

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

# FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_

For Quarter Ended September 30, 2001 Commission File Number 1-8787

## AMERICAN INTERNATIONAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	13-2592361 (I.R.S. Employer Identification Number)
--	---

70 Pine Street, New York, New York (Address of principal executive offices)	10270 (Zip Code)
--	---------------------

Registrant's telephone number, including area code (212) 770-7000

NONE

Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES

NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of September 30, 2001: 2,612,478,763.

## TABLE OF CONTENTS

CONSOLIDATED BALANCE SHEET

AMERICAN INTERNATIONAL GROUP, INC. CONSOLIDATED STATEMENT OF INCOME

CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

NOTES TO FINANCIAL STATEMENTS

Management's Discussion and Analysis of Financial Condition and Results of Operations

PART II -- OTHER INFORMATION

SIGNATURES

EXHIBIT INDEX

EX-4: INDENTURE DATED AS OF NOVEMBER 9, 2001

EX-12: STATEMENT RE. COMPUTATION OF RATIOS

---

## AMERICAN INTERNATIONAL GROUP, INC.

**CONSOLIDATED BALANCE SHEET**  
(in millions)  
(unaudited)

	September 30, 2001	December 31, 2000
<b>ASSETS:</b>		
Investments and cash:		
Fixed maturities:		
Bonds available for sale, at market value (amortized cost: 2001 — \$182,551; 2000 — \$153,921)	\$ 187,506	\$ 153,763
Bonds held to maturity, at amortized cost (market value: 2001 — \$0; 2000 — \$12,053)	—	11,533
Bonds trading securities, at market value (cost: 2001 — \$911; 2000 — \$838)	915	846
Equity securities:		
Common stocks (cost: 2001 — \$6,577; 2000 — \$7,051)	5,650	6,805
Non-redeemable preferred stocks (cost: 2001 — \$1,561; 2000 — \$1,318)	1,385	1,207
Mortgage loans on real estate, net of allowance (2001 — \$112; 2000 — \$104)	11,050	11,047
Policy Loans	5,389	5,465
Collateral and guaranteed loans, net of allowance (2001 — \$41; 2000 — \$40)	2,095	2,084
Financial services and asset management assets:		
Flight equipment primarily under operating leases, net of accumulated depreciation (2001 — \$3,277; 2000 — \$2,723)	22,027	19,325
Securities available for sale, at market value (cost: 2001 — \$17,091; 2000 — \$14,636)	17,123	14,669
Trading securities, at market value	6,631	7,347
Spot commodities, at market value	498	363
Unrealized gain on interest rate and currency swaps, options and forward transactions	12,863	10,235
Trading assets	7,921	7,045
Securities purchased under agreements to resell, at contract value	19,571	14,991
Finance receivables, net of allowance (2001 — \$423; 2000 — \$383)	11,196	11,378
Other invested assets	22,566	13,486
Short-term investments, at cost (approximates market value)	9,641	6,502
Cash	485	522
Total investments and cash	344,512	298,613
Investment income due and accrued	3,793	3,522
Premiums and insurance balances receivable, net of allowance (2001 — \$178; 2000 — \$170)	13,062	11,832
Reinsurance assets	25,810	23,964
Deferred policy acquisition costs	16,723	16,647
Investments in partially-owned companies	513	336
Real estate and other fixed assets, net of accumulated depreciation (2001 — \$3,092; 2000 — \$2,264)	4,353	4,126
Separate and variable accounts	46,528	54,562
Other assets	13,381	13,069
<b>Total assets</b>	<b>\$ 468,675</b>	<b>\$ 426,671</b>

*See Accompanying Notes to Financial Statements.*

**AMERICAN INTERNATIONAL GROUP, INC.**  
**CONSOLIDATED BALANCE SHEET — (continued)**  
**(in millions, except share amounts)**  
**(unaudited)**

	September 30, 2001	December 31, 2000
<b>LIABILITIES:</b>		
Reserve for losses and loss expenses	\$ 41,920	\$ 40,613
Reserve for unearned premiums	13,161	12,510
Future policy benefits for life and accident and health insurance contracts	56,501	51,532
Policyholders' contract deposits	109,426	99,327
Other policyholders' funds	6,383	5,885
Reserve for commissions, expenses and taxes	3,477	2,807
Insurance balances payable	4,281	2,794
Funds held by companies under reinsurance treaties	2,360	1,435
Income taxes payable:		
Current	(170)	189
Deferred	4,338	3,032
Financial services and asset management liabilities:		
Borrowings under obligations of guaranteed investment agreements	16,308	13,595
Securities sold under agreements to repurchase, at contract value	11,317	11,308
Trading liabilities	5,036	4,352
Securities and spot commodities sold but not yet purchased, at market value	6,877	7,701
Unrealized loss on interest rate and currency swaps, options and forward transactions	10,548	8,581
Trust deposits and deposits due to banks and other depositors	2,380	1,895
Commercial paper	8,511	9,421
Notes, bonds and loans payable	31,353	23,594
Commercial paper	6,232	3,626
Notes, bonds, loans and mortgages payable	4,222	4,087
Separate and variable accounts	46,528	54,562
Minority interest	1,476	1,465
Other liabilities	22,660	11,507
<b>Total liabilities</b>	<b>415,125</b>	<b>375,818</b>
Preferred shareholders' equity in subsidiary companies	2,764	3,414
<b>CAPITAL FUNDS:</b>		
Common stock, \$2.50 par value; 5,000,000,000 shares authorized; shares issued 2001 — 2,747,947,809; 2000 — 2,787,511,574	6,870	6,914
Additional paid-in capital	559	2,830
Retained earnings	45,463	42,598
Accumulated other comprehensive income (loss)	(1,194)	(2,440)
Treasury stock, at cost; 2001 — 135,469,046; 2000 — 164,905,649 shares of common stock	(912)	(2,463)
<b>Total capital funds</b>	<b>50,786</b>	<b>47,439</b>
<b>Total liabilities and capital funds</b>	<b>\$ 468,675</b>	<b>\$ 426,671</b>

*See Accompanying Notes to Financial Statements.*

**AMERICAN INTERNATIONAL GROUP, INC.**
**CONSOLIDATED STATEMENT OF INCOME**

(in millions, except per share amounts)  
(unaudited)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2001	2000	2001	2000
<b>General insurance operations:</b>				
Net premiums written	\$14,903	\$13,023	\$ 4,983	\$4,293
Change in unearned premium reserve	(594)	(402)	(138)	(181)
Net premiums earned	14,309	12,621	4,845	4,112
Net investment income	2,147	1,999	724	676
Realized capital gains (losses)	(147)	42	(89)	33
	16,309	14,662	5,480	4,821
Losses and loss expenses incurred	10,652	9,460	3,561	3,066
Losses and loss expenses incurred: World Trade Center and related losses (WTC)	769	—	769	—
Underwriting expenses	2,915	2,529	1,038	853
	14,336	11,989	5,368	3,919
Operating income	1,973	2,673	112	902
<b>Life insurance operations:</b>				
Premium income	14,066	12,633	4,873	4,140
Net investment income	8,687	7,807	2,935	2,666
Realized capital gains (losses)	(4)	(123)	17	(65)
	22,749	20,317	7,825	6,741
Death and other benefits	8,355	6,953	3,078	2,368
Death and other benefits: WTC	131	—	131	—
Increase in future policy benefits	6,007	6,128	1,798	1,977
Acquisition and insurance expenses	4,133	3,663	1,482	1,197
	18,626	16,744	6,489	5,542
Operating income	4,123	3,573	1,336	1,199
Financial services operating income	1,411	1,180	490	406
Asset management operating income	817	832	248	282
Other realized capital losses	(398)	(140)	(42)	(25)
Other income (deductions) — net	(487)	(476)	(164)	(166)
Acquisition, restructuring and related charges	(2,017)	(315)	(1,363)	—
Income before income taxes, minority interest and cumulative effect of accounting changes	5,422	7,327	617	2,598
Income taxes — Current	932	1,349	157	451
— Deferred	603	835	7	334
	1,535	2,184	164	785
Income before minority interest and cumulative effect of accounting changes	3,887	5,143	453	1,813
Minority interest	(254)	(306)	(45)	(108)
Income before cumulative effect of accounting changes	3,633	4,837	408	1,705
Cumulative effect of accounting changes, net of tax	(136)	—	(81)	—

Net income	<u>\$ 3,497</u>	<u>\$ 4,837</u>	<u>\$ 327</u>	<u>\$1,705</u>
Earnings per common share:				
Basic				
Income before cumulative effect of accounting changes	<u>\$ 1.38</u>	<u>\$ 1.86</u>	<u>\$ 0.15</u>	<u>\$ 0.66</u>
Cumulative effect of accounting changes	<u>(0.05)</u>	<u>—</u>	<u>(0.03)</u>	<u>—</u>
Net income	<u>\$ 1.33</u>	<u>\$ 1.86</u>	<u>\$ 0.12</u>	<u>\$ 0.66</u>
Diluted				
Income before cumulative effect of accounting changes	<u>\$ 1.37</u>	<u>\$ 1.84</u>	<u>\$ 0.15</u>	<u>\$ 0.65</u>
Cumulative effect of accounting changes	<u>(0.05)</u>	<u>—</u>	<u>(0.03)</u>	<u>—</u>
Net income	<u>\$ 1.32</u>	<u>\$ 1.84</u>	<u>\$ 0.12</u>	<u>\$ 0.65</u>
Cash dividends per common share	<u>\$ 0.116</u>	<u>\$ 0.104</u>	<u>\$ 0.042</u>	<u>\$0.037</u>
Average shares outstanding:				
Basic	<u>2,622</u>	<u>2,605</u>	<u>2,620</u>	<u>2,606</u>
Diluted	<u>2,653</u>	<u>2,637</u>	<u>2,651</u>	<u>2,633</u>

*See Accompanying Notes to Financial Statements.*

## AMERICAN INTERNATIONAL GROUP, INC.

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(in millions)  
(unaudited)

	Nine Months Ended September 30,	
	2001	2000
Cash Flows From Operating Activities:		
Net Income	\$ 3,497	\$ 4,837
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash revenues, expenses, gains and losses included in income:		
Change in:		
General and life insurance reserves	6,603	5,001
Premiums and insurance balances receivable and payable — net	555	(127)
Reinsurance assets	(2,624)	(246)
Deferred policy acquisition costs	(76)	(913)
Investment income due and accrued	(271)	(348)
Funds held under reinsurance treaties	903	(40)
Other policyholders' funds	581	311
Current and deferred income taxes — net	256	785
Reserve for commissions, expenses and taxes	462	401
Other assets and liabilities — net	4,274	(371)
Trading assets and liabilities — net	(193)	(1,941)
Trading securities, at market value	716	(177)
Spot commodities, at market value	(134)	112
Net unrealized gain on interest rate and currency swaps, options and forward transactions	(662)	(1,697)
Securities purchased under agreements to resell	(4,580)	(3,977)
Securities sold under agreements to repurchase	9	2,730
Securities and spot commodities sold but not yet purchased, at market value	(824)	2,014
Realized capital losses	549	221
Equity in income of partially-owned companies and other invested assets	(344)	(179)
Depreciation expenses, principally flight equipment	1,076	851
Change in cumulative translation adjustments	(407)	(123)
Provision for finance receivable losses	194	147
Other — net	(1,789)	(176)
Total Adjustments	4,274	2,258
Net cash provided by operating activities	\$ 7,771	\$ 7,095

*See Accompanying Notes to Financial Statements.*

**AMERICAN INTERNATIONAL GROUP, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS — (Continued)**

(in millions)  
(unaudited)

	Nine Months Ended September 30,	
	2001	2000
<b>Cash Flows From Investing Activities:</b>		
Cost of fixed maturities, at amortized cost matured or redeemed	\$ —	\$ 11,789
Cost of bonds, at market sold	59,526	16,524
Cost of bonds, at market matured or redeemed	6,563	5,620
Cost of equity securities sold	4,559	3,824
Realized capital losses	(549)	(221)
Purchases of fixed maturities	(82,789)	(44,262)
Purchases of equity securities	(4,706)	(4,552)
Mortgage, policy and collateral loans granted	(2,705)	(2,187)
Repayments of mortgage, policy and collateral loans	2,563	1,633
Sales of securities available for sale	2,901	4,245
Maturities of securities available for sale	1,372	1,264
Purchases of securities available for sale	(6,721)	(5,232)
Sales of flight equipment	218	136
Purchases of flight equipment	(3,514)	(2,646)
Net additions to real estate and other fixed assets	(566)	(658)
Sales or distributions of other invested assets	2,753	3,127
Investments in other invested assets	(4,832)	(4,640)
Change in short-term investments	(3,137)	(457)
Investments in partially-owned companies	(162)	(1)
Finance receivable originations and purchases	(5,436)	(4,762)
Finance receivable principal payments received	5,425	3,966
Other net	—	(146)
	<b>(29,237)</b>	<b>(17,636)</b>
<b>Cash Flows From Financing Activities:</b>		
Change in policyholders' contract deposits	10,744	4,048
Change in trust deposits and deposits due to banks and other depositors	486	(266)
Change in commercial paper	1,696	4,599
Proceeds from notes, bonds, loans and mortgages payable	18,719	8,725
Repayments on notes, bonds, loans and mortgages payable	(10,835)	(7,731)
Proceeds from guaranteed investment agreements	8,043	6,712
Maturities of guaranteed investment agreements	(5,330)	(4,446)
Redemption of subsidiary company preferred stock	(688)	—
Proceeds from common stock issued	163	114
Proceeds from subsidiary company preferred stock issued	—	645
Cash dividends to shareholders	(632)	(580)
Acquisition of treasury stock	(1,039)	(1,244)
Other — net	102	129
	<b>21,429</b>	<b>10,705</b>
Change in cash	(37)	164
Cash at beginning of period	522	425
Cash at end of period	<b>\$ 485</b>	<b>\$ 589</b>

*See Accompanying Notes to Financial Statements.*



## AMERICAN INTERNATIONAL GROUP, INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
(in millions)  
(unaudited)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2001	2000	2001	2000
Net income	\$ 3,497	\$ 4,837	\$ 327	\$ 1,705
Other comprehensive income:				
Unrealized appreciation of investments — net of reclassification adjustments	2,460	567	1,672	1,423
Deferred income tax expense on changes	(826)	(246)	(595)	(543)
Foreign currency translation adjustments(a)	(418)	(123)	(105)	(127)
Applicable income tax benefit on changes	72	46	4	22
Cumulative effect of accounting change, net of tax(b)	150	—	—	—
Net derivative losses arising from cash flow hedging activities	(669)	—	(534)	—
Deferred income tax benefit on changes	138	—	152	—
Cumulative effect of accounting change, net of tax(c)	339	—	—	—
Total	1,246	244	594	775
Comprehensive income	\$ 4,743	\$ 5,081	\$ 921	\$ 2,480

(a) Includes immaterial derivative gains and losses arising from hedges of net investments in foreign operations.

(b) Consists of derivative gains and losses arising from the adoption of FASB 133.

(c) Represents the unrealized appreciation arising from the transfer of the bonds held to maturity portfolio to the bonds available for sale portfolio in connection with the implementation of FASB 133.

