AMERICAN INTERNATIONAL GROUP INC
Form DEF 14A
April 05, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

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

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

þ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

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):

þ 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:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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AMERICAN INTERNATIONAL GROUP, INC.

180 Maiden Lane, New York, N.Y. 10038

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD MAY 16, 2012

April 5, 2012

To the Shareholders of

AMERICAN INTERNATIONAL GROUP, INC.:

The Annual Meeting of Shareholders of AMERICAN INTERNATIONAL GROUP, INC. (AIG) will be held at 180 Maiden Lane, New York, New York, on May 16, 2012, at 11:00 a.m., for the following purposes:

1. To elect the thirteen nominees specified under Election of Directors as directors of AIG to hold office until the next annual election and until their successors are duly elected and qualified;

2. To vote upon a non-binding shareholder resolution to approve executive compensation;

3. To act upon a proposal to ratify the selection of PricewaterhouseCoopers LLP as AIG s independent registered public accounting firm for 2012; and

4. To transact any other business that may properly come before the meeting.

Shareholders of record at the close of business on March 21, 2012 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 16, 2012. 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.aig.com*.

By Order of the Board of Directors

JEFFREY A. WELIKSON

Secretary

If you plan on attending the meeting, please remember to bring photo identification with you. In addition, if you hold shares in street name and would like to attend the meeting, you must bring an account statement or other acceptable evidence of ownership of AIG Common Stock as of the close of business on March 21, 2012. If you cannot be present at the meeting, please sign and date your proxy and return it at once or vote your shares by telephone or through the internet.

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AMERICAN INTERNATIONAL GROUP, INC.

180 Maiden Lane, New York, N.Y. 10038

PROXY STATEMENT

April 5, 2012

TIME AND DATE	11:00 a.m. on Wednesday, May 16, 2012.
PLACE	180 Maiden Lane, New York, New York 10038.
MAILING DATE	This Proxy Statement, 2011 Annual Report and proxy card or voting instructions were either made available to you over the internet or mailed to you on or about April 5, 2012.
ITEMS OF BUSINESS	To elect the thirteen nominees specified under Election of Directors as directors of AIG to hold office until the next annual election and until their successors are duly elected and qualified; To vote upon a non-binding shareholder resolution to approve executive compensation; To act upon a proposal to ratify the selection of PricewaterhouseCoopers LLP as AIG s independent registered public accounting firm for 2012; and To transact any other business that may properly come before the meeting.
RECORD DATE	You can vote if you were a shareholder of record at the close of business on March 21, 2012.
INSPECTION OF LIST OF SHAREHOLDERS OF RECORD	A list of the shareholders of record as of March 21, 2012 will be available for inspection during ordinary business hours during the ten days prior to the meeting at AIG s offices, 180 Maiden Lane, New York, New York 10038.
ADDITIONAL INFORMATION	Additional information regarding the matters to be acted on at the meeting is included in this proxy statement.
PROXY VOTING	YOU CAN VOTE YOUR SHARES OVER THE INTERNET OR BY TELEPHONE. IF YOU RECEIVED A PAPER PROXY CARD BY MAIL, YOU MAY ALSO VOTE BY SIGNING, DATING AND RETURNING THE PROXY CARD IN THE ENVELOPE PROVIDED.

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CORPORATE GOVERNANCE GUIDELINES A-1

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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 of Shareholders to be held on May 16, 2012, or at any adjournment thereof (Annual Meeting or 2012 Annual Meeting of Shareholders). These proxy materials are first being sent to shareholders of AIG commencing on or about April 5, 2012.

When and where is our Annual Meeting?

We will hold our Annual Meeting on Wednesday, May 16, 2012 at 11:00 a.m., Eastern Daylight Saving Time, at our offices at 180 Maiden Lane, New York, New York 10038.

How are we distributing our proxy materials?

We are using the rule of the United States Securities and Exchange Commission (SEC) that allows companies to furnish proxy materials to their shareholders over the internet. In accordance with this rule, on or about April 5, 2012, we sent shareholders of record at the close of business on March 21, 2012, a Notice of internet Availability of Proxy Materials (Notice) or a full set of proxy materials. The Notice contains instructions on how to access our Proxy Statement and Annual Report for the year ended December 31, 2011 (2011 Annual Report) via the internet and how to vote. If you receive a Notice, you will not receive a printed copy of the proxy materials in the mail. Instead, the Notice instructs you on how to access and review all of the important information contained in the proxy materials. The Notice also instructs you on how you may submit your proxy via the internet. If you received a Notice and would like to receive a copy of our proxy materials, follow the instructions contained in the Notice to request a copy electronically or in paper form on a one-time or ongoing basis. Shareholders who do not receive the Notice will continue to receive either a paper or electronic copy of our Proxy Statement and 2011 Annual Report to Shareholders, which will be sent on or about April 5, 2012.

Who can vote at the Annual Meeting?

You are entitled to vote or direct the voting of your shares of AIG s common stock, par value $2.50 per share (AIG Common Stock), if you were a shareholder of record or if you held AIG Common Stock in street name at the close of business on March 21, 2012. On that date, 1,793,442,306 shares of AIG Common Stock (exclusive of shares held by AIG and certain subsidiaries) were outstanding, held by 43,902 shareholders of record. Each share of AIG Common Stock held by you on the record date is entitled to one vote.

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 180 Maiden Lane, New York, New York 10038.

- 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 shares in street name.

What do I need to attend, and vote at, 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 must bring an account statement or other acceptable evidence of ownership of AIG Common Stock as of the close of business on March 21, 2012, the record date for voting. In order to vote at the Annual Meeting if you hold shares in street name , 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? for four ways to cast your vote.

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What proposals will be voted on at the Annual Meeting?

Three proposals from AIG will be considered and voted on at the Annual Meeting:

1. To elect the thirteen nominees specified under Election of Directors as directors of AIG to hold office until the next annual election and until their successors are duly elected and qualified;

2. To vote upon a non-binding shareholder resolution on executive compensation; and

3. To act upon a proposal to ratify the selection of PricewaterhouseCoopers LLP as AIG s independent registered public accounting firm for 2012.

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 specified under Election of Directors to the Board of Directors.

2. **FOR** the non-binding shareholder resolution on executive compensation.

3. **FOR** the proposal to ratify the selection of PricewaterhouseCoopers LLP as AIG s independent registered public accounting firm for 2012.

How do I vote?

You may cast your vote in one of four ways:

By Submitting a Proxy by Internet. Go to the following website: *www.proxyvote.com*. You may submit a proxy by internet 24 hours a day. To be valid, your proxy by internet must be received by 11:59 p.m., Eastern Daylight Saving Time, on May 15, 2012. Please have your Notice of Internet Availability of Proxy Materials or your proxy card in hand when you access the website and follow the instructions to create an electronic voting instruction form.

By Submitting a Proxy by Telephone. To submit a proxy using the telephone (call 1-800-690-6903 any time on a touch-tone telephone. There is NO CHARGE to you for the call in the United States or Canada. International calling charges apply outside the United States and Canada. You may submit a proxy by telephone 24 hours a day, 7 days a week. Follow the simple instructions provided by the recorded message. To be valid, your proxy by telephone must be received by 11:59 p.m., Eastern Daylight Saving Time, on May 15, 2012.

By Submitting a Proxy by Mail. Mark your proxy card, sign and date it, and return it in the prepaid envelope that has been provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717. To be valid, your proxy by mail must be received by 9:00 a.m., Eastern Daylight Saving Time, on May 16, 2012.

At the Annual Meeting. You can vote your shares in person at the Annual Meeting (see What do I need to attend, and vote at, 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 photo 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, and vote at, 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 that is received by 11:59 p.m., Eastern Daylight Saving Time, on May 15, 2012; or

Executing and mailing a later-dated proxy card that is received prior to 9:00 a.m., Eastern Daylight Saving Time, on May 16, 2012; or

Voting in person at the Annual Meeting.

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For a Proxy Submitted by Mail

Subsequently executing and mailing another proxy card bearing a later date that is received prior to 9:00 a.m., Eastern Daylight Saving Time, on May 16, 2012; or

Giving written notice of revocation to AIG s Secretary at 180 Maiden Lane, New York, New York 10038 that is received by AIG prior to 9:00 a.m., Eastern Daylight Saving Time, on May 16, 2012; 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 specified under Election of Directors ; FOR the non-binding shareholder resolution on executive compensation; FOR the ratification of the appointment of PricewaterhouseCoopers LLP as AIG s independent registered public accounting firm for 2012; 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 proposal regarding the ratification of the appointment of independent auditors because this is 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 that proposal.

Under NYSE rules, each other proposal, including the election of directors, 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 any of those proposals.

How are votes counted?

Proposal 1 Election of Directors. AIG s By-laws provide that in uncontested elections, directors must receive a majority of the votes cast by the holders of AIG Common Stock. In other words, directors in an uncontested election must receive more votes for their election than against their election. Pursuant to AIG s By-laws and Corporate Governance Guidelines, each nominee 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 nominee fails to receive the required vote at the Annual Meeting, AIG s 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.

Proposal 2 Non-binding Shareholder Vote to Approve Executive Compensation. Adoption of the resolution of the non-binding shareholder vote to approve executive compensation requires a for vote of a majority of the votes cast by the holders of AIG Common Stock, which votes cast are either for or against the resolution.

Proposal 3 Ratification of the Selection of PricewaterhouseCoopers LLP as AIG s Independent Registered Public Accounting Firm. Ratification of the selection of accountants requires a for vote of a majority of the votes cast by the holders of AIG Common Stock, which votes cast are either for or against the 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.

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Broker Non-Votes and Abstentions. Because directors are elected by a majority of the votes cast, an abstention 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 Proposal 1 Election of Directors. In the case of the non-binding shareholder resolution to approve executive compensation and the ratification of the appointment of PricewaterhouseCoopers LLP, only votes cast for or against the proposal will be considered; abstentions, broker non-votes and withheld votes will not be treated as a vote for or against these proposals and therefore will have no effect on the vote.

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 entitled to vote 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 2011 Annual Report to Shareholders, which includes AIG s Annual Report on Form 10-K for the year ended December 31, 2011 (AIG s 2011 Annual Report on Form 10-K) filed with the SEC, has been delivered or made available to shareholders. **You also may obtain, free of charge, a copy of the 2011 Annual Report to Shareholders and AIG s 2011 Annual Report on Form 10-K by writing to American International Group, Inc., 180 Maiden Lane, New York, New York 10038, Attention: Investor Relations.** These documents also are available in the Investor Information section of AIG s corporate website at *www.aig.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 certain 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 $18,500 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.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Proxy Statement and other publicly available documents may include, and AIG s officers and representatives may from time to time make, projections, goals, assumptions and statements that may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These projections, goals, assumptions and statements are not historical facts but instead represent only AIG s belief regarding future events, many of which, by their nature, are inherently uncertain and outside AIG s control. These projections, goals, assumptions and statements may address, among other things:

- the timing of the disposition of the ownership position of the United States Department of the Treasury (Department of the Treasury) in AIG;
- the fair value of AIA Group Limited and cash flow projections for AIG s interests in Maiden Lane III LLC;
- the monetization of AIG s interests in International Lease Finance Corporation (ILFC);
- AIG s exposures to sovereign bond issuers, state and municipal bond issuers, residential, including subprime, and commercial real estate, and monoline insurers;
- AIG s exposure to European governments and European financial institutions;
- AIG s strategy for risk management;
- AIG s ability to retain and motivate its employees;
- AIG s generation of deployable capital;
- AIG s return on equity and earnings per share long-term aspirational goals;
- AIG s strategy to grow net investment income, efficiently manage capital and reduce expenses;
- AIG s strategy for customer retention, growth, product development, market position, financial results and reserves; and
- the revenues and combined ratios of AIG s subsidiaries.

It is possible that AIG s actual results and financial condition will differ, possibly materially, from the results and financial condition indicated in these projections, goals, assumptions and statements. Factors that could cause AIG s actual results to differ, possibly materially, from those in the specific projections, goals, assumptions and statements include:

- actions by credit rating agencies;
- changes in market conditions;
- the occurrence of catastrophic events;
- significant legal proceedings;
- concentrations in AIG s investment portfolios, including its municipal bond portfolio;
- judgments concerning casualty insurance underwriting and reserves;
- judgments concerning the recognition of deferred tax assets;
- judgments concerning deferred policy acquisition costs recoverability;
- judgments concerning the recoverability of aircraft values in ILFC s fleet; and
- such other factors as are discussed in Part I, Item 1A. Risk Factors and throughout Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in AIG s 2011 Annual Report on Form 10-K.

AIG is not under any obligation (and expressly disclaims any obligation) to update or alter any projections, goals, assumptions or other statements, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise.

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RELATIONSHIPS WITH THE FEDERAL RESERVE BANK OF NEW YORK, THE AIG CREDIT FACILITY TRUST AND THE UNITED STATES DEPARTMENT OF THE TREASURY

Recapitalization of AIG

On January 14, 2011, AIG completed the previously announced series of integrated transactions (the Recapitalization) to recapitalize AIG as contemplated by the Master Transaction Agreement, dated as of December 8, 2010 (the Master Transaction Agreement), among AIG, AM Holdings (formerly known as ALICO Holdings LLC) (the ALICO SPV), AIA Aurora, LLC (the AIA SPV), the Federal Reserve Bank of New York (the FRBNY), the Department of the Treasury and the AIG Credit Facility Trust established for the sole benefit of the United States (the Trust).

Prior to the Recapitalization. From September 22, 2008 until the Recapitalization, AIG and the FRBNY were parties to a revolving credit facility (as amended, the FRBNY Credit Agreement) and a Guarantee and Pledge Agreement. In connection with the FRBNY Credit Agreement, the Trust held all of the outstanding 100,000 shares of AIG s Series C Perpetual Convertible Participating Preferred Stock, par value $5.00 per share (AIG Series C Preferred Stock). The AIG Series C Preferred Stock was, to the extent permitted by law, entitled to vote on all matters with the AIG Common Stock and was entitled to approximately 79.8 percent of the voting power of AIG s shareholders entitled to vote on any particular matter and approximately 79.8 percent of the aggregate dividend rights of the outstanding AIG Common Stock and the AIG Series C Preferred Stock, in each case, on an as converted basis. In addition, prior to the Recapitalization, as part of the Troubled Asset Relief Program (TARP) and the Program for Systemically Significant Failing Institutions, the Department of the Treasury held all of the outstanding 400,000 shares of AIG s Series E Fixed Rate Non-Cumulative Perpetual Preferred Stock, par value $5.00 per share (AIG Series E Preferred Stock), and all of the outstanding 300,000 shares of AIG s Series F Fixed Rate Non-Cumulative Perpetual Preferred Stock, par value $5.00 per share (AIG Series F Preferred Stock).

Closing of the Recapitalization. The Recapitalization was comprised of a series of integrated transactions, discussed in more detail in AIG s 2011 Annual Report, and summarized as follows:

AIG repaid to the FRBNY approximately $21 billion in cash, representing complete repayment of all amounts owing under the FRBNY Credit Agreement, and the FRBNY Credit Agreement and the related Guarantee and Pledge Agreement were terminated.

AIG and the Department of the Treasury amended and restated the Securities Purchase Agreement, dated as of April 17, 2009 (the Series F SPA), between AIG and the Department of the Treasury relating to the AIG Series F Preferred Stock to provide for the issuance by AIG to the Department of the Treasury of 20,000 shares of AIG Series G Cumulative Mandatory Convertible Preferred Stock, par value $5.00 per share (AIG Series G Preferred Stock), with a liquidation preference of zero, which would increase by any amount drawn down by AIG under the Series G Drawdown Right (as defined below) from the Recapitalization Closing until March 31, 2012 (or the earlier termination of the Series G Drawdown Right).

The shares of the AIG Series C Preferred Stock held by the Trust were exchanged for 562,868,096 shares of AIG Common Stock, which were subsequently transferred by the Trust to the Department of the Treasury. The shares of the AIG Series E Preferred Stock held by the Department of the Treasury were exchanged for 924,546,133 shares of AIG Common Stock and the shares of the AIG Series F Preferred Stock held by the Department of the Treasury were exchanged for (a) the SPV Preferred Interests (as defined below), (b) 20,000 shares of AIG Series G Preferred Stock, and (c) 167,623,733 shares of AIG Common Stock. After these exchanges, the Trust was terminated.

AIG drew down approximately $20 billion (the Series F Closing Drawdown Amount) under the Department of the Treasury s commitment (the Department of the Treasury Commitment) pursuant to the Series F SPA. This was the full amount remaining under the Department of the Treasury Commitment, less $2 billion that AIG designated to be available after the Recapitalization for general corporate purposes under a commitment relating to AIG Series G Preferred Stock (the Series G Drawdown Right). The right of AIG to draw on the Department of the Treasury Commitment (other than the Series G Drawdown Right) was terminated.

AIG applied certain proceeds from asset sales to retire a portion of the FRBNY s preferred interests in the ALICO SPV (the ALICO SPV Preferred Interests) and used the Series F Closing Drawdown Amount to repurchase the remainder of the FRBNY s ALICO SPV Preferred Interests and all of the FRBNY s preferred interests in the AIA SPV (the AIA SPV Preferred Interests, and together with the ALICO SPV

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Preferred Interests, the SPV Preferred Interests). As described above, AIG transferred the SPV Preferred Interests to the Department of the Treasury as part of the consideration for the exchange of the AIG Series F Preferred Stock. Under the Master Transaction Agreement, the Department of the Treasury, so long as it held AIA SPV Preferred Interests, had certain rights with respect to the AIG assets that secured the paydown of the liquidation preference of the SPV Preferred Interests.

Effect of the Recapitalization. As a result of the Recapitalization, AIG is controlled by the Department of the Treasury. Immediately after the Recapitalization, the Department of the Treasury owned 1,655,037,962 shares of AIG Common Stock, representing approximately 92 percent of AIG Common Stock then outstanding, and 20,000 shares of AIG Series G Preferred Stock. As a result of certain transactions since the Recapitalization closing described below, ownership of AIG Common Stock by the Department of the Treasury has been reduced to approximately 70 percent. The Treasury Department continues to hold two 10-year warrants (the Treasury Warrants) to purchase a total of 2,690,088 shares of AIG Common Stock.

Certain Rights and Interests of the Department of the Treasury as a Result of the Recapitalization. The interests of the Department of the Treasury may not be the same as the interests of AIG s other shareholders. As a result of its ownership, the Department of the Treasury is able to elect all of AIG s directors and can, to the extent permitted by law, control a vote of AIG shareholders on substantially all matters, including:

- Approval of mergers or other business combinations;
- A sale of all or substantially all of AIG s assets;
- Amendments to AIG s Restated Certificate of Incorporation; and
- Other matters that might be favorable to the Department of the Treasury, but not to other shareholders.

Should the Department of the Treasury, subject to applicable securities laws, transfer all, or a portion of, the AIG Common Stock it currently holds to another person or entity, that person or entity could become AIG s controlling shareholder.

AIG understands that, subject to market conditions, the Department of the Treasury intends to dispose of its ownership interest over time, and AIG entered into an agreement (the Registration Rights Agreement) in which it granted certain registration rights to the Department of the Treasury to facilitate such dispositions, including:

- the right to participate in any registered offering of AIG Common Stock by AIG;
- the right to demand that AIG effect a registered market offering of its shares no more than twice in any 12-month period;
- the right to engage in at-the-market offerings; and
- subject to certain exceptions, the right to approve the terms, conditions and pricing of any registered offering in which it participates until its ownership falls below 33 percent of AIG s voting securities.

May 2011 Common Stock Offering and Sale

On May 27, 2011, AIG and the Department of the Treasury, as the selling shareholder, completed a registered public offering of AIG Common Stock. AIG issued and sold 100 million shares of AIG Common Stock for aggregate net proceeds of approximately $2.9 billion and the Department of the Treasury sold 200 million shares of AIG Common Stock. AIG did not receive any of the proceeds from the sale of the shares of AIG Common Stock by the Department of the Treasury. As required by the Registration Rights Agreement, AIG paid the underwriting discount as well as certain expenses with respect to the shares sold by the Department of the Treasury. As a result of the sale of AIG Common

Stock in this offering, the Series G Drawdown Right was terminated, the Series G Preferred Stock was cancelled and the ownership by the Department of the Treasury was reduced from approximately 92 percent to approximately 77 percent of the AIG Common Stock outstanding after the completion of the offering.

March 2012 Common Stock Offering by the Department of the Treasury and AIG Purchase of Shares

On March 13, 2012, the Department of the Treasury completed a registered public offering of AIG Common Stock, in which it sold 206,896,552 million shares of AIG Common Stock. AIG did not receive any of the proceeds

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from the sale of the shares. AIG purchased 103,448,276 shares in the offering for an aggregate purchase amount of approximately $3.0 billion. As required by the Registration Rights Agreement, AIG paid the underwriting discount as well as certain expenses with respect to the shares sold by the Department of the Treasury (no underwriting discount was paid on the shares purchased by AIG). As a result of the Department of the Treasury s sale of AIG Common Stock and AIG s purchase of shares in this offering, ownership by the Department of the Treasury was further reduced from approximately 77 percent to approximately 70 percent of the AIG Common Stock outstanding after the completion of the offering.

Repayments of the Liquidation Preference of the AIA SPV Preferred Interests; Redemption of Participating Return Rights; Amendment of Master Transaction Agreement and Related Agreements

Pursuant to the terms of the stock purchase agreement for the sale by AIG to MetLife of American Life Insurance Company (ALICO), AIG provided MetLife with certain indemnities and initially placed $3.0 billion of the cash proceeds from the sale of MetLife securities in escrow. On November 1, 2011, in accordance with this escrow agreement, approximately $918 million was released from escrow to AIG and was used to pay down a portion of the liquidation preference of the Department of the Treasury s AIA SPV Preferred Interests.

On January 12, 2011, AIG entered into an agreement to sell its 97.57 percent interest in Nan Shan Life Insurance Company Ltd. to a Taiwan-based consortium. The transaction closed on August 18, 2011 for net proceeds of $2.15 billion in cash, which AIG used to pay down a portion of the liquidation preference of the Department of the Treasury s AIA SPV Preferred Interests.

On February 8, 2011, AIG entered into a letter agreement with the Department of the Treasury, pursuant to which the Department of the Treasury permitted AIG to retain $2 billion of the net cash proceeds from the sale of AIG Star Life Insurance Co., Ltd. and AIG Edison Life Insurance Company. The $2 billion was used to support the capital of Chartis, Inc. and its subsidiaries. The remainder of the net cash proceeds was, with the Department of the Treasury s consent, used to repay a portion of the Department of the Treasury s SPV Preferred Interests.

On March 1, 2011, AIG entered into a Coordination Agreement among the ALICO SPV, AIG and MetLife regarding a series of integrated transactions (the MetLife Disposition) whereby MetLife agreed to allow AIG to offer for sale, earlier than contemplated under the original terms of the ALICO sale, the MetLife securities that AIG received in the ALICO sale. With the consent of the Department of the Treasury, AIG completed the MetLife Disposition on March 8, 2011 and used $6.6 billion of the proceeds to repay all of the liquidation preference and accrued return of the Department of the Treasury s ALICO SPV Preferred Interests and a portion of the liquidation preference and accrued return of the Department of the Treasury s AIA SPV Preferred Interests.

On March 5, 2012, AIG sold 1.72 billion ordinary shares of AIA Group Limited (AIA) for gross proceeds of approximately $6 billion (the AIA Sale). AIG used approximately $5.6 billion of the proceeds of the AIA Sale to pay down a portion of the liquidation preference of the Department of the Treasury s AIA SPV Preferred Interests. On March 3, 2012, AIG, the ALICO SPV, the AIA SPV and the Department of the Treasury entered into a letter agreement under which the Department of the Treasury consented to the AIA Sale.

