for a deferral period, we will not be obligated to sell common stock or qualifying warrants to pay deferred interest relating to such deferral period until the fifth anniversary of such deferral period.

***Deferral of interest payments will have negative United States federal income tax consequences and is likely to adversely affect the market price of the Series A-3 Junior Subordinated Debentures.***

If we defer interest payments on the Series A-3 Junior Subordinated Debentures, you will be required to accrue income, in the form of original issue discount, for United States federal income tax purposes with respect to the deferred interest on the Series A-3 Junior Subordinated Debentures, even if you normally report income when received and even though you may not receive the cash attributable to that income during the deferral period. See

Certain United States Federal Income Tax Consequences United States Holders Interest Income and Original Issue Discount for a further discussion of the tax consequences of a deferral.

If we exercise our right to defer interest, the market price of the Series A-3 Junior Subordinated Debentures is likely to be adversely affected. As a result of the existence of our deferral right, the market price of the Series A-3 Junior Subordinated Debentures may be more volatile than the market prices of other securities that are not subject to optional deferrals.

***Your claims in bankruptcy, insolvency and receivership to receive payment in respect of deferred interest may be limited.***

In the event of our bankruptcy, insolvency or receivership, a holder of Series A-3 Junior Subordinated Debentures will have a claim for deferred and unpaid interest (including compounded interest thereon) only to the extent such interest (including compounded interest thereon) relates to the earliest two years of the portion of the deferral period for which interest has not been paid. Because we are permitted to defer interest payments for up to 10 years without an event of default, claims may be extinguished in respect of interest accrued (and compounded) during as many as eight years.

***Holdings have limited rights of acceleration.***

The remedies for any breach of our obligations under the alternative payment mechanism, the source for our payments of deferred interest, the restrictions imposed in connection with any optional deferral of interest payments and our obligation to raise proceeds from the issuance of qualifying capital securities to permit the repayment of the Series A-3 Junior Subordinated Debentures on or after the scheduled maturity date are all limited. Our failure to comply with these obligations and restrictions will not constitute an event of default or give rise to a right of acceleration or similar remedy under the terms of the junior debt indenture. See Description of Terms of the Series A-3 Junior Subordinated Debentures Events of Default Remedies if an Event of Default Occurs for a description of the limited remedies of holders of the Series A-3 Junior Subordinated Debentures.



***Changes in demand for Series A-3 Junior Subordinated Debentures could adversely affect their market price.***

The Series A-3 Junior Subordinated Debentures are unlike traditional subordinated debt securities in that interest may be deferred for up to 10 years, holders have limited remedies and the obligation of AIG to repay the principal amount of the Series A-3 Junior Subordinated Debentures prior to March 15, 2067 is subject to conditions. Investor demand for securities with the characteristics of the Series A-3 Junior Subordinated Debentures may change as these characteristics are assessed by market participants, regulators and others. Accordingly, the Series A-3 Junior Subordinated Debentures that you purchase, whether pursuant

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to the offer made by this prospectus supplement or in the secondary market, may trade at a significant discount to the price that you paid.

***The trading market for the Series A-3 Junior Subordinated Debentures may be limited.***

We will apply to list the Series A-3 Junior Subordinated Debentures on the New York Stock Exchange. Trading is expected to commence within 30 days after the Series A-3 Junior Subordinated Debentures are first issued. The underwriters for this offering have advised us that they intend to make a market in the Series A-3 Junior Subordinated Debentures prior to the date the Series A-3 Junior Subordinated Debentures begin trading on the New York Stock Exchange. However, the underwriters are not obligated to do so and may discontinue market making at any time. Therefore, no assurance can be given as to the liquidity of, or trading markets for, the Series A-3 Junior Subordinated Debentures.

***An investment in the Series A-3 Junior Subordinated Debentures by a purchaser whose home currency is not the euro entails significant risks.***

An investment in the Series A-3 Junior Subordinated Debentures by a purchaser whose home currency is not the euro entails significant risks. These risks include the possibility of significant changes in rates of exchange between the holder's home currency and the euro and the possibility of the imposition or modification of foreign exchange controls. These risks generally depend on factors over which we have no control, such as economic and political events and the supply of and demand for the relevant currencies. In recent years, rates of exchange between the euro and certain currencies have been highly volatile, and each holder should be aware that volatility may occur in the future. Fluctuations in any particular exchange rate that have occurred in the past, however, are not necessarily indicative of fluctuations in the rate that may occur during the term of the Series A-3 Junior Subordinated Debentures. Depreciation of the euro against the holder's home currency would result in a decrease in the effective yield of such Series A-3 Junior Subordinated Debentures below its coupon rate and, in certain circumstances, could result in a loss to the holder.

***The Series A-3 Junior Subordinated Debentures permit us to make payments in U.S. dollars if we are unable to obtain euros.***

If the euro is unavailable to us due to the imposition of exchange controls or other circumstances beyond our control or the euro is no longer used by the member states of the European Monetary Union that have adopted the euro