*See Accompanying Notes to Financial Statements.*

AMERICAN INTERNATIONAL GROUP, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

September 30, 2001

(unaudited)

- a) On August 29, 2001, American General Corporation (AGC) was acquired by AIG. In connection with the acquisition, AIG issued approximately 290 million shares of its common stock in an exchange for all the outstanding common stock of AGC based on an exchange ratio of 0.5790 of a share of AIG common stock for each share of AGC common stock. The acquisition was accounted for as a pooling of interests and all prior historical financial information presented herein has been restated to include AGC.

All of the share information included herein reflects the application of the exchange ratio to the number of shares of AGC common stock outstanding at the relevant times rather than the number of shares of AIG common stock actually issued and outstanding at such times.

The following is a reconciliation of the individual companies combined results for the nine months and third quarter of 2000:

	Nine Months Ended September 30, 2000			Three Months Ended September 30, 2000		
	AIG	AGC	Total	AIG	AGC	Total
	(in millions)					
Revenues	\$33,456	\$8,284	\$41,740	\$11,140	\$2,791	\$13,931
Net income	\$ 4,139	\$ 698	\$ 4,837	\$ 1,386	\$ 319	\$ 1,705

- b) These statements are unaudited. In the opinion of management, all adjustments consisting of normal recurring accruals have been made for a fair statement of the results presented herein. All material intercompany accounts and transactions have been eliminated. For further information, refer to the Annual Report on Form 10-K of AIG for the year ended December 31, 2000 (as supplemented by the Current Report on Form 8-K dated October 9, 2001).

- c) Earnings per share of AIG are based on the weighted average number of common shares outstanding during the period, retroactively adjusted to reflect all stock splits.

Cash dividends per common share reflect the adjustment for a common stock split in the form of a 50 percent common stock dividend paid July 28, 2000. The quarterly dividend rate per common share, commencing with the dividend paid September 14, 2001 is \$0.042.

- d) Cash flow information for the nine month periods ended September 30, 2001 and 2000 is as follows:

	2001	2000
	(in millions)	
Income taxes paid	\$1,140	\$1,283
Interest paid	\$3,042	\$2,650

- e) Segment Information:

The following table summarizes the operations by major operating segment for the first nine months and third quarter of 2001 and 2000 (in millions):

	Operating Segments			
	Nine Months Ended September 30,		Three Months Ended September 30,	
	2001	2000	2001	2000
Revenues(1):				
General Insurance	\$16,309	\$14,662	\$ 5,480	\$ 4,821
Life Insurance	22,749	20,317	7,825	6,741
Financial Services	4,728	4,310	1,633	1,508
Asset Management	2,608	2,591	832	886
Other	(398)	(140)	(42)	(25)
Total	\$45,996	\$41,740	\$15,728	\$13,931

[Table of Contents](#)

	Operating Segments			
	Nine Months Ended September 30,		Three Months Ended September 30,	
	2001	2000	2001	2000
Operating income:				
General Insurance	\$ 1,973	\$2,673	\$ 112	\$ 902
Life Insurance	4,123	3,573	1,336	1,199
Financial Services	1,411	1,180	490	406
Asset Management	817	832	248	282
Other	(2,902)(2)	(931)	(1,569)(2)	(191)
Total	\$ 5,422	\$7,327	\$ 617	\$2,598

(1) Represents the sum of general net premiums earned, life premium income, net investment income, financial services commissions, transaction and other fees, asset management commissions and other fees, and realized capital gains (losses).

(2) Includes pre-tax charges of \$654 million for a termination fee (\$600 million) and other related costs in connection with AGC's termination of its merger agreement with Prudential plc in the second quarter of 2001, and \$1.36 billion in acquisition, restructuring and related charges in connection with the acquisition of AGC in the third quarter of 2001. See also Note (j) of Notes to Financial Statements.

The following table summarizes AIG's general insurance operations by major reporting group for the first nine months and third quarter of 2001 and 2000 (in millions):

	General Insurance			
	Nine Months Ended September 30,		Three Months Ended September 30,	
	2001	2000	2001	2000
Revenues:				
Domestic Brokerage Group	\$ 9,238	\$ 7,659	\$3,111	\$2,464
Foreign General	4,619	4,719	1,561	1,558
Other	2,452	2,284	808	799
Total	\$16,309	\$14,662	\$5,480	\$4,821
Operating income (loss) before realized capital gains (losses)(1):				
Domestic Brokerage Group	\$ 1,014	\$ 1,499	\$ (70)	\$ 525
Foreign General	719	712	128	210
Other	387	420	143	134
Total	\$ 2,120	\$ 2,631	\$ 201	\$ 869

(1) Realized capital gains (losses) are not deemed to be an integral part of AIG's general insurance operations' internal reporting groups.

The following table summarizes AIG's life insurance operations by major reporting group for the first nine months and third quarter of 2001 and 2000 (in millions):

	Life Insurance			
	Nine Months Ended September 30,		Three Months Ended September 30,	
	2001	2000	2001	2000
Revenues:				
American International Assurance Company Ltd. and Nan Shan Life Insurance Company, Ltd.	\$ 7,668	\$ 6,983	\$2,583	\$2,307
American Life Insurance Company	4,156	4,095	1,372	1,345
Domestic Life	9,741	8,896	3,161	2,974

Other	<u>1,184</u>	<u>343</u>	<u>709</u>	<u>115</u>
Total	<u>\$22,749</u>	<u>\$20,317</u>	<u>\$7,825</u>	<u>\$6,741</u>

	Life Insurance			
	Nine Months Ended September 30,		Three Months Ended September 30,	
	2001	2000	2001	2000
Operating income before realized capital gains (losses)(1):				
American International Assurance Company Ltd. and Nan Shan Life Insurance Company, Ltd.	\$1,162	\$1,028	\$ 383	\$ 355
American Life Insurance Company	629	561	191	189
Domestic Life	2,143	2,051	631	701
Other	193	56	114	19
Total	\$4,127	\$3,696	\$1,319	\$1,264

(1) Realized capital gains (losses) are not deemed to be an integral part of AIG's life insurance operations' internal reporting groups.

The following table summarizes AIG's financial services operations by major reporting group for the first nine months and third quarter of 2001 and 2000 (in millions):

	Financial Services			
	Nine Months Ended September 30,		Three Months Ended September 30,	
	2001	2000	2001	2000
Revenues:				
International Lease Finance Corporation	\$1,937	\$1,786	\$ 659	\$ 629
AIG Financial Products Corp.	802	711	283	260
Consumer Finance Group	1,903	1,718	653	596
Other(1)	86	95	38	23
Total	\$4,728	\$4,310	\$1,633	\$1,508
Operating income:				
International Lease Finance Corporation	\$ 531	\$ 476	\$ 187	\$ 166
AIG Financial Products Corp.	524	433	170	155
Consumer Finance Group	386	294	149	101
Other(1)	(30)	(23)	(16)	(16)
Total	\$1,411	\$1,180	\$ 490	\$ 406

(1) Including AIG Trading Group Inc.

f) Computation of Earnings Per Share:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2001	2000	2001	2000
	(in millions, except per share amounts)			
Numerator:				
Income before cumulative effect of accounting changes	\$3,633	\$4,837	\$ 408	\$1,705
Cumulative effect of accounting changes, net of tax	(136)	—	(81)	—
Net income (applicable to common stock) — basic	\$3,497	\$4,837	\$ 327	\$1,705
Dividends on preferred securities	—	5	—	—
Net income (applicable to common stock) — diluted	\$3,497	\$4,842	\$ 327	\$1,705

Denominator:

Basic:

Average outstanding shares used in the computation of per share earnings:

Common stock	<b>2,766</b>	2,799	<b>2,763</b>	2,792
Common stock in treasury	<b>(144)</b>	(194)	<b>(143)</b>	(186)
Average outstanding shares — basic	<b>2,622</b>	2,605	<b>2,620</b>	2,606

[Table of Contents](#)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2001	2000	2001	2000
(in millions, except per share amounts)				
Diluted:				
Average outstanding shares used in the computation of per share earnings:				
Common stock	2,766	2,799	2,763	2,792
Common stock in treasury	(144)	(194)	(143)	(186)
Stock options and stock purchase plan (treasury stock method)	31	27	31	27
Convertible preferred securities	—	5	—	—
Average outstanding shares — diluted	2,653	2,637	2,651	2,633
Net income per share:				
Basic				
Income before cumulative effect of accounting changes	\$ 1.38	\$ 1.86	\$ 0.15	\$ 0.66
Cumulative effect of accounting changes	(0.05)	—	(0.03)	—
Net income	\$ 1.33	\$ 1.86	\$ 0.12	\$ 0.66
Diluted				
Income before cumulative effect of accounting changes	\$ 1.37	\$ 1.84	\$ 0.15	\$ 0.65
Cumulative effect of accounting changes	(0.05)	—	(0.03)	—
Net income	\$ 1.32	\$ 1.84	\$ 0.12	\$ 0.65

g) Statement of Accounting Standards No. 130 "Comprehensive Income" (FASB 130) establishes standards for reporting comprehensive income and its components as part of capital funds. The reclassification adjustments with respect to available for sale securities were \$(549) million and \$(221) million for the first nine months and \$(114) million and \$(57) million for the third quarter of 2001 and 2000, respectively.

h) Accounting Standards:

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities". In June 2000, FASB issued Statement of Financial Accounting Standards No. 138 "Accounting for Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133" (collectively, FASB 133).

FASB 133 requires AIG to recognize all derivatives in the consolidated balance sheet at fair value. The financial statement recognition of the change in the fair value of a derivative depends on a number of factors, including the intended use of the derivative and the extent to which the derivative is effective as part of a hedge transaction. The changes in fair value of the derivative transactions of AIG Financial Products Corp. and subsidiaries (AIGFP) and AIG Trading Group Inc. and subsidiaries (AIGTG) are presented as a component of AIG's operating income. The discussion below relates to the derivative activities of AIG other than those of AIGFP and AIGTG.

On the date the derivative contract is entered into, AIG designates the derivative as: (1) a hedge of the subsequent changes in the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge); (2) a hedge of a forecasted transaction, or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge); or (3) a hedge of a net investment in a foreign operation. Fair value and cash flow hedges may involve foreign currencies ("foreign currency hedges"). The gain or loss in the fair value of a derivative that is designated, qualifies and is highly effective as a fair value hedge is recorded in current period earnings along with the loss or gain on the hedged item attributable to the hedged risk. The gain or loss in the fair value of a derivative that is designated, qualifies and is highly effective as a cash flow hedge is recorded in other comprehensive income, until earnings are affected by the variability of cash flows. The gain or loss in the fair value of a derivative that is designated, qualifies and is highly effective as a hedge of a net investment in a foreign operation is recorded in the foreign currency translation adjustments account within other comprehensive income. Changes in the fair value of derivatives used for other than the above hedging activities are reported in current period earnings.

AIG documents all relationships between hedging instruments and hedged items, as well as its risk-management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as hedges to specific assets or liabilities on the balance sheet, or specific firm commitments or forecasted transactions. AIG also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

In accordance with the transition provisions of FASB 133, AIG recorded in its consolidated income statement for the first nine months of 2001 a cumulative effect of an accounting change adjustment loss of \$6 million. This loss represents the net fair value of all previously unrecorded derivative instruments as of January 1, 2001, net of tax and

## [Table of Contents](#)

after the application of hedge accounting. AIG also recorded in its consolidated statement of comprehensive income for the first nine months of 2001 a cumulative effect of an accounting change adjustment gain of \$150 million. This gain represents the increase in other comprehensive income, net of taxes, arising from recognizing the fair value of all derivative contracts designated as cash flow hedging instruments, and to a lesser extent, hedging instruments used to hedge net investments in foreign operations.

AIG (excluding its two trading operations, AIGFP and AIGTG) uses derivative instruments (principally swap and forward contracts) to hedge risk exposures to interest rate and foreign currency risks. These risks arise primarily from available-for-sale fixed income securities, debt, policyholder account balance liabilities associated with guaranteed investment contracts and net investments in foreign operations. Other hedging activities, such as those involving forecasted transactions or equity securities, are not significant. During the first nine months of 2001, there were no hedges that were discontinued or otherwise no longer qualify as hedges under FASB 133. With respect to fair value hedges, net income for the first nine months reflected a net \$3 million gain from hedge ineffectiveness. With respect to cash flow hedges, such ineffectiveness amounted to a net loss of \$1 million. During the first nine months of 2001, there were minor reclassifications to earnings from other comprehensive income under cash flow hedge accounting. These reclassifications were connected to programs of synthetically converting certain investment securities, debt issuances or policyholder account balance liabilities associated with guaranteed investment contracts, from a floating interest rate to a fixed interest rate. As at September 30, 2001, the maximum amount of net derivative losses to be reclassified into net income within the next twelve months is insignificant. The maximum length of time over which future cash flows are hedged is approximately 9 years.

In addition to hedging activities, AIG also uses derivative instruments with respect to investment operations, which include, among other things, writing option contracts, and purchasing investments with embedded derivatives, such as equity linked notes and convertible bonds. All changes in the market value of these derivatives are recorded in earnings. AIG bifurcates an embedded derivative where: (1) the economic characteristics of the embedded instruments are not clearly and closely related to those of the remaining components of the financial instrument; and (2) a separate instrument with the same terms as the embedded instrument meets the definition of a derivative under FASB 133.

In accordance with the transition provisions of FASB 133, AIG transferred bonds in the held to maturity, at amortized cost category into the bonds available for sale, at market value category. The amortized cost of the bonds transferred was \$11.53 billion. The unrealized appreciation, net of deferred tax expense was approximately \$339 million at the date of transfer and was recorded as a cumulative effect of an accounting change within other comprehensive income. Under the provisions of FASB 133, such a transfer does not affect AIG's intent nor its ability to hold current or future bonds to their maturity.

In January 2001, the Emerging Issues Task Force (EITF) issued EITF 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets." EITF 99-20 provides guidance on the calculation of interest income and the recognition of impairments related to beneficial interests held in an investment portfolio. Beneficial interests are investments that represent rights to receive specified cash flows from a pool of underlying assets (i.e., collateralized debt obligations). In accordance with the transition provisions of EITF 99-20, AIG recorded in its consolidated income statement for the first nine months of 2001 a cumulative effect of an accounting change adjustment loss of \$130 million (\$200 million before tax).

- i) On July 31, 2001 AGC redeemed all preferred securities with respect to AGC's 8.45% Cumulative Monthly Income Preferred Securities and AGC's 8 1/8% Cumulative Monthly Income Preferred Securities. These preferred securities had a total carrying value of \$502 million. The redemption price of each class of preferred security was \$25 per share, its liquidation value.
- j) Acquisition, Restructuring & Related Charges

During the third quarter of 2001, AGC was consolidated into AIG. One-time charges in connection with this acquisition totaled \$1.36 billion for the third quarter of 2001. During the second quarter of 2001, AGC incurred \$654 million in connection with the termination of its merger agreement with Prudential plc. With respect to the charges of \$1.36 billion incurred in the third quarter of 2001, approximately \$512 million were related to direct costs of the acquisition, including \$85 million in investment banking, legal and accounting fees. Direct costs of \$427 million were related to employee severance and other termination benefits, and other compensation costs related to change in control agreements with AGC executives. The costs were also based in part on a projected elimination of positions, in accordance with AIG's post-business combination plans, which will enhance the effectiveness and efficiency of the combined operations. The balance of the \$1.36 billion represented charges resulting from post-business combination plans, recognizing that certain assets will have no future economic benefit or ability to generate future revenues. Such charges include asset impairment charges related to software, leasehold improvements and certain goodwill. Also included were certain adjustments associated with conforming AGC's balances to AIG's existing accounting policies and methodologies.