On March 7, 2012, the Master Transaction Agreement was amended. The Amendment entitled the AIA SPV to retain and distribute to AIG the net proceeds in excess of approximately $5.6 billion received by the AIA SPV from the AIA Sale. In addition, the liens on (i) the equity interests in ILFC, (ii) the ordinary shares of AIA held by the AIA SPV subsequent to the closing of the AIA Sale, and (iii) the common equity interests in the AIA SPV were released and such interests and the AIA ordinary shares no longer constitute collateral securing the paydown of the liquidation preference of the Department of the Treasury s AIA SPV Preferred Interests. The release of collateral and modification of agreements were subject to various conditions, including that the AIA SPV and the ALICO SPV would redeem the Department of the Treasury s preferred participating return rights under the applicable SPV limited liability agreements for a total of approximately $127 million. All of the conditions to the release of collateral and modification of agreements were satisfied, and the release of collateral and modification of agreements occurred on March 16, 2012.

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On March 21, 2012, AIG entered into an Agreement to Terminate Intercompany Loan (the Termination Agreement), among AIG, the AIA SPV, the ALICO SPV and the Department of the Treasury. The Termination Agreement provided that immediately after the receipt by the AIA SPV of a partial repayment of the intercompany loan extended by the AIA SPV to AIG, the loan would terminate and no longer be outstanding, and the AIA SPV would use the partial repayment of the loan and cash then held by the AIA SPV to pay down the remaining liquidation preference of the Department of the Treasury s AIA SPV Preferred Interests. On March 22, 2012, the AIA SPV made the final paydown of the liquidation preference of approximately $1.5 billion of the Department of the Treasury s AIA SPV Preferred Interests, the AIA SPV Preferred Interests were retired, and the remaining liens on AIG assets which had secured the paydown of the liquidation preference of the AIA SPV Preferred Interests were released.

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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 become unavailable 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 by the shareholders of the AIG Common Stock, which votes are cast for or against election. Pursuant to AIG s By-laws and Corporate Governance Guidelines, each nominee 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 nominee who is currently a director of AIG fails to receive the required vote, AIG s 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 provide that directors will not stand for election as a director after reaching the age of 75, Mr. Offit will retire from the Board of Directors effective at the time that the directors are elected at the Annual Meeting.

The principal occupation or affiliation of the nominees for director and any directorships held by such nominee during the past five years are set forth below.

ROBERT H. BENMOSCHE	**President and Chief Executive Officer, AIG**
Director since 2009	Age 67

Mr. Benmosche has been AIG s President and Chief Executive Officer since August 2009. Previously, he served as Chairman and Chief Executive Officer of MetLife, Inc. from September 1998 to March 2006. He served as President of MetLife, Inc. from September 1999 to June 2004, President and Chief Operating Officer from November 1997 to June 1998, and Executive Vice President from September 1995 to October 1997. He served as an Executive Vice President of PaineWebber Group Incorporated from 1989 to 1995. Mr. Benmosche is currently a director of Credit Suisse Group AG, where he is a member of the Compensation Committee. In the past five years, Mr. Benmosche has served as a director of MetLife, Inc. In light of Mr. Benmosche s experience managing large, complex, international institutions and his professional experience across industries including insurance, financial services, and operations and technology, AIG s Board has concluded that Mr. Benmosche should be re-elected to the Board.

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W. DON CORNWELL **Former Chairman of the Board and Chief Executive Officer of Granite Broadcasting Corporation**

Director since 2011

Age 64

Mr. Cornwell was Chairman of the Board and Chief Executive Officer of Granite Broadcasting Corporation from 1988 until his retirement in August 2009, and Vice Chairman until December 2009. Mr. Cornwell spent 17 years at Goldman, Sachs & Co. where he served as Chief Operating Officer of the Corporate Finance Department from 1980 to 1988 and Vice President of the Investment Banking Division from 1976 to 1988. Mr. Cornwell is currently a director of Avon Products, Inc., where he is a member of the Finance Committee and the Audit Committee, and Pfizer, Inc., where he is Chairman of the Audit Committee and a member of the Compensation and Regulatory and Compliance Committees. Mr. Cornwell was Chairman of the Board and Chief Executive Officer of Granite Broadcasting when it filed for voluntary reorganization under Chapter 11 of the U.S. Bankruptcy Code in December 2006 and emerged from its restructuring in June 2007. In the past five years, Mr. Cornwell has also served as a director of CVS Caremark Corporation from 1994 until 2007. In light of Mr. Cornwell s experience in finance and restructuring, as well as his professional experience across the financial services industry, AIG s Board has concluded that Mr. Cornwell should be re-elected to the Board.

JOHN H. FITZPATRICK **Chairman of Oak Street Management Co., LLC; Former Chief Financial Officer, Head of the Life and Health Business Group and Head of Financial Services of Swiss Re**

Director since 2011

Age 55

Mr. Fitzpatrick has been Chairman of Oak Street Management Co., LLC, a manager of commercial real estate funds, and Oak Family Advisors, LLC, a private wealth management firm since 2010. From 2006 to 2010, Mr. Fitzpatrick was a partner at Pension Corporation and a director of Pension Insurance Corporation Ltd. From 1998 to 2006, he was a member of Swiss Re s Executive Board Committee and served at Swiss Re as Chief Financial Officer, Head of the Life and Health Business Group, and Head of Financial Services. From 1996 to 1998, Mr. Fitzpatrick was a partner in insurance private equity firms sponsored by Zurich Financial Services, Credit Suisse and Swiss Re. From 1990 to 1996, Mr. Fitzpatrick served as the Chief Financial Officer and a Director of Kemper Corporation, a NYSE-listed insurance and financial services organization where he started his career in corporate finance in 1978. From February 2010 until March 2011, Mr. Fitzpatrick was a director of Validus Holdings, Ltd., where he served on the Audit and Finance Committees. Mr. Fitzpatrick is a Certified Public Accountant and a Chartered Financial Analyst. In light of Mr. Fitzpatrick s broad experience in the insurance and reinsurance industry, AIG s Board has concluded that Mr. Fitzpatrick should be re-elected to the Board.

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LAURETTE T. KOELLNER

Director since 2009

Former President, Boeing International;

Former Executive Vice President of

The Boeing Company

Age 57

Ms. Koellner is the former President of Boeing International, a division of The Boeing Company, serving from 2006 to 2008. Prior to that, Ms. Koellner served as President of Connexion by Boeing from 2004 to 2006. She also served as Executive Vice President, Chief Administration and Human Resources Officer of Boeing from 2002 to 2004 and was a member of the Office of the Chairman from 2002 to 2003. She served as Senior Vice President and President of Shared Services Group of Boeing from 2001 to 2002. She served as Vice President and Corporate Controller of Boeing from 1999 to 2000. Ms. Koellner spent 19 years at McDonnell Douglas Corp., where she served as Division Director of Human Resources as well as Vice President of Internal Audit. Ms. Koellner is currently a director of Celestica Inc., where she is a member of the Audit, Nominating and Corporate Governance and Compensation Committees, and Sara Lee Corporation, where she is Chairman of the Audit Committee and a member of the Executive and Corporate Governance, Nominating and Policy Committees. In light of Ms. Koellner s experience in managing large, complex, international institutions, and in finance, accounting and risk management, as well as her professional experience in the aircraft and the operations and technology industries, AIG s Board has concluded that Ms. Koellner should be re-elected to the Board.

DONALD H. LAYTON

Director since 2010

Former Chairman and Chief Executive Officer, E*TRADE Financial Corporation; Former Vice Chairman, J.P. Morgan Chase & Co.

Age 61

Mr. Layton is the former Chairman and Chief Executive Officer of E*TRADE Financial Corporation, serving from 2008 to 2009, and non-executive Chairman of the Board, serving from 2007 to 2008. Previously, he was employed by J.P. Morgan Chase & Co. and its predecessors for twenty-nine years, retiring in 2004. Prior to his retirement, Mr. Layton was Vice Chairman and served as a member of J.P. Morgan Chase & Co. s three person Office of the Chairman. He was Head of Chase Financial Services, the consumer and middle market banking business, from 2002 to 2004, Co-Chief Executive Officer of J.P. Morgan, the investment bank of J.P. Morgan Chase & Co., from 2000 to 2002, and Head of Global Markets, the worldwide capital markets and trading division, of the predecessor Chase Manhattan Corporation from 1996 to 2000. He was also Head of Treasury & Securities Services from 1999 through 2004. Mr. Layton was a Senior Adviser to the Securities Industry and Financial Markets Association and is currently a director of Assured Guaranty Ltd., where he serves on the Compensation Committee and is Chairman of the Risk Oversight Committee. In light of Mr. Layton s experience in managing large, complex, international businesses, his experience in finance as well as his professional experience across the financial services industry, AIG s Board has concluded that Mr. Layton should be re-elected to the Board.

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CHRISTOPHER S. LYNCH **Former National Partner in charge of Financial Services, KPMG LLP**

Director since 2009

Age 54

Mr. Lynch has been an independent consultant since 2007, providing a variety of services to public and privately held financial intermediaries, including risk management, strategy, governance, financial accounting and regulatory reporting and troubled-asset management. Mr. Lynch is the former National Partner in Charge of KPMG LLP s Financial Services Line of Business and Banking and Finance Practice. He held a variety of positions with KPMG from 1979 to 2007, including chairing KPMG s Americas Financial Services Leadership team and being a member of the Global Financial Services Leadership and the U.S. Industries Leadership teams. Mr. Lynch has experience as an audit signing partner under Sarbanes Oxley for some of KPMG s largest financial services clients. He also served as a Partner in KPMG s Department of Professional Practice and as a Practice Fellow at the Financial Accounting Standards Board. Mr. Lynch is a member of the National Audit Committee Chair Advisory Council of the National Association of Corporate Directors. Mr. Lynch is currently Non-Executive Chairman of the Federal Home Loan Mortgage Corporation, where he is also a member of the Audit and Compensation Committees. In light of Mr. Lynch s experience in finance, accounting and risk management and restructuring, as well as his professional experience across the financial services industry, AIG s Board has concluded that Mr. Lynch should be re-elected to the Board.

ARTHUR C. MARTINEZ **Former Chairman of the Board, President and Chief Executive Officer, Sears, Roebuck and Co.**

Director since 2009

Age 72

Mr. Martinez is the former Chairman of the Board, President and Chief Executive Officer of Sears, Roebuck and Co., serving from 1995 to 2000. Mr. Martinez was Chairman and Chief Executive Officer of the former Sears Merchandise Group from 1992 to 1995. He served as Chief Financial Officer of Saks Fifth Avenue from 1980 to 1984, as Executive Vice President from 1984 to 1987 and then as Vice Chairman from 1990 to 1992. Mr. Martinez also served as Chairman of the Board of the Federal Reserve Bank of Chicago from 2000 to 2002. Mr. Martinez is currently a director of HSN, Inc., where he is Non-Executive Chairman and Chairman of the Governance and Nominating Committee, IAC/InterActiveCorp, where he is Chairman of the Compensation and Human Resources Committee, International Flavors & Fragrances Inc., where he is the Lead Director and a member of the Audit and the Nominating and Governance Committees, Liz Claiborne, Inc., where he is Chairman of the Compensation Committee and a member of the Audit Committee, and PepsiCo, Inc., where he is Chairman of the Compensation Committee and a member of the Nominating and Corporate Governance Committee. In the past five years, Mr. Martinez has also served as a director of ABN AMRO Holding N.V. from 2002 to 2010 and was also Chairman from 2006 until 2010. Shortly after joining the Board in 2009, Mr. Martinez committed to AIG that, in accordance with AIG s Corporate Governance Guidelines, he would reduce the number of public company boards on which he serves as director (other than AIG) to no more than four within the following 12 months. Since then, Mr. Martinez reduced his board memberships by one and his commitment to further reduce his board memberships was extended, with Board approval. In May 2012, Mr. Martinez will not stand for re-election to one of the Boards of Directors on which he serves. In light of Mr. Martinez s experience in finance and restructuring, AIG s Board has concluded that Mr. Martinez should be re-elected to the Board.

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GEORGE L. MILES, JR. **Executive Chairman, Chester Engineers, Inc.; Former President and Chief Executive Officer, WQED Multimedia**

Director since 2005
Age 70

Mr. Miles has been the Executive Chairman of Chester Engineers, Inc. since 2011 and the former President and Chief Executive Officer of WQED Multimedia, serving from 1994 to 2010. Mr. Miles served as an Executive Vice President and Chief Operating Officer of WNET/Thirteen from 1984 to 1994. Prior to WNET/Thirteen, he was Business Manager and Controller of KDKA-TV and KDKA Radio in Pittsburgh; Controller and Station Manager of WPCQ in Charlotte; Vice President and Controller of Westinghouse Broadcasting Television Group in New York; and Station Manager of WBZ-TV in Boston. Mr. Miles is currently a director of HFF, Inc., where he is Chairman of the Audit Committee and serves on the Compensation Committee, Harley-Davidson, Inc., where he serves on the Audit and Nominating and Corporate Governance Committees, WESCO International, Inc., where he serves on the Nominating and Corporate Governance Committee, and EQT Corporation, where he serves on the Executive Committee and as Chairman of the Corporate Governance Committee. Mr. Miles is a Certified Public Accountant. In light of Mr. Miles experience in accounting as well as his professional experience across the operations and technology industry, AIG s Board has concluded that Mr. Miles should be re-elected to the Board.

HENRY S. MILLER **Chairman, Marblegate Asset Management; Former Chairman and Managing Director, Miller Buckfire & Co., LLC**

Director since 2010
Age 66

Mr. Miller has been Chairman of Marblegate Asset Management since 2009. Mr. Miller was co-founder, Chairman and a Managing Director of Miller Buckfire & Co., LLC, an investment bank from 2002 to 2011 and Chief Executive Officer from 2002 to 2009. Prior to founding Miller Buckfire & Co., LLC, Mr. Miller was Vice Chairman and a Managing Director at Dresdner Kleinwort Wasserstein and its predecessor company Wasserstein Perella & Co., where he served as the global head of the firm s financial restructuring group. Prior to that, Mr. Miller was a Managing Director and Head of both the Restructuring Group and Transportation Industry Group of Salomon Brothers Inc. From 1989 to 1992, Mr. Miller was a managing director and from 1990 to 1992, co-head of investment banking at Prudential Securities. In light of Mr. Miller s experience in restructuring as well as his professional experience across the financial services industry, AIG s Board has concluded that Mr. Miller should be re-elected to the Board.

ROBERT S. MILLER **Chief Executive Officer, Hawker Beechcraft, Inc.**

Director since 2009 Age 70

Mr. Miller is Chief Executive Officer of Hawker Beechcraft, Inc., a manufacturer of aircraft since February 2012. Mr. Miller has also been Chairman of MidOcean Partners, a leading middle market private equity firm, since December 2009. Mr. Miller also served as the Executive Chairman of the Delphi Corporation from 2007 to 2009. He was previously Chairman and Chief Executive Officer of Delphi Corporation from 2005 to 2007. Prior to joining Delphi Corporation, Mr. Miller served in a number of corporate restructuring situations, including as Chairman and Chief Executive Officer of Bethlehem Steel Corporation, Chairman and Chief Executive Officer of Federal Mogul Corporation, Chairman and Chief Executive Officer of Waste Management, Inc., and Executive Chairman of Morrison Knudsen Corporation. He has also served as Vice Chairman and Chief Financial Officer of Chrysler Corporation. Mr. Miller is a director of Symantec Corporation, where he is a member of the Audit and Nominating and Governance Committees. In the past five years, Mr. Miller has also served as a director of Delphi Corporation and UAL Corporation (United Airlines). Mr. Miller was Chairman and Chief Executive Officer of Delphi Corporation when it filed for Chapter 11 bankruptcy in October 2005. In light of Mr. Miller s experience in managing large, complex, international institutions, his experience in finance, accounting and risk management and restructuring, as well as his professional experience across the financial services industry, AIG s Board has concluded that Mr. Miller should be re-elected to the Board.

SUZANNE NORA JOHNSON **Former Vice Chairman, The Goldman Sachs Group, Inc.**

Director since 2008 Age 54

Ms. Nora Johnson is a former Vice Chairman of The Goldman Sachs Group, Inc., serving from 2004 to 2007. During her 21 years at Goldman Sachs, she also served as the Chairman of the Global Markets Institute, Head of the Global Investment Research Division and Head of the Global Investment Banking Healthcare Business. Ms. Nora Johnson is currently a director of Intuit Inc., where she serves on the Acquisitions and Audit and Risk Committees, Pfizer Inc., where she serves on the Audit, Compensation and Science and Technology Committees, and Visa Inc., where she serves on the Compensation Committee and chairs the Nominating and Corporate Governance Committee. In light of Ms. Nora Johnson s experience in managing large, complex, international institutions, her experience in finance as well as her professional experience across the financial services industry, AIG s Board has concluded that Ms. Nora Johnson should be re-elected to the Board.

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RONALD A. RITTENMEYER **President and Chief Executive Officer of NCO Group, Inc.; Former Chairman, Chief Executive Officer and President, Electronic Data Systems Corporation**

Director since 2010

Age 64

Mr. Rittenmeyer is President and Chief Executive Officer of NCO Group, Inc., a global provider of business process outsourcing services since 2011. Mr. Rittenmeyer is also the former Chairman, Chief Executive Officer and President of Electronic Data Systems Corporation, serving from 2005 to 2008. Prior to that, Mr. Rittenmeyer was a Managing Director of the Cypress Group, a private equity firm, serving from 2004 to 2005. Mr. Rittenmeyer also served as Chairman, Chief Executive Officer and President of Safety-Kleen Corp. from 2001 to 2004. Among his other leadership roles, Mr. Rittenmeyer served as President and Chief Executive Officer of AmeriServe Food Distribution Inc. from 2000 to 2001, Chairman, Chief Executive Officer and President of RailTex, Inc. from 1998 to 2000, President and Chief Operating Officer of Ryder TRS, Inc. from 1997 to 1998, President and Chief Operating Officer of Merisel, Inc. from 1995 to 1996 and Chief Operating Officer of Burlington Northern Railroad Co. from 1994 to 1995. Mr. Rittenmeyer is currently a director of Tenet Healthcare Corporation, where he serves on the Audit Committee and Compensation Committee. In the past five years, Mr. Rittenmeyer served as a director of Electronic Data Systems Corporation and RH Donnelly Corporation (presently Dex One Corporation). In light of Mr. Rittenmeyer s experience in managing large, complex, international institutions, his experience in finance and restructuring as well as his professional experience across the financial services industry and railroad industry, AIG s Board has concluded that Mr. Rittenmeyer should be re-elected to the. Board.

DOUGLAS M. STEENLAND **Former President and Chief Executive Officer, Northwest Airlines Corporation**

Director since 2009

Age 60

Mr. Steenland is the former Chief Executive Officer of Northwest Airlines Corporation, serving from 2004 to 2008, and President, serving from 2001 to 2004. Prior to that, he served in a number of Northwest Airlines executive positions after joining Northwest Airlines in 1991, including Executive Vice President, Chief Corporate Officer and Senior Vice President and General Counsel. Mr. Steenland retired from Northwest Airlines upon its merger with Delta Air Lines, Inc. Prior to joining Northwest Airlines, Mr. Steenland was a senior partner at a Washington, D.C. law firm that is now part of DLA Piper. Mr. Steenland is currently a director of Digital River, Inc., where he serves on the Compensation Committee and Finance Committee, Travelport Limited, where he serves on the Compensation Committee, Audit Committee and Executive Committee, and International Lease Finance Corporation, an AIG subsidiary, where he is Non-Executive Chairman. In the past five years, Mr. Steenland has also served as a director of Delta Air Lines, Inc. and Northwest Airlines Corporation. Mr. Steenland was President and Chief Executive Officer of Northwest Airlines Corporation when it filed for Chapter 11 bankruptcy in 2005. In light of Mr. Steenland s experience in managing large, complex, international institutions and his experience in restructuring as well as his professional experience in the airline industry, AIG s Board has concluded that Mr. Steenland should be re-elected to the Board.

All of these nominees have lengthy direct experience in the oversight of public companies as a result of their service on AIG s Board and/or those of other public companies and their involvement in the other organizations described above. This diverse and complementary set of skills, experience and backgrounds creates a highly qualified and independent Board of Directors.

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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 current Corporate Governance Guidelines are included as Appendix A. AIG s Corporate Governance Guidelines and the charters of the Audit Committee, the Compensation and Management Resources Committee, the Finance and Risk Management Committee, the Nominating and Corporate Governance Committee, and the Regulatory, Compliance and Public Policy Committee are available in the Corporate Governance section of AIG s corporate website at *www.aig.com* or in print by writing to American International Group, Inc., 180 Maiden Lane, New York, New York 10038, Attention: Investor Relations.

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.aig.com* or in print by writing to American International Group, Inc., 180 Maiden Lane, New York, New York 10038, 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 AIG Director Independence Standards, the Board, on the recommendation of the Nominating and Corporate Governance Committee, determined that Ms. Koellner, Ms. Nora Johnson and Messrs. Cornwell, Fitzpatrick, Layton, Lynch, Martinez, Miles, Henry Miller, Robert Miller, Offit, Rittenmeyer and Steenland are independent under NYSE listing standards and the AIG Director Independence Standards.

In making the independence determinations, the Nominating and Corporate Governance Committee and the Board of Directors considered, in the case of certain directors, relationships arising from 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. None of these relationships exceeded the thresholds set forth in the AIG Director Independence Standards.

The Nominating and Corporate Governance Committee and the Board of Directors also considered contributions by AIG to the American Red Cross in connection with making its independence determination with respect to Ms. Nora Johnson. In order to assist in disaster relief, including relief in connection with the 2011 Tohoku earthquake and tsunami, AIG made an aggregate of $2,599,887 in contributions during 2011 to the American Red Cross of which Ms. Nora Johnson is a Member of the Board of Governors. The Nominating and Corporate Governance Committee ratified these contributions in accordance with AIG s Related-Party Transactions Approval Policy.

The Nominating and Corporate Governance Committee and the Board of Directors also considered the relationships between AIG and MidOcean, a private equity firm. Since late 2009, Mr. Robert Miller has been the Chairman of the investment advisor of MidOcean. Before Mr. Miller became associated with either MidOcean or AIG, several AIG affiliates committed to invest an aggregate of $110,000,000 in two funds advised by the investment advisor of MidOcean and during 2010 and 2011 made capital contributions to these funds of $13,183,629 and $12,122,262, respectively, pursuant to these commitments. In connection with becoming Chairman of the investment advisor of MidOcean, Mr. Miller received a profits interest in one of these funds. Mr. Miller has relinquished any profit interest in this MidOcean fund to the extent arising from any funds contributed by AIG or affiliates of AIG. The Committee and the Board of Directors considered, in particular, that these commitments predate Mr. Miller becoming a director of AIG and his involvement with MidOcean, that Mr. Miller had no involvement in these contributions, the compensation received by Mr. Miller from the investment advisor and that Mr. Miller has not received payments in respect of, and has relinquished a portion of, his profits interest. The Committee ratified these contributions in accordance with AIG s Related-Party Transactions Approval Policy.

AIG s current policy, as reflected in its By-laws, is that the role of the Chairman should be separate from that of the CEO and that the Chairman should be an independent director. AIG believes that this structure is optimal in AIG s current situation because it permits the Chairman to deal with AIG s various stakeholders while permitting the CEO to focus more on AIG s business.

The Board oversees the management of risk through the complementary functioning of the Finance and Risk Management Committee and the Audit Committee and interaction with other committees of the Board. The

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Finance and Risk Management Committee oversees AIG s enterprise risk management as one of its core responsibilities while the Audit Committee reviews the guidelines and policies governing the process by which AIG assesses and manages risk and considers AIG s major risk exposures and how they are monitored and controlled. The Chairmen of the two committees then coordinate with each other and the Chairmen of the other committees of the Board to help ensure that each committee has received the information that it needs to carry out its responsibilities with respect to risk management. Both the Finance and Risk Management Committee and the Audit Committee report to the Board with respect to any notable risk management issues.

There were fifteen meetings of the Board during 2011. The non-management directors meet in executive session, without any management directors present, in conjunction with each regularly scheduled Board meeting. Mr. Robert Miller, as Non-Executive Chairman of the Board, presided at the executive sessions. For 2010 and 2011, 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 meeting of shareholders. All directors serving at the time of the 2011 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.aig.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 in care of Special Counsel and Secretary to the Board, American International Group, Inc., 180 Maiden Lane, New York, New York 10038 or by email to: *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, election or appointment 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

***Committee Charter*.** The Nominating and Corporate Governance Committee s charter is available in the Corporate Governance section of AIG s corporate website at *www.aig.com*.