[Table of Contents](#)

Less significant, ongoing costs with respect to the integration of operations will be expensed in future periods as incurred. AIG expects that these ongoing costs will include costs for the integration of computer systems, the training and relocation of certain employees and the consolidation of facilities. AIG ultimately anticipates annual savings of approximately \$400 million from the business combination, reflecting principally the benefits of reductions in redundant operations. In addition to cost savings, it is anticipated that the acquisition will result in significant revenue enhancements as a result of new products and cross marketing initiatives.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Cautionary Statement Regarding Forward-Looking

#### Information

This Quarterly Report on Form 10-Q and other publicly available documents may include, and AIG's officers and representatives may from time to time make, statements which may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These 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 of AIG's control. These statements may address, among other things, AIG's strategy for growth, product development, regulatory approvals, market position, financial results and reserves. It is possible that AIG's actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause AIG's actual results to differ, possibly materially, from those in the specific forward-looking statements are discussed throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations. AIG is not under any obligation to (and expressly disclaims any such obligations to) update or alter any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise.

#### Operational Review

##### Consolidated Results

AIG's net income declined 27.7 percent to \$3.50 billion during the first nine months of 2001. AIG's income before income taxes, minority interest, cumulative effect of accounting changes and realized capital gains (losses) declined 20.9 percent to \$5.97 billion during the first nine months of 2001. These declines resulted from the impact of the following charges:

(a) \$2.02 billion with respect to pre-tax acquisition, restructuring and related charges (see the discussions under "Other Operations" herein and Note (j) of Notes to Financial Statements); and

(b) \$900 million before taxes and minority interest share in World Trade Center (WTC) and related losses incurred in 2001 (see the discussions under "General Insurance Operations" and "Life Insurance Operations" herein and Note (j) of Notes to Financial Statements).

Excluding these charges and American General's home services operating income, which is being managed as a "closed block", from AIG's income before income taxes, minority interest, cumulative effect of accounting changes and realized capital gains (losses), adjusted operating income increased 13.2 percent to \$8.54 billion during the first nine months of 2001, due to increased growth and profitability in AIG's major businesses, including General Insurance, Life Insurance and Financial Services Operations.

The following table presents the reconciliation for the nine month periods ending September 30, 2001 and 2000 with respect to adjusted operating income:

*(in millions)*

	2001	2000	Change
Income before income taxes, minority interest, cumulative effect of accounting changes	<b>\$5,422</b>	\$7,327	(26.0)%
Realized capital losses	<b>(549)</b>	(221)	
Income before income taxes, minority interest, cumulative effect, realized capital losses	<b>5,971</b>	7,548	(20.9)
Acquisition related charges	<b>2,017</b>	315	
WTC and related losses (AIG's share is \$820 million)	<b>900*</b>	—	
Home Services operations	<b>345</b>	317	
Adjusted operating income	<b>\$8,543</b>	\$7,546	13.2%

\* Includes 100% of Transatlantic WTC and related losses.

#### General Insurance Operations

AIG's general insurance subsidiaries are multiple line companies writing substantially all lines of property and casualty insurance.

Domestic general insurance operations are comprised of the Domestic Brokerage Group (DBG), which includes The Hartford Steam Boiler

[Table of Contents](#)

Inspection and Insurance Company (HSB) and the domestic operations of Transatlantic Holdings, Inc. (Transatlantic), Personal Lines, including 21st Century Insurance Group (21st Century), and Mortgage Guaranty.

HSB was acquired on November 22, 2000, and was initially consolidated into AIG's financial statements during the fourth quarter of 2000.

DBG is AIG's primary domestic division. DBG writes substantially all classes of business insurance, accepting such business mainly from insurance brokers. This provides DBG the opportunity to select specialized markets and retain underwriting control. Any licensed broker is able to submit business to DBG without the traditional agent-company contractual relationship, but such broker usually has no authority to commit DBG to accept a risk.

Personal Lines engages in the mass marketing of personal lines insurance, primarily private passenger auto and homeowners and personal umbrella coverages.

Mortgage Guaranty provides guaranty insurance on conventional first mortgage loans on single family dwellings and condominiums.

AIG's Foreign General insurance group accepts risks primarily underwritten through American International Underwriters (AIU), a marketing unit consisting of wholly owned agencies and insurance entities. The Foreign General insurance group also includes business written by AIG's foreign-based insurance subsidiaries for their own accounts. The Foreign General insurance group uses various marketing methods to write both business and personal lines insurance with certain refinements for local laws, customs and needs. AIU operates in over 70 countries in Asia, the Pacific Rim, Europe, Africa, Middle East and Latin America. Transatlantic's foreign operations are included in this group. (See also Note (e) of Notes to Financial Statements.)

General insurance operations for the nine month periods ending September 30, 2001 and 2000 were as follows:

(in millions)

---

	2001	2000
Net premiums written:		
Domestic	\$10,434	\$ 8,612
Foreign	4,469	4,411
Total	\$14,903	\$13,023
Net premiums earned:		
Domestic	\$10,079	\$ 8,349
Foreign	4,230	4,272
Total	\$14,309	\$12,621
Adjusted underwriting profit (loss):		
Domestic	\$ (287)	\$ 361
Foreign	260	271
Total	\$ (27)	\$ 632
Net investment income:		
Domestic	\$ 1,688	\$ 1,558
Foreign	459	441
Total	\$ 2,147	\$ 1,999
Operating income before realized capital gains (losses):		
Domestic	\$ 1,401	\$ 1,919
Foreign	719	712
Total	2,120	2,631
Realized capital gains (losses)	(147)	42
Operating income	\$ 1,973	\$ 2,673

---

During the first nine months of 2001, net premiums written and net premiums earned increased 14.4 percent and 13.4 percent, respectively, from those of 2000. During the first nine months of 2001, AIG cancelled or non-renewed approximately \$374 million of business worldwide that did not meet AIG's underwriting standards.

General insurance domestic net premiums written and net premiums earned for the nine month periods ended September 30, 2001 and 2000 were as follows:

(in millions)

---

	2001	2000
<b>Net premiums written:</b>		
DBG	<b>\$ 8,212</b>	\$6,409
Personal Lines	<b>1,858</b>	1,868
Mortgage Guaranty	<b>364</b>	335
<b>Total</b>	<b>\$10,434</b>	\$8,612
<b>Net premiums earned:</b>		
DBG	<b>\$ 7,840</b>	\$6,257
Personal Lines	<b>1,878</b>	1,756
Mortgage Guaranty	<b>361</b>	336
<b>Total</b>	<b>\$10,079</b>	\$8,349

Commencing in the latter part of 1999 and continuing through 2001, the commercial property-casualty market place has experienced rate increases. Virtually all areas of DBG have experienced rate increases. Overall, DBG's net premiums written increased \$1.80 billion or 28.1 percent in the first nine months of 2001 over 2000.

## [Table of Contents](#)

Personal Lines' net premiums written decreased 0.5 percent or \$10 million in the first nine months of 2001 from 2000.

Foreign general insurance net premiums written increased 1.3 percent and net premiums earned decreased 1.0 percent in the first nine months of 2001 when compared to the same period of 2000. Foreign general insurance operations produced 30.0 percent of the general insurance net premiums written in the first nine months of 2001 and 33.9 percent in 2000.

In comparing the foreign currency exchange rates used to translate the results of AIG's foreign general operations during the first nine months of 2001 to those foreign currency exchange rates used to translate AIG's foreign general results during the same period of 2000, the U.S. dollar strengthened in value in relation to most major foreign currencies in which AIG transacts business. Accordingly, when foreign net premiums written were translated into U.S. dollars for the purposes of the preparation of the consolidated financial statements, total general insurance net premiums written were approximately 3.1 percentage points less than they would have been if translated utilizing those foreign currency exchange rates which prevailed during that same period of 2000.

Because of the nature and diversity of AIG's operations and the continuing rapid changes in the insurance industry worldwide, together with the factors discussed above, it is difficult to assess further or project future growth in AIG's net premiums written and reserve for losses and loss expenses.

Net premiums written are initially deferred and earned based upon the terms of the underlying policies. The net unearned premium reserve constitutes deferred revenues which are generally earned ratably over the policy period. Thus, the net unearned premium reserve is not fully recognized as net premiums earned until the end of the policy period.

AIG, along with most general insurance entities, uses the loss ratio, the expense ratio and the combined ratio as measures of performance. The loss ratio is the sum of losses and loss expenses incurred divided by net premiums earned. The expense ratio is statutory underwriting expenses divided by net premiums written. The combined ratio is the sum of the loss ratio and the expense ratio. These ratios are relative measurements that describe for every \$100 of net premiums earned or written, the cost of losses and statutory expenses, respectively. The combined ratio presents the total cost per \$100 of premium production. A combined ratio below 100 demonstrates underwriting profit; a combined ratio above 100 demonstrates underwriting loss. The statutory general insurance ratios, including losses with respect to WTC and related losses, were as follows:

	2001	2000
Domestic:		
Loss Ratio	86.10	80.48
Expense Ratio	17.15	16.60
Combined Ratio	103.25	97.08
Foreign:		
Loss Ratio	64.84	64.15
Expense Ratio	30.80	29.68
Combined Ratio	95.64	93.83
Consolidated:		
Loss Ratio	79.82	74.95
Expense Ratio	21.24	21.03
Combined Ratio	101.06	95.98

AIG believes that underwriting profit is the true measure of the performance of the core business of a general insurance company.

Underwriting profit is measured in two ways: statutory underwriting profit and Generally Accepted Accounting Principles (GAAP) underwriting profit.

Statutory underwriting profit is arrived at by reducing net premiums earned by net losses and loss expenses incurred and net expenses incurred. Statutory accounting differs from GAAP, as statutory accounting requires immediate expense recognition and ignores the matching of revenues and expenses as required by GAAP. That is, for statutory purposes, all expenses, most specifically acquisition expenses, are recognized immediately, not consistent with the revenues earned.

A basic premise of GAAP accounting is the recognition of expenses at the same time revenues are earned, the principle of matching. Therefore, to convert underwriting results to a GAAP basis, acquisition expenses are deferred and recognized together with the related revenues. Accordingly, the statutory underwriting profit has been adjusted as a result of acquisition expenses being deferred as required by GAAP. Thus, "adjusted underwriting profit" is a GAAP measurement which can be viewed as gross margin or an intermediate subtotal in calculating operating income and net income.

## [Table of Contents](#)

A major part of the discipline of a successful general insurance company is to produce an underwriting profit, exclusive of investment income. If underwriting is not profitable, losses incurred are a major factor. The result is that the premiums are inadequate to pay for losses and expenses and produce a profit; therefore, investment income must be used to cover underwriting losses. If assets and the income therefrom are insufficient to pay claims and expenses over extended periods, an insurance company cannot survive. For these reasons, AIG views and manages its underwriting operations separately from its investment operations.

The adjusted underwriting profit (loss) was \$(27) million for the first nine months of 2001 and \$632 million for the same period of 2000. When WTC and related losses in 2001 are excluded from losses incurred, the adjusted underwriting profit would be \$742 million for the first nine months of 2001, a 17.4 percent increase over the prior period. This increase was primarily due to the domestic adjusted underwriting profit resulting from the disciplined underwriting of DBG. The underwriting environment varies from country to country, as does the degree of litigation activity. Regulation, product type and competition have a direct impact on pricing and consequently profitability as reflected by adjusted underwriting profit and statutory general insurance ratios.

AIG's results reflect the impact of incurred losses from catastrophes approximating \$817 million (which include \$769 million with respect to WTC and related losses) and \$44 million in the first nine months of 2001 and 2000, respectively. AIG's gross incurred losses from catastrophes approximated \$2.1 billion (which includes approximately \$2.0 billion with respect to the WTC and related losses) and \$112 million in 2001 and 2000, respectively. The impact of losses caused by catastrophes can fluctuate widely from period to period, making comparisons of recurring type business more difficult. The pro forma table below excludes catastrophe losses in order to present comparable results of AIG's recurring core underwriting operations. The pro forma consolidated statutory general insurance ratios would be as follows:

	2001	2000
Loss Ratio	<b>74.11</b>	74.60
Expense Ratio	<b>21.24</b>	21.03
Combined Ratio	<b>95.35</b>	95.63

AIG's historic ability to maintain its combined ratio below 100 is primarily attributable to the profitability of AIG's foreign general insurance operations and AIG's emphasis on maintaining its disciplined underwriting, especially in the domestic specialty markets. In addition, AIG does not seek net premium growth where rates do not adequately reflect its assessment of exposures.

General insurance net investment income in the first nine months of 2001 increased 7.4 percent when compared to the same period of 2000. The growth in net investment income in 2001 was primarily attributable to new cash flow for investment. The new cash flow was generated from net general insurance operating cash flow and included the compounding of previously earned and reinvested net investment income. (See also the discussion under "Liquidity" herein.)

General insurance realized capital losses were \$147 million in the first nine months of 2001 and realized capital gains were \$42 million in 2000. These realized capital gains and losses resulted from the ongoing management of the general insurance investment portfolios within the overall objectives of the general insurance operations and arose primarily from the disposition of equity securities and available for sale fixed maturities as well as redemptions of fixed maturities.

General insurance operating income for the first nine months of 2001 decreased 26.2 percent to \$1.97 billion due to the WTC and related losses. Estimated WTC and related losses recorded in the third quarter of 2001 amounted to \$769 million, including \$200 million from Transatlantic Holdings, Inc. Adjusted general insurance operating income, which excludes WTC and related losses, as well as realized capital gains (losses), increased 9.8 percent to \$2.89 billion during the first nine months of 2001. The contribution of general insurance operating income to income before income taxes, minority interest and cumulative effect of accounting changes was 36.4 percent during the first nine months of 2001 compared to 36.5 percent in the same period of 2000.

AIG is a major purchaser of reinsurance for its general insurance operations. AIG is cognizant of the need to exercise good judgment in the selection and approval of both domestic and foreign companies participating in its reinsurance programs. AIG insures risks in over 70 countries and its reinsurance programs must be coordinated in order to provide

## [Table of Contents](#)

AIG the level of reinsurance protection that AIG desires. These reinsurance arrangements do not relieve AIG from its direct obligations to its insureds.

AIG held general reinsurance assets of \$24.81 billion at September 30, 2001 as a result of its reinsurance arrangements. Thus, a credit exposure existed at September 30, 2001 with respect to reinsurance recoverable to the extent that any reinsurer may not be able to reimburse AIG under the terms of these reinsurance arrangements. AIG manages its credit risk in its reinsurance relationships by transacting with reinsurers that it considers financially sound, and when necessary AIG holds substantial collateral in the form of funds, securities and/or irrevocable letters of credit. This collateral can be drawn on for amounts that remain unpaid beyond specified time periods on an individual reinsurer basis. At December 31, 2000, approximately 43 percent of the general reinsurance assets were from unauthorized reinsurers. In order to obtain statutory recognition, nearly all of these balances were collateralized. The remaining 57 percent of the general reinsurance assets were from authorized reinsurers and over 95 percent of such balances are from reinsurers rated A-(excellent) or better, as rated by A.M. Best. This rating is a measure of financial strength. The terms authorized and unauthorized pertain to regulatory categories, not creditworthiness. Through September 30, 2001, these distribution percentages have not significantly changed. With respect to the WTC and related losses, approximately \$1.2 billion of the \$2.0 billion in gross losses is covered by reinsurance. Approximately 99 percent of this coverage was placed with companies that are rated A or better.

AIG's allowance for estimated unrecoverable reinsurance has not significantly changed from December 31, 2000 when AIG had allowances for unrecoverable reinsurance approximating \$76 million. At that date AIG had no significant reinsurance recoverables from any individual reinsurer which is financially troubled (e.g., liquidated, insolvent, in receivership or otherwise subject to formal or informal regulatory restriction).

AIG's Reinsurance Security Department conducts ongoing detailed assessments of the reinsurance markets and current and potential reinsurers, both foreign and domestic. Such assessments include, but are not limited to, identifying if a reinsurer is appropriately licensed, and has sufficient financial capacity, and the local economic environment in which a foreign reinsurer operates. This department also reviews the nature of the risks ceded and the need for collateral. In addition, AIG's Credit Risk Committee reviews the credit limits for and concentrations with any one reinsurer.

AIG enters into certain intercompany reinsurance transactions for its general and life operations. AIG enters these transactions as a sound and prudent business practice in order to maintain underwriting control and spread insurance risk among various legal entities. These reinsurance agreements have been approved by the appropriate regulatory authorities. All material intercompany transactions have been eliminated in consolidation.

At September 30, 2001, the consolidated general reinsurance assets of \$24.81 billion include reinsurance recoverables for paid losses and loss expenses of \$3.83 billion and \$16.17 billion with respect to the ceded reserve for losses and loss expenses, including ceded losses incurred but not reported (IBNR) (ceded reserves). The ceded reserves represent the accumulation of estimates of ultimate ceded losses including provisions for ceded IBNR and loss expenses. The methods used to determine such estimates and to establish the resulting ceded reserves are continually reviewed and updated. Any adjustments therefrom are reflected in income currently. It is AIG's belief that the ceded reserves at September 30, 2001 were representative of the ultimate losses recoverable. In the future, as the ceded reserves continue to develop to ultimate amounts, the ultimate loss recoverable may be greater or less than the reserves currently ceded.

At September 30, 2001, general insurance reserves for losses and loss expenses (loss reserves) amounted to \$41.92 billion. These loss reserves represent the accumulation of estimates of ultimate losses, including IBNR, and loss expenses and amounts of discounting related to certain workers' compensation claims. At September 30, 2001, general insurance net loss reserves increased \$803 million from prior year end to \$25.75 billion. The net loss reserves represent loss reserves reduced by reinsurance recoverables, net of an allowance for unrecoverable reinsurance. The methods used to determine such estimates and to establish the resulting reserves are continually reviewed and updated. Any adjustments resulting therefrom are reflected in operating income currently. It is management's belief that the general insurance net loss reserves are adequate to cover all general insurance

## [Table of Contents](#)

net losses and loss expenses at September 30, 2001. In the future, if the general insurance net loss reserves develop deficiently, such deficiency would have an adverse impact on future results of operations.

In a very broad sense, the general loss reserves can be categorized into two distinct groups: one group being long tail casualty lines of business. Such lines include excess and umbrella liability, directors and officers' liability, professional liability, medical malpractice, general liability, products' liability, and related classes. These lines account for approximately one-half of net losses and loss expenses. The other group is short tail lines of business consisting principally of property lines, certain classes of casualty lines and includes personal lines.

Estimation of ultimate net losses and loss expenses (net losses) for long tail casualty lines of business is a complex process and depends on a number of factors, including the line and volume of the business involved. In the more recent accident years of long tail casualty lines there is limited statistical credibility in reported net losses. That is, a relatively low proportion of net losses would be reported claims and expenses and an even smaller proportion would be net losses paid. A relatively high proportion of net losses would therefore be IBNR.

A variety of actuarial methods and assumptions are normally employed to estimate net losses for long tail casualty lines. These methods ordinarily involve the use of loss trend factors intended to reflect the estimated annual growth in loss costs from one accident year to the next. For the majority of long tail casualty lines, net loss trend factors approximated four percent. Loss trend factors reflect many items including changes in claims handling, exposure and policy forms and current and future estimates of monetary inflation and social inflation. Thus, many factors are implicitly considered in estimating the year to year growth in loss costs. Therefore, AIG's carried net long tail loss reserves are judgmentally set as well as tested for reasonableness using the most appropriate loss trend factors for each class of business. In the evaluation of AIG's net loss reserves, loss trend factors vary slightly, depending on the particular class and nature of the business involved. These factors are periodically reviewed and subsequently adjusted, as appropriate, to reflect emerging trends which are based upon past loss experience.

Estimation of net losses for short tail business is less complex than for long tail casualty lines. Loss cost trends for many property lines can generally be assumed to be similar to the growth in exposure of such lines. For example, if the fire insurance coverage remained proportional to the actual value of the property, the growth in the property's exposure to fire loss can be approximated by the amount of insurance purchased.

For other property and short tail casualty lines, the loss trend is implicitly assumed to grow at the rate that reported net losses grow from one year to the next. The concerns noted above for longer tail casualty lines with respect to the limited statistical credibility of reported net losses generally do not apply to shorter tail lines.

AIG continues to receive claims asserting injuries from toxic waste, hazardous substances, and other environmental pollutants and alleged damages to cover the cleanup costs of hazardous waste dump sites (hereinafter referred to collectively as environmental claims) and indemnity claims asserting injuries from asbestos. The vast majority of these asbestos and environmental claims emanate from policies written in 1984 and prior years. AIG has established a specialized claims unit which investigates and adjusts all such asbestos and environmental claims. Commencing in 1985, standard policies contained an absolute exclusion for pollution related damage. However, AIG currently underwrites environmental impairment liability insurance on a claims made basis and excluded such claims from the analyses included herein.

Estimation of asbestos and environmental claims loss reserves is a difficult process. These asbestos and environmental claims cannot be estimated by conventional reserving techniques as previously described. Quantitative techniques frequently have to be supplemented by subjective considerations including managerial judgment. Significant factors which affect the trends which influence the development of asbestos and environmental claims are the inconsistent court resolutions and judicial interpretations which broaden the intent of the policies and scope of coverage. The current case law can be characterized as still evolving and there is little likelihood that any firm direction will develop in the near future. Additionally, the exposure for cleanup costs of hazardous waste dump sites involves issues such as allocation of responsibility among potentially responsible parties



[Table of Contents](#)

and the government's refusal to release parties. The cleanup cost exposure may significantly change if potential Congressional reauthorization of Superfund dramatically changes the current program.

In the interim, AIG and other industry members have and will continue to litigate the broadening judicial interpretation of the policy coverage and the liability issues. At the current time, it is not possible to determine the future development of asbestos and environmental claims with the same degree of reliability as is the case for other types of claims. Such development will be affected by the extent to which courts continue to expand the intent of the policies and the scope of the coverage, as they have in the past, as well as by the changes in Superfund and waste dump site coverage issues. Although the estimated liabilities for these claims are subject to a significantly greater margin of error than for other claims, the reserves carried for these claims at September 30, 2001 are believed to be adequate as these reserves are based on the known facts and current law. Furthermore, as AIG's net exposure retained relative to the gross exposure written was lower in 1984 and prior years, the potential impact of these claims is much smaller on the net loss reserves than on the gross loss reserves. In the future, if the environmental claims develop deficiently, such deficiency would have an adverse impact on future results of operations. (See the previous discussion on reinsurance collectibility herein.)

The majority of AIG's exposures for asbestos and environmental claims are excess casualty coverages, not primary coverages. Thus, the litigation costs are treated in the same manner as indemnity reserves. That is, litigation expenses are included within the limits of the liability AIG incurs. Individual significant claim liabilities, where future litigation costs are reasonably determinable, are established on a case basis.

A summary of reserve activity, including estimates for applicable IBNR, relating to asbestos and environmental claims separately and combined at September 30, 2001 and 2000 was as follows:

(in millions)				
	2001		2000	
	Gross	Net	Gross	Net
<b>Asbestos:</b>				
Reserve for losses and loss expenses at beginning of year	<b>\$1,100</b>	<b>\$ 338</b>	\$1,093	\$306
Losses and loss expenses incurred	<b>242</b>	<b>56</b>	145	34
Losses and loss expenses paid	<b>(251)</b>	<b>(90)</b>	(314)	(51)
<b>Reserve for losses and loss expenses at end of period</b>	<b>\$1,091</b>	<b>\$ 304</b>	\$ 924	\$289
<b>Environmental:</b>				
Reserve for losses and loss expenses at beginning of year	<b>\$1,345</b>	<b>\$ 517</b>	\$1,519	\$585
Losses and loss expenses incurred	<b>(38)</b>	<b>(54)</b>	58	21
Losses and loss expenses paid	<b>(153)</b>	<b>(58)</b>	(95)	(19)
<b>Reserve for losses and loss expenses at end of period</b>	<b>\$1,154</b>	<b>\$ 405</b>	\$1,482	\$587
<b>Combined:</b>				
Reserve for losses and loss expenses at beginning of year	<b>\$2,445</b>	<b>\$ 855</b>	\$2,612	\$891
Losses and loss expenses incurred	<b>204</b>	<b>2</b>	203	55
Losses and loss expenses paid	<b>(404)</b>	<b>(148)</b>	(409)	(70)
<b>Reserve for losses and loss expenses at end of period</b>	<b>\$2,245</b>	<b>\$ 709</b>	\$2,406	\$876

The gross and net IBNR included in the aforementioned reserve for losses and loss expenses at September 30, 2001 and December 31, 2000 were estimated as follows:

(in millions)

	2001		2000	
	Gross	Net	Gross	Net
<b>Combined</b>	<b>\$1,039</b>	<b>\$273</b>	\$1,042	\$314

A summary of asbestos and environmental claims count activity for the nine month periods ended September 30, 2001 and 2000 was as follows:

	2001			2000		
	Asbestos	Environmental	Combined	Asbestos	Environmental	Combined
Claims at beginning of year	<b>6,796</b>	<b>11,323</b>	<b>18,119</b>	6,746	13,432	20,178
Claims during year:						
Opened	<b>587</b>	<b>1,517</b>	<b>2,104</b>	487	1,301	1,788

Settled	(95)	(897)	(992)	(79)	(449)	(528)
Dismissed or otherwise resolved	(638)	(2,354)	(2,992)	(351)	(2,465)	(2,816)
Claims at end of period	6,650	9,589	16,239	6,803	11,819	18,622

[Table of Contents](#)

The average cost per claim settled, dismissed or otherwise resolved for the nine month periods ended September 30, 2001 and 2000 was as follows:

	2001		2000	
	Gross	Net	Gross	Net
Asbestos	\$342,400	\$122,800	\$730,200	\$118,600
Environmental	47,100	17,800	32,600	6,500
Combined	101,400	37,100	122,300	20,900

A.M. Best, an insurance rating agency, has developed a survival ratio to measure the number of years it would take a company to exhaust both its asbestos and environmental reserves for losses and loss expenses based on that company's current level of asbestos and environmental claims payments. This is a ratio derived by taking the current ending losses and loss expense reserves and dividing by the average annual payments for the prior three years. Therefore, the ratio derived is a simplistic measure of an estimate of the number of years it would be before the current ending losses and loss expense reserves would be paid off using recent average payments. The higher the ratio, the more years the reserves for losses and loss expenses cover these claims payments. These ratios are computed based on the ending reserves for losses and loss expenses over the respective claims settlements during the fiscal year. Such payments include indemnity payments and legal and loss adjustment payments. It should be noted, however, that this is an extremely simplistic approach to measuring asbestos and environmental reserve levels. Many factors, such as aggressive settlement procedures, mix of business and level of coverage provided, have significant impact on the amount of asbestos and environmental losses and loss expense reserves, ultimate payments thereof and the resultant ratio.

The developed survival ratios include both involuntary and voluntary indemnity payments. Involuntary payments are primarily attributable to court judgments, court orders, covered claims with no coverage defenses, state mandated cleanup costs, claims where AIG's coverage defenses are minimal, and settlements made less than six months before the first trial setting. Also, AIG considers all legal and loss adjustment payments as involuntary.

AIG believes voluntary indemnity payments should be excluded from the survival ratio. The special asbestos and environmental claims unit actively manages AIG's asbestos and environmental claims and proactively pursues early settlement of environmental claims for all known and unknown sites. As a result, AIG reduces its exposure to future environmental loss contingencies.

AIG's survival ratios for involuntary asbestos and environmental claims, separately and combined, were based upon a three year average payment. These ratios at September 30, 2001 and 2000 were as follows:

	2001		2000	
	Gross	Net	Gross	Net
Involuntary survival ratios:				
Asbestos	3.2	3.8	2.9	5.1
Environmental	17.5	16.0	20.7	19.4
Combined	6.6	8.0	7.8	12.2

AIG's operations are negatively impacted under guarantee fund assessment laws which exist in most states. As a result of operating in a state which has guarantee fund assessment laws, a solvent insurance company may be assessed for certain obligations arising from the insolvencies of other insurance companies which operated in that state. AIG generally records these assessments upon notice. Additionally, certain states permit at least a portion of the assessed amount to be used as a credit against a company's future premium tax liabilities. Therefore, the ultimate net assessment cannot reasonably be estimated. The guarantee fund assessments net of credits for 2000 were \$15 million. Based upon current information, AIG does not anticipate that its net assessment will be significantly different in 2001.

AIG is also required to participate in various involuntary pools (principally workers' compensation business) which provide insurance coverage for those not able to obtain such coverage in the voluntary markets. This participation is also recorded upon notification, as these amounts cannot reasonably be estimated.

### **Life Insurance Operations**

AIG's life insurance subsidiaries offer a wide range of traditional insurance and financial and investment products. Traditional products consist of individual and group life, annuity, endowment and accident and health policies. Financial and investment products consist of single premium annuity, variable annuities, guaranteed investment contracts, universal life and pensions.

[Table of Contents](#)

AIG's three principal overseas life operations are American Life Insurance Company (ALICO), American International Assurance Company, Limited together with American International Assurance Company (Bermuda) Limited (AIA) and Nan Shan Life Insurance Company, Ltd. (Nan Shan). ALICO is incorporated in Delaware and all of its business is written outside of the United States. ALICO has operations either directly or through subsidiaries in approximately 50 countries located in Europe, Africa, Latin America, the Caribbean, the Middle East, and the Far East, with Japan being the largest territory. AIA operates primarily in Hong Kong, Singapore, Malaysia and Thailand. Nan Shan operates in Taiwan. AIG's domestic life operations are comprised of three separate operations, the life insurance subsidiaries of AGC, AIG's domestic life companies and the life insurance subsidiaries of SunAmerica Inc. (SunAmerica), a Delaware corporation which owns substantially all of the subsidiaries which were owned by SunAmerica Inc., the Maryland corporation which was merged into AIG in January 1999. The domestic subsidiaries of AIG and SunAmerica sell primarily financial and investment type products, while AGC's subsidiaries sell these as well as traditional life products. (See also Note (e) of Notes to Financial Statements.)