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

***Conduct of meetings and governance process*.** During 2011, the Nominating and Corporate Governance Committee held five meetings. In discussing governance initiatives and in preparation for meetings, the Chairman of the Board, the Chairman of the Nominating and Corporate Governance Committee and the Special Counsel and Secretary to the Board of Directors met and consulted frequently with the other Committee and Board members.

Board Membership and Composition

Nomination and Election of Directors. The Nominating and Corporate Governance Committee evaluated and recommended to the Board of Directors the thirteen nominees discussed under Election of Directors that are standing for election at the 2012 Annual Meeting of Shareholders, based on the criteria set forth in AIG s Corporate Governance Guidelines. A description of the nominees recommended by the Nominating and Corporate Governance Committee is set forth under Election of Directors. The process for identification of director nominees when standing for election for the first time is provided below in Committees Nominating and Corporate Governance Committee.

Independence. The Board of Directors, on the recommendation of the Nominating and Corporate Governance Committee, determined that each of AIG s twelve non-management directors or director nominees is independent within the meaning of the NYSE listing standards. Mr. Benmosche is the only director or director nominee who holds an AIG management position and, therefore, is not an independent director.

Amendment to Director Independence Standards. In connection with its annual review of the AIG Corporate Governance Guidelines and Director Independence Standards, the Nominating and Corporate Governance Committee recommended to the Board a revision of the independence standard relating to charitable contributions to be more consistent with market practice and the NYSE disclosure standard with respect to contributions to director-affiliated tax-exempt organizations. Upon the recommendation of the Nominating and Corporate Governance Committee, the Board approved an amendment to the charitable contribution standard of the AIG Director Independence Standards to conform to the NYSE disclosure standard. The current AIG Director Independence Standards are included with the Corporate Governance Guidelines as Annex A thereto.

Diversity Consideration. The Nominating and Corporate Governance Committee does not have a specific diversity policy. Rather, the Nominating and Corporate Governance Committee considers diversity in terms of minority status and gender as factors in evaluating director candidates and also considers diversity in the broader sense of how a candidate s experience and skills could assist the Board in light of the Board s then composition.

Conclusion

During 2011, the Nominating and Corporate Governance Committee performed its duties and responsibilities under the Nominating and Corporate Governance Committee charter.

Nominating and Corporate Governance Committee

American International Group, Inc.

George L. Miles, Jr., Chairman

W. Don Cornwell

Arthur C. Martinez

Suzanne Nora Johnson

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COMMITTEES

The following table sets forth the current membership on each standing committee of the Board and the number of committee meetings held in 2011. Mr. Benmosche does not serve on any committees of the Board. Mr. Robert Miller serves as an *ex-officio* member of each Committee.

Director	Audit Committee	Compensation and Management Resources Committee	Finance and Risk Management Committee	Nominating and Corporate Governance Committee	Regulatory, Compliance and Public Policy Committee
W. Don Cornwell		ü		ü	
John H. Fitzpatrick	ü				ü
Laurette T. Koellner		ü			ü(C)
Donald H. Layton	ü		ü		
Christopher S. Lynch	ü(C)		ü		
Arthur C. Martinez		ü(C)		ü	
George L. Miles, Jr.	ü			ü(C)	
Henry S. Miller			ü		ü
Robert S. Miller	*	*	*	*	*
Suzanne Nora Johnson		ü		ü	
Morris W. Offit			ü(C)		ü
Ronald A. Rittenmeyer	ü	ü			
Douglas M. Steenland			ü		ü
Number of meetings in 2011	**12**	**12**	**12**	**5**	**5**

ü = Member

C = Chairman

* Mr. Robert Miller is an *ex-officio*, non-voting member.

Audit Committee

The Audit Committee, which held twelve meetings during 2011, assists the Board in its 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. As part of these oversight responsibilities, the Audit Committee discusses with senior management the guidelines and policies by which AIG assesses and manages risk. 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 Audit Committee s assistance in the Board of Directors oversight of AIG s compliance with legal and regulatory requirements primarily focuses on the effect of such matters on AIG s financial statements, financial reporting and internal control over financial reporting. In considering AIG s compliance with legal and regulatory requirements, the Audit Committee also takes into account the oversight of legal and regulatory matters by the Regulatory, Compliance and Public Policy Committee.

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, on the recommendation of the Nominating and Corporate Governance Committee, that all members of the Audit Committee are financially literate and have accounting or related financial management expertise, each as defined by NYSE listing standards, and are audit committee financial experts, as defined under SEC rules. Although designated as audit committee financial experts, no member of the Committee is an accountant for AIG or, under SEC rules, an expert for purposes of the liability provisions of the Securities Act of 1933, as amended (the Securities Act), or for any other purpose.

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Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee held five meetings in 2011. The Board of Directors has determined that all members of the Nominating and Corporate Governance Committee are independent under NYSE listing standards. The primary responsibilities of the Nominating and Corporate Governance Committee are to identify individuals qualified to become Board members and recommend these 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 matters 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. AIG s Corporate Governance Guidelines are included as Appendix A. 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 2013 Annual Meeting of Shareholders may do so by submitting in writing such nominees names, in compliance with the procedures described in Other Matters Shareholder Proposals for 2013 Annual Meeting in this Proxy Statement.

Compensation and Management Resources Committee

The Compensation and Management Resources Committee, which held twelve meetings during 2011, 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 senior executives under its purview, including the performance measures and goals relevant to that compensation. The Compensation and Management Resources Committee is also responsible for making recommendations to the Board with respect to AIG s compensation programs for senior executives and other employees, for evaluating, in conjunction with AIG s Chief Risk Officer, any risks posed to AIG by its compensation programs and whether such compensation programs encourage AIG s senior executive officers to take unnecessary and excessive risks that threaten the value of AIG, 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.aig.com.*

Sixteen key employees are currently under the purview of the Compensation and Management Resources Committee, including all of the current executive officers named in the 2011 Summary Compensation Table. Additionally, because of AIG s current circumstances, the Committee reviews certain actions for two other groups of employees (whether or not they are under the purview of the Committee): Senior Partners and the 100 most highly compensated employees who fall within the purview of the Special Master for TARP Executive Compensation. Mr. Benmosche 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 or approves the determination of the Compensation and Management Resources Committee as to the compensation paid or to be paid to 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 engaged Frederic W. Cook & Co. (the Cook firm) 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 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. A senior consultant of the Cook firm regularly attends Committee meetings and provides information on compensation trends along with specific views on AIG s compensation programs. For services related to board and executive officer compensation, the Cook firm was paid $103,316 in 2011.

The Cook firm has 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. Other than services provided to the

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Compensation and Management Resources Committee and the Nominating and Corporate Governance Committee, neither the Cook firm nor any of its affiliates provides any other services to AIG.

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 and Risk Management Committee held twelve meetings in 2011. The Finance and Risk Management 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, the allocation of capital as to its businesses, methods of financing its businesses and other related strategic initiatives. The Finance and Risk Management Committee also reports to and assists the Board in overseeing and reviewing information regarding AIG s enterprise risk management, including the significant policies, procedures, and practices employed to manage liquidity risk, credit risk, market risk, operational risk and insurance risk. The Finance and Risk Management Committee s charter is available in the Corporate Governance section of AIG s corporate website at *www.aig.com*.

The Regulatory, Compliance and Public Policy Committee held five meetings in 2011. The Regulatory, Compliance and Public Policy Committee assists the Board in its oversight of AIG s handling of legal, regulatory and compliance matters and reviews AIG s position and policies that relate to current and emerging corporate social responsibility and political and public policy issues. The Regulatory, Compliance and Public Policy Committee s charter is available in the Corporate Governance section of AIG s corporate website at *www.aig.com*.

The Special Technology Committee held four meetings in 2011. The Special Technology Committee was established to provide oversight with respect to information technology projects and initiatives. The Special Technology Committee comprises Mr. Rittenmeyer, as Chairman, and Messrs. Martinez and Miles.

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COMPENSATION OF DIRECTORS

In 2011, the annual retainer for each non-management director was $150,000 and an annual award of Deferred Stock Units (DSUs) in an amount of $50,000. Mr. Robert Miller, as Chairman and an *ex-officio* member of all standing committees of the Board, received an additional annual retainer of $500,000. In 2011, the chairman of each committee received an annual committee retainer of $15,000, except the chairman of the Audit Committee, who received $25,000. For each other member of each committee, the annual committee retainer was $5,000. See Committees for information on current committee memberships and committee memberships during 2011.

Each DSU provides that one share of AIG Common Stock will be delivered when a director ceases to be a member of the Board and includes 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 underlying the DSUs had been outstanding. DSUs were granted under the 2010 Stock Incentive Plan (2010 Stock Incentive Plan).

Under director stock ownership guidelines, non-management directors should own at least 10,000 shares of AIG Common Stock (including deferred stock and DSUs).

Mr. Benmosche did not receive any compensation for his service as a director.

The following table contains information with respect to the compensation of the individuals who served as non-management directors of AIG for all or part of 2011.

2011 Non-Management Director Compensation

Non-Management Members of the Board in 2011	Fees Earned or Paid in Cash(1)	Stock Awards(2)	Total
W. Don Cornwell	$ 101,538	$ 49,990	$ 151,528
John H. Fitzpatrick	$ 101,538	$ 49,990	$ 151,528
Laurette T. Koellner	$ 170,000	$ 49,990	$ 219,990
Donald H. Layton	$ 160,000	$ 49,990	$ 209,990
Christopher S. Lynch	$ 180,000	$ 49,990	$ 229,990
Arthur C. Martinez	$ 170,577	$ 49,990	$ 220,567
George L. Miles, Jr.	$ 170,577	$ 49,990	$ 220,567
Henry S. Miller	$ 160,000	$ 49,990	$ 209,990
Robert S. Miller	$ 650,000	$ 49,990	$ 699,990
Suzanne Nora Johnson	$ 160,000	$ 49,990	$ 209,990
Morris W. Offit	$ 170,000	$ 49,990	$ 219,990
Ronald A. Rittenmeyer	$ 161,731	$ 49,990	$ 211,721
Douglas M. Steenland	$ 360,000	$ 49,990	$ 409,990

(1) This column represents annual retainer fees and committee and committee chairman retainer fees. For Mr. Steenland, the amount includes $200,000, which is the annual retainer fee for his service as Non-Executive Chairman of ILFC. For Messrs. Martinez, Miles and Rittenmeyer, the amount includes a prorated annual committee retainer or committee chairman retainer for the Special Technology Committee. The members of the Special Technology Committee began receiving compensation for their service on the Committee in November 2011.

(2) This column represents the grant date fair value of DSUs granted in 2011 to directors, based on the closing sale price of AIG Common Stock on the date of grant.

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The following table sets forth information with respect to the option and stock awards outstanding at December 31, 2011 for the non-management directors of AIG.

Stock and Option Awards Outstanding at December 31, 2011

Non-Management Members of the Board in 2011	Option Awards(1)	Deferred Stock(2)	Deferred Stock Units(3)
W. Don Cornwell	0	0	1,631
John H. Fitzpatrick	0	0	1,631
Laurette T. Koellner	0	0	2,838
Donald H. Layton	0	0	2,838
Christopher S. Lynch	0	0	2,838
Arthur C. Martinez	0	0	2,838
George L. Miles, Jr.	250	90	3,096
Henry S. Miller	0	0	2,838
Robert S. Miller	0	0	2,838
Suzanne Nora Johnson	0	0	5,927
Morris W. Offit	250	90	3,096
Ronald A. Rittenmeyer	0	0	2,838
Douglas M. Steenland	0	0	2,838

(1) Represents outstanding option awards made by AIG in 2006 and prior years. All options are exercisable, but have exercise prices far in excess of the value of AIG Common Stock at year-end 2011 ($23.20). The exercise price of the options ranges from $1,250.00 to $1,253.40.

(2) No deferred stock was awarded in 2011. Deferred stock shown was awarded in 2007 and prior years. Receipt of deferred stock is deferred until the director ceases to be a member of the Board.

(3) DSUs shown include DSUs awarded in 2011 and prior years, director s fees deferred into DSUs and DSUs awarded as dividend equivalents. Receipt of shares of AIG Common Stock underlying DSUs is deferred until the director ceases to be a member of the Board. DSUs granted prior to April 2010 were granted under the Amended and Restated 2007 Stock Incentive Plan (2007 Stock Incentive Plan) and DSUs granted after April 2010 were granted under the 2010 Stock Incentive Plan.

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 under SEC rules. During 2011, 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.

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OWNERSHIP OF CERTAIN SECURITIES

AIG Common Stock

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 at January 31, 2012.

Name and Address	Shares of Common Stock Beneficially Owned Number	Percent
U.S. Department of the Treasury c/o Timothy Massad United States Department of the Treasury 1500 Pennsylvania Avenue, NW Washington D.C. 20220(1)	1,455,037,962	76.7%
Fairholme Capital Management, L.L.C. (FCM); Fairholme Funds, Inc. (FFI); Bruce R. Berkowitz 4400 Biscayne Blvd., 9th Floor Miami, FL 33137	116,573,542(2)	6.1%

(1) On March 13, 2012, the Department of the Treasury sold 206,896,552 shares of its AIG Common Stock, of which 103,448,276 shares were purchased by AIG. If this sale of shares by the Department of the Treasury and purchase of shares by AIG had closed on January 31, 2012, the Department of the Treasury would have owned 1,248,141,410 shares, or 69.6 percent of the outstanding AIG Common Stock.

(2) Based on a Schedule 13G filed on February 17, 2012 by each entity or individual listed. Item 4 to this Schedule 13G provides details as to the voting and investment power of each person or entity as well as the right of each to acquire AIG Common Stock within 60 days. Each of FFI, FCM and Mr. Berkowitz disclaims beneficial ownership of these shares, except to the extent of their pecuniary interest. All information provided in Ownership of Certain Securities with respect to the group is provided based solely on the information set forth in the Schedule 13G. In each case, this information may not be accurate or complete and AIG takes no responsibility therefore and makes no representation as to its accuracy or completeness as of the date hereof or any subsequent date. Includes 24,528,959 shares issuable upon the exercise of warrants to purchase AIG Common Stock at an exercise price of $45 per share.

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The following table summarizes the ownership of AIG Common Stock by the current directors, by the executive officers named in the 2011 Summary Compensation Table in Executive Compensation 2011 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.

	AIG Common Stock Owned Beneficially as of January 31, 2012	
	Amount and Nature of Beneficial Ownership(1)(2)	**Percent of Class**
Robert H. Benmosche	240,736	.01
W. Don Cornwell	4,131	**(3)**
William N. Dooley	46,102	**(3)**
John H. Fitzpatrick	1,631	**(3)**
Peter D. Hancock	38,421	**(3)**
David L. Herzog	8,240	**(3)**
Laurette T. Koellner	16,338	**(3)**
Donald H. Layton	12,838	**(3)**
Christopher S. Lynch	2,838	**(3)**
Arthur C. Martinez	2,838	**(3)**
George L. Miles, Jr.	3,436	**(3)**
Henry S. Miller	2,838	**(3)**
Robert S. Miller	2,838	**(3)**
Suzanne Nora Johnson	5,927	**(3)**
Morris W. Offit	16,886	**(3)**
Ronald A. Rittenmeyer	2,838	**(3)**
Douglas M. Steenland	2,838	**(3)**
Jay S. Wintrob	161,530	.01
All Directors and Executive Officers of AIG as a group (24 individuals)	776,629	.04

(1) Amount of equity securities shown includes (i) shares of AIG Common Stock subject to options which may be exercised within 60 days as follows: Herzog 7,195 shares, Dooley 12,494 shares, Miles 250 shares, Offit 250 shares, Wintrob 19,994 shares and all directors and current executive officers of AIG as a group 48,587 shares; and (ii) shares receivable upon the exercise of warrants which may be exercised within 60 days as follows: Benmosche 400 warrants, Herzog 293 warrants, Dooley 7,506 warrants, Hancock 5,804 warrants, Offit 1,200 warrants, Wintrob 49,231 warrants and all directors and current executive officers of AIG as a group 73,980 warrants; (iii) for non-management directors, shares granted to each non-employee director with delivery deferred until the director ceases to be a member of the Board as follows: Miles 90 shares and Offit 90 shares; and (iv) 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: Cornwell 1,631 shares, Fitzpatrick 1,631 shares, Koellner 2,838 shares, Layton 2,838 shares, Lynch 2,838 shares, Martinez 2,838 shares, Miles 3,096 shares, Henry Miller 2,838 shares, Robert Miller 2,838 shares, Nora Johnson 5,927 shares, Offit 3,096 shares, Rittenmeyer 2,838 shares and Steenland 2,838 shares. Excludes TARP RSUs that vested in March 2012 for Mr. Benmosche and settled in cash. For details on TARP RSUs, see Compensation Discussion and Analysis Compensation Structure Direct Compensation Components 2011 Incentive Compensation TARP RSUs.

(2) Amount of equity securities shown 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: Dooley 1,099 shares, Hancock 32 shares, Wintrob 200 shares and all directors and current executive officers of AIG as a group 1,331 shares.

(3) Less than .01 percent.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires directors, executive officers, and greater than 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

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greater than ten percent holders during 2011 were one late report filed by Mr. David L. Herzog and one late report filed by Mr. Jeffrey J. Hurd in reporting the distribution of 24 shares and 16 shares, respectively, under the Starr International Company, Inc. Deferred Compensation Profit Participation Plan.

RELATIONSHIPS AND RELATED-PARTY TRANSACTIONS

Transactions in 2011 with the Trust and the Department of the Treasury

For a discussion of the transactions between AIG, the Trust and the Department of the Treasury in 2011, see Relationships with the Federal Reserve Bank of New York, the AIG Credit Facility Trust and the United States Department of the Treasury.

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. Such employee investment funds have a fee structure that is generally more favorable than that offered by AIG to non-employees. AIG employees who have invested in these funds include two employees who were executive officers during 2011. These investment funds are managed by PineBridge Investments LLC, which was a wholly owned subsidiary of AIG until it was sold on March 26, 2010. In 2011, each of these funds issued capital calls and distributions. A named executive invested in a similar fund, the SunAmerica Venture Fund 2000, L.P., and received tax distributions related to such fund in 2011. See the 2011 Summary Compensation Table, note 4 in 2011 Compensation.

Transactions with MidOcean Funds

For a discussion of the transactions between AIG and certain MidOcean funds, see Corporate Governance Governance.

Related-Party Transactions Approval Policy

The Board of AIG has adopted a related-party transaction approval policy. Under this written 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 considers:

- 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.

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EXECUTIVE COMPENSATION

REPORT OF THE COMPENSATION AND MANAGEMENT RESOURCES COMMITTEE

Overview

The Compensation and Management Resources Committee reviews and approves 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, oversees AIG s compensation and benefits programs for key and other employees and makes recommendations to the Board where appropriate, oversees AIG s management development and succession planning programs and produces this Report on annual compensation. In carrying out these responsibilities, our objective is to maintain responsible compensation practices that attract, develop and retain high performing senior executives and other key employees.

Risk and Compensation Plans

AIG continues to enhance its risk management control environment, risk management processes and enterprise risk management functions, including through the continued implementation of new technology solutions to mitigate the reliance on manual controls. AIG s compensation practices are essential parts of AIG s approach to risk management, and the Committee regularly monitors AIG s compensation programs to ensure they align with sound risk management principles. In March 2009, the Committee s charter was amended to expressly include the Committee s duty to meet periodically to discuss and review, in consultation with the Chief Risk Officer, the relationship between AIG s risk management policies and practices and the incentive compensation arrangements applicable to senior executives.

Risk Assessment

As a TARP recipient, AIG must comply with the executive compensation requirements set forth in the TARP Standards for Compensation and Corporate Governance (the TARP Standards) and the interpretations of those standards by the Special Master for TARP Executive Compensation (the Special Master), who is appointed by the Secretary of the Treasury. To comply with these standards, the Committee must annually provide a narrative description of how the senior executive officer (SEO) compensation plans do not encourage the SEOs to take unnecessary and excessive risks that threaten the value of AIG (including how the SEO plans do not encourage behavior focused on short-term results rather than long-term value creation), the risks posed by the employee compensation plans and how these risks were limited (including how the employee compensation plans do not encourage behavior focused on short-term results rather than long-term value creation) and how AIG has ensured that the employee compensation plans do not encourage the manipulation of AIG s reported earnings to enhance the compensation of any employee.

In accordance with these standards, the Committee instructed AIG s Chief Risk Officer to conduct an assessment of AIG s compensation plans. The Committee then met with AIG s Chief Risk Officer on multiple occasions to discuss the assessment and to further discuss, evaluate and review the compensation plans. The Committee also discussed the process with its independent consultant, the Cook firm, who participated in the Committee meetings in which the assessments were discussed and who advised that the process was thorough and well designed.

Senior Executive Officer Compensation Plans

The Committee reviewed, with AIG s Chief Risk Officer, the SEO compensation plans and made all reasonable efforts to ensure that these plans do not encourage SEOs to take unnecessary and excessive risks that threaten the value of AIG. During the review, the Committee and the Chief Risk Officer focused on any features that could encourage behavior focused on short-term results rather than long-term value creation.

Our SEOs participate in compensation structures approved and determined by the Special Master, which generally consist of cash salary, equity-based awards (including Stock Salary, described under Compensation Discussion and Analysis Compensation Structure Direct Compensation Components Stock Salary, and performance-based incentive compensation) as well as benefits categorized as perquisites or other compensation under the SEC rules that may not exceed specified limits set by the Special Master. AIG provides the SEOs with retirement benefits under various defined benefit and defined contribution plans, including the AIG tax-qualified 401(k) plan, AIG Retirement Plan (the Qualified Retirement Plan), AIG Non-Qualified Retirement

Income Plan (the Non-Qualified Retirement Plan) and Supplemental Executive Retirement Plan (the SERP). Prior to April 1, 2012, the Non-Qualified Retirement Plan was known as the AIG Excess Retirement Income Plan. Certain of the SEOs also have balances under legacy nonqualified defined contribution plans. Pursuant to the Special Master s determinations, the accrual of benefits under these retirement plans, other than the tax-qualified plans, have been frozen for the SEOs, although they may continue to receive age and service credit for the purpose of vesting in previously accrued benefits. Because AIG received financial assistance, the SEOs may not receive severance or other benefits as a result of a termination of employment or a change of control during 2012 and none of the SEOs could have received such benefits during 2011.

As described in the Compensation Discussion and Analysis that follows, the Special Master approved the compensation structures for AIG s SEOs and amounts payable or potentially payable to them. The approved structures contain numerous features that emphasize long-term value creation and help prevent unnecessary or excessive risk-taking. The majority of compensation is performance-based and paid in equity. Such equity-based compensation is subject to transfer restrictions and, in certain cases, tied to repayment of AIG s TARP financial assistance.

The approved structures for three of our SEOs include variable incentive awards granted based on performance, including the achievement of objective performance criteria tailored to each individual. For these SEOs (who do not include our CEO), therefore, we focused on developing and reviewing performance metrics in consultation with the Office of the Special Master that encourage appropriate levels of risk-taking and emphasize behavior focused on long-term value creation. With a view towards proactive risk management, AIG established a working group (the Working Group) in 2010 to develop and review the SEOs annual performance metrics. The Working Group includes, among others, AIG s Chief Risk Officer, Chief Financial Officer, director of Human Resources and director of the Internal Audit Division. For 2011, the performance metrics of our Chief Financial Officer emphasized responsible management of the company s assets, including goals for maintaining adequate capital and contingent capital; accessing equity capital markets; and continuing to improve the quality of management information systems. Such metrics are not tied directly to AIG s reported earnings. The Working Group was also thoroughly engaged in the development of performance metrics for our other SEOs. These metrics included the achievement of risk management objectives, as recommended by AIG s Chief Risk Officer, such as supporting a robust compliance framework and implementing risk-adjusted performance measures within a key business unit.