Life insurance operations for the nine month periods ending September 30, 2001 and 2000 were as follows:

(in millions)

	2001	2000
Premium income:		
Domestic	\$ 3,763	\$ 3,572
Foreign	10,303	9,061
Total	\$ 14,066	\$ 12,633
Net investment income:		
Domestic	\$ 6,025	\$ 5,477
Foreign	2,662	2,330
Total	\$ 8,687	\$ 7,807
Operating income before realized capital losses:		
Domestic	\$ 2,143	\$ 2,051
Foreign	1,984	1,645
Total	4,127	3,696
Realized capital losses	(4)	(123)
Operating income	\$ 4,123	\$ 3,573
Life insurance in-force:*		
Domestic	\$ 505,724	\$477,576
Foreign	716,183	494,316
Total	\$1,221,907	\$971,892

\* Amounts presented were as at September 30, 2001 and December 31, 2000, respectively. September 30, 2001, included AIG Star Life Insurance Co., Ltd., (formerly The Chiyoda Mutual Life Insurance Company).

AIG's life premium income during the first nine months of 2001 represented a 11.3 percent increase from the same period in 2000. Foreign life operations produced 73.2 percent and 71.7 percent of the life premium income in 2001 and 2000, respectively.

The traditional life products, particularly individual life products, were major contributors to the growth in foreign premium income. These traditional life products, coupled with the increased distribution of financial and investment products contributed to the growth in foreign investment income. A mixture of traditional, accident and health and financial products are being sold in Japan through ALICO.

As previously discussed, the U.S. dollar strengthened in value in relation to most major foreign currencies in which AIG transacts business. Accordingly, for the first nine months of 2001, when foreign life premium income was translated into U.S. dollars for purposes of the preparation of the consolidated financial statements, total life premium income was approximately 6.8 percentage points less than it would have been if translated utilizing exchange rates prevailing in 2000.

Life insurance net investment income increased 11.3 percent during the first nine months of 2001. The growth in net investment income was primarily attributable to both foreign and domestic new cash flow for investment. The new cash flow was generated from life insurance operations and included the compounding of previously earned and reinvested net investment income. (See also the discussion under "Liquidity" herein.)

Life insurance realized capital gains (losses) for the first nine months were \$4 million in 2001 and \$123 million in 2000. These realized capital gains (losses) resulted from the ongoing management of the life insurance investment portfolios within the overall objectives of the life insurance operations and arose primarily from the disposition of equity

## [Table of Contents](#)

securities and available for sale fixed maturities as well as redemptions of fixed maturities.

Life insurance operating income increased 15.4 percent to \$4.12 billion during the first nine months of 2001 when compared to the same period last year. Estimated WTC and related losses recorded in the third quarter of 2001 amount to \$131 million. Adjusted life operating income, which excludes such losses, AGC's home services operating income which is being managed as a "closed block," as well as realized capital gains (losses), increased 15.2 percent to \$4.26 billion during the first nine months of 2001 when compared to the same period last year. The contribution of life insurance operating income to income before income taxes, minority interest and cumulative effect of accounting changes amounted to 76.1 percent during the first nine months of 2001 compared to 48.8 percent in the same period of 2000.

The risks associated with the traditional life and accident and health products are underwriting risk and investment risk. The risk associated with the financial and investment contract products is investment risk.

Underwriting risk represents the exposure to loss resulting from the actual policy experience adversely emerging in comparison to the assumptions made in the product pricing associated with mortality, morbidity, termination and expenses. AIG's foreign life companies limit their maximum underwriting exposure on traditional life insurance of a single life to approximately one million dollars of coverage and AIG's domestic life companies, including those of AGC, limit their maximum underwriting exposure on traditional life insurance of a single life to \$2.5 million of coverage by using yearly renewable term reinsurance.

The investment risk represents the exposure to loss resulting from the cash flows from the invested assets, primarily long-term fixed rate investments, being less than the cash flows required to meet the obligations of the expected policy and contract liabilities and the necessary return on investments.

To minimize its exposure to investment risk, AIG tests the cash flows from the invested assets and the policy and contract liabilities using various interest rate scenarios to assess whether there is a liquidity excess or deficit. If a rebalancing of the invested assets to the policy and contract claims became necessary and did not occur, a demand could be placed upon liquidity. (See also the discussion under "Liquidity" herein.)

The asset-liability relationship is appropriately managed in AIG's foreign operations, as it has been throughout AIG's history, even though certain territories lack qualified long-term investments or there are investment restrictions imposed by the local regulatory authorities. For example, in Japan and several Southeast Asia territories, the duration of the investments is often for a shorter period than the effective maturity of the related policy liabilities. Therefore, there is a risk that the reinvestment of the proceeds at the maturity of the initial investments may be at a yield below that of the interest required for the accretion of the policy liabilities. At December 31, 2000, the average duration of the investment portfolio in Japan was 6.0 years.

Additionally, there exists a future investment risk associated with certain policies currently in force which will have premium receipts in the future. That is, the investment of these future premium receipts may be at a yield below that required to meet future policy liabilities. The anticipated average period for the receipt and investment of these future premium receipts is 6.1 years. These durations compare with an estimated average duration of 10.4 years for the corresponding policy liabilities. These durations have not changed significantly during 2001. To maintain an adequate yield to match the interest necessary to support future policy liabilities, constant management focus is required to reinvest the proceeds of the maturing securities and to invest the future premium receipts without sacrificing investment quality. To the extent permitted under local regulation, AIG may invest in qualified longer-term securities outside Japan to achieve a closer matching in both duration and the required yield. AIG is able to manage any asset-liability duration difference through maintenance of sufficient global liquidity and to support any operational shortfall through its international financial network. (See also the discussion under "Liquidity" herein.)

The asset-liability relationship is appropriately managed in AIG's domestic operations, as there is ample supply of qualified long-term investments.

AIG uses asset-liability matching as a management tool worldwide to determine the composition of the invested assets and marketing strategies. As a part of these strategies, AIG may determine that it is economically advantageous to be temporarily in

[Table of Contents](#)

an unmatched position due to anticipated interest rate or other economic changes.

**Financial Services Operations**

AIG's financial services subsidiaries engage in diversified financial products and services including premium financing, banking services and consumer finance services.

International Lease Finance Corporation (ILFC) engages primarily in the acquisition of new and used commercial jet aircraft and the leasing and remarketing of such aircraft to airlines around the world. Also, ILFC provides, for a fee, fleet management services to certain third-party operators. (See also Note (e) of Notes to Financial Statements.)

AIG Financial Products Corp. and its subsidiaries (AIGFP) structure financial transactions, including long-dated interest rate and currency swaps and structured borrowings through notes, bonds and guaranteed investment agreements. (See also Note (e) of Notes to Financial Statements.)

AIG's Consumer Finance Group includes primarily American General Finance, Inc. and its subsidiaries (AGF) as well as AIG Consumer Finance Group, Inc.

AGF provides a wide variety of consumer finance products, including mortgages, consumer loans, retail sales finance and credit related insurance to customers in the United States. (See also Note (e) of Notes to Financial Statements.)

Financial services operations for the nine month periods ending September 30, 2001, and 2000 were as follows:

(in millions)

---

	2001	2000
Revenues:		
International Lease Finance Corporation	\$1,937	\$1,786
AIG Financial Products Corp.*	802	711
Consumer Finance Group	1,903	1,718
Other	86	95
Total	\$4,728	\$4,310
Operating income:		
International Lease Finance Corporation	\$ 531	\$ 476
AIG Financial Products Corp.	524	433
Consumer Finance Group	386	294
Other, including intercompany adjustments	(30)	(23)
Total	\$1,411	\$1,180

---

\* Represents commissions, transaction and other fees.

Financial services operating income increased 19.5 percent in the first nine months of 2001 over 2000.

Financial services operating income represented 26.0 percent of AIG's income before income taxes, minority interest and cumulative effect of accounting changes in the first nine months of 2001. This compares to 16.1 percent in the same period of 2000.

ILFC generates its revenues primarily from leasing new and used commercial jet aircraft to domestic and foreign airlines. Revenues also result from the remarketing of commercial jets for its own account, for airlines and for financial institutions. Revenues in the first nine months of 2001 increased 8.4 percent from the same period of 2000. The revenue growth resulted primarily from the increase in flight equipment available for operating lease and the increase in the relative cost of the leased fleet. Approximately 20 percent of ILFC's operating lease revenues are derived from U.S. and Canadian airlines. During the first nine months of 2001, operating income increased 11.4 percent from the same period of 2000. ILFC finances its purchases of aircraft primarily through the issuance of a variety of debt instruments. The composite borrowing rates at the end of the first nine months of 2001 and 2000 were 5.21 percent and 6.38 percent, respectively. (See also the discussions under "Capital Resources" and "Liquidity" herein and Note (e) of Notes to Financial Statements.)

ILFC is exposed to loss through non-performance of aircraft lessees, through owning aircraft which it would be unable to sell or re-lease at acceptable rates at lease expiration and through committing to purchase aircraft which it would be unable to lease. ILFC manages its lessee non-performance exposure through credit reviews and security deposit requirements. At September 30, 2001, there were 437 aircraft subject to operating leases and there was one aircraft off lease. Approximately 80 percent of ILFC's fleet is leased to non-U.S. and Canadian carriers and this fleet, the most efficient in the airline industry, continues to be in high demand from such carriers. (See also the discussions under "Capital Resources" and "Liquidity" herein.)

AIGFP participates in the derivatives dealer market conducting, primarily as principal, an interest rate, currency, equity and credit derivative products business. AIGFP also enters into structured

## [Table of Contents](#)

transactions including long-dated forward foreign exchange contracts, option transactions, liquidity facilities and investment agreements and invests in a diversified portfolio of securities. AIGFP derives substantially all its revenues from proprietary positions entered in connection with counterparty transactions rather than from speculative transactions. Revenues in the first nine months of 2001 increased 12.8 percent from the same period of 2000. During the first nine months of 2001, operating income increased 21.2 percent from the same period of 2000. As AIGFP is a transaction-oriented operation, current and past revenues and operating results may not provide a basis for predicting future performance. (See also the discussions under "Capital Resources," "Liquidity" and "Derivatives" herein and Note (e) of Notes to Financial Statements.)

AGF derives a substantial portion of its revenues from finance charges assessed on outstanding mortgages and finance receivables. AIG Consumer Finance Group, Inc., through its subsidiaries, is engaged in developing a multi-product consumer finance business with an emphasis on emerging markets.

Revenues in the first nine months of 2001 increased 10.8 percent from the same period of 2000. The growth in revenues was generally due to the growth in the average finance receivables and higher finance margins. During the first nine months of 2001, operating income increased 31.1 percent from the same period of 2000. The increase in operating income resulted from the growth as described above.

AGF is exposed to loss when contractual payments are not received. AGF manages its collection exposure through the mix of types of loans and security thereon. (See also the discussions under "Capital Resources" and "Liquidity" herein and Note (e) of Notes to Financial Statements.)

### **Asset Management Operations**

AIG's asset management operations offer a wide variety of investment vehicles and services, including variable annuities, mutual funds, and investment asset management. Such products and services are offered to individuals and institutions both domestically and internationally.

AIG's four principal asset management operations are SunAmerica's asset management operations (SAAMCo), AIG Global Investment Group, Inc. and its subsidiaries (Global Investment), AIG Capital Partners, Inc. (Cap Partners) and AGC's asset management operations through The Variable Annuity Life Insurance Company (VALIC). SAAMCo develops and sells variable annuities and other investment products, sells and manages mutual funds and provides financial services. Global Investment manages third-party institutional, retail and private equity funds invested assets on a global basis, and provides custodial services. Cap Partners organizes, and manages the invested assets of institutional investment funds and may also invest in such funds. VALIC provides tax qualified annuities to the employees of educational, healthcare and governmental entities. Each of these subsidiary operations receives fees for investment products and services provided.

Asset management operations for the nine month periods ending September 30, 2001 and 2000 were as follows:

(in millions)

---

	2001	2000
Revenues:		
AGC	\$1,725	\$1,684
SunAmerica	507	566
Other	376	341
Total	\$2,608	\$2,591
Operating Income:		
AGC	\$ 533	\$ 511
SunAmerica	169	242
Other	115	79
Total	\$ 817	\$ 832

---

Asset management operating income in the first nine months of 2001 decreased 1.8 percent when compared to the same period of 2000.

Asset management operating income represented 15.1 percent of AIG's income before income taxes, minority interest and cumulative effect of accounting changes in the first nine months of 2001. This compares to 11.4 percent in the same period of 2000.

At September 30, 2001, AIG's third party assets under management, including both retail mutual funds and institutional accounts, approximated \$37 billion.

### **Other Operations**

Other realized capital losses amounted to \$398 million, and \$140 million in the first nine months of 2001 and 2000, respectively.

[Table of Contents](#)

Other income (deductions)-net includes AIG's equity in certain minor majority-owned subsidiaries and certain partially-owned companies, realized foreign exchange transaction gains and losses in substantially all currencies and unrealized gains and losses in hyperinflationary currencies, as well as the income and expenses of the parent holding company and other miscellaneous income and expenses. In the first nine months of 2001, net deductions amounted to \$487 million. In the same period of 2000, net deductions amounted to \$476 million. Acquisition, restructuring and related charges of \$2.02 billion were incurred in connection with the acquisition of AGC, including \$654 million paid by AGC in connection with the termination of AGC's merger with Prudential plc. Charges of \$315 million in the first nine months of 2000 were incurred by AGC in connection with acquisitions by AGC prior to its acquisition by AIG. (See also Note (j) of Notes to Financial Statements.)

Income before income taxes, minority interest and cumulative effect of accounting changes amounted to \$5.42 billion in the first nine months of 2001. Income before income taxes and minority interest amounted to \$7.33 billion in the same period of 2000.

In the first nine months of 2001, AIG recorded a provision for income taxes of \$1.54 billion compared to the provision of \$2.18 billion in the same period of 2000. These provisions represent effective tax rates of 28.3 percent in the first nine months of 2001, and 29.8 percent in the same period of 2000.

Minority interest represents minority shareholders' equity in income of certain majority-owned consolidated subsidiaries. Minority interest amounted to \$254 million and \$306 million in the first nine months of 2001 and 2000, respectively.

Income before the cumulative effect of accounting changes amounted to \$3.63 billion in the first nine months of 2001 and \$4.84 billion in the same period of 2000.

Refer to "Accounting Standards" herein for details of the cumulative effect of accounting changes.

Net income amounted to \$3.50 billion in the first nine months of 2001 and \$4.84 billion in the same period of 2000. The decreases in net income over the periods resulted from those factors described above.

**Capital Resources**

At September 30, 2001, AIG had total capital funds of \$50.79 billion and total borrowings of \$66.63 billion. At that date, \$60.09 billion of such borrowings were either not guaranteed by AIG or were matched borrowings under obligations of guaranteed investment agreements (GIAs) or matched notes and bonds payable.

Total borrowings and borrowings not guaranteed or matched at September 30, 2001 and December 31, 2000 were as follows:

*(in millions)*

	2001	2000
GIAs — AIGFP	<b>\$16,308</b>	\$13,595
Commercial Paper:		
AGC <sup>(a)</sup>	3,217	1,921
AGF <sup>(a)</sup>	4,187	5,162
AIG Funding, Inc.	2,849	968
ILFC <sup>(a)</sup>	4,324	4,259
A.I. Credit Corp.	—	597
AIG Finance (Taiwan) Limited <sup>(a)</sup>	110	104
AIG Credit Card Company (Taiwan) <sup>(a)</sup>	56	36
<b>Total</b>	<b>14,743</b>	13,047
Medium Term Notes:		
AGF <sup>(a)</sup>	4,229	3,069
ILFC <sup>(a)</sup>	4,291	3,175
AIG	594	582
<b>Total</b>	<b>9,114</b>	6,826
Notes and Bonds Payable:		
ILFC <sup>(a)</sup>	6,418	5,529
AIGFP	13,816	8,755
AIG	733	720
AGC <sup>(a)</sup>	1,339	1,338
AGF <sup>(a)</sup>	2,201	2,602
<b>Total</b>	<b>24,507</b>	18,944
Loans and Mortgages Payable:		
ILFC <sup>(a)(b)</sup>	398	463
AIG Finance (Hong Kong) Limited <sup>(a)</sup>	297	346



AIG Consumer Finance Group, Inc. <sup>(a)</sup>	814	662
AIG	445	440
<b>Total</b>	<b>1,954</b>	1,911
<b>Total Borrowings</b>	<b>66,626</b>	54,323
Borrowings not guaranteed by AIG	31,881	28,666
Matched GIA borrowings	16,308	13,595
Matched notes and bonds payable — AIGFP	11,898	8,127
	<b>60,087</b>	50,388
Remaining borrowings of AIG	<b>\$ 6,539</b>	\$ 3,935

(a) These borrowings were not guaranteed or supported by AIG at September 30, 2001.

(b) Capital lease obligations.

[Table of Contents](#)

The maturity distributions of total borrowings at September 30, 2001 and December 31, 2000 were as follows:

(in millions)

---

	2001	2000
Short-term borrowings	\$19,365	\$16,254
Long-term borrowings <sup>(a)</sup>	47,261	38,069
Total borrowings	\$66,626	\$54,323

---

(a) Including commercial paper and excluding that portion of long-term debt maturing in less than one year.

During the first nine months of 2001, AIGFP increased the aggregate principal amount outstanding of its notes and bonds payable to \$13.8 billion. AIGFP uses the proceeds from the issuance of notes and bonds and GIA borrowings to invest in a diversified portfolio of securities and derivative transactions. The funds may also be temporarily invested in securities purchased under agreements to resell. (See also the discussions under "Operational Review", "Liquidity" and "Derivatives" herein.)

AIG Funding, Inc. (Funding), through the issuance of commercial paper, fulfills the short-term cash requirements of AIG and its non-insurance subsidiaries. Funding intends to continue to meet AIG's funding requirements through the issuance of commercial paper guaranteed by AIG. This issuance of Funding's commercial paper is subject to the approval of AIG's Board of Directors. ILFC and A.I. Credit Corp. (AICCO) as well as AIG Credit Card Company (Taiwan) — (AIGCCC-Taiwan) and AIG Finance (Taiwan) Limited — (AIGF-Taiwan), both consumer finance subsidiaries in Taiwan, AGC and AGF have issued commercial paper for the funding of their own operations. At September 30, 2001, AIG did not guarantee or support the commercial paper of any of its subsidiaries other than Funding but as of November 2001, AIG guarantees the commercial paper of AGC. In early 2001, AICCO ceased issuing commercial paper under its program and the agreement which AIG had provided supporting the commercial paper was terminated; AICCO's funding requirements are now met through Funding's program. (See also the discussion under "Derivatives" herein.)

AIG and Funding have entered into syndicated revolving credit facilities (collectively, the Facility) aggregating \$1.5 billion. The Facility consists of \$1.0 billion in a short-term revolving credit facility and a \$500 million five year revolving credit facility. The Facility can be used for general corporate purposes and also to provide backup for AIG's commercial paper programs administered by Funding. There are currently no borrowings outstanding under the Facility, nor were any borrowings outstanding as of September 30, 2001.

AGC and AGF have entered into a \$5.2 billion unsecured bank credit facility to support their commercial paper borrowings. There were no borrowings under this facility as of September 30, 2001. AGC had \$400 million in aggregate principal amount of debt securities registered and available for issuance as of September 30, 2001. AGF had \$3.5 billion in aggregate principal amount of debt securities registered and available for issuance at September 30, 2001. AGC uses the proceeds from the issuance of notes and bonds for general corporate purposes. AGF uses the proceeds from the issuance of notes and bonds for the funding of its finance receivables. As of November 2001, AIG guarantees the notes and bonds of AGC.

At September 30, 2001, ILFC had increased the aggregate principal amount outstanding of its medium term and term notes to \$10.71 billion, a net increase of \$2.0 billion, and recorded a net decline in its capital lease obligations of \$65 million and a net increase in its commercial paper of \$65 million. At September 30, 2001, ILFC had \$2.50 billion in aggregate principal amount of debt securities registered for issuance from time to time. In addition, ILFC has a Euro Medium Term Note Program for \$2.0 billion, under which \$771 million in notes were sold through September 30, 2001.

ILFC has a \$4.3 billion Export Credit Facility for use in connection with the purchase of approximately 75 aircraft to be delivered through 2001. ILFC has the right, but is not required, to use the facility to fund 85 percent of each aircraft's purchase price. This facility is guaranteed by various European Export Credit Agencies. The interest rate varies from 5.75 percent to 5.90 percent on these aircraft depending on the delivery date of the aircraft. Through September 30, 2001, ILFC borrowed \$2.8 billion under this facility. Borrowings with respect to this facility are included in Notes and Bonds Payable in the accompanying table of borrowings.

The proceeds of ILFC's debt financing are primarily used to purchase flight equipment, including progress payments during the construction phase. The primary sources for the repayment of

## [Table of Contents](#)

this debt and the interest expense thereon are the cash flow from operations, proceeds from the sale of flight equipment and the rollover and refinancing of the prior debt. (See also the discussions under "Operational Review" and "Liquidity" herein.)

During the first nine months of 2001, AIG issued \$129 million principal amount of medium term notes and \$117 million of previously issued notes matured. At September 30, 2001, AIG had \$652 million in aggregate principal amount of debt securities registered for issuance from time to time.

On November 9, 2001, AIG received proceeds of approximately \$1 billion from the issuance of Zero Coupon Convertible Senior Debentures Due 2031 with an aggregate principal amount at maturity of approximately \$1.52 billion.

AIG's capital funds increased \$3.35 billion during the first nine months of 2001. Unrealized appreciation of investments, net of taxes increased \$1.63 billion. During the first nine months of 2001, the cumulative translation adjustment loss, net of taxes, increased \$346 million. The change from period to period with respect to the unrealized appreciation of investments, net of taxes was primarily impacted by the decline in domestic interest rates. The transfer of bonds in the held to maturity, at amortized cost category to the bonds available for sale, at market value category in accordance with the transition provisions of FASB 133 resulted in a gain of \$339 million recorded in the statement of comprehensive income as a cumulative effect of an accounting change adjustment. (See also the discussion under "Operational Review" and "Liquidity" herein.) At September 30, 2001, capital funds included a cumulative effect of an accounting change adjustment gain of \$150 million. During the first nine months of 2001, there was a loss of \$531 million, net of taxes relating to derivative contracts designated as cash flow hedging instruments. (See also the discussion under Notes to Financial Statements and the Consolidated Statement of Comprehensive Income.) During the first nine months of 2001, retained earnings increased \$2.87 billion, resulting from net income less dividends.

During the period from January 2001 through September 30, 2001, AIG repurchased in the open market 13,619,900 shares of its common stock. Included in these repurchases were approximately 10 million shares which were exempt from pooling of interests accounting restrictions under orders issued by the SEC following the WTC disaster. AIG intends to continue to buy its common shares in the open market for general corporate purposes, including to satisfy its obligations under various employee benefit plans.

Payments of dividends to AIG by its insurance subsidiaries are subject to certain restrictions imposed by statutory authorities. AIG has in the past reinvested most of its unrestricted earnings in its operations and believes such continued reinvestment in the future will be adequate to meet any foreseeable capital needs. However, AIG may choose from time to time to raise additional funds through the issuance of additional securities. At September 30, 2001, there were no significant statutory or regulatory issues which would impair AIG's financial condition, results of operations or liquidity. To AIG's knowledge, no AIG company is on any regulatory or similar "watch list". (See also the discussion under "Liquidity" herein.)

AIG's insurance subsidiaries, in common with other insurers, are subject to regulation and supervision by the states and jurisdictions in which they do business. The National Association of Insurance Commissioners (NAIC) has developed Risk-Based Capital (RBC) requirements. RBC relates an individual insurance company's statutory surplus to the risk inherent in its overall operations. At September 30, 2001, the adjusted capital of each of AIG's domestic general companies and of each of AIG's domestic life companies exceeded each of their RBC standards by considerable margins.

A substantial portion of AIG's general insurance business and a majority of its life insurance business are conducted in foreign countries. The degree of regulation and supervision in foreign jurisdictions varies from minimal in some to stringent in others. Generally, AIG, as well as the underwriting companies operating in such jurisdictions, must satisfy local regulatory requirements. Licenses issued by foreign authorities to AIG subsidiaries are subject to modification and revocation. Thus, AIG's insurance subsidiaries could be prevented from conducting future business in certain of the jurisdictions where they currently operate. AIG's international operations include operations in various developing nations. Both current and future foreign operations could be adversely affected by unfavorable political developments up to and including nationalization of AIG's operations without compensation. Adverse effects resulting from any one country may impact AIG's results of operations, liquidity and financial condition depending on the

[Table of Contents](#)

magnitude of the event and AIG's net financial exposure at that time in that country.

## Liquidity

AIG's liquidity is primarily derived from the operating cash flows of its general and life insurance operations.

At September 30, 2001, AIG's consolidated invested assets included \$10.13 billion of cash and short-term investments. Consolidated net cash provided from operating activities in the first nine months of 2001 amounted to \$7.77 billion.

Sources of funds considered in meeting the objectives of AIG's financial services operations include guaranteed investment agreements, issuance of long and short-term debt, maturities and sales of securities available for sale, securities sold under repurchase agreements, trading liabilities, securities and spot commodities sold but not yet purchased, issuance of equity, and cash provided from such operations. AIG's strong capital position is integral to managing this liquidity, as it enables AIG to raise funds in diverse markets worldwide. (See also the discussions under "Capital Resources" herein.)

Management believes that AIG's liquid assets, its net cash provided by operations, and access to the capital markets will enable it to meet any foreseeable cash requirements.

The liquidity of the combined insurance operations is derived both domestically and abroad. The combined insurance operating cash flow is derived from two sources, underwriting operations and investment operations. In the aggregate, AIG's insurance operations generated approximately \$23.3 billion in pre-tax cash flow during the first nine months of 2001. Cash flow includes periodic premium collections, including policyholders' contract deposits, paid loss recoveries less reinsurance premiums, losses, benefits, acquisition and operating expenses. Generally, there is a time lag from when premiums are collected and, when as a result of the occurrence of events specified in the policy, the losses and benefits are paid. AIG's insurance investment operations generated approximately \$10.3 billion in investment income cash flow during the first nine months of 2001. Investment income cash flow is primarily derived from interest and dividends received and includes realized capital gains net of realized capital losses.

In addition to the combined insurance pre-tax operating cash flow, AIG's insurance operations held \$8.87 billion in cash and short-term investments at September 30, 2001. The aforementioned operating cash flow and the cash and short-term balances held provided AIG's insurance operations with a significant amount of liquidity.

This liquidity is available, among other things, to purchase high quality and diversified fixed income securities and to a lesser extent marketable equity securities and to provide mortgage loans on real estate, policy loans and collateral loans. This cash flow coupled with proceeds of approximately \$71 billion from the maturities, sales and redemptions of fixed income securities and from the sale of equity securities was used to purchase approximately \$87 billion of fixed income securities and marketable equity securities during the first nine months of 2001.

The following table is a summary of AIG's invested assets by significant segment, including investment income due and accrued of \$3.79 billion and \$3.52 billion and real estate of \$2.16 billion and \$2.08 billion, at September 30, 2001 and December 31, 2000, respectively:

*(dollars in millions)*

	September 30, 2001		December 31, 2000	
	Invested Assets	Percent of Total	Invested Assets	Percent of Total
General insurance	\$ 44,153	12.6%	\$ 42,892	14.1%
Life insurance	202,016	57.6	171,019	56.2
Financial services and asset management	103,389	29.5	89,479	29.4
Other	911	0.3	831	0.3
Total	\$350,469	100.0%	\$304,221	100.0%

[Table of Contents](#)

**Insurance Invested Assets**

The following tables summarize the composition of AIG's insurance invested assets by insurance segment, including investment income due and accrued and real estate, at September 30, 2001 and December 31, 2000:

(dollars in millions)

September 30, 2001	General Insurance	Life Insurance	Total	Percent of Total	Percent Distribution	
					Domestic	Foreign
Fixed maturities:						
Available for sale, at market value <sup>(a)</sup>	\$30,318	\$157,946	\$188,264	76.5%	73.3%	26.7%
Equity securities, at market value <sup>(b)</sup>	4,347	2,479	6,826	2.8	55.7	44.3
Mortgage loans on real estate, policy and collateral loans	65	16,609	16,674	6.8	73.2	26.8
Short-term investments, including time deposits, and cash	1,759	7,106	8,865	3.6	63.8	36.2
Real estate	414	1,614	2,028	0.8	25.3	74.7
Investment income due and accrued	589	3,079	3,668	1.5	64.0	36.0
Other invested assets	6,661	13,183	19,844	8.0	80.8	19.2
<b>Total</b>	<b>\$44,153</b>	<b>\$202,016</b>	<b>\$246,169</b>	<b>100.0%</b>	<b>72.5%</b>	<b>27.5%</b>

(a)Includes \$915 million of bonds trading securities, at market value.

(b)Includes \$1.37 billion of non-redeemable preferred stocks, at market value.

(dollars in millions)

December 31, 2000	General Insurance	Life Insurance	Total	Percent of Total	Percent Distribution	
					Domestic	Foreign
Fixed maturities:						
Available for sale, at market value <sup>(a)</sup>	\$18,168	\$135,212	\$153,380	71.7%	71.6%	28.4%
Held to maturity, at amortized cost	11,533	—	11,533	5.4	100.0	—
Equity securities, at market value <sup>(b)</sup>	4,666	3,112	7,778	3.6	60.0	40.0
Mortgage loans on real estate, policy and collateral loans	65	16,860	16,925	7.9	74.0	26.0
Short-term investments, including time deposits, and cash	1,448	4,839	6,287	2.9	51.6	48.4
Real estate	408	1,565	1,973	0.9	25.3	74.7
Investment income due and accrued	584	2,773	3,357	1.6	64.0	36.0
Other invested assets	6,020	6,658	12,678	6.0	88.4	11.6
<b>Total</b>	<b>\$42,892</b>	<b>\$171,019</b>	<b>\$213,911</b>	<b>100.0%</b>	<b>72.8%</b>	<b>27.2%</b>

(a)Includes \$846 million of bonds trading securities, at market value.