The Committee retains discretion to reduce the amount of any incentive compensation on the basis of individual or company-wide performance, and all incentive compensation paid is subject to clawback if the payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria, or if the individual is terminated due to misconduct that occurred during the period in which the payment was earned.

Some SEOs also have outstanding awards under the Senior Partners Plan, the only remaining legacy long-term incentive plan. Because the performance periods for these awards have been completed, and the awards are fully earned but not yet vested, they do not encourage the SEOs to take unnecessary and excessive risks or behavior focused on achieving short-term results.

Employee Compensation Plans

The Committee reviewed, with AIG s Chief Risk Officer, the employee compensation plans to eliminate any features that would encourage the manipulation of AIG s reported earnings to enhance the compensation of any employee and made all reasonable efforts to limit any unnecessary risks these plans pose to AIG. As recommended by AIG s Chief Risk Officer, the Committee focused its review of employee compensation plans on incentive-based compensation plans and their administration. The Committee has directed AIG human resources to work to streamline and reduce the total number of incentive-based compensation plans across the company. In line with this directive, the number of plans was reduced from 358 in January 2011 to 178 in January 2012 through termination and consolidation of existing plans and targeted implementation of new plans. Information for these 178 plans, which covered approximately 65,500 employees, was collected, with programs applicable to the same business unit and containing similar design features sometimes combined to facilitate review. The Committee s review was guided by the work of AIG human resources professionals, who identified the incentive plans and received training from AIG risk officers to develop a profile for each plan based on evaluation of features such as number of participants, mix of incentive pay compared to salary, performance and vesting periods and performance goals. Human resources then assigned each plan to one of four risk quadrants: low risk (low business risk/low design risk), intermediate risk (low business risk/high design risk), intermediate risk (high business risk/low design risk) or high risk (high business risk/high design risk). After taking into account the

analysis carried out by AIG human resources, risk officers reviewed any plans classified as high risk or intermediate risk, as well as a sampling of low risk plans. They produced a final classification of the plans as follows:

Business Unit	Low Risk	Intermediate Risk (low business risk/ (high design risk)	Intermediate Risk (high business risk/ low design risk)	High Risk	Total
Corporate	18	0	0	0	18
Asset Mgmt Group	3	0	1	0	4
Financial Services	7	0	0	0	7
Chartis	83	0	0	0	83
SAFG	61	1	0	0	62
UGC	4	0	0	0	4
Total	176	1	1	0	178

Most plans were categorized as low risk. While these plans vary in structure and payout, the incentive pay is generally discretionary or based on strict performance parameters. Other features incorporated into these plans that mitigate risk include capped payouts, consideration of qualitative aspects of performance, multi-year vesting periods and use of equity and deferrals.

In 2011, no plans were categorized as high risk and the number of intermediate risk plans remained stable at two.

The two plans classified as intermediate risk are both closed to new participants and are in the process of vesting and paying out previously awarded incentive compensation opportunities. We concluded that these plans were within tolerable risk limits. In the case of the low business risk/high design risk plan, features such as the ability to set aside reserves and a multi-year vesting period function as sufficient mitigants. Similarly, the high business risk/low design risk plan contains design features, including oversight from a steering committee and a requirement that all payments under the plan be approved by AIG s Chief Risk Officer and Chief Financial Officer, that mitigate risk. The Committee continues to monitor these plans with the Chief Risk Officer.

Plans added during 2011 were mainly plans with relatively low payouts that are based on achievement of performance objectives and are subject to caps or clawbacks. All of these additional plans, which the Committee reviewed with the Chief Risk Officer, are classified as low risk.

In addition, the Committee, together with the Chief Risk Officer and the Working Group, developed and reviewed separately the performance metrics used in granting incentive awards to the Top 25 (other than the SEOs, whose performance metrics are discussed above) and the Top 26-100 under the compensation structures approved by the Special Master. We determined that these metrics do not pose unnecessary risks to AIG or encourage the manipulation of AIG s reported earnings to enhance the compensation of any of these employees. We further concluded that AIG has continued to make strides over the past year in the oversight of its compensation plans and in ensuring that these plans do not expose AIG to unnecessary and excessive risks that threaten the value of AIG.

Certifications

The Compensation Discussion and Analysis that follows discusses the principles the Committee has been using to guide its compensation decisions for senior executives. The Committee has reviewed and discussed the Compensation Discussion and Analysis with management. The Cook firm has also reviewed and discussed the Compensation Discussion and Analysis on behalf of the Committee with management and outside counsel. 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 in AIG s 2011 Annual Report on Form 10-K.

The Committee certifies that all incentive compensation granted in respect of 2011 to the SEOs and Top 100 was awarded based on the achievement of objective performance criteria developed and reviewed by the Committee in consultation with the Office of the Special Master, and that such grants were appropriate in light of AIG s overall circumstances at the time.

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In addition, the Committee certifies the following:

1. It has reviewed with the Chief Risk Officer the SEO compensation plans and has made all reasonable efforts to ensure that these plans do not encourage SEOs to take unnecessary and excessive risks that threaten the value of AIG;

2. It has reviewed with the Chief Risk Officer the employee compensation plans and has made all reasonable efforts to limit any unnecessary risks these plans pose to AIG; and

3. It has reviewed the employee compensation plans to eliminate any features of these plans that would encourage the manipulation of reported earnings of AIG to enhance the compensation of any employee.

Compensation and Management Resources Committee

American International Group, Inc.

Arthur C. Martinez, Chairman

W. Don Cornwell

Laurette T. Koellner

Suzanne Nora Johnson

Ronald A. Rittenmeyer

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COMPENSATION DISCUSSION AND ANALYSIS

Executive Summary

AIG has been subject to limits on its executive compensation program beginning with the receipt of government assistance in 2008 and, since 2009, has been subject to the more restrictive limits on the structure and amounts of compensation established by statute. Accordingly, the 2011 pay structures for AIG s senior executive officers and 20 other most highly paid employees (based on 2010 compensation) were prescribed by law, as interpreted by the Special Master. The Special Master also determined the amounts payable for this Top 25 group, which included all of the named executives (as defined below). The determined compensation for AIG s Top 25 group was publicly announced by the Special Master on April 1, 2011.

The Special Master also determined the 2011 pay structure (but not the amounts) of the remainder of AIG s 100 most highly compensated employees (based on 2010 compensation) and executive officers. The structures determined for members of this Top 26-100 group were publicly announced by the Special Master on April 8, 2011.

The Committee s executive compensation proposals were made in the context of the legal restrictions discussed above and, for the Top 25, these proposals were then reviewed and modified by the Special Master s determinations. As a result, the Committee s decisions for the Top 25 were effectively confined to approving year-end incentive awards up to the amounts allowed by the Special Master. The Committee made these and other executive compensation decisions in the context of the outstanding results achieved during 2011:

Completed Recapitalization	Repaid the FRBNY Credit Agreement in full ($21 billion) in January 2011
	Restructured Department of the Treasury s investment in January 2011
Closed Divestitures of Operations and Securities	Sold AIG Star and AIG Edison ($4.8 billion) in February 2011
	Sold Nan Shan Life Insurance Company, Ltd. ($2.2 billion) in August 2011
	Sold MetLife, Inc. securities received as partial consideration for ALICO ($9.6 billion) in March 2011
Strengthened Liquidity	Established revolving credit facilities ($4.5 billion)
	Established a contingent liquidity facility ($0.5 billion) in October 2011
	Established ILFC credit facilities ($2.3 billion)
Accessed Capital Markets	Sold 300 million shares of AIG Common Stock ($5.8 billion U.S. Treasury and $2.9 billion AIG) in May 2011

	Issued senior unsecured notes ($2 billion) in September 2011
	Issued ILFC senior debt ($4.6 billion)
Continued Capital Management	Exchanged $2.4 billion of outstanding junior subordinated debentures for senior notes
	Authorized repurchase of up to $1 billion of AIG Common Stock
Reinvigorated Core Businesses	Core insurance businesses earned more than $4.2 billion in 2011, despite $3.3 billion of catastrophe losses
	Completed investment portfolio cash redeployment
	Attained $3 billion in distributions from subsidiaries

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Approved Compensation

The following table shows the approved 2011 annualized compensation rates and target incentive amounts for Messrs. Benmosche, Herzog, Dooley, Hancock and Wintrob as determined by the Special Master and the actual incentive awards for 2011 as determined by the Committee for these executives. We refer to the executives listed on this table as AIG s named executives.

	Structure and Maximum Amounts Approved by Special Master(1)				
	Robert H. Benmosche	David L. Herzog	William N. Dooley	Peter Hancock	Jay Wintrob
2011 Special Master					
Approved Structure					
Cash Salary(**2**)	$ 3,000,000	$ 495,000	$ 450,000	$ 1,800,000	$ 495,000
Stock Salary(**2**)	$ 7,500,000	$ 4,734,000	$ 5,550,000	$ 4,400,000	$ 5,315,000
Target Incentive(**3**)	$ 0	$ 1,071,000	$ 0	$ 800,000	$ 1,190,000
Total	$ 10,500,000	$ 6,300,000	$ 6,000,000	$ 7,000,000	$ 7,000,000
2011 Committee					
Awarded Incentive					
% of Target	n/a	100%	n/a	100%	100%
Amount(**3**)	$ 0	$ 1,071,000	$ 0	$ 800,000	$ 1,190,000

(1) ***The 2011 Summary Compensation Table contains important information.*** The manner in which the Special Master and the Committee administered 2011 compensation for the named executives is substantially different from the manner in which SEC rules require the compensation to be presented in the 2011 Summary Compensation Table. For further discussion, see 2011 Compensation Summary Compensation Table.

(2) ***Pay structures for our named executives are prescribed by law and do not reflect a compensation framework chosen by AIG.*** AIG did not determine the appropriate compensation elements and allocation for our named executives. Instead, the 2011 pay structures were dictated by federal law, as interpreted by the Special Master. Under the TARP Standards, incentives may comprise only a limited portion of a named executive s compensation, and all incentive pay must be in the form of unvested TARP RSUs (described under Compensation Structure Direct Compensation Components 2011 Incentive Compensation). As a result, most of our named executives compensation for 2011 consisted of cash salary and Stock Salary in amounts determined by the Special Master. The approved cash salary rate for Mr. Benmosche was effective as of his date of hire, August 10, 2009. His approved Stock Salary rate, along with the approved cash salary and Stock Salary rates for Messrs. Herzog, Dooley, Hancock and Wintrob became effective January 1, 2011, the effective date required by the Special Master s determination. As further described under Compensation Structure Direct Compensation Components Stock Salary, the ultimate value of Stock Salary is determined by the value of AIG Common Stock over a period of years, and there is no guarantee that the named executives will realize the approved amounts of this pay element.

(3) ***Federal law effectively prohibits any named executive who retires before the end of 2013 from receiving any incentive compensation for 2011.*** Federal law requires mandatory two years future service for any incentives paid to our named executives, which cannot be waived in the event of voluntary or involuntary retirement. As a result, there was no legally permissible incentive compensation that we could deliver to a named executive who retires before the end of 2013. (Any incentives that were awarded would necessarily be forfeited on retirement, and the named executive would have received no benefit as a result of earning the award.) Because Mr. Benmosche may retire before the end of the required minimum two-year vesting period, the Special Master revised Mr. Benmosche s compensation structure at the Committee s request to substitute Stock Salary for the prior TARP RSU target incentive while keeping his total annual direct compensation opportunity constant. A similar request was made for Mr. Dooley.

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Objectives and Design of Compensation Framework

In 2010, the Committee approved a comprehensive compensation philosophy that centers around the following:

- ***Attracting and retaining the strongest employees for AIG s various business needs*** by providing competitive and consistent compensation opportunities.

- ***Creating a culture of performance management and pay-for-performance*** by providing total direct compensation opportunities that reward the performance of AIG, AIG s business units and individual employees.

- ***Managing total direct compensation to provide a market-competitive, performance driven structure*** through a four-part program that takes into account base salary, annual incentives, long-term incentives and benefits and perquisites.

- ***Motivating all AIG employees to achieve sustainable increases in AIG s intrinsic value,*** which represents a balance of profitability, growth and risk, to drive long-term value creation for shareholders.

- ***Aligning the long-term economic interests of key employees with those of shareholders*** by ensuring that a meaningful component of each key employee s compensation is represented by AIG securities.

- ***Avoiding incentives that encourage employees to take unnecessary or excessive risks that could threaten the value of AIG*** by appropriately balancing risk and reward as well as rewarding both annual and long-term performance.

- ***Maintaining strong corporate governance practices*** by meeting evolving standards of compensation governance and complying with regulations applicable to employee compensation.

These objectives apply enterprise-wide, but we are required to implement them differently for our named executives for so long as we are subject to the statutory compensation restrictions. In particular, the Special Master was required to determine the compensation structure and amounts payable or potentially payable for each of the named executives and to conclude that the compensation structures will not result in payments that are inconsistent with the purposes of Section 111 of the Emergency Economic Stabilization Act of 2008 (EESA) or TARP, and will not otherwise be contrary to the public interest. In doing so, the Special Master must consider the following six principles:

- ***Risk.*** Compensation should avoid incentives that encourage employees to take unnecessary or excessive risks that could threaten the value of AIG.

- ***Taxpayer Return.*** Compensation should reflect the need for AIG to remain a competitive enterprise and to retain and recruit talented employees so that AIG will ultimately be able to repay its TARP obligations.

- ***Appropriate Allocation.*** Compensation should be appropriately allocated to different components, such as salary and short- and long-term incentives, and forms, such as cash and equity, based on the role of each employee and other relevant circumstances.

Performance-based Compensation. An appropriate portion of compensation should be performance-based, and the performance metrics should be measurable, enforceable, and actually enforced if not met.

Comparable Structures and Payments. Compensation should be consistent with compensation for executives in similar positions at entities that are similarly situated, including at financially distressed institutions.

Employee Contributions to AIG s Value. Compensation should reflect current and prospective contributions of the employee to AIG s value.

During the period that compensation for AIG employees is subject to the determinations of the Special Master, the Committee s approach for those employees also focuses on these principles.

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The Special Master had discretion to determine the appropriate weight or relevance of each principle, depending on her views of the facts and circumstances surrounding the compensation structure or payment for a particular employee. To the extent that two or more principles are inconsistent in a particular situation, the Special Master exercised discretion to determine the relative weight to be accorded to each principle.

In the course of applying these principles, the Special Master was permitted to take into account other compensation structures and other compensation earned, accrued, or paid, including compensation and compensation structures that are not subject to the restrictions of EESA. For example, the Special Master was permitted to consider payments by AIG under valid contracts entered into before the enactment of EESA.

As required by EESA, AIG held a non-binding shareholder advisory vote at its 2011 Annual Meeting of Shareholders to approve the compensation of AIG s named executives. This shareholder resolution was approved by over 97 percent of the votes cast. Although the Committee reviewed the outcome of the vote, the result did not impact compensation decisions in light of the authority of the Special Master to determine the specific compensation structures and amounts payable or potentially payable for AIG s named executives.

Compensation Structure Direct Compensation Components

***Cash Salary*.** Since 2009, the Special Master has determined that compensation for Top 25 and Top 26-100 employees should be primarily performance-based and therefore has required that cash salaries be generally limited to $500,000, except in certain exceptional cases. AIG s historical practice has been to pay a limited portion of overall compensation in the form of base salary. However, under the prescribed structure for the Top 25, cash salary is the only source of liquid compensation AIG can provide to the Top 25 that is not dependent on the future performance of AIG Common Stock. As a result, the limitation on cash salary has resulted in cash compensation opportunities for members of the Top 25 in the past three years that are lower than ever before, as a percentage of total compensation, and that are significantly lower than AIG s competitors.

Stock Salary. As a result of the Special Master s determinations, in 2009, AIG implemented a program of regular grants of vested stock or units that has become generally referred to as Stock Salary. The ultimate value of Stock Salary is determined by the value of AIG Common Stock over a period of years, and the Special Master has therefore determined that this compensation is both performance-based and consistent with the long-term interest of shareholders. In large part, Stock Salary takes the place of what would otherwise be annual and long-term cash, stock and performance-based incentive programs.

Stock Salary generally takes the form of regular, semi-monthly grants of immediately vested stock or units. The amount of stock or units awarded on each grant date is based on the dollar value of the Stock Salary earned over the period since the preceding grant date. Furthermore, each grant of Stock Salary is subject to transfer or payment restrictions over a multi-year period. The periods of restriction for Stock Salary paid to AIG s named executives in 2011 are as follows:

- For Mr. Benmosche, restrictions will lapse on the fifth anniversary of the date of hire.

- For Messrs. Herzog, Dooley, Hancock and Wintrob, the restrictions will lapse on one third of the Stock Salary each year, starting on the first anniversary of grant.

In 2010, Stock Salary for most senior employees, including Messrs. Herzog, Dooley, Hancock and Wintrob, took the form of long-term performance units (LTPUs) based on a basket of AIG Common Stock and debt securities. Under the terms of the AIG Long-Term Performance Units Plan, the debt securities portion of any outstanding LTPU was converted into AIG Common Stock on April 14, 2011, 90 days after the Recapitalization, which included the exchange of a portion of the Department of the Treasury s Series E Preferred Stock and Series F Preferred Stock for shares of AIG Common Stock. In light of the Recapitalization, the 2011 determination for Messrs. Herzog, Dooley, Hancock and Wintrob provided that Stock Salary would take the form of either AIG Common Stock or units based on the value of AIG Common Stock. Grants of Stock Salaries payable in cash-settled, common stock units were then made to Messrs. Herzog, Dooley, Hancock and Wintrob with retroactive effect from January 1, 2011. The 2011 determination for Mr. Benmosche required that grants of Stock Salary continue to be made on the terms specified in his August 16, 2009 letter agreement with AIG, except that

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additional Stock Salary was substituted for a TARP RSUs opportunity. Under the letter agreement, on each grant date, Mr. Benmosche is awarded shares of restricted AIG Common Stock in an amount determined by dividing the dollar value of the Stock Salary earned since the preceding grant date by the market price of AIG Common Stock on the date of grant.

Stock Salaries granted to the named executives in 2011 were issued under the 2010 Stock Incentive Plan.

2011 Incentive Compensation. Named executives eligible for incentives could not receive such compensation in any form other than TARP RSUs during 2011.

TARP RSUs. TARP RSUs are a form of incentive compensation defined by applicable regulation under the name long-term restricted stock. In order to qualify as TARP RSUs, the award must generally have at least a two-year vesting period and may only become transferable or payable in 25 percent increments in proportion to AIG s repayment of its TARP obligations. For TARP RSUs awarded to members of the Top 25 for 2011 performance, the Special Master extended the vesting period to three years, with pro rata vesting permitted after two years. The Committee, accordingly, determined that 2011 TARP RSU awards would vest 50 percent after two years and 50 percent after three years. Because AIG has repaid more than 50 percent of its TARP obligations through March 22, 2012, on the vesting dates for such awards, at least 50 percent of the TARP RSUs then vesting will be payable. TARP RSUs granted to the named executives for 2011 were issued under the 2010 Stock Incentive Plan.

Performance Determination. In 2011, AIG completed the company-wide implementation of its relative performance rating (RPR) process, whereby individual performance is compared against a defined peer performance group generally comprised of at least 50 individuals with similar job roles and levels of responsibility. During roundtable discussions, managers compare individual performance to that of others in the defined peer performance group and assign employees an RPR between 1 (top performance) and 5 (unsatisfactory performance) using a guideline distribution. Ten percent of employees in a peer performance group receive a 1 ranking, 20 percent a 2 , 50 percent a 3 and 20 percent a 4 or 5 . For the named executives, the applicable peer performance group consists of eight direct reports to the CEO. Because this peer performance group is too small to meet the guideline distribution, assignment of an RPR by the CEO does not strictly follow guideline distribution. The RPR results in a range of potential incentive payout; an RPR of 1 results in guideline payout of 130 to 150 percent of target subject to adjustment for pool funding for the year based on annual company or business unit performance, a 2 120-140 percent, a 3 80-120 percent, a 4 40-80 percent and a 5 no payout. Because of the guideline distribution underlying the RPR process, it is possible that achievement of all goals does not result in a maximum or even target payout. In addition, for 2011, AIG has instituted a cross check such that, for members of the Top 100, a minimum achievement of 50 percent is required to be eligible for any incentive payout and a minimum achievement of 75 percent is required to be eligible for payout at or above target. The named executives, however, may not receive more than their target amounts, even if their RPR and achievement against goals qualifies them for a higher award. TARP RSUs were awarded through the RPR process, which, for members of the Top 25, included achievement against individual performance criteria reviewed and approved by the Committee in consultation with the Special Master. However, notwithstanding the full or partial satisfaction of the performance criteria, the Committee retained the discretion to reduce any employee s incentive award on the basis of its overall evaluation of the employee s or AIG s performance. The RPR process and performance criteria used for each named executive eligible to receive TARP RSUs are summarized under Committee Compensation Decisions for 2011 Incentive Awards.

Clawback. TARP RSUs awarded for 2011 performance are subject to clawback if later determined to have been based on materially inaccurate financial statements or any other materially inaccurate performance metrics, or if the named executive is terminated due to misconduct that occurred during 2011.

Timing. To facilitate compliance with the TARP Standards, AIG granted TARP RSUs awards to Messrs. Herzog, Hancock and Wintrob on December 19, 2011 on the basis of preliminary individual performance scorecards. Individual performance scorecards were finalized during the first quarter of 2012, and on March 13, 2012, the Committee confirmed the TARP RSU awards.

Historic Compensation Components

In January 2011, Messrs. Herzog, Dooley, and Wintrob received $339,625, $1,018,875 and $1,358,500, respectively, upon the vesting of awards previously earned for the 2005-2007 performance period under AIG s Senior Partners Plan. Messrs. Herzog, Dooley and Wintrob also received $275,000, $1,650,000 and $1,650,000, respectively, in January 2011, upon the vesting of previously earned Senior Partners Plan awards granted in 2005. As of year-end 2011, Messrs. Herzog, Dooley and Wintrob each had additional outstanding awards under the Partners Plan, the DCPPP and the Senior Partners Plan that had been earned in prior performance periods but were not yet vested. These awards are described in greater detail in Post-Employment Compensation Nonqualified Deferred Compensation.

Compensation Structure Indirect Compensation Components

Welfare and Other Indirect Benefits. AIG s senior executives generally participate in the same broad-based health, life and disability benefit programs as AIG s other employees.

Retirement Benefits. AIG provides a number of retirement benefits to eligible employees, including both defined contribution plans (such as 401(k) plans) and traditional pension plans (called defined benefit plans). The Special Master required that further accruals under all of these plans, other than the tax-qualified plans, be halted for employees in the Top 25 and Top 26-100 but stated that such employees may continue to receive age and service credit for the purpose of vesting in previously accrued benefits.

AIG s only active defined contribution plan for the named executives is a 401(k) plan, which is tax-qualified. AIG matched a percentage of participants contributions to the 401(k) plan, depending on a participant s length of service, up to $17,150 in 2011 for the named executives. This plan was not affected by the TARP Standards and the Special Master permitted employees in the Top 100 to continue to participate in this plan. In addition, some named executives have balances under legacy nonqualified defined contribution plans. These plans are described in greater detail in Post-Employment Compensation Nonqualified Deferred Compensation. AIG s defined benefit plans include the Qualified Retirement Plan, the Non-Qualified Retirement Plan and the SERP. Each of these plans provides for a yearly benefit based on years of service and average final salary. These plans and their benefits are described in greater detail in Post-Employment Compensation Pension Benefits.

Perquisites and Other Compensation. To facilitate the performance of their management responsibilities, AIG provides some employees with automobile allowances, parking, legal services, financial and tax planning and other benefits categorized as perquisites or other compensation under the SEC rules.

The Special Master generally limited the amount of perquisites and other compensation for employees in the Top 100 to $25,000 per year. In addition, all payments of tax gross-ups to these employees have been prohibited, except in connection with expatriate arrangements.

In addition, since September 2009, AIG has maintained a Luxury Expenditure Policy, which summarizes existing relevant underlying policies and guidelines that address corporate expenditures, including entertainment and events, office and facility renovations, aviation and other transportation services and other similar items, activities and events. The policy is intended to help ensure that AIG s expenses are reasonable and appropriate. A copy of the policy may be obtained from the Corporate Governance section of AIG s corporate website at *www.aig.com*.