(b)Includes \$1.19 billion of non-redeemable preferred stocks, at market value.

Generally, insurance regulations restrict the types of assets in which an insurance company may invest.

With respect to fixed maturities, AIG's general strategy is to invest in high quality securities while maintaining diversification to avoid significant exposure to issuer, industry and/or country concentrations. With respect to general insurance, AIG's strategy is to invest in longer duration fixed maturities to maximize the yields at the date of purchase. With respect to life insurance, AIG's strategy is to produce cash flows required to meet maturing insurance liabilities. (See also the discussion under "Operational Review: Life Insurance Operations" herein.)

The fixed maturity available for sale portfolio is subject to decline in fair value as interest rates rise. Such declines in fair value are presented as a component of comprehensive income in unrealized appreciation of investments, net of taxes.

At September 30, 2001, approximately 73 percent of the fixed maturities investments were domestic securities. Approximately 31 percent of such domestic securities were rated AAA. Approximately 9 percent were below investment grade or not rated.

A significant portion of the foreign insurance fixed income portfolio is rated by Moody's, Standard & Poor's (S&P) or similar foreign services. Similar credit quality rating services are not available in all overseas locations. AIG annually reviews the credit quality of the foreign portfolio nonrated fixed income investments, including mortgages. At September 30, 2001, approximately 10 percent of the foreign fixed income investments were either rated AAA or, on the basis of AIG's internal analysis, were equivalent from a credit standpoint to

## [Table of Contents](#)

securities so rated. Approximately 15 percent were below investment grade or not rated at that date. A large portion of the foreign insurance fixed income portfolio are sovereign fixed maturity securities supporting the policy liabilities in the country of issuance.

At September 30, 2001, approximately 19 percent of the fixed maturities portfolio was collateralized mortgage obligations (CMOs), including commercial mortgage backed securities. Substantially all of the CMOs were investment grade and approximately 28 percent of the CMOs were backed by various U.S. government agencies. CMOs are exposed to interest rate risk as the duration and ultimate realized yield would be affected by the accelerated prepayments of the underlying mortgages.

Any fixed income security may be subject to downgrade for a variety of reasons subsequent to any balance sheet date.

AIG invests in equities for various reasons, including diversifying its overall exposure to interest rate risk. Equity securities are subject to declines in fair value. Such declines in fair value are presented in unrealized appreciation of investments, net of taxes as a component of comprehensive income.

Mortgage loans on real estate, policy and collateral loans comprised 6.8 percent of AIG's insurance invested assets at September 30, 2001. AIG's insurance operations' holdings of real estate mortgages amounted to \$10.59 billion of which 86.0 percent was domestic. At September 30, 2001, only a nominal amount were in default. It is AIG's practice to maintain a maximum loan to value ratio of 75 percent at loan origination. At September 30, 2001, AIG's insurance holdings of collateral loans amounted to \$692 million, all of which were foreign. It is AIG's strategy to enter into mortgage and collateral loans as an adjunct primarily to life insurance fixed maturity investments. AIG's policy loans decreased from \$5.47 billion at December 31, 2000 to \$5.39 billion at September 30, 2001.

Short-term investments represent amounts invested in various internal and external money market funds, time deposits and cash held.

AIG's real estate investment properties are primarily occupied by AIG's various operations. The current market value of these properties considerably exceeds their carrying value.

Other invested assets were primarily comprised of both foreign and domestic private placements, limited partnerships and outside managed funds.

When permitted by regulatory authorities and when deemed necessary to protect insurance assets, including invested assets, from adverse movements in foreign currency exchange rates, interest rates and equity prices, AIG and its insurance subsidiaries may enter into derivative transactions as end users. To date, such activities have not been significant. (See also the discussion under "Derivatives" herein.)

In certain jurisdictions, significant regulatory and/or foreign governmental barriers exist which may not permit the immediate free flow of funds between insurance subsidiaries or from the insurance subsidiaries to AIG parent. These barriers generally cause only minor delays in the outward remittance of the funds.

AIG's insurance operations are exposed to market risk. Market risk is the risk of loss of fair value resulting from adverse fluctuations in interest and foreign currency exchange rates and equity prices.

Measuring potential losses in fair values has recently become the focus of risk management efforts by many companies. Such measurements are performed through the application of various statistical techniques. One such technique is Value at Risk (VaR). VaR is a summary statistical measure that uses historical interest and foreign currency exchange rates and equity prices and estimates the volatility and correlation of each of these rates and prices to calculate the maximum loss that could occur over a defined period of time given a certain probability.

AIG believes that statistical models alone do not provide a reliable method of monitoring and controlling market risk. While VaR models are relatively sophisticated, the quantitative market risk information generated is limited by the assumptions and parameters established in creating the related models. Therefore, such models are tools and do not substitute for the experience or judgment of senior management.

AIG has performed a VaR analysis to estimate the maximum potential loss of fair value for each of AIG's insurance segments and for each market risk within each insurance segment. In this analysis, financial instrument assets include the domestic and

[Table of Contents](#)

foreign invested assets excluding real estate and investment income due and accrued. Financial instrument liabilities include reserve for losses and loss expenses, reserve for unearned premiums, future policy benefits for life and accident and health insurance contracts and policyholders' funds.

Due to the nature of each insurance segment, AIG manages the general and life insurance operations separately. As a result, AIG manages separately the invested assets of each. Accordingly, the VaR analysis was separately performed for the general and the life insurance operations.

AIG calculated the VaR with respect to the net fair value of each of AIG's insurance segments as of September 30, 2001 and December 31, 2000. AIG's methodology for calculating VaR and the results of the calculations presented herein were performed using historical simulation. Using historical simulation over the delta-normal approach does not significantly change the results of this disclosure. The historical simulation methodology entails re-pricing all assets and liabilities under explicit changes in market rates within a specific historical time period. In this case, the most recent three years of historical market information for interest rates, foreign exchange rates, and equity index prices were used to construct the historical scenarios. For each scenario, each transaction was re-priced. Portfolio, business unit and finally AIG-wide scenario values were then calculated by netting the values of all the underlying assets and liabilities. The final VaR number represents the maximum potential loss incurred by these scenarios with 95% confidence (i.e., only 5% of historical scenarios show losses greater than the VaR figure). A one month holding period was assumed in computing the VaR figure.

The following table presents the VaR on a combined basis and of each component of market risk for each of AIG's insurance segments as of September 30, 2001 and December 31, 2000. VaR with respect to combined operations cannot be derived by aggregating the individual risk or segment amounts presented herein.

(in millions)

Market Risk	General Insurance		Life Insurance	
	2001	2000	2001	2000
Combined	\$ 810	\$ 744	\$1,675	\$1,456
Interest rate	441	454	1,631	1,422
Currency	42	59	175	373
Equity	778	603	332	384

The following table presents the average, high and low VaRs on a combined basis and of each component of market risk for each of AIG's insurance segments as of September 30, 2001 and December 31, 2000.

(in millions)

	2001			2000		
	Average	High	Low	Average	High	Low
<b>General Insurance</b>						
Market Risk						
Combined	\$ 802	\$ 837	\$ 744	\$ 811	\$ 954	\$ 737
Interest rate	455	464	441	419	454	338
Currency	49	59	42	49	65	29
Equity	749	812	603	694	828	603
<b>Life Insurance</b>						
Market Risk						
Combined	\$1,495	\$1,675	\$1,354	\$1,355	\$1,456	\$1,254
Interest rate	1,472	1,631	1,364	1,296	1,422	1,169
Currency	244	373	175	430	566	372
Equity	364	384	332	423	384	462

**Financial Services and Asset Management Invested Assets**

The following table is a summary of the composition of AIG's financial services and asset management invested assets at September 30, 2001 and December 31, 2000. (See also the discussions under "Operational Review: Financial Services Operations", "Operational Review: Asset Management Operations", "Capital Resources" and "Derivatives" herein.)

(dollars in millions)

	2001		2000	
	Invested Assets	Percent of Total	Invested Assets	Percent of Total
Flight equipment primarily under operating leases, net of accumulated depreciation	\$ 22,027	21.3%	\$19,325	21.6%
Finance receivables, net of allowance	11,196	10.8	11,378	12.7
Unrealized gain on interest rate and currency swaps, options and forward transactions	12,863	12.4	10,235	11.5
Securities available for sale, at market value	17,123	16.6	14,669	16.4
Trading securities, at market value	6,631	6.4	7,347	8.2
Securities purchased under agreements to resell, at contract value	19,546	18.9	14,979	16.7
Trading assets	7,921	7.7	7,045	7.9
Spot commodities, at market value	498	0.5	363	0.4
Other, including short-term investments	5,584	5.4	4,138	4.6
<b>Total</b>	<b>\$103,389</b>	<b>100.0%</b>	<b>\$89,479</b>	<b>100.0%</b>

As previously discussed, the cash used for the purchase of flight equipment is derived primarily from the proceeds of ILFC's debt financings. The primary sources for the repayment of this debt and the interest expense thereon are the cash flow from operations, proceeds from the sale of flight equipment and the rollover and refinancing of the prior debt. During the first nine months of 2001, ILFC acquired flight equipment costing \$3.51 billion.

ILFC is exposed to market risk and the risk of loss of fair value resulting from adverse fluctuations in interest rates. As of September 30, 2001 and December 31, 2000, AIG statistically measured the aforementioned loss of fair value through the application of a VaR model. In this analysis, the net fair value of ILFC was determined using the financial instrument assets which included the tax adjusted future flight equipment lease revenue and the financial instrument liabilities which included the future servicing of the current debt. The estimated impact of the current derivative positions was also taken into account.

AIG calculated the VaR with respect to the net fair value of ILFC using the historical simulation methodology, as previously described. As of September 30, 2001 and December 31, 2000, the VaR with respect to the aforementioned net fair value of ILFC was approximately \$7 million and \$11 million, respectively.

AIGFP's derivative transactions are carried at market value or at estimated fair value when market prices are not readily available. AIGFP reduces its economic risk exposure through similarly valued offsetting transactions including swaps, trading securities, options, forwards and futures. The estimated fair values of these transactions represent assessments of the present value of expected future cash flows. These transactions are exposed to liquidity risk if AIGFP were to sell or close out the transactions prior to maturity. AIG believes that the impact of any such limited liquidity would not be significant to AIG's financial condition or its overall liquidity. (See also the discussion under "Operational Review: Financial Services Operations" and "Derivatives" herein.)

AIGFP uses the proceeds from the issuance of notes and bonds and GIA borrowings to invest in a diversified portfolio of securities, including securities available for sale, at market, and derivative transactions. The funds may also be temporarily invested in securities purchased under agreements to resell. The proceeds from the disposal of the aforementioned securities available for sale and securities purchased under agreements to resell have been used to fund the maturing GIAs or other AIGFP financings. (See also the discussion under "Capital Resources" herein.)

Securities available for sale is mainly a portfolio of debt securities, where the individual securities have varying degrees of credit risk. At September 30, 2001, the average credit rating of this portfolio was AA or the equivalent thereto as deter-



[Table of Contents](#)

mined through rating agencies or internal review. AIGFP has also entered into credit derivative transactions to hedge its credit risk associated with \$182 million of these securities. There were no securities deemed below investment grade at September 30, 2001. There have been no significant downgrades through November 1, 2001. Securities purchased under agreements to resell are treated as collateralized transactions. AIGFP takes possession of or obtains a security interest in securities purchased under agreements to resell. AIGFP further minimizes its credit risk by monitoring counterparty credit exposure and, when AIGFP deems necessary, it requires additional collateral to be deposited. Trading securities, at market value are marked to market daily and are held to meet the short-term risk management objectives of AIGFP.

AIG Trading Group Inc. and its subsidiaries (AIGTG) conduct, as principal, market making and trading activities in foreign exchange, interest rates and precious and base metals. AIGTG owns inventories in the commodities in which it trades and may reduce the exposure to market risk through the use of swaps, forwards, futures and option contracts. AIGTG uses derivatives to manage the economic exposure of its various trading positions and transactions from adverse movements of interest rates, foreign currency exchange rates and commodity prices. AIGTG supports its trading activities largely through trading liabilities, unrealized losses on swaps, short-term borrowings, securities sold under agreements to repurchase and securities and commodities sold but not yet purchased. (See also the discussions under "Capital Resources" and "Derivatives" herein.)

The gross unrealized gains and gross unrealized losses of AIGFP and AIGTG included in the financial services assets and liabilities at September 30, 2001 were as follows:

(in millions)

	Gross Unrealized Gains	Gross Unrealized Losses
Securities available for sale, at market value	\$ 1,112	\$ 1,080
Unrealized gain/loss on interest rate and currency swaps, options and forward transactions <sup>(a)(b)</sup>	12,863	10,548
Trading assets	7,226	5,696
Spot commodities, at market value	—	36
Trading liabilities	—	1,757
Securities and spot commodities sold but not yet purchased, at market value	274	—

(a) These amounts are also presented as the respective balance sheet amounts.

(b) At September 30, 2001, AIGTG's replacement values with respect to interest rate and currency swaps were \$503 million.

AIGFP's interest rate and currency risks on securities available for sale, at market, are managed by taking offsetting positions on a security by security basis, thereby offsetting a significant portion of the unrealized appreciation or depreciation. At September 30, 2001, the unrealized gains and losses remaining after the benefit of the offsets were \$70 million and \$38 million, respectively.

Trading securities, at market value, and securities and spot commodities sold but not yet purchased, at market value are marked to market daily with the unrealized gain or loss being recognized in income at that time. These securities and positions are held to meet the short-term risk management objectives of AIGFP and AIGTG.

The senior management of AIG defines the policies and establishes general operating parameters for AIGFP and AIGTG. AIG's senior management has established various oversight committees to review the various financial market, operational and credit issues of AIGFP and AIGTG. The senior managements of AIGFP and AIGTG report the results of their respective operations to and review future strategies with AIG's senior management.

AIG actively manages the exposures to limit potential losses, while maximizing the rewards afforded by these business opportunities. In doing so, AIG must continually manage a variety of exposures including credit, market, liquidity, operational and legal risks.

Market risk arises principally from the uncertainty that future earnings are exposed to potential changes in volatility, interest rates, foreign currency exchange rates, and equity and commodity prices. AIG generally controls its exposure to market risk by taking offsetting positions. AIG's philosophy with respect to its financial services operations is to minimize or set limits for open or uncovered positions that are to be carried. Credit risk exposure is

## [Table of Contents](#)

separately managed. (See the discussion on the management of credit risk below.)

AIG's Market Risk Management Department provides detailed independent review of AIG's market exposures, particularly those market exposures of AIGFP and AIGTG. This department determines whether AIG's market risks, as well as those market risks of individual subsidiaries, are within the parameters established by AIG's senior management. Well established market risk management techniques such as sensitivity analysis are used. Additionally, this department verifies that specific market risks of each of certain subsidiaries are managed and hedged by that subsidiary.