Termination Benefits and Policies. Under the TARP Standards, none of the named executives may receive severance or other benefits as a result of termination or a change in control during 2012, and none could have received such benefits in 2011. If any of the named executives becomes no longer subject to this restriction in future years, they may be eligible for benefits upon termination under AIG s Executive Severance Plan (ESP), except for Mr. Benmosche, who does not participate in the ESP. However, benefits under the ESP could not be increased under any of the 2010 or 2011 compensation structures for the named executives or under the 2009 compensation structure for Messrs. Herzog, Dooley and Wintrob.

The ESP generally extends to senior managers who participated in AIG s historical Partners Plan, although Mr. Hancock s eligibility is specified in his employment agreement. The ESP provides for severance payments and benefits if terminated by AIG without Cause or if a qualifying executive terminates for Good Reason.

In the event of a qualifying termination, but subject to the restrictions described above in the case of the named executives, a participant is eligible to receive an annual amount equal to the sum of salary, all quarterly bonuses and three-year-average performance-based annual incentives for a severance period of up to two years

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that is based on the executive s seniority or length of service. Unvested long-term awards (other than TARP RSUs) continue to vest during the severance period but generally will be forfeited if still unvested at the end of such period.

Committee Compensation Decisions for 2011

Total Direct Compensation Opportunity. AIG based its 2011 compensation proposals largely on the 2010 structures determined by the Special Master for Top 25 and Top 26-100 employees. For Mr. Benmosche, AIG proposed the same total opportunity of $10.5 million as set forth in his August 16, 2009 letter agreement with AIG and approved by the Special Master in 2009. AIG believed that this level was appropriate and significantly less than actual historic compensation of Chief Executive Officers at AIG and at other large insurance companies and Mr. Benmosche s total compensation at his prior employer. Because Mr. Benmosche stated he may retire before the end of the minimum two-year vesting period required by regulation for any TARP RSUs he would have earned for 2011, the Special Master revised Mr. Benmosche s compensation structure at the Committee s request to substitute Stock Salary for the prior TARP RSU target incentive. A similar request was made for Mr. Dooley. The Special Master approved the amounts payable for 2011 as proposed by AIG.

AIG had several discussions with the Special Master regarding the appropriate total opportunity for each Top 25 employee. These discussions focused on three major factors: the amount of total direct compensation, the appropriate allocation between cash and non-cash compensation components and the form and transferability of the non-cash components. The Special Master determined total compensation opportunities of $6,300,000, $6,000,000, $7,000,000 and $7,000,000 for Messrs. Herzog, Dooley, Hancock and Wintrob, respectively. These compensation levels were in line with AIG s proposals, although in certain cases, the Special Master determined that a portion of the compensation should be reallocated from the proposed Stock Salary level to TARP RSUs.

Cash Salary. For 2011, the Special Master maintained the salaries for Messrs. Herzog, Dooley and Wintrob at their 2010 levels of $495,000, $450,000 and $495,000, respectively. These cash salaries were in line with AIG s proposal, although they remain substantially less than the salary levels for these individuals in effect prior to the involvement of the Special Master in AIG s compensation process.

The Special Master increased Mr. Hancock s annualized cash salary rate from $1,500,000 to $1,800,000 for 2011 pursuant to Mr. Hancock s letter agreement, which provides for an alternative structure upon his entrance into the Top 25. This level was deemed appropriate in light of Mr. Hancock s significant role in AIG s de-risking and restructuring plans, which was augmented by his appointment as Chief Executive Officer of Chartis in March 2011.

Stock Salary. For Mr. Benmosche, the Special Master approved a Stock Salary level of $7,500,000. This level was proposed by AIG in light of Mr. Benmosche s potential retirement prior to the minimum two-year vesting period required by regulation for any TARP RSUs.

For Messrs. Herzog, Dooley and Wintrob, the Special Master determined the amount of their total opportunity that was to be in the form of Stock Salary and also established the related transfer restrictions.

For Mr. Hancock, the amount of his Stock Salary was determined pursuant to his letter agreement and reflects transfer restrictions identical to those imposed by the Special Master s determination for Top 25 employees.

Incentive Awards. As noted above, neither Mr. Benmosche nor Mr. Dooley received an incentive award opportunity for 2011. For Messrs. Herzog, Hancock and Wintrob, the Special Master required that incentive awards take the form of TARP RSUs granted based on achievement of objective performance metrics. The performance metrics, and associated weights, for these named executives were established in April and July 2011 and reviewed favorably by the Office of the Special Master. The metrics were established across four categories financial, strategic, operational and organizational and were selected to reflect objectives key to the successful completion of AIG s restructuring, improvement of core businesses and delivery of long-term growth.

For Mr. Herzog, Chief Financial Officer of AIG, performance criteria were based on business-wide financial and fiscal management measures. These metrics included:

Metric	*Significant Achievements*
Financial (30%)	
Maintain adequate capital and contingent capital positions at AIG parent and achieve subsidiary distribution targets for SunAmerica and Chartis. Install all capital maintenance agreements (CMAs) (15%)	Increased cash and contingent liquidity to $9.5 billion and $4.2 billion, including through a new $4.5 billion bank facility and new $500 million contingent capital facility, meeting all Enterprise Risk Management stress tests.
	Successfully completed $2 billion senior debt refinancing and the exchange of $2.4 billion outstanding junior subordinated debentures for new senior unsecured notes.
	Achieved 2011 subsidiary distribution targets for SunAmerica and Chartis.
	Put in place all major CMAs.
Develop strategies to realize AIG s deferred tax assets over time with respect to the net operating loss (NOL), foreign tax credit (FTC), and non-life capital loss (CLCF) carryforwards and a majority of the life capital loss carryforwards (10%)	Identified and began executing strategies to realize deferred tax assets, including through sales of securities, securities lending transactions and other strategies (however, a full valuation allowance remains on the portion of the deferred tax assets related to life capital loss carryforwards).
Implement strategies to reduce general operating expenses (5%)	Developed plan to achieve targeted savings in finance function by 2015.
	Significantly reduced external auditor fees and employee headcount as appropriate.
Strategic (35%)	
Re-access equity capital markets; rebuild Investor Relations function (10%)	Re-accessed equity capital markets through $8.7 billion AIG Common Stock offering.
	Rebuilt Investor Relations function by recruiting the new head of Investor Relations and internal transfers.
Enterprise Finance Transformation: Commence execution of finance operating and data model; develop target savings and roadmap; complete all milestones (15%)	Established finance transformation infrastructure, including hiring experienced transformation experts, and determined target operating and data model with plan for execution.

	Completed initial phase of transformation of data systems for consolidation, tax and disbursements.
	General insurance finance transformation release was delayed but was successfully released in the first quarter of 2012.
Advance legal entity rationalization project and implement solution to mitigate impact of Regulation XXX (Valuation of Life Insurance Policies) at SunAmerica (5%)	Successfully initiated SunAmerica legal entity consolidation with merger of NY-domiciled life companies.
	Completed and implemented Regulation XXX solution.
Build out corporate actuarial function, including through incorporation of intrinsic value measurement into enterprise finance transformation (5%)	Adopted Value of New Business (VoNB) intrinsic value metric for SunAmerica s long term business plan.
	Developed and commenced implementation of target operating model (including business unit participation) for peer reserve reviews.

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	Commenced project to identify structural drivers of insurance losses for use in developing effective and targeted actions around claims, risk selection and pricing, reserving and reinsurance.
	Implemented pricing reviews of SunAmerica products to ensure that pricing is reflective of all options and guarantees.
Operational (25%)	
Complete Recapitalization and Nan Shan and Star/Edison sale transactions (5%)	All transactions completed.
Continue to improve the quality of management information systems and the effectiveness of the quarterly financial close process (10%)	Completed initial phase of transformation of data systems for consolidation, tax and disbursements.
	Recruited new head of Financial Planning and Analysis.
Support and promote robust compliance framework within the organization which complements and support overall AIG compliance framework (10%)	Promoted ethical integrity by setting the tone at the top and fully supporting compliance framework.
Organizational (10%)	
Fill key leadership roles and review functional management talent with a view towards diversity (5%)	Filled significant number of senior positions with both external and internal candidates, including Treasurer, Deputy CFO, head of Investor Relations, head of Financial Planning & Analysis and head of Strategic Planning.
Support staff development, feedback and career path and skills development initiatives (5%)	Substantially increased communication in finance function, including developing an intranet site and holding regular Town Hall meetings as well as meetings with mid-level high performers.
	Implemented variety of development initiatives; sponsored AIG Corporate Finance women s organization.

Mr. Hancock served as Executive Vice President, Finance, Risk and Investments for the first quarter of 2011 and as Chief Executive Officer of Chartis for the remainder of 2011. In July 2011, Mr. Hancock s performance metrics were revised to reflect his new role and related to the performance of Chartis. These metrics included:

Metric	*Significant Achievements*
Financial (40%)	
Contribute to successful sale of AIG equity, and continue to communicate AIG/Chartis value proposition and strategic direction to investors and equity analysts (25%)	Participated in investor/equity analyst meetings since AIG s May 2011 equity offering, emphasizing Chartis focus on four strategic pillars: business mix shift, loss ratio improvement, expense discipline and risk selection.

Communicated AIG/Chartis strategic vision to all four rating agencies, brokers, clients and regulators worldwide.

Improve 2011 return on equity (ROE) (15%)	Slight decline in 2011 ROE compared to 2010 ROE. Strategic asset allocation strategies introduced in 2011 reduced net investment income but were designed to result in a better aligned risk profile of Chartis investment portfolio to current risk appetite. Targeted investments in people and initiatives increased expenses but were intended to improve Chartis risk-adjusted profitability (RAP) over the next five years. Met target distribution payments to AIG, despite record catastrophe losses, and made progress in shifting its strategic business mix toward the higher value lines of consumer and international business.
Strategic (15%)	
Assess business line profitability within Chartis; identify ROE growth opportunities for long-term plan; provide strategic direction for United Guaranty Corporation (UGC)	Evaluated several businesses to exit or re-engineer based on profitability metrics, implemented remediation efforts in certain casualty lines and determined to cease underwriting excess workers compensation business as a stand-alone product.
	Expanded Chartis presence in a number of growth economy nations to more effectively leverage underwriting and product best practices to enhance customer and channel management.
	Provided support and strategic direction to UGC, which achieved top market share among mortgage insurers in 2011 while writing new policies at a high expected ROE.
Operational (25%)	
Implement risk-adjusted profitability (RAP) measures within Chartis and achieve meaningful progress in development of predictive modeling/technical pricing tools (15%)	Fully operationalized and incorporated RAP metric into 2012 budget and Chartis five-year plan.
	Initiated project to enhance Chartis understanding of key structural drivers of insurance losses and enable Chartis to embed a structural driver approach into its business and financial processes.
	Launched an extensive analysis of workers compensation data to improve predictive modeling and future loss mitigation techniques.
	Supported expansion of the scope of third party actuarial reviews, which were conducted in the second, third and fourth quarters rather than concentrated in the fourth quarter.

Drove the use of predictive modeling in both consumer and certain commercial businesses to support risk selection and pricing.

Launched a strategic transformation program to develop the future state underwriting process for key lines, including recruiting new hires for Chief Underwriting Officer and Chief Science Officer to oversee underwriting governance and progress in improving risk selection.

Support and promote a robust compliance framework which complements and supports the overall AIG compliance framework (10%)	Enhanced and expanded control framework and compliance function, including in connection with expected Federal Reserve regulation.
Organizational (20%)	
Develop and announce a new global organizational structure that improves the strategic alignment of Chartis; expand diversity and inclusion, including employee engagement, across Chartis	Designed and implemented business and functional management teams for Chartis new global organizational structure, including recruiting key hires.
	Guided several new human resources initiatives for employee development and implemented a diverse slate process for recruiting efforts.
	Enhanced employee communication efforts through staff meetings, Town Halls and Global Leaders Forum.

For Mr. Wintrob, President and Chief Executive Officer of SunAmerica, performance metrics related to the performance of SunAmerica. These metrics included:

Metric	*Significant Achievements*
Financial (40%)	
Achieve business goals with respect to premiums, deposits and other consideration (7.5% of metric); total life sales (7.5% of metric); operating income (30% of metric); expenses (12.5% of metric); return on equity (15% of metric); distributions to AIG (12.5% of metric), and VoNB (15.0% of metric):	
Premiums, deposits and other considerations: $19.846 billion	20% above target.
Total life sales, including group life sales reported through Group Life and Accident & Health Premiums: $350 million	16% below target.
Adjusted pre-tax operating income: $3.613 billion	12% below target.
General and administrative operating expenses: $1.275 billion	1% better than target.
Return on equity: 7.5%	13% below target.
Distributions to AIG: $1 billion	57% above target.
VoNB: $82 million	66% below target.
Strategic (30%)	
Broaden the footprint of American General Life and Accident Insurance Company by, among other things, achieving targets in areas of growth in the number of licensed agent weeks and improvement in agent sales productivity and retention	Licensed agent weeks were relatively flat compared to prior year, reflecting the implementation of various measures intended to improve the quality of the career field force; growth in agent sales productivity exceeded target; first-year sales agent retention exceeded target rate, but fourth-year sales agent retention was below target.
Achieve VALIC new large group acquisitions of $325 million	Achieved $190 million in new large group acquisitions; however, this represented an increase of $180 million compared to 2010 and pipeline of potential new cases was very strong.

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Achieving VoNB projections, in part by designing and introducing profitable new life and variable annuity products with living benefit products/features that continue to reduce risk and achieve requisite profitability and coverage ratios; drive and support efforts to assess and improve upon risk management/hedging of variable annuity living and death benefit guarantees, and to reduce volatility of reported earnings related to such guarantees	Although total VoNB goals were not met, they were met for the variable annuity, fixed annuity and mutual fund businesses. Also, notable progress to improve VoNB was made, as reflected by revised product design for variable annuity and life products (including repricing to reflect the current interest rate environment), development of innovative new product designs and further de-risking features, establishment of cost-efficient reinsurance and lowered minimum guaranteed credited interest rates for annuity contracts.
Increase market share of SunAmerica s variable annuity, mutual fund and life insurance businesses within the Advisor Group by 20%	Achieved above target for variable annuity and mutual fund businesses. Target for life insurance business was not met.
Achieve $25 million of AG Inheritance Life sales through Western National distribution	Achieved above target.
Expand the Sun America Affordable Housing Partners (SAAHP) dispositions team and achieve SAAHP targets for number of properties sold, sales proceeds and operating cash distributions on a same store basis	Achieved or exceeded all targets.
Successfully identify and collaborate on synergy opportunities between Chartis and American General group benefits businesses, including integrating platforms, product manufacturing capabilities and leveraging distribution capabilities	Completed joint evaluation of potential synergy opportunities. Developed an integration plan (including steps to integrate platforms, recruit management, develop product manufacturing capabilities and leverage distribution capabilities) that resulted in the launch of AIG Benefit Solutions in 2012.
Operational (15%)	
Support and promote a robust compliance framework within SunAmerica which complements and supports the overall AIG compliance framework	Launched several projects to anticipate and avoid regulatory risks, including complaint escalation and loss evaluation processes. Launched claims enhancement project to address changes in regulatory expectations and emerging regulatory and reputational risks relating to escheatment requirements and death claim processing.
Achieve successful consolidation of certain fixed annuity operations/customer service platforms, relocation of AG Life servicing and maintenance of customer service standards	Successfully completed consolidation of certain fixed annuity operations into a centralized platform with relocation of American General Life fixed annuity operations on schedule and on budget, while maintaining customer service standards.
Organizational (15%)	
Successfully manage key employee retention, morale and engagement	Employee retention rate achieved above target.
Develop and execute action plans to improve employee communications and development opportunities	Substantially improved employee communication and development opportunities, including through regular Town Hall meetings with management and employee educational sessions and cross-training programs.
Refine growth and development plans for potential internal successors to key management positions	Developed succession plans for key management positions for each of SunAmerica s major businesses.

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AIG does not have a formulaic level of performance necessary for an employee to earn a minimum or maximum payout under the incentive component. As described under Compensation Structure Direct Compensation Components 2011 Incentive Compensation Performance Determination, TARP RSUs were awarded to the named executives through the RPR process and achievement against goals was part of that process.

In light of the applicable TARP restrictions, the Committee made compensation determinations in December 2011 on the basis of preliminary individual scorecards and RPRs for Messrs. Herzog, Hancock and Wintrob. Final scorecards and RPRs were prepared during the first quarter of 2012, and the Committee reviewed any changes and confirmed the TARP RSU grants. Based on 2011 performance, Messrs. Herzog, Hancock and Wintrob each met the 75 percent minimum achievement threshold to be eligible for incentive payout at or above target and each earned an RPR of 3 or higher, qualifying each for payout at target. The Committee therefore determined to award incentive compensation at the target amounts to Messrs. Herzog, Hancock and Wintrob (whose awards cannot exceed the target amounts authorized by the Special Master).

Non-GAAP Financial Measures

Certain of the performance measurements used by AIG management are non-GAAP financial measures under SEC rules and regulations.

Chartis. Pre-tax operating income for 2011 is underwriting profit or loss excluding catastrophe losses in excess of the Annual Aggregate Loss amount and including net investment income but excluding net realized capital gains or losses. Underwriting profit or loss is derived by reducing net premiums earned by claims and claims adjustment expenses incurred and underwriting expenses. Return on equity (ROE) for 2011 is calculated based on pre-tax operating income, an assumed effective tax rate of 22.4 percent, and average Chartis shareholder s equity excluding Accumulated Other Comprehensive Income (Loss). For 2010, pre-tax operating income also excluded prior year development and gains from the Fuji bargain purchase and the sale of the Otemachi building. In addition, for 2010, the assumed effective tax rate was 17.6 percent

SunAmerica. Adjusted pre-tax operating income (loss) before net realized capital gains (losses), related deferred acquisition costs (DAC), value of business acquired and sales inducement asset (SIA) amortization and goodwill impairment charges is utilized to report results of operations. Adjusted pre-tax operating income (loss) is calculated by adjusting pre-tax operating income or loss to exclude the effect of alternative investment returns outside a range of 5 percent to 15 percent and certain income and charges deemed to be outside SunAmerica management s control. Premiums, deposits and other considerations (PDOC) is a non-GAAP financial measure which includes life insurance premiums, deposits on annuity contracts and mutual funds. Total life sales is calculated by adding the group life sales portion of Group Life and Accident & Health Premiums to Total Life sales. General and administrative operating expenses (one of two components of Other acquisition and insurance expenses) excludes restructuring charges, costs associated with the Long Term Incentive Plan and other general and administrative expenses. Other general and administrative expenses are excluded as they are deemed to be outside SunAmerica management s control. Return on equity (ROE) is calculated based on pre-tax operating income, an assumed tax rate of 35 percent, and average SunAmerica shareholders equity excluding Other Comprehensive Income (Loss) and certain affiliated investments. Value of new business (VoNB) is the present value, measured at point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period, less the cost of holding required capital in excess of regulatory reserves to support this business.

Process for Compensation Decisions

Role of the Committee. The Committee determines the compensation of AIG s Chief Executive Officer, and the Board approves or ratifies the amounts to be awarded to him. After considering the recommendation of AIG s Chief Executive Officer, the Committee also reviews and approves the compensation of other employees in the Top 25 and Top 26-100. As described above, decisions regarding the structure (and, for the Top 25, amount) of compensation for these employees was required to be approved by the Special Master.

The Committee also makes recommendations to the Board with respect to AIG s compensation programs for other key employees and oversees AIG s management development and succession planning programs.

Attendance at Committee meetings generally includes internal legal and human resources executives and their staff members (depending upon agenda items), outside counsel and the Committee s independent

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consultant; since October 2009, attendance also regularly includes representatives of the Department of the Treasury. Between September 2008 and January 14, 2011 (the date of the Recapitalization Closing), attendance regularly included representatives of the FRBNY and their advisors.

Consultants. To provide independent advice, the Committee has used the services of the Cook firm since 2005. A senior consultant of the Cook firm regularly attends the Committee s meetings and is instructed to provide independent, analytical and evaluative advice about AIG s compensation programs for senior executives, including views of how the program and proposals compare to market practices in financial services and general industry and to best practices. The Cook firm responds on a regular basis to questions from the Committee and the Committee s other advisors, providing its opinions with respect to the design and implementation of current or proposed compensation programs. The Cook firm also participated in the Committee meetings in which the compensation risk assessments were conducted and advised that the process was thorough and well designed. Neither the Cook firm nor any of its affiliates provide any other services to AIG or its management except with respect to director compensation.

In 2011, the Committee also considered materials prepared by Mercer and Johnson Associates related to various aspects of AIG s efforts to comply with the TARP Standards and the requirements of the Special Master. Mercer and Johnson Associates were engaged by AIG to assist management with this work. In particular, Johnson Associates prepared reports presenting market comparisons of total compensation levels for employees in the Top 25 and select positions within the Top 26-100. These reports were provided to the Special Master and considered by the Committee in its compensation decisions. Neither Mercer nor Johnson Associates representatives attended the Committee s meetings.

Consideration of Competitive Compensation Levels. Since 2009, based on the direction of the staff of the Office of the Special Master, the Committee has considered information based on a wider range of peer companies than the Committee had used in prior years. In 2011, the Committee considered information from data disclosed in surveys, proxy statements and employment contracts from a number of peer companies (Broad Data), as well as proprietary Johnson Associates data.

The companies used in the Broad Data set were: Aetna, Inc., AFLAC, The Allstate Corporation, American Express Company, Ameriprise Financial, Inc., Bank of America Corporation, Bank of New York Mellon, BlackRock, Inc., Capital One Financial Corp., CIGNA Corporation, Citigroup Inc., Chubb Group, Hartford Financial Services, Invesco Ltd., JP Morgan Chase & Co., Lincoln National Corporation, Marsh & McLennan Companies, Inc., MetLife Inc., Principal Financial Group, Inc., Prudential Financial Inc., T. Rowe Price Group, Inc., The Travelers Companies Inc., U.S. Bancorp and Wells Fargo & Company.

Consultations with Stakeholders. AIG s compensation decisions in 2011 were guided by discussions with a number of outside stakeholders. AIG spoke frequently with the Special Master both while formulating its proposals and while implementing the Special Master s decisions. AIG also consulted with the Department of the Treasury regarding certain compensation matters.

Consideration of Prior Years Compensation. When deciding on appropriate amounts and/or structures of compensation to approve, the Special Master is permitted to take into account prior years compensation, including legally binding rights under valid employment contracts that are not themselves subject to review by the Special Master. The Special Master was provided with information on prior years compensation, and indicated that the information was considered when making decisions.

Consideration of Risk Management. As required by the TARP Standards, the Committee reviewed the compensation arrangements of AIG s employees, including the named executives, with AIG s senior risk officer at least every six months. For further discussion of the risk review process, see the Report of the Compensation and Management Resources Committee.

Other Considerations

Other Treasury Limits. AIG s Master Transaction Agreement with the Department of the Treasury, dated December 8, 2010, places additional compensation limits on the 2011 compensation of AIG employees, including Messrs. Herzog, Dooley, Hancock and Wintrob. These limits included limiting the 2011 annual bonuses and cash performance awards paid to executive officers and Senior Partners to the aggregate adjusted net income for 2011 of AIG s insurance company subsidiaries included in AIG s 2011 consolidated financial statements (excluding certain amounts distributed to AIG in the form of dividends and other distributions). Each of Messrs. Herzog, Dooley and Wintrob is a Senior Partner. The compensation for AIG s named executives was designed to comply with these limits.

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***Aggregate Limit on Incentives*.** As part of the approved compensation structure for the Top 26-100, the Special Master limited total incentives for that group to a percentage of AIG s earnings determined by the Committee. Based on an assessment of historic and current incentive levels and a range of performance scenarios, the Committee limited total incentives for the Top 26-100 to five percent of AIG s eligible earnings (defined as the aggregate adjusted net income from AIG s insurance company subsidiaries included in AIG s consolidated financial statements), an increase from the three percent limit used for 2010. The Committee determined that this increase was appropriate because the number of employees subject to the limit remained consistent while the aggregate adjusted net income pool from which to pay them was measurably decreased due to certain divested businesses no longer being part of the measurement. The aggregate actual incentive compensation awarded to all members of the Top 26-100 for 2011 did not exceed the limit.

***Deductibility of Executive Compensation*.** As a participant in TARP, AIG is subject to Section 162(m)(5) of the Internal Revenue Code of 1986, as amended, which limits AIG s ability to take a federal income tax deduction for compensation paid to the named executives. Section 162(m)(5) generally lowers the cap on the deductibility of compensation paid to these individuals from $1,000,000 to $500,000 per year and removes the exemption for compensation determined to be performance-based under applicable tax regulations. As a result of these limitations, deductibility was not taken into account in making compensation decisions.

***Share Ownership Guidelines and No-Hedging Policy*.** AIG s share ownership 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, which includes the remaining named executives. Until the guidelines are met, such employees 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 restricted stock units granted by AIG. Shares held for purposes of the guidelines include stock owned outright by the officer or his or her spouse, stock salary that has vested but not yet been delivered and earned but unvested share-based awards. The guidelines apply to AIG s senior vice presidents or above and to AIG s 100 most highly compensated employees not already covered.

AIG s Code of Conduct prohibits employees from engaging in any hedging transactions with respect to any of AIG s securities including trading in any derivative security relating to AIG s securities.

***Adjustment and Recovery of Awards*.** Both the Partners Plan and the Senior Partners Plan provide that the Committee can adjust outstanding awards for any restatement of financial results and specifically note 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.

Additionally, as noted above, the incentive compensation paid to each of the named executives will be subject to clawback by AIG if it is based on materially inaccurate financial statements or any other materially inaccurate performance metrics or if the named executive is terminated for misconduct that occurred during the period in which the incentive compensation was earned.

Conclusion

During 2011, our employees completed AIG s Recapitalization, closed over $15 billion in divestitures of operations and securities, strengthened AIG s liquidity, re-accessed the capital markets and reinvigorated AIG s core businesses, all while responding professionally and personally to a year of unprecedented natural disasters. To the limited extent permitted by applicable law, AIG believes that its compensation framework appropriately recognized these extraordinary accomplishments. The Committee intends to build on this momentum in 2012, incentivizing the creation of shareholder value while remaining focused on the highest standards of risk management.

2011 COMPENSATION

Summary Compensation Table

The following tables contain information with respect to AIG s named executives. As required by SEC rules, AIG s named executives include the Chief Executive Officer, Chief Financial Officer and the three other most highly paid executive officers.

The presentation below differs substantially from the manner in which AIG and the Special Master administered the compensation of AIG s named executives. In particular, for Mr. Benmosche, amounts for 2011

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include a $3,499,985 equity incentive award for 2010 performance. Mr. Benmosche was not eligible to earn any incentive awards, including equity incentive awards, for 2011 performance.

Please see Compensation Discussion and Analysis for detail regarding the manner in which the compensation of the named executives was administered.

2011 Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Stock Awards(1)	Non-Equity Incentive Plan Compensation(2)	Change in Pension Value(3)	All Other Compensation(4)	Total
Robert H. Benmosche	2011	$ 3,000,000	$ 0	$ 10,932,677	$ 0	$ 28,576	$ 22,928	$ 13,984,181
Chief Executive Officer	2010	$ 3,000,000	$ 0	$ 5,380,802	$ 0	$ 18,467	$ 25,000	$ 8,424,269
	2009	$ 1,153,964	$ 0	$ 1,538,402	$ 0	$ 0	$ 14,164	$ 2,706,530
David L. Herzog	2011	$ 495,000	$ 0	$ 5,804,999	$ 0	$ 174,075	$ 21,775	$ 6,495,849
Executive Vice President	2010	$ 492,769	$ 1,000,000	$ 5,656,588	$ 0	$ 112,279	$ 10,408	$ 7,272,044
	2009	$ 625,000	$ 1,500,000	$ 3,937,470	$ 0	$ 78,488	$ 5,876	$ 6,146,834
and Chief Financial Officer								
William N. Dooley Executive Vice President Investments and Financial Services	2011	$ 450,000	$ 0	$ 5,550,000	$ 0	$ 602,981	$ 39,642	$ 6,642,623
Peter D. Hancock**(5)**	2011	$ 1,794,231	$ 0	$ 5,199,990	$ 0	$ 28,475	$ 11,942	$ 7,034,638
Executive Vice President General Insurance	2010	$ 1,326,923	$ 0	$ 5,464,938	$ 1,080,000	$ 0	$ 212,256	$ 8,084,117
Jay S. Wintrob	2011	$ 495,000	$ 0	$ 6,504,993	$ 0	$ 276,420	$ 60,466	$ 7,336,879
Executive Vice President Domestic Life and Retirement Services	2010	$ 493,154	$ 1,200,000	$ 6,479,016	$ 0	$ 165,580	$ 41,683	$ 8,379,433

Footnotes to 2011 Summary Compensation Table

(1) *2011 Amounts*. For Mr. Benmosche, the amount represents the grant date fair value of Stock Salary paid during 2011 in AIG Common Stock and TARP RSUs awarded in March 2011 for 2010 performance, and includes $474 in cash paid in lieu of fractional shares. For Messrs. Herzog, Dooley, Hancock and Wintrob, the amounts represent the grant date fair value of Stock Salary paid during 2011 in RSUs and, except for Mr. Dooley, TARP RSUs awarded in December 2011 for 2011 performance.

Calculation. The amount shown for the awards granted by AIG was calculated using the assumptions described in Note 19 to the Consolidated Financial Statements included in AIG s 2011 Annual Report on Form 10-K (in the case of awards granted in 2011), Note 19 to the Consolidated Financial Statements included in AIG s 2010 Annual Report on Form 10-K (in the case of awards granted in 2010) and Note 18 to the Consolidated Financial Statements included in AIG s 2009 Annual Report on Form 10-K (in the case of awards granted in 2009).

(2) None of the named executives were eligible under the TARP Standards to receive any 2011 cash incentive pay. The amount shown for Mr. Hancock in 2010 represents 2010 year-end variable cash incentive pay. As a member of the Top 26-100 for 2010, Mr. Hancock received a 2010 Variable Cash Incentive award of $2,160,000 based on his performance against objective metrics reviewed favorably by the Office of the Special Master. In light of the restrictions applicable to Mr. Hancock because he was expected to enter the Top 25 for 2011, half of the Variable Cash Incentive ($1,080,000) was paid in cash in December 2010, whereas the remaining half was paid in the form of immediately vested restricted stock not transferrable until the first quarter of 2012 and is included in the Stock Awards column for 2010.

(3) The amounts in this column do not represent amounts that were paid to the named executives. Rather, the amounts represent the total change of the actuarial present value of the accumulated benefit under AIG s defined benefit (pension) plans, including the Qualified Retirement Plan, the Non-Qualified Retirement Plan and the SERP and/or the American General Corporation Supplemental Executive Retirement Plan, as applicable. These plans are described in Post-Employment Compensation Pension Benefits. (For Mr. Herzog, the amounts previously

reported in AIG s 2010 Proxy Statement were overstated by small amounts as the three-year average earnings used for that proxy calculation included three years of base salary paid though October 31, 2009. The calculation should have been based upon three years of base salary paid through October 22, 2009 to reflect the date his nonqualified pension benefits were frozen.)

Mr. Hancock became a participant in the Qualified Retirement Plan effective March 1, 2011, after he completed one year of service with AIG, with service credited retroactive to September 1, 2010.

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Pursuant to the Determination Memoranda issued by the Office of the Special Master on October 22, 2009, December 11, 2009, March 23, 2010, April 16, 2010, April 1, 2011 and April 8, 2011 (the Memoranda), there is a freeze on future benefit accruals with regard to the benefits provided under the Non-Qualified Retirement Plan and the SERP. The Memoranda require AIG to cease any future benefit accruals for executives while they are among AIG s 100 most highly compensated employees. Benefit accruals in these plans ceased on October 22, 2009 for Messrs. Benmosche, Herzog and Wintrob and on December 11, 2009 for Mr. Dooley. Mr. Hancock commenced employment after the freeze date and therefore did not accrue any benefits in these plans.

(4) *Perquisites.* This column includes the incremental costs of perquisites and benefits. The following table details the incremental cost to AIG of perquisites received by each named executive.

Perquisites and Benefits

Name	Personal Use of Car Service/Car Allowance/Parking(a)	Financial, Tax and Legal Planning(b)	Personal Use of Club Memberships and Recreational Opportunities	Total
Robert H. Benmosche	$ 22,318	$ 0	$ 0	$ 22,318
David L. Herzog	$ 7,509	$ 0	$ 0	$ 7,509
William N. Dooley	$ 980	$ 16,283	$ 4,290	$ 21,553
Peter D. Hancock	$ 6,103	$ 0	$ 0	$ 6,103
Jay S. Wintrob	$ 10,985	$ 10,000	$ 0	$ 20,985

(a) For Mr. Benmosche, who was provided with a dedicated car and driver, car use reflects the incremental cost of driver overtime compensation, fuel and maintenance attributable to personal use. Although this benefit was provided to enhance the security and efficient travel of Mr. Benmosche, SEC rules require that costs of commuting and other uses not directly and integrally related to business be disclosed as compensation to the executive. For the other named executives, the incremental cost for car-related perquisites represents AIG s direct expenditures.

(b) Incremental costs related to financial, tax and legal planning represent AIG s direct expenditures.

Other Benefits. This column also includes life insurance premiums paid for the benefit of the named executives. All named executives are covered under the AIG Basic Group Life Insurance Plan. For group life insurance, the 2011 company-paid costs were: Benmosche $610; Herzog $939; Dooley $939; Hancock $939; and Wintrob $939.

This column also includes matching contributions by AIG under its 401(k) plan. These matching contributions include the following amounts in 2011: Benmosche $0; Herzog $13,327; Dooley $17,150; Hancock $4,900; and Wintrob $17,150. See Post-Employment Compensation Nonqualified Deferred Compensation for additional details.

For Mr. Wintrob, this column includes special tax distributions of $21,392 in 2011 related to his investment in an employee co-investment fund, SunAmerica Venture Fund 2000, L.P.

(5) Mr. Hancock served as Executive Vice President Finance, Risk and Investments until his appointment as Chief Executive Officer of Chartis in March 2011.

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 ended September 22, 2011 was approximately $51 million, and for the year ending September 22, 2012 was approximately $34 million. In addition, AIG purchased coverage in 2008 that will be in effect until 2014 and will allow

AIG and its subsidiaries to report claims that relate to director and officer conduct during the period from May 24, 2005 to September 22, 2008, at a total cost of approximately $75 million.

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2011 Grants of Plan-Based Awards

Total 2011 Grants**.** The following table details all equity and non-equity plan-based awards granted to each of the named executives in 2011.

2011 Grants of Plan-Based Awards

ll Other Option Awards

In 2018, $0.3 million of amortizable intangible assets became fully amortized and have been eliminated from the gross carrying amo

Aggregate intangible asset amortization expense was $11.1 million and $28.6 million, respectively, for the three and nine months ended September 30, 2018 and $7.0 million and $23.1 million, respectively, for the three and nine months ended October 1, 2017.

Estimated intangible asset amortization expense for each of the five succeeding fiscal years is as follows:

Year	**Amortization Expense (in thousands)**
2018 (remainder)	10,731
2019	39,610
2020	24,928
2021	14,343
2022	13,450
Thereafter	36,901

N. NET INCOME PER COMMON SHARE

The following table sets forth the computation of basic and diluted net income per common share:

	For the Three Months Ended		**For the Nine Months Ended**	
	September 30, 2018	**October 1, 2017**	**September 30, 2018**	**October 1, 2017**
	(in thousands, except per share amounts)			
Net income for basic and diluted net income per share	$ 119,981	$ 103,420	$ 307,991	$ 363,616
Weighted average common shares-basic	185,744	197,485	190,576	198,755
Effect of dilutive potential common shares:				
Incremental shares from assumed conversion of convertible notes (1)	3,025	1,144	3,356	632
Convertible note hedge warrant shares (2)	108		646	
Restricted stock units	1,331	1,832	1,406	1,663
Stock options	275	306	290	337
Employee stock purchase plan	22	8	26	26
Dilutive potential common shares	4,761	3,290	5,724	2,658
Weighted average common shares-diluted	190,505	200,775	196,300	201,413
Net income per common share-basic	$ 0.65	$ 0.52	$ 1.62	$ 1.83
Net income per common share-diluted	$ 0.63	$ 0.52	$ 1.57	$ 1.81

(1) Incremental shares from assumed conversion of the convertible notes was calculated using the difference between the average Teradyne stock price for the period and the conversion price of $31.80, multiplied by 14.5 million shares. The result of this calculation, representing the total intrinsic value of the convertible

debt, was divided by the average Teradyne stock price for the period.

(2) Convertible notes hedge warrant shares were calculated using the difference between the average Teradyne stock price for the period and the warrant price of $39.91, multiplied by 14.5 million shares. The result of this calculation, representing the total intrinsic value of the warrant, was divided by the average Teradyne stock price for the period.

The computation of diluted net income per common share for the three and nine months ended September 30, 2018 excludes the effect of the potential vesting of 0.5 million of restricted stock units because the effect would have been anti-dilutive.

The computation of diluted net income per common share for the three and nine months ended October 1, 2017 excludes the effect of the potential exercise of stock options to purchase approximately 0.1 million shares because the effect would have been anti-dilutive.

O. RESTRUCTURING AND OTHER

During the three months ended September 30, 2018, Teradyne recorded $1.7 million for employee severance charges, primarily in Semiconductor Test, and $0.8 million of acquisition related compensation, partially offset by a $0.8 million gain for the decrease in the fair value of the Universal Robots contingent consideration liability.

During the nine months ended September 30, 2018, Teradyne recorded $7.9 million for employee severance charges, primarily in Semiconductor Test, and $4.1 million for acquisition related expenses and compensation, partially offset by a $9.2 million gain for the decrease in the fair value of the Universal Robots contingent consideration liability.

During the three months ended October 1, 2017, Teradyne recorded $5.1 million of property insurance recovery related to the Japan earthquake, a $0.4 million credit related to a previously impaired lease termination of a Wireless Test facility in Sunnyvale, CA, which was terminated in September 2017, and a $0.3 million credit for the decrease in the fair value of the Universal Robots contingent consideration liability, partially offset by $0.8 million of Japan earthquake related expenses and $0.6 million recorded for employee severance charges, primarily in Semiconductor Test.

During the nine months ended October 1, 2017, Teradyne recorded $2.0 million for employee severance charges, primarily in Industrial Automation and Corporate, $1.8 million for the increase in the fair value of the Universal Robots contingent consideration liability, $0.9 million for a lease impairment of a Wireless Test facility in Sunnyvale, CA, which was terminated in September 2017, and $0.8 million of Japan earthquake related expenses, partially offset by $5.1 million of property insurance recovery related to the Japan earthquake.

P. RETIREMENT PLANS

ASC 715, *Compensation Retirement Benefits* requires an employer with a defined benefit plan or other postretirement benefit plan to recognize an asset or a liability on its balance sheet for the overfunded or underfunded status of the plan. The pension asset or liability represents a difference between the fair value of the pension plan s assets and the projected benefit obligation.

Defined Benefit Pension Plans

Teradyne has defined benefit pension plans covering a portion of domestic employees and employees of certain non-U.S. subsidiaries. Benefits under these plans are based on employees years of service and compensation. Teradyne s funding policy is to make contributions to these plans in accordance with local laws and to the extent that such contributions are tax deductible. The assets of the U.S. qualified pension plan consist primarily of fixed income and equity securities. In addition, Teradyne has unfunded qualified foreign plans as well as an unfunded supplemental executive defined benefit plan in the United States to provide retirement benefits in excess of levels allowed by the Employment Retirement Income Security Act (ERISA) and the Internal Revenue Code (IRC).

During the nine months ended September 30, 2018, Teradyne purchased a group annuity contract for its retiree participants in the U.S. qualified pension plan. Under the group annuity, the accrued pension obligations

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for approximately 1,700 retiree participants were transferred to an insurance company. The reduction in the pension benefit obligation and pension assets was $151.3 million. During the three and nine months ended September 30, 2018, Teradyne recorded a settlement loss of $0.3 million related to the retiree group annuity transaction.

In the nine months ended September 30, 2018, Teradyne contributed $1.9 million to the U.S. supplemental executive defined benefit pension plan and $0.6 million to certain qualified pension plans for non-U.S. subsidiaries.

For the three and nine months ended September 30, 2018 and October 1, 2017, Teradyne s net periodic pension cost was comprised of the following:

	For the Three Months Ended			
	September 30, 2018		October 1, 2017	
	United States	Foreign	United States	Foreign
	(in thousands)			
Service cost	$ 538	$ 203	$ 560	$ 215
Interest cost	1,750	177	3,288	186
Expected return on plan assets	(1,551)	(5)	(3,002)	(6)
Amortization of prior service cost	14		18	
Settlement loss	267			
Total net periodic pension cost	$ 1,018	$ 375	$ 864	$ 395

	For the Nine Months Ended			
	September 30, 2018		October 1, 2017	
	United States	Foreign	United States	Foreign
	(in thousands)			
Service cost	$ 1,657	$ 609	$ 1,679	$ 606
Interest cost	7,188	532	9,863	527
Expected return on plan assets	(7,484)	(15)	(9,006)	(19)
Amortization of prior service cost	43		53	
Net actuarial gain	(189)		(2,732)	243
Settlement loss	345			
Total net periodic pension cost (benefit)	$ 1,560	$ 1,126	$ (143)	$ 1,357

Postretirement Benefit Plan

In addition to receiving pension benefits, Teradyne employees in the United States who meet early retirement eligibility requirements as of their termination dates may participate in Teradyne s Welfare Plan, which includes medical and dental benefits up to age 65. Death benefits provide a fixed sum to retirees survivors and are available to all retirees. Substantially all of Teradyne s current U.S. employees could become eligible for these benefits, and the existing benefit obligation relates primarily to those employees.

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For the three and nine months ended September 30, 2018 and October 1, 2017, Teradyne s net periodic postretirement benefit cost (income) was comprised of the following:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(in thousands)			
Service cost	$ 10	$ 8	$ 29	$ 25
Interest cost	49	50	147	151
Amortization of prior service credit	(93)	(124)	(280)	(372)
Net actuarial loss (gain)			40	(15)
Special termination benefits	601		3,419	
Total net periodic postretirement benefit cost (income)	$ 567	$ (66)	$ 3,355	$ (211)

Q. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

As of September 30, 2018, Teradyne had entered into purchase commitments for certain components and materials. The purchase commitments covered by the agreements aggregate to approximately $275.6 million, of which $263.3 million is for less than one year.

Legal Claims

Teradyne is subject to various legal proceedings and claims which have arisen in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on Teradyne s results of operations, financial condition or cash flows.

R. INCOME TAXES

The effective tax rate for the three months ended September 30, 2018 and October 1, 2017 was 14.8% and 18.8%, respectively. The effective tax rate for the nine months ended September 30, 2018 and October 1, 2017 was 13.6% and 14.7%, respectively.

The decrease in the effective tax rate from the three and nine months ended October 1, 2017 to the three and nine months ended September 30, 2018 primarily resulted from the benefit of the U.S. foreign derived intangible income deduction. The tax rate effect of a projected shift in the geographic distribution of income, which increases the income subject to taxation in the U.S. relative to lower tax rate jurisdictions, was substantially offset by the reduction in the U.S. corporate tax rate from 35% to 21%.

The effective tax rate for the three and nine months ended September 30, 2018 and October 1, 2017 was lower than the expected federal statutory rate primarily because of the favorable effect of statutory rates applicable to income earned outside the United States and the benefit from U.S. research and development tax credits, partially offset by

additions to the uncertain tax positions for transfer pricing. The effective rate for the three and nine months ended September 30, 2018 was also reduced by the benefit of the U.S. foreign derived intangible income deduction.

Discrete tax items recorded in the three and nine months ended September 30, 2018 amounted to $0.2 million of expense and $6.5 million of benefit, respectively. The $0.2 million of discrete tax expense recorded in the three months ended September 30, 2018 consisted of $1.1 million of expense related to non-taxable foreign exchange losses, partially offset by $0.5 million of benefit resulting from the resolution of an

audit and $0.4 million of other discrete tax benefit. The $6.5 million of discrete benefits recorded in the nine months ended September 30, 2018 consisted of $8.9 million of discrete tax benefit net of $2.4 million of discrete tax expense. The $8.9 million of discrete tax benefit was composed of $7.8 million from stock based compensation, $0.5 million resulting from the resolution of an audit and $0.6 million of other discrete tax benefit. The $2.4 million of discrete tax expense was composed of $1.7 million from the remeasurement of deferred tax assets as a result of reductions in tax rates and $0.7 million of other discrete tax expense.

Discrete tax items recorded in the three and nine months ended October 1, 2017 amounted to expense of $0.3 million and benefit of $6.1 million, respectively. The $0.3 million of discrete tax expense recorded in the three months ended October 1, 2017 was primarily composed of $0.8 million of expense related to non-taxable foreign exchange loss, partially offset by $0.2 million of benefit from reductions in tax reserves and $0.2 million of benefit from stock based compensation. The $6.1 million of discrete tax benefit recorded in the nine months ended October 1, 2017 was primarily composed of $6.7 million of benefit from stock-based compensation, $0.7 million of benefit related to U.S. research and development tax credits, and $0.5 million of benefit from reductions in tax reserves, partially offset by $1.1 million of expense related to non-taxable foreign exchange loss, and $1.0 million of tax expense related to actuarial gains.

On a quarterly basis, Teradyne evaluates the realizability of the deferred tax assets by jurisdiction and assesses the need for a valuation allowance. As of September 30, 2018, Teradyne believes that it will ultimately realize the deferred tax assets recorded on the condensed consolidated balance sheet. However, should Teradyne believe that it is more-likely-than-not that the deferred tax assets would not be realized, the tax provision would increase in the period in which Teradyne determined that the realizability was not likely. Teradyne considers the probability of future taxable income and historical profitability, among other factors, in assessing the realizability of the deferred tax assets.

As of September 30, 2018 and December 31, 2017, Teradyne had $38.6 million and $36.3 million, respectively, of reserves for uncertain tax positions. The $2.3 million net increase in reserves for uncertain tax positions is primarily composed of additions related to transfer pricing and U.S. research and development tax credits.

Teradyne is currently under examination by the U.S. Internal Revenue Service and the Inland Revenue Authority of Singapore. The timing of resolution and closure of these tax audits is highly unpredictable. Given the uncertainty, it is reasonably possible that the balance of unrecognized tax benefits could significantly change within the next twelve months. However, an estimate of the range of reasonably possible adjustments cannot presently be made.

Teradyne recognizes interest and penalties related to income tax matters in income tax expense. As of September 30, 2018 and December 31, 2017, $0.3 million and $0.3 million, respectively, of interest and penalties were accrued for uncertain tax positions. For the nine months ended September 30, 2018, an expense of $0.1 million was recorded for interest and penalties related to income tax items. For the nine months ended October 1, 2017, a benefit of $0.1 million was recorded for interest and penalties related to income tax items.

Teradyne qualifies for a tax holiday in Singapore by fulfilling the requirements of an agreement with the Singapore Economic Development Board under which certain headcount and spending requirements must be met. The tax savings due to the tax holiday for the nine months ended September 30, 2018 was $8.9 million, or $0.05 per diluted share. The tax savings due to the tax holiday for the nine months ended October 1, 2017 was $20.5 million, or $0.10 per diluted share. The tax holiday is scheduled to expire on December 31, 2020.

In the fourth quarter of 2017, Teradyne recorded a provisional amount of $186.0 million of additional income tax expense, which represents Teradyne s best estimate of the impact of the Tax Cuts and Jobs Act of 2017 (the Tax Reform Act) in accordance with Teradyne s understanding of the Tax Reform Act and guidance available at that time.

The $186.0 million is composed of expense of $161.0 million related to the one-time

transition tax on the mandatory deemed repatriation of foreign earnings, $33.6 million of expense related to the remeasurement of certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, a benefit of $10.3 million associated with the impact of correlative adjustments on uncertain tax positions, and $1.7 million of expense related to the remeasurement of certain uncertain tax positions resulting from the reduction in the federal tax rate. Although the provisional estimates are based on the best available interpretations of the Tax Reform Act, the final impacts may differ from the estimates due to, among other things, the issuance of additional regulatory and legislative guidance related to the Tax Reform Act. As of September 30, 2018, there has been no material change to the provisional amount recorded. Any adjustment to the provisional amounts will be recorded in 2018 when the analysis is complete.

S. SEGMENT INFORMATION

Teradyne has four reportable segments (Semiconductor Test, System Test, Industrial Automation and Wireless Test). Each of the Semiconductor Test, System Test, and Wireless Test segments is also an individual operating segment. The Industrial Automation reportable segment consists of operating segments with discrete financial information, which have been combined into one reportable segment as they share similar economic characteristics, types of products, production processes, distribution channels, and currency risks. The Semiconductor Test segment includes operations related to the design, manufacturing and marketing of semiconductor test products and services. The System Test segment includes operations related to the design, manufacturing and marketing of products and services for defense/aerospace instrumentation test, storage test and circuit-board test. The Industrial Automation segment includes operations related to the design, manufacturing and marketing of collaborative robotic arms, autonomous mobile robots and advanced robotic control software. The Wireless Test segment includes operations related to the design, manufacturing and marketing of wireless test products and services.

Teradyne evaluates performance based on several factors, of which the primary financial measure is business segment income (loss) before income taxes. The accounting policies of the business segments in effect are described in Note B: Accounting Policies in Teradyne s Annual Report on Form 10-K for the year ended December 31, 2017, and Note B: Accounting Policies in this filing for any changes in the three and nine months ended September 30, 2018.

Segment information for the three and nine months ended September 30, 2018 and October 1, 2017 is as follows:

	Semiconductor Test	Industrial Automation	System Test	Wireless Test	Corporate and Other	Consolidated
			(in thousands)			
Three Months Ended September 30, 2018						
Revenues	$ 417,297	$ 65,913	$ 49,606	$ 34,304	$ (272)	$ 566,848
Income (loss) before income taxes (1)(2)	126,638	940	9,056	7,843	(3,633)	140,844
Total assets (3)	709,616	617,741	83,160	79,986	1,391,984	2,882,487
Three Months Ended October 1, 2017						
Revenues	$ 396,881	$ 40,063	$ 35,569	$ 30,865	$	$ 503,378
Income (loss) before income taxes (1)(2)	116,836	3,373	(3,344)	7,461	3,111	127,437

Total assets (3)	598,925	508,943	100,083	61,206	1,820,170	3,089,327
Nine Months Ended September 30, 2018						
Revenues	$ 1,150,712	$ 176,803	$ 162,308	$ 92,023	$ (602)	$ 1,581,244
Income (loss) before income taxes (1)(2)	305,876	(1,198)	35,296	18,615	(1,914)	356,675
Total assets (3)	709,616	617,741	83,160	79,986	1,391,984	2,882,487
Nine Months Ended October 1, 2017						
Revenues	$ 1,345,560	$ 115,672	$ 112,147	$ 83,812	$	$ 1,657,191
Income (loss) before income taxes (1)(2)	426,081	(279)	(11,795)	13,508	(1,186)	426,329
Total assets (3)	598,925	508,943	100,083	61,206	1,820,170	3,089,327

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(1) Included in Corporate and Other are: contingent consideration adjustments, severance charges, interest income, interest expense, net foreign exchange gains (losses), intercompany eliminations and acquisition related charges.
(2) Included in the income (loss) before income taxes for each of the segments are charges and credits related to restructuring and other and inventory charges.
(3) Total business assets are directly attributable to each business. Corporate assets consist of cash and cash equivalents, marketable securities and certain other assets.

Included in the Semiconductor Test segment are charges in the following line items in the statements of operations:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(in thousands)			
Cost of revenues inventory charge	$ 2,071	$ 743	$ 5,851	$ 3,686
Restructuring and other employee severance	1,716	375	7,657	242

Included in the System Test segment are charges in the following line item in the statements of operations:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(in thousands)			
Cost of revenues inventory charge	$ 237	$ 251	$ 812	$ 1,609

Included in the Industrial Automation segment are charges in the following line items in the statements of operations:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(in thousands)			
Restructuring and other acquisition related expenses and compensation	$ 811	$	$ 811	$
Cost of revenues inventory charge	323	130	680	130
Restructuring and other employee severance		206	288	1,150

Included in the Wireless Test segment are charges and credits in the following line items in the statements of operations:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2018	**October 1, 2017**	**September 30, 2018**	**October 1, 2017**
	(in thousands)			
Cost of revenues inventory charge	$ 716	$ 735	$ 2,179	$ 1,729
Restructuring and other lease impairment		(393)		900

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Included in Corporate and Other are charges and credits in the following line items in the statements of operations:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(in thousands)			
Restructuring and other Universal Robots contingent consideration adjustment	$ (768)	$ (286)	$ (9,236)	$ 1,847
Restructuring and other acquisition related expenses			3,318	
Restructuring and other			872	
Restructuring and other property insurance recovery		(5,064)		(5,064)
Restructuring and other expenses related to Japan earthquake and impairment of fixed assets		755		755
Restructuring and other employee severance				530

T. SHAREHOLDERS EQUITY

Stock Repurchase Program

In January 2018, Teradyne s Board of Directors cancelled the December 2016 stock repurchase program and authorized a new stock repurchase program for up to $1.5 billion of common stock. Teradyne intends to repurchase $750 million in 2018. During the nine months ended September 30, 2018, Teradyne repurchased 13.8 million shares of common stock for $562.3 million at an average price of $40.62 per share.

In December 2016, the Board of Directors approved a $500 million share repurchase authorization which commenced on January 1, 2017. During the nine months ended October 1, 2017, Teradyne repurchased 4.6 million shares of common stock for $151.8 million at an average price of $32.66 per share.

The total price includes commissions and is recorded as a reduction to retained earnings.

Dividend

Holders of Teradyne s common stock are entitled to receive dividends when they are declared by Teradyne s Board of Directors.

In January 2018, May 2018 and August 2018, Teradyne s Board of Directors declared a quarterly cash dividend of $0.09 per share. Dividend payments for the three and nine months ended September 30, 2018 were $16.6 million and $51.3 million, respectively.

In January 2017, May 2017 and August 2017, Teradyne s Board of Directors declared a quarterly cash dividend of $0.07 per share. Dividend payments for the three and nine months ended October 1, 2017 were $13.8 million and

$41.7 million, respectively.

While Teradyne declared a quarterly cash dividend and authorized a share repurchase program, it may reduce or eliminate the cash dividend or share repurchase program in the future. Future cash dividends and stock repurchases are subject to the discretion of Teradyne s Board of Directors, which will consider, among other things, Teradyne s earnings, capital requirements and financial condition.

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Item 2: Management s Discussion and Analysis of Financial Condition and Results of Operations
Statements in this Quarterly Report on Form 10-Q which are not historical facts, so called forward-looking statements, are made pursuant to the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended. Investors are cautioned that all forward-looking statements involve risks and uncertainties, including those detailed in our filings with the Securities and Exchange Commission. See also Part II, Item 1A of this Quarterly Report on Form 10-Q and Part I, Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2017. Readers are cautioned not to place undue reliance on these forward-looking statements which reflect management s analysis only as of the date hereof. We assume no obligation to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting forward-looking statements, except as may be required by law.

Overview

We are a leading global supplier of automation equipment for test and industrial applications. We design, develop, manufacture and sell automatic test systems used to test semiconductors, wireless products, data storage and complex electronics systems in the consumer electronics, wireless, automotive, industrial, computing, communications, and aerospace and defense industries. Our industrial automation products include collaborative robotic arms, autonomous mobile robots and advanced robotic control software used by global manufacturing and light industrial customers to improve quality, increase manufacturing and material handling efficiency and decrease manufacturing costs. Our automatic test equipment and industrial automation products and services include:

- semiconductor test (Semiconductor Test) systems;
- defense/aerospace (Defense/Aerospace) test instrumentation and systems, storage test (Storage Test) systems, and circuit-board test and inspection (Production Board Test) systems (collectively these products represent System Test);
- industrial automation (Industrial Automation) products; and
- wireless test (Wireless Test) systems.

We have a customer base which includes integrated device manufacturers (IDMs), outsourced semiconductor assembly and test providers (OSATs), original equipment manufacturers (OEMs), wafer foundries, fabless companies that design, but contract with others for the manufacture of integrated circuits (ICs), developers of wireless devices and consumer electronics, manufacturers of circuit boards, automotive suppliers, wireless product manufacturers, storage device manufacturers, aerospace and military contractors, and distributors that sell collaborative robots, autonomous mobile robots and wireless test systems.

The market for our test products is concentrated with a limited number of significant customers accounting for a substantial portion of the purchases of test equipment. One customer drives significant demand for our products both through direct sales and sales to the customer s supply partners. We expect that sales of our test products will continue to be concentrated with a limited number of significant customers for the foreseeable future.

The sales of our products and services are dependent, to a large degree, on customers who are subject to cyclical trends in the demand for their products. These cyclical periods have had, and will continue to have, a significant effect on our business because our customers often delay or accelerate purchases in reaction to changes in their businesses and to demand fluctuations in the semiconductor and electronics industries. Historically, these demand fluctuations have resulted in significant variations in our results of operations. During the first quarter of 2018, demand outlook for mobile device test capacity in 2018 declined sharply for our Semiconductor Test business. As a result, we reduced our revenue outlook for 2018 to reflect the demand decline.

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In 2015, we acquired Universal Robots A/S (Universal Robots), the leading supplier of collaborative robots, which are low-cost, easy-to-deploy and simple-to-program robots that work side by side with production workers to improve quality, increase manufacturing efficiency and decrease manufacturing costs. The acquisition of Universal Robots provides a growth engine to our business. The total purchase price for Universal Robots was approximately $315 million, which included cash paid of approximately $284 million and $32 million in fair value of contingent consideration payable upon achievement of revenue and earnings targets through 2018. The contingent consideration related to revenue for the period from July 1, 2015 to December 31, 2017 in the amount of $24.6 million was paid in March 2018. The remaining maximum contingent consideration that could be paid in 2019 is $25 million.

On February 26, 2018, we acquired Energid Technologies Corporation (Energid) for a total purchase price of approximately $27.6 million. Energid s technology enables and simplifies the programming of complex robotic motions used in a wide variety of end markets, ranging from heavy industry to healthcare, utilizing both traditional robots and collaborative robots.

On April 25, 2018, we acquired Mobile Industrial Robots ApS (MiR), a Danish limited liability company. The total purchase price for MiR was approximately $197 million, which included cash paid of approximately $146 million and $51 million in fair value of contingent consideration payable upon achievement of revenue and earnings targets through 2020. The maximum amount of contingent consideration that could be paid is $118.9 million.

Universal Robots, MiR and Energid are included in our Industrial Automation segment.

We believe our recent acquisitions have enhanced our opportunities for growth. We intend to continue to invest in our business, grow market share in our markets and expand further our addressable markets while tightly managing our costs.

Critical Accounting Policies and Estimates

We have identified the policies which are critical to understanding our business and our results of operations. There have been no significant changes during the three and nine months ended September 30, 2018 to the items disclosed as our critical accounting policies and estimates in Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, except as noted below.

Preparation of Financial Statements and Use of Estimates

The preparation of consolidated financial statements requires management to make estimates and judgments that affect the amounts reported in the financial statements. Actual results may differ significantly from these estimates.

Revenue from Contracts with Customers

We adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (ASC 606)* on January 1, 2018 using the modified retrospective method for all contracts not completed as of the date of adoption. The reported results for 2018 reflect the application of ASC 606 while the reported results for 2017 were prepared under the guidance of ASC 605, *Revenue Recognition (ASC 605)*, which is also referred to herein as Legacy GAAP or the previous guidance. We recorded a net increase to retained earnings of $12.7 million as of January 1, 2018 due to the cumulative impact of adopting ASC 606. Refer to Note B: Accounting Policies in our 2017 annual report on Form 10-K for the policies in effect for revenue prior to January 1, 2018. The adoption of ASC 606 represents a change in accounting principle that will more closely align revenue recognition with the delivery of our hardware and services

and will provide financial

statement readers with enhanced disclosures. In accordance with ASC 606, revenue is recognized when or as a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which we expect to be entitled to receive in exchange for fulfillment of the performance obligation. Our primary source of revenue will continue to be from the sale of systems, instruments, robots, and the delivery of services.

In accordance with ASC 606, we recognize revenues, when or as control is transferred to a customer. Our determination of revenue is dependent upon a five step process outlined below.

Step 1: Identify the contract with the customer

We account for a contract with a customer when there is written approval, the contract is committed, the rights of the parties, including payment terms, are identified, the contract has commercial substance and consideration is probable of collection.

Step 2: Identify the performance obligations in the contract

We periodically enter into contracts with customers in which a customer may purchase a combination of goods and services, such as products with extended warranty obligations. We determine performance obligations by assessing whether the products or services are distinct from the other elements of the contract. In order to be distinct, the product or service must perform either on its own or with readily available resources and must be separate within the context of the contract.

Step 3: Determine the transaction price

We consider the amount stated on the face of the purchase order to be the transaction price. We do not have variable consideration which could impact the stated purchase price agreed to by us and the customer.

Step 4: Allocate the transaction price to the performance obligations in the contract

Transaction price is allocated to each individual performance obligation based on the standalone selling price of that performance obligation. We use standalone transactions when available to value each performance obligation. If standalone transactions are not available, we will estimate the standalone selling price through market assessments or cost plus a reasonable margin analysis. Any discounts from standalone selling price are spread over each performance obligation.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

In order to determine the appropriate timing for revenue recognition, we first determine if the transaction meets any of three criteria for over time recognition. If the transaction meets the criteria for over time recognition, we recognize revenue as the good or service is delivered. We use input variables such as hours or months utilized or costs incurred to determine the amount of revenue to recognize in a given period. Input variables are used as they best align consumption with benefit to the customer. For transactions that do not meet the criteria for over time recognition, we will recognize revenue at a point in time based on an assessment of the five criteria for transfer of control. We have concluded that revenue should be recognized when shipped or delivered based on contractual terms. Typically, acceptance of our products and services is a formality as we deliver similar systems, instruments, and robots to standard specifications. In cases where acceptance is not deemed a formality, we will wait for customer acceptance before recognizing revenue.

Retirement Benefits

In March 2017, the FASB issued ASU 2017-07, *Compensation Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. We

retrospectively adopted the new accounting guidance on presentation of net periodic pension costs and net periodic postretirement benefit costs in the first quarter of 2018. This guidance requires the service cost component of net benefit costs to be reported in the same line item in the consolidated statement of operations as other employee compensation costs. The non-service components of net benefit costs such as interest cost, expected return on assets, amortization of prior service cost, and actuarial gains or losses, are required to be reported separately outside of income or loss from operations. Following the adoption of this guidance, we continue to record the service cost component in the same line item as other employee compensation costs and the non-service components of net benefit costs such as interest cost, expected return on assets, amortization of prior service cost, and actuarial gains or losses are reported within other (income) expense, net. In the three months ended October 1, 2017, the retrospective adoption of this standard increased income from operations by $0.4 million due to the removal of net actuarial pension losses and decreased non-operating (income) expense by the same amount with no impact to net income. In the nine months ended October 1, 2017, the retrospective adoption of this standard decreased income from operations by $1.3 million due to the removal of net actuarial pension gains and increased non-operating (income) expense by the same amount with no impact to net income.

Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* We adopted the new accounting guidance in the first quarter of 2018 using the modified retrospective approach. This guidance requires that changes in fair value of equity securities be accounted for directly in earnings. Previously, the changes in fair value were recorded in accumulated other comprehensive income on the balance sheet. We continue to record realized gains in interest income and realized losses in interest expense. The adoption of this new accounting guidance increased the January 1, 2018 retained earnings balance by $3.1 million and decreased the accumulated other comprehensive income balance by the same amount.

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SELECTED RELATIONSHIPS WITHIN THE CONDENSED CONSOLIDATED

STATEMENTS OF OPERATIONS

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
Percentage of revenues:				
Revenues:				
Products	83%	82%	83%	84%
Services	17	18	17	16
Total revenues	100	100	100	100
Cost of revenues:				
Cost of products	34	34	35	36
Cost of services	7	8	7	7
Total cost of revenues (exclusive of acquired intangible assets amortization shown separately below)	41	41	42	43
Gross profit	59	59	58	57
Operating expenses:				
Selling and administrative	18	17	18	16
Engineering and development	14	15	14	14
Acquired intangible assets amortization	2	1	2	1
Restructuring and other		(1)		
Total operating expenses	34	33	35	31
Income from operations	25	26	23	26
Non-operating (income) expense:				
Interest income	(1)	(1)	(1)	(1)
Interest expense	1	1	1	1
Other (income) expense, net	1			
Income before income taxes	25	25	23	26
Income tax provision	4	5	3	4
Net income	21%	21%	19%	22%

Results of Operations

Third Quarter 2018 Compared to Third Quarter 2017

Revenues

Revenues by our four reportable segments were as follows:

	For the Three Months Ended		
	September 30, 2018	October 1, 2017	Dollar Change
		(in millions)	
Semiconductor Test	$ 417.3	$ 396.9	$ 20.4
Industrial Automation	65.9	40.1	25.8
System Test	49.6	35.6	14.0
Wireless Test	34.3	30.9	3.4
Corporate and Other	(0.3)		(0.3)
	$ 566.8	$ 503.4	$ 63.4

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The increase in Semiconductor Test revenues of $20.4 million, or 5.1%, was driven primarily by an increase in the memory test sales, partially offset by lower mobility test segment sales. The increase in Industrial Automation revenues of $25.8 million, or 64.0%, was due to higher demand for collaborative robotic arms and the acquisition of MiR, completed in April 2018. MiR added $6.5 million of revenue in the three months ended September 30, 2018. The increase in System Test revenues of $14.0 million, or 39.3%, was primarily due to higher sales in Storage Test of 3.5 hard disk drive and system level testers. The increase in Wireless Test revenues of $3.4 million, or 11.0%, was primarily due to higher demand for next generation wireless products, partially offset by lower demand for connectivity test systems.

Revenues by country as a percentage of total revenues were as follows (1):

	For the Three Months Ended	
	September 30, 2018	October 1, 2017
Taiwan	25%	31%
China	21	14
United States	12	13
Europe	9	8
Japan	7	6
Malaysia	7	6
Singapore	7	4
Korea	6	9
Philippines	3	4
Thailand	2	2
Rest of World	1	3
	100%	100%

(1) Revenues attributable to a country are based on location of customer site.

Gross Profit

Our gross profit was as follows:

	For the Three Months Ended		Dollar/ Point Change
	September 30, 2018	October 1, 2017	
	(in millions)		
Gross profit	$ 333.7	$ 294.9	$ 38.8
Percent of total revenues	58.9%	58.6%	0.3

Gross profit as a percent of revenue increased by 0.3 points, primarily due to favorable product mix.

We assess the carrying value of our inventory on a quarterly basis by estimating future demand and comparing that demand against on-hand and on-order inventory positions. Forecasted revenue information is obtained from sales and marketing groups and incorporates factors such as backlog and future revenue demand. This quarterly process identifies obsolete and excess inventory. Obsolete inventory, which represents items for which there is no demand, is fully reserved. Excess inventory, which represents inventory items that are not expected to be consumed during the next twelve quarters for our Semiconductor Test, System Test and Industrial Automation segments and the next four quarters for our Wireless Test segment, is written-down to estimated net realizable value.

During the three months ended September 30, 2018, we recorded an inventory provision of $3.3 million included in cost of revenues primarily due to downward revisions to previously forecasted demand levels. The $3.3 million of total excess and obsolete provisions was primarily related to Semiconductor Test ($2.1 million) and Wireless Test ($0.7 million).

During the three months ended October 1, 2017, we recorded an inventory provision of $1.9 million included in cost of revenues primarily due to downward revisions to previously forecasted demand levels for certain products. The $1.9 million of total excess and obsolete provisions was primarily related to Semiconductor Test ($0.7 million) and Wireless Test ($0.7 million).

During the three months ended September 30, 2018 and October 1, 2017, we scrapped $1.7 million and $1.2 million of inventory, respectively. During the three months ended September 30, 2018 and October 1, 2017, we sold $1.0 million and $3.1 million of previously written-down or written-off inventory, respectively. As of September 30, 2018, we had inventory related reserves for inventory, which had been written-down or written-off totaling $104.3 million. We have no pre-determined timeline to scrap the remaining inventory.

Selling and Administrative

Selling and administrative expenses were as follows:

	For the Three Months Ended		
	September 30, 2018	October 1, 2017	Dollar Change
		(in millions)	
Selling and administrative	$ 100.2	$ 86.1	$ 14.1
Percent of total revenues	17.7%	17.1%	

The increase of $14.1 million in selling and administrative expenses was due primarily to higher spending in the Industrial Automation segment due to higher sales and marketing spending in Universal Robots and due to the acquisitions of MiR and Energid in 2018.

Engineering and Development

Engineering and development expenses were as follows:

	For the Three Months Ended		
	September 30, 2018	October 1, 2017	Dollar Change
		(in millions)	
Engineering and development	$ 77.0	$ 77.0	$
Percent of total revenues	13.6%	15.3%	

The decrease in System Test engineering expenses was offset by an increase in engineering spending in Industrial Automation.

Acquired Intangible Assets Amortization

Acquired intangible assets amortization expense was as follows:

	For the Three Months Ended		
	September 30, 2018	October 1, 2017	Dollar Change
		(in millions)	
Acquired intangible assets amortization	$ 11.1	$ 7.0	$ 4.1
Percent of total revenues	2.0%	1.4%	

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Acquired intangible assets amortization expense increased primarily due to Industrial Automation segment acquisitions of MiR and Energid in 2018.

Restructuring and Other

During the three months ended September 30, 2018, we recorded $1.7 million for employee severance charges, primarily in Semiconductor Test, and $0.8 million of acquisition related compensation, partially offset by a $0.8 million gain for the decrease in the fair value of the Universal Robots contingent consideration liability.

During the three months ended October 1, 2017, we recorded $5.1 million of property insurance recovery related to the Japan earthquake, a $0.4 million credit related to a previously impaired lease termination of a Wireless Test facility in Sunnyvale, CA, which was terminated in September 2017, and a $0.3 million credit for the decrease in the fair value of the Universal Robots contingent consideration liability, partially offset by $0.8 million of Japan earthquake related expenses and $0.6 million recorded for employee severance charges, primarily in Semiconductor Test.

Interest and Other

	For the Three Months Ended		
	September 30, 2018	October 1, 2017	Dollar Change
		(in millions)	
Interest income	$ (6.2)	$ (4.5)	$ (1.7)
Interest expense	5.6	5.4	0.2
Other (income) expense, net	3.4	0.8	2.6

Interest income increased by $1.7 million due primarily to higher interest rates in 2018. Other (income) expense, net increased by $2.6 million due primarily to higher foreign exchange losses in 2018.

Income (Loss) Before Income Taxes

	For the Three Months Ended		
	September 30, 2018	October 1, 2017	Dollar Change
		(in millions)	
Semiconductor Test	$ 126.6	$ 116.8	$ 9.8
System Test	9.1	(3.3)	12.4
Wireless Test	7.8	7.5	0.4
Industrial Automation	0.9	3.4	(2.4)
Corporate and Other (1)	(3.6)	3.1	(6.7)
	$ 140.8	$ 127.4	$ 13.4

(1) Included in Corporate and Other are: contingent consideration adjustments, employee severance, interest income, interest expense, net foreign exchange gains and losses, intercompany eliminations, and acquisition related expenses.

The increase in income before income taxes in Semiconductor Test was driven primarily by an increase in memory test sales partially offset by lower mobility segment sales. The increase in income before income taxes in System Test was primarily due to higher sales in Storage Test of 3.5 hard disk drive and system level testers. The increase in income before income taxes in Wireless Test was primarily due to higher demand for next generation wireless products, partially offset by lower demand for connectivity test systems. The decrease in income before income taxes in Industrial Automation was primarily due to increased intangible assets amortization expense from the acquisitions of MiR and Energid in 2018.

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Income Taxes

The effective tax rate for the three months ended September 30, 2018 and October 1, 2017 was 14.8% and 18.8%, respectively. The decrease in the effective tax rate from the three months ended October 1, 2017 to the three months ended September 30, 2018 primarily resulted from the benefit of the U.S. foreign derived intangible income deduction. The tax rate effect of a projected shift in the geographic distribution of income, which increases the income subject to taxation in the U.S. relative to lower tax rate jurisdictions, was substantially offset by the reduction in the U.S. corporate tax rate from 35% to 21%.

Nine Months 2018 Compared to Nine Months 2017

Revenues

Revenues by our four reportable segments were as follows:

	For the Nine Months Ended		
	September 30, 2018	October 1, 2017	Dollar Change
		(in millions)	
Semiconductor Test	$ 1,150.7	$ 1,345.6	$ (194.9)
Industrial Automation	176.8	115.7	61.1
System Test	162.3	112.1	50.2
Wireless Test	92.0	83.8	8.2
Corporate and Other	(0.6)		(0.6)
	$ 1,581.2	$ 1,657.2	$ (76.0)

The decrease in Semiconductor Test revenues of $194.9 million, or 14.5%, was driven primarily by a decrease in sales in the mobility, image sensor and microcontroller test segments, partially offset by an increase in memory test segment sales. The increase in Industrial Automation revenues of $61.1 million, or 52.8%, was due to higher demand for collaborative robotic arms and the acquisition of MiR, completed in April 2018. MiR added $11.1 million of revenue in the nine months ended September 30, 2018. The increase in System Test revenues of $50.2 million, or 44.8%, was primarily due to higher sales of 3.5 hard disk drive and system level testers in Storage Test. The increase in Wireless Test revenues of $8.2 million, or 9.8%, was primarily due to higher demand for next generation wireless products, partially offset by lower demand for connectivity test systems.

Revenues by country as a percentage of total revenues were as follows (1):

	For the Nine Months Ended	
	September 30, 2018	October 1, 2017
Taiwan	26%	38%

China	18	11
United States	13	11
Europe	10	7
Korea	8	7
Japan	6	7
Malaysia	6	6
Singapore	5	5
Philippines	4	5
Thailand	3	2
Rest of World	1	1
	100%	100%

(1) Revenues attributable to a country are based on location of customer site.

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Gross Profit

Our gross profit was as follows:

	For the Nine Months Ended		Dollar/ Point Change
	September 30, 2018	October 1, 2017	
	(in millions)		
Gross profit	$ 910.9	$ 950.5	$ (39.7)
Percent of total revenues	57.6%	57.4%	0.2

Gross profit as a percent of revenue increased by 0.2 points, primarily due to favorable product mix.

We assess the carrying value of our inventory on a quarterly basis by estimating future demand and comparing that demand against on-hand and on-order inventory positions. Forecasted revenue information is obtained from sales and marketing groups and incorporates factors such as backlog and future revenue demand. This quarterly process identifies obsolete and excess inventory. Obsolete inventory, which represents items for which there is no demand, is fully reserved. Excess inventory, which represents inventory items that are not expected to be consumed during the next twelve quarters for our Semiconductor Test, System Test and Industrial Automation segments and the next four quarters for our Wireless Test segment, is written-down to estimated net realizable value.

During the nine months ended September 30, 2018, we recorded an inventory provision of $9.5 million included in cost of revenues primarily due to downward revisions to previously forecasted demand levels. The $9.5 million of total excess and obsolete provisions was primarily related to Semiconductor ($5.9 million) and Wireless Test ($2.2 million).

During the nine months ended October 1, 2017, we recorded an inventory provision of $7.2 million included in cost of revenues primarily due to downward revisions to previously forecasted demand levels for certain products. The $7.2 million of total excess and obsolete provisions was primarily related to Semiconductor Test ($3.7 million), Wireless Test ($1.7 million), and System Test ($1.6 million).

During the nine months ended September 30, 2018 and October 1, 2017, we scrapped $3.2 million and $4.1 million of inventory, respectively. During the nine months ended September 30, 2018 and October 1, 2017, we sold $5.2 million and $6.4 million of previously written-down or written-off inventory, respectively. As of September 30, 2018, we had inventory related reserves for inventory, which had been written-down or written-off totaling $104.3 million. We have no pre-determined timeline to scrap the remaining inventory.

Selling and Administrative

Selling and administrative expenses were as follows:

	For the Nine Months Ended	Dollar Change

	September 30, 2018	October 1, 2017	
		(in millions)	
Selling and administrative	$ 290.1	$ 261.0	$ 29.1
Percent of total revenues	18.3%	15.8%	

The increase of $29.1 million in selling and administrative expenses was due primarily to higher spending in Industrial Automation segment due to higher sales and marketing spending in Universal Robots and due to the acquisitions of MiR and Energid in 2018, partially offset by lower variable compensation.

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Engineering and Development

Engineering and development expenses were as follows:

	For the Nine Months Ended		
	September 30, 2018	October 1, 2017	Dollar Change
		(in millions)	
Engineering and development	$ 226.8	$ 235.2	$ (8.4)
Percent of total revenues	14.3%	14.2%	

The decrease of $8.4 million in engineering and development expenses was primarily due to lower variable compensation and lower spending in Storage Test and Semiconductor Test, partially offset by higher spending in Industrial Automation.

Acquired Intangible Assets Amortization

Acquired intangible assets amortization expense was as follows:

	For the Nine Months Ended		
	September 30, 2018	October 1, 2017	Dollar Change
		(in millions)	
Acquired intangible assets amortization	$ 28.6	$ 23.1	$ 5.5
Percent of total revenues	1.8%	1.4%	

Acquired intangible assets amortization expense increased primarily due to Industrial Automation segment acquisitions of MiR and Energid in 2018.

Restructuring and Other

During the nine months ended September 30, 2018, we recorded $7.9 million for employee severance charges, primarily in Semiconductor Test and Industrial Automation, and $4.1 million for acquisition related expenses and compensation, partially offset by a $9.2 million gain for the decrease in the fair value of the Universal Robots contingent consideration liability.

During the nine months ended October 1, 2017, we recorded $2.0 million for employee severance charges, primarily in Industrial Automation and Corporate, $1.8 million for the increase in the fair value of the Universal Robots contingent consideration liability, $0.9 million for a lease impairment of a Wireless Test facility in Sunnyvale, CA, which was terminated in September 2017, and $0.8 million of Japan earthquake related expenses, partially offset by $5.1 million of property insurance recovery related to the Japan earthquake.

Interest and Other

	For the Nine Months Ended		
	September 30, 2018	October 1, 2017	Dollar Change
	(in millions)		
Interest income	$ (17.6)	$ (11.3)	$ (6.3)
Interest expense	18.1	16.3	1.8
Other (income) expense, net	4.4	(0.6)	5.0

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Interest income increased by $6.3 million due primarily to higher interest rates in 2018. Interest expense increased by $1.8 million due primarily to realized losses on sales of marketable securities. Other (income) expense, net increased by $5 million due primarily to higher foreign exchange losses in 2018 and pension actuarial losses in 2018 compared to pension actuarial gains in 2017.

Income (Loss) Before Income Taxes

	For the Nine Months Ended		
	September 30, 2018	October 1, 2017	Dollar Change
		(in millions)	
Semiconductor Test	$ 305.9	$ 426.1	$ (120.2)
System Test	35.3	(11.8)	47.1
Wireless Test	18.6	13.5	5.1
Industrial Automation	(1.2)	(0.3)	(0.9)
Corporate and Other (1)	(1.9)	(1.2)	(0.7)
	$ 356.7	$ 426.3	$ (69.7)

(1) Included in Corporate and Other are: contingent consideration adjustments, employee severance, interest income, interest expense, net foreign exchange gains and losses, intercompany eliminations, and acquisition related expenses.

The decrease in income before income taxes in Semiconductor Test was driven primarily by lower revenues due to a decrease in sales in the mobility, image sensor, and microcontroller test segments, partially offset by an increase in memory test segment sales. The increase in income before income taxes in System Test was primarily due to higher sales in Storage Test of 3.5 hard disk drive and system level testers. The increase in income before income taxes in Wireless Test was primarily due to higher demand for next generation wireless products, partially offset by lower demand for connectivity test systems. The increase in loss before income taxes in Industrial Automation was primarily due to an increase in intangible assets amortization expense from the acquisitions of MiR and Energid in 2018.

Income Taxes

The effective tax rate for the nine months ended September 30, 2018 and October 1, 2017 was 13.6% and 14.7%, respectively. The decrease in the effective tax rate from the nine months ended October 1, 2017 to the nine months ended September 30, 2018 primarily resulted from the benefit of the U.S. foreign derived intangible income deduction. The tax rate effect of a projected shift in the geographic distribution of income, which increases the income subject to taxation in the U.S. relative to lower tax rate jurisdictions, was substantially offset by the reduction in the U.S. corporate tax rate from 35% to 21%.

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Contractual Obligations

The following table reflects our contractual obligations as of September 30, 2018:

	Payments Due by Period					
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years	Other
	(in thousands)					
Convertible debt	$ 460,000	$	$	$	$ 460,000	$
Purchase obligations	275,593	263,286	12,307			
Transition tax payable (1)	160,896	13,535	25,641	25,707	96,013	
Retirement plans contributions	131,004	4,592	8,875	9,334	108,203	
Operating lease obligations	76,220	18,454	32,100	15,719	9,947	
Fair value of contingent consideration	60,942	35,532	25,410			
Interest on long-term debt	31,625	5,750	11,500	11,500	2,875	
Other long-term liabilities reflected on the balance sheet under GAAP (2)	80,091		29,387			50,704
Total	$ 1,276,371	$ 341,149	$ 145,220	$ 62,260	$ 677,038	$ 50,704

(1) Represents our estimate of a provisional tax amount for the transition tax liability associated with our accumulated foreign earnings as a result of the enactment of the Tax Reform Act on December 22, 2017.

(2) Included in other long-term liabilities are liabilities for customer advances, extended warranty, uncertain tax positions, deferred tax liabilities and other obligations. For certain long-term obligations, we are unable to provide a reasonably reliable estimate of the timing of future payments relating to these obligations and therefore we included these amounts in the column marked Other.

Liquidity and Capital Resources

Our cash, cash equivalents and marketable securities balances decreased by $579.3 million in the nine months ended September 30, 2018 to $1,324.4 million.

Operating activities during the nine months ended September 30, 2018 provided cash of $290.5 million. Changes in operating assets and liabilities used cash of $151.1 million. This was due to a $140.6 million increase in operating assets and a $10.4 million decrease in operating liabilities.

The increase in operating assets was primarily due to a $77.8 million increase in accounts receivable due to increased sales and the impact of the new revenue recognition standard, a $34.1 million increase in inventories, and a $28.7 million increase in prepayments and other assets.

The decrease in operating liabilities was due to a $26.1 million decrease in accrued employee compensation due primarily to first quarter payments related to variable compensation, a $33.2 million decrease in income taxes, and $3.2 million of retirement plan contributions, partially offset by a $22.9 million increase in other accrued liabilities, a

$19.4 million increase in accounts payable, and a $9.8 million increase in deferred revenue and customer advance payments.

Investing activities during the nine months ended September 30, 2018 provided cash of $719.0 million, due to $843.2 million and $934.1 million in proceeds from sales and maturities of marketable securities, respectively, proceeds from a government subsidy of $7.9 million for property, plant and equipment and proceeds from life insurance of $1.1 million related to the cash surrender value from the cancellation of Teradyne owned life insurance policies, partially offset by $809.5 million used for purchases of marketable securities, $169.5 million used for the acquisitions of MiR and Energid, and $88.3 million used for purchases of property, plant and equipment.

Financing activities during the nine months ended September 30, 2018 used cash of $626.0 million, due to $562.3 million used for the repurchase of 13.8 million shares of common stock at an average price of $40.62 per share, $51.3 million used for dividend payments, $19.8 million used for payments related to net settlements of employee stock compensation awards, and $13.6 million used for a payment related to Universal Robots acquisition contingent consideration, partially offset by $21.0 million from the issuance of common stock under employee stock purchase and stock option plans.

Operating activities during the nine months ended October 1, 2017 provided cash of $479.0 million. Changes in operating assets and liabilities provided cash of $6.3 million. This was due to a $50.8 million increase in operating liabilities partially offset by a $44.5 million increase in operating assets.

The increase in operating assets was primarily due to a $75.6 million increase in accounts receivable due to higher sales, partially offset by a $23.8 million decrease in inventories and a $7.4 million decrease in prepayments and other assets.

The increase in operating liabilities was due to a $20.5 million increase in other accrued liabilities, a $15.8 million increase in income taxes, a $3.0 million increase in accrued employee compensation due primarily to variable compensation, and a $34.5 million increase in deferred revenue and customer advance payments, partially offset by an $18.1 million decrease in accounts payable and $4.9 million of retirement plan contributions.

Investing activities during the nine months ended October 1, 2017 used cash of $188.3 million, due to $1,036.5 million used for purchases of marketable securities and $73.2 million used for purchases of property, plant and equipment, partially offset by $473.3 million and $443.2 million in proceeds from maturities and sales of marketable securities, respectively, and proceeds from property insurance of $5.1 million related to the Japan earthquake.

Financing activities during the nine months ended October 1, 2017, used cash of $182.7 million, due to $151.8 million used for the repurchase of 4.6 million shares of common stock at an average price of $32.66 per share, $41.7 million used for dividend payments, $12.6 million used for payments related to net settlements of employee stock compensation awards and $1.1 million used for a payment related to AIT acquisition contingent consideration, partially offset by $24.5 million from the issuance of common stock under employee stock purchase and stock option plans.

In January 2018, May 2018 and August 2018, our Board of Directors declared a quarterly cash dividend of $0.09 per share. Dividend payments for the nine months ended September 30, 2018 were $51.3 million.

In January 2017 and May 2017 and August 2017, our Board of Directors declared a quarterly cash dividend of $0.07 per share. Dividend payments for the nine months ended October 1, 2017 were $41.7 million.

In January 2018, our Board of Directors cancelled the December 2016 stock repurchase program and authorized a new stock repurchase program for up to $1.5 billion of common stock. We intend to repurchase $750 million in 2018. During the nine months ended September 30, 2018, we repurchased 13.8 million shares of common stock for $562.3 million at an average price of $40.62 per share.

In December 2016, our Board of Directors approved a $500 million share repurchase authorization, which commenced on January 1, 2017. During the nine months ended October 1, 2017, we repurchased 4.6 million shares of common stock for $151.8 million at an average price of $32.66 per share.

While we declared a quarterly cash dividend and authorized a share repurchase program, we may reduce or eliminate the cash dividend or share repurchase program in the future. Future cash dividends and stock repurchases are subject to the discretion of our Board of Directors, which will consider, among other things, our earnings, capital requirements and financial condition.

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We believe our cash, cash equivalents and marketable securities balance will be sufficient to pay our quarterly dividend, execute our authorized share repurchase program and meet our working capital and expenditure needs for at least the next twelve months. Inflation has not had a significant long-term impact on earnings.

Equity Compensation Plans

As discussed in Note O: Stock Based Compensation in our 2017 Annual Report on Form 10-K, we have a 1996 Employee Stock Purchase Plan and a 2006 Equity and Cash Compensation Incentive Plan (the 2006 Equity Plan).

The purpose of the 1996 Employee Stock Purchase Plan is to encourage stock ownership by all eligible employees of Teradyne. The purpose of the 2006 Equity Plan is to provide equity ownership and compensation opportunities in Teradyne to our employees, officers, directors, consultants and/or advisors. Both plans were approved by our shareholders.

Recently Issued Accounting Pronouncements

On January 26, 2017, the FASB issued ASU 2017-04, *Intangibles Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment.* The new guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Goodwill impairment will now be the amount by which a reporting unit s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance will remain largely unchanged. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. The same one-step impairment test will be applied to goodwill at all reporting units, even those with zero or negative carrying amounts. Entities will be required to disclose the amount of goodwill at reporting units with zero or negative carrying amounts. The revised guidance will be applied prospectively, and is effective in 2020. Early adoption is permitted for any impairment tests performed after January 1, 2017. We are currently evaluating the impact of this ASU on our financial position, results of operations and statements of cash flows.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* The guidance in this ASU supersedes the lease recognition requirements in Accounting Standards Codification (ASC) Topic 840, *Leases.* The new standard establishes a right- of-use (ROU) model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of operations. The new standard is effective for annual periods beginning after December 15, 2018 with early adoption permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements, which amends ASU 2016-02. The new ASU offers an additional transition method by which entities may elect not to recast the comparative periods presented in financial statements in the period of adoption and allows lessors to elect a practical expedient to not separate lease and non-lease components when certain conditions are met. This ASU has the same transition requirements and effective date as ASU 2016-02. We elected not to recast the comparative periods presented in financial statements in the period of adoption. We continue to assess potential changes from this ASU, but expect the adoption of this guidance to have a material impact on our consolidated balance sheets due to the requirement to recognize lease ROU assets and corresponding liabilities related to leases, and immaterial impact on our results of operations.

Item 3: Quantitative and Qualitative Disclosures about Market Risks

For Quantitative and Qualitative Disclosures about Market Risk affecting Teradyne, see Part 2 Item 7a, Quantitative and Qualitative Disclosures about Market Risks, in our Annual Report on Form 10-K filed with the SEC on March 1, 2018. There were no material changes in our exposure to market risk from those set forth in our Annual Report for the fiscal year ended December 31, 2017.

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In addition to market risks described in our Annual Report on Form 10-K, we have an equity price risk related to the fair value of our convertible senior unsecured notes issued in December 2016. In December 2016, Teradyne issued $460 million aggregate principal amount of 1.25% convertible senior unsecured notes (the Notes) due December 15, 2023. As of September 30, 2018, the Notes had a fair value of $599.4 million. The table below provides a sensitivity analysis of hypothetical 10% changes of Teradyne s stock price as of the end of the third quarter of 2018 and the estimated impact on the fair value of the Notes. The selected scenarios are not predictions of future events, but rather are intended to illustrate the effect such event may have on the fair value of the Notes. The fair value of the Notes is subject to equity price risk due to the convertible feature. The fair value of the Notes will generally increase as Teradyne s common stock price increases and will generally decrease as the common stock price declines in value. The change in stock price affects the fair value of the convertible senior notes, but does not impact Teradyne s financial position, cash flows or results of operations due to the fixed nature of the debt obligation. Additionally, we carry the Notes at face value less unamortized discount on our balance sheet, and we present the fair value for required disclosure purposes only. In connection with the offering of the Notes we also sold warrants to the option counterparties. These transactions have been accounted for as an adjustment to our shareholders equity. The convertible note hedge transactions are expected to reduce the potential equity dilution upon conversion of the Notes. The warrants along with any shares issuable upon conversion of the Notes will have a dilutive effect on our earnings per share to the extent that the average market price of our common stock for a given reporting period exceeds the applicable strike price or conversion price of the warrants or Notes, respectively.

Hypothetical Change in Teradyne Stock Price	Fair Value	Estimated change in fair value	Hypothetical percentage increase (decrease) in fair value
10% Increase	$ 637,900	$ 38,462	6.4%
No Change	599,438		
10% Decrease	555,606	(43,832)	(7.3)

See Note G: Debt for further information.

Item 4: Controls and Procedures

As of the end of the period covered by this report, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(b) or Rule 15d-15(f) promulgated under the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective in ensuring that material information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, including ensuring that such material information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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PART II. OTHER INFORMATION

Item 1: Legal Proceedings

We are subject to various legal proceedings and claims, which have arisen, in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our results of operations, financial condition or cash flows.

Item 1A: Risk Factors

In addition to other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A: Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2017, which could materially affect our business, financial condition or future results. The risk factors described in our Annual Report on Form 10-K remain applicable to our business.

The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

The implementation of tariffs and export controls on our products may have a material impact on our business.

Our business operations and supply chain are global and may be disrupted by the implementation of tariffs and export controls on our products.

On July 6, 2018 and August 23, 2018, the United States Trade Representative imposed a 25% tariff on two lists of products, including certain Teradyne products that are made in China and imported into the United States. We have submitted requests for exclusion of our products from the tariff, but there is no assurance that our requests will be approved. We have implemented operational changes that will mitigate the impact of the 25% tariff on the import of our impacted products into the United States. As a result, we do not expect that the tariff will have a material adverse effect on our business, financial condition or results of operations.

On September 24, 2018, the United States Trade Representative imposed a 10% tariff on many additional products made in China and imported into the United States. The tariff rate is expected to increase to 25% in January 2019. At this time, we do not expect that this tariff will significantly impact any Teradyne products and thus the tariff should not have a material adverse effect on our business, financial condition or results of operations.

On June 29, 2018, the United States Department of Commerce announced that it has commenced a review of new export controls focusing on emerging and foundational technologies. While there is uncertainty as to the technologies that will be covered, the new export controls could cover technologies used in one or more Teradyne products and, therefore, could impact the sale of certain Teradyne products and have a material adverse effect on our business, financial condition or results of operations.

The United States Department of Commerce from time to time has taken action to restrict the access of U.S. origin technologies to Chinese companies by adding them to the Entity List under U.S. Export Administration Regulations. The addition to the Entity List of Chinese companies who are customers or potential customers could impact the sale and/or support of certain Teradyne products to those customers or potential customers and, therefore, have a material

adverse effect on our business, financial condition or results of operations.

In addition to the actions taken by the United States, China has implemented retaliatory tariffs on products made in the United States and imported into China, including certain Teradyne products. We plan to assess and implement, if appropriate, operational changes that would mitigate the impact of the retaliatory tariffs. However, notwithstanding our efforts, the retaliatory tariffs or other trade restrictions implemented by China could disrupt our business operations, sales and supply chain and, therefore, have a material adverse effect on our business, financial condition or results of operations.

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Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

In January 2018, our Board of Directors cancelled the December 2016 stock repurchase program and authorized a new stock repurchase program for up to $1.5 billion of common stock. We intend to repurchase $750 million in 2018. During the nine months ended September 30, 2018, we repurchased 13.8 million shares of common stock for $562.3 million at an average price of $40.62 per share.

In December 2016, our Board of Directors approved a $500 million share repurchase authorization, which commenced on January 1, 2017. During the nine months ended October 1, 2017, we repurchased 4.3 million shares of common stock for $151.8 million at an average price of $32.66 per share.

The following table includes information with respect to repurchases we made of our common stock during the three months ended September 30, 2018 (in thousands except per share price):

Period	(a) Total Number of Shares (or Units) Purchased		(b) Average Price Paid per Share (or Unit)		(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that may Yet Be Purchased Under the Plans or Programs
July 2, 2018 July 29, 2018	1,532		$ 39.69		1,531	$ 1,078,445
July 30, 2018 August 26, 2018	1,515		$ 42.23		1,515	$ 1,014,490
August 27, 2018 September 30, 2018	1,960		$ 39.18		1,959	$ 937,737
	5,007	(1)	$ 40.26	(1)	5,005	

(1) Includes 2,225 shares at an average price of $40.46 withheld from employees for the payment of taxes.

We satisfy U.S. federal and state minimum withholding tax obligations due upon the vesting and the conversion of restricted stock units into shares of our common stock, by automatically withholding from the shares being issued, a number of shares with an aggregate fair market value on the date of such vesting and conversion that would satisfy the minimum withholding amount due.

Item 4: Mine Safety Disclosures

Not Applicable

Item 6: Exhibits

Exhibit	Description

Number	
31.1	Certification of Principal Executive Officer, pursuant to Rule 13a-14(a) of Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Principal Financial Officer, pursuant to Rule 13a-14(a) of Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TERADYNE, INC.
Registrant

/S/ GREGORY R. BEECHER
Gregory R. Beecher

Vice President,

Chief Financial Officer and Treasurer

(Duly Authorized Officer

and Principal Financial Officer)

November 9, 2018

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