AIGFP is exposed to market risk due to changes in the level and volatility of interest rates and the shape and slope of the yield curve. AIGFP hedges its exposure to interest rate risk by entering into transactions such as interest rate swaps and options and purchasing U.S. and foreign government obligations.

AIGFP is exposed to market risk due to changes in and volatility of foreign currency exchange rates. AIGFP hedges its foreign currency exchange risk primarily through the use of currency swaps, options, forwards and futures.

AIGFP is exposed to market risk due to changes in the level and volatility of equity prices which affect the value of securities or instruments that derive their value from a particular stock, a basket of stocks or a stock index. AIGFP reduces the risk of loss inherent in its inventory in equity securities by entering into hedging transactions, including equity swaps and options and purchasing U.S. and foreign government obligations.

AIGFP does not seek to manage the market risk of each of its transactions through an individual offsetting transaction. Rather, AIGFP takes a portfolio approach to the management of its market risk exposure. AIGFP values its portfolio at market value or estimated fair value when market values are not readily available. These valuations represent an assessment of the present values of expected future cash flows of AIGFP's transactions and may include reserves for such risks as are deemed appropriate by AIGFP's and AIG's management. AIGFP evaluates the portfolio's discounted cash flows with reference to current market conditions, maturities within the portfolio and other relevant factors. Based upon this evaluation, AIGFP determines what, if any, offsetting transactions are necessary to reduce the market risk exposure of the portfolio.

The aforementioned estimated fair values are based upon the use of valuation models. These models utilize, among other things, current interest, foreign exchange and volatility rates. These valuation models are integrated into the evaluation of the portfolio, as described above, in order to provide timely information for the market risk management of the portfolio.

Additionally, depending upon the changes in interest rates and other market movements during the day, the system will produce reports for management's consideration for intra-day offsetting positions. Overnight, the system generates reports which recommend the types of offsets management should consider for the following day. Additionally, AIGFP operates in major business centers overseas and is essentially open for business 24 hours a day. Thus, the market exposure and offset strategies are monitored, reviewed and coordinated around the clock. Therefore, offsetting adjustments can be made as and when necessary from any AIGFP office in the world.

As part of its monitoring and controlling of its exposure to market risk, AIGFP applies various testing techniques which reflect potential market movements. These techniques vary by currency and are regularly changed to reflect factors affecting the derivatives portfolio. In addition to the daily monitoring, AIGFP's senior management and local risk managers conduct a weekly review of the derivatives portfolio and existing hedges. This review includes an examination of the portfolio's risk measures, such as aggregate option sensitivity to movements in market variables. AIGFP's management may change these measures to reflect their judgment and evaluation of the dynamics of the markets. This management group will also determine whether additional or alternative action is required in order to manage the portfolio.

All of AIGTG's market risk sensitive instruments are entered into for trading purposes. The fair values of AIGTG's financial instruments are exposed to market risk as a result of adverse market changes in interest rates, foreign currency exchange rates, commodity prices and adverse changes in the liquidity of the markets in which AIGTG trades.

AIGTG's approach to managing market risk is to establish an appropriate offsetting position to a

[Table of Contents](#)

particular transaction or group of transactions depending upon the extent of market risk AIGTG expects to reduce.

AIGTG's senior management has established positions and stop-loss limits for each line of business. AIGTG's traders are required to maintain positions within these limits. These positions are monitored during the day either manually and/or through on-line computer systems. In addition, these positions are reviewed by AIGTG's management. Reports which present each trading books position and the prior day's profit and loss are reviewed by traders, head traders and AIGTG's senior management. Based upon these and other reports, AIGTG's senior management may determine to adjust AIGTG's risk profile.

AIGTG attempts to secure reliable current market prices, such as published prices or third party quotes, to value its derivatives. Where such prices are not available, AIGTG uses an internal methodology which includes interpolation or extrapolation from verifiable prices nearest to the dates of the transactions. The methodology may reflect interest and exchange rates, commodity prices, volatility rates and other relevant factors.

A significant portion of AIGTG's business is transacted in liquid markets. Certain of AIGTG's derivative product exposures are evaluated using simulation techniques which consider such factors as changes in currency and commodity prices, interest rates, volatility levels and the effect of time.

AIGFP and AIGTG are both exposed to the risk of loss of fair value from adverse fluctuations in interest rate and foreign currency exchange rates and equity and commodity prices. AIG statistically measured the losses of fair value through the application of a VaR model. AIG separately calculated the VaR with respect to AIGFP and AIGTG, as AIG manages these operations separately.

AIGFP's and AIGTG's asset and liability portfolios for which the VaR analyses were performed included over the counter and exchange traded investments, derivative instruments and commodities. Because the market risk with respect to securities available for sale, at market is substantially hedged, segregation of market sensitive instruments into trading and other than trading was not deemed necessary.

AIG calculated the VaR with respect to AIGFP and AIGTG as of September 30, 2001 and December 31, 2000. AIG's methodology for calculating VaR and the results of the calculations presented herein were performed using historical simulation. Using historical simulation over the delta-normal approach does not significantly change the results of this disclosure. The historical simulation methodology entails re-pricing all assets and liabilities under explicit changes in market rates within a specific historical time period. In this case, the most recent three years of historical market information for interest rates, foreign exchange rates, and equity index prices were used to construct the historical scenarios. For each scenario, each transaction was re-priced. Portfolio, business unit and finally AIG-wide scenario values were then calculated by netting the values of all the underlying assets and liabilities. The final VaR number represents the maximum potential loss incurred by these scenarios with 95% confidence (i.e., only 5% of historical scenarios show losses greater than the VaR figure).

The following table presents the VaR on a combined basis and of each component of AIGFP's and AIGTG's market risk as of September 30, 2001 and December 31, 2000. VaR with respect to combined operations cannot be derived by aggregating the individual risk presented herein.

(in millions)

Market Risk	AIGFP <sup>(a)</sup>		AIGTG <sup>(b)</sup>	
	2001	2000	2001	2000
Combined	\$ 9	\$ 15	\$ 2	\$ 6
Interest rate	8	15	2	4
Currency	—	—	2	3
Equity	2	—	—	—

(a) A one month holding period was used to measure the market exposures of AIGFP.

(b) A one day holding period was used to measure the market exposures of AIGTG.

The following table presents the average, high and low VaRs on a combined basis and of each component of AIGFP's and AIGTG's market risk as of September 30, 2001 and December 31, 2000.

[Table of Contents](#)*(in millions)*

	2001			2000		
	Average	High	Low	Average	High	Low
<b>AIGFP Market Risk:</b>						
Combined	\$ 11	\$ 15	\$ 9	\$ 15	\$ 24	\$ 8
Interest rate	11	15	8	15	23	7
Currency	—	1	—	—	—	—
Equity	1	2	—	1	2	—
<b>AIGTG Market Risk:</b>						
Combined	\$ 3	\$ 6	\$ 2	\$ 5	\$ 6	\$ 4
Interest Rate	3	4	2	3	4	3
Currency	2	3	1	3	4	2

**Derivatives**

Derivatives are financial arrangements among two or more parties whose returns are linked to or “derived” from some underlying equity, debt, commodity or other asset, liability, or index. Derivatives payments may be based on interest rates and exchange rates and/or prices of certain securities, certain commodities, or financial or commodity indices. The more significant types of derivative arrangements in which AIG transacts are swaps, forwards, futures, options and related instruments.

The most commonly used swaps are interest rate swaps, currency swaps, equity swaps and swaptions. Such derivatives are traded over the counter. An interest rate swap is a contract between two parties to exchange interest rate payments (typically a fixed interest rate versus a variable interest rate) calculated on a notional principal amount for a specified period of time. The notional amount is not exchanged. Currency and equity swaps are similar to interest rate swaps but may involve the exchange of principal amounts at the commencement and termination of the swap. Swaptions are options where the holder has the right but not the obligation to enter into a swap transaction or cancel an existing swap transaction.

A futures or forward contract is a legal contract between two parties to purchase or sell at a specified future date a specified quantity of a commodity, security, currency, financial index or other instrument, at a specified price. A futures contract is traded on an exchange, while a forward contract is executed over the counter.

Over the counter derivatives are not transacted in an exchange traded environment. The futures exchanges maintain considerable financial requirements and surveillance to ensure the integrity of exchange traded futures and options.

An option contract generally provides the option purchaser with the right but not the obligation to buy or sell during a period of time or at a specified date the underlying instrument at a set price. The option writer is obligated to sell or buy the underlying item if the option purchaser chooses to exercise his right. The option writer receives a nonrefundable fee or premium paid by the option purchaser. Options may be traded over the counter or on an exchange.

Derivatives are generally either negotiated over the counter contracts or standardized contracts executed on an exchange. Standardized exchange traded derivatives include futures and options which can be readily bought or sold over recognized security or commodity exchanges and settled daily through such clearing houses. Negotiated over the counter derivatives include forwards, swaps and options. Over the counter derivatives are generally not traded like exchange traded securities and the terms of over the counter derivatives are non-standard and unique to each contract. However, in the normal course of business, with the agreement of the original counterparty, these contracts may be terminated early or assigned to another counterparty.

All significant derivatives activities are conducted through AIGFP and AIGTG permitting AIG to participate in the derivatives dealer market acting primarily as principal. In these derivative operations, AIG structures agreements which generally allow its counterparties to enter into transactions with respect to changes in interest and exchange rates, securities’ prices and certain commodities and financial or commodity indices. Generally, derivatives are used by AIG’s customers such as corporations, financial institutions, multinational organizations, sovereign entities, government agencies and municipalities. For example, a futures, forward or option contract can be used to protect

## [Table of Contents](#)

the customers' assets or liabilities against price fluctuations.

A counterparty may default on any obligation to AIG, including a derivative contract. Credit risk is a consequence of extending credit and/or carrying trading and investment positions. Credit risk exists for a derivative contract when that contract has an estimated positive fair value. To help manage this risk, the credit departments of AIGFP and AIGTG operate within the guidelines of the AIG Credit Risk Committee, which sets credit policy and limits for counterparties and provides limits for derivative transactions with counterparties having different credit ratings. In addition to credit ratings, this committee takes into account other factors, including the industry and country of the counterparty. Transactions which fall outside these pre-established guidelines require the approval of the AIG Credit Risk Committee. It is also AIG's policy to establish reserves for potential credit impairment when necessary.

AIGFP and AIGTG determine the credit quality of each of their counterparties taking into account credit ratings assigned by recognized statistical rating organizations. If it is determined that a counterparty requires credit enhancement, then one or more enhancement techniques will be used. Examples of such enhancement techniques include letters of credit, guarantees, collateral credit triggers and credit derivatives and margin agreements.

A significant majority of AIGFP's transactions are contracted and documented under ISDA Master Agreements. Management believes that such agreements provide for legally enforceable set-off in the event of default. Also, under such agreements, in connection with a counterparty desiring to terminate a contract prior to maturity, AIGFP may be permitted to set-off its receivables from that counterparty against AIGFP's payables to that same counterparty arising out of all included transactions. Excluding regulated exchange transactions, AIGTG, whenever possible, enters into netting agreements with its counterparties which are similar in effect to those discussed above.

The following tables provide the notional and contractual amounts of AIGFP's and AIGTG's derivatives transactions at September 30, 2001 and December 31, 2000.

The notional amounts used to express the extent of AIGFP's and AIGTG's involvement in swap transactions represent a standard of measurement of the volume of AIGFP's and AIGTG's swaps business. Notional amount is not a quantification of market risk or credit risk and it may not necessarily be recorded on the balance sheet. Notional amounts represent those amounts used to calculate contractual cash flows to be exchanged and are not paid or received, except for certain contracts such as currency swaps.

The timing and the amount of cash flows relating to AIGFP's and AIGTG's foreign exchange forwards and exchange traded futures and options contracts are determined by each of the respective contractual agreements.

The net replacement value most closely represents the net credit risk to AIGFP or the maximum amount exposed to potential loss after the application of the aforementioned strategies, netting under ISDA Master Agreements and applying collateral held. Prior to the application of these credit enhancements, the gross credit risk with respect to these derivative instruments was \$58.5 billion at September 30, 2001 and \$33.4 billion at December 31, 2000. Subsequent to the application of such credit enhancements, the net exposure to credit risk or the net replacement value of all interest rate, currency and equity swaps, swaptions and forward commitments approximated \$12.30 billion at September 30, 2001 and \$9.51 billion at December 31, 2000. The net replacement value for futures and forward contracts approximated \$44 million at September 30, 2001 and \$204 million at December 31, 2000. The net replacement value most closely represents the net credit risk to AIGFP or the maximum amount exposed to potential loss.

[Table of Contents](#)

The following table presents AIGFP's derivatives portfolio by maturity and type of derivative at September 30, 2001 and December 31, 2000:

(in millions)

	Remaining Life					Total 2001	Total 2000
	One Year	Two Through Five Years	Six Through Ten Years	After Ten Years			
Interest rate, currency and equity swaps and swaptions:							
Notional amount:							
Interest rate swaps	\$ 96,449	\$ 209,722	\$ 97,294	\$12,428	\$415,893	\$344,203	
Currency swaps	34,313	57,397	38,035	4,970	134,715	117,792	
Swaptions and equity swaps	17,078	26,314	11,692	4,444	59,528	59,026	
<b>Total</b>	<b>\$147,840</b>	<b>\$ 293,433</b>	<b>\$147,021</b>	<b>\$21,842</b>	<b>\$610,136</b>	<b>\$521,021</b>	
Futures and forward contracts:							
Exchange traded futures contracts							
contractual amount	\$ 5,889	—	—	—	\$ 5,889	\$ 11,082	
Over the counter forward contracts							
contractual amount	\$ 54,074	\$ 452	\$ 193	—	\$ 54,719	\$ 22,809	

AIGFP determines counterparty credit quality by reference to ratings from independent rating agencies or internal analysis. At September 30, 2001 and December 31, 2000, the counterparty credit quality by derivative product with respect to the net replacement value of AIGFP's derivatives portfolio was as follows:

(in millions)

	Net Replacement Value			
	Swaps and Swaptions	Futures and Forward Contracts	Total 2001	Total 2000
Counterparty credit quality:				
AAA	\$ 5,715	\$ —	\$ 5,715	\$3,778
AA	3,157	19	3,176	2,825
A	2,482	22	2,504	1,801
BBB	912	3	915	1,059
Below investment grade	29	—	29	252
<b>Total</b>	<b>\$12,295</b>	<b>\$ 44</b>	<b>\$12,339</b>	<b>\$9,715</b>

[Table of Contents](#)

At September 30, 2001 and December 31, 2000, the counterparty breakdown by industry with respect to the net replacement value of AIGFP's derivatives portfolio was as follows:

(in millions)

	Net Replacement Value			
	Swaps and Swaptions	Futures and Forward Contracts	Total 2001	Total 2000
Non-U.S. banks	\$ 2,483	\$ 37	\$ 2,520	\$2,517
Insured municipalities	762	—	762	595
U.S. industrials	3,409	2	3,411	1,945
Governmental	469	—	469	463
Non-U.S. financial service companies	413	—	413	309
Non-U.S. industrials	1,189	3	1,192	1,372
Special purpose	2,029	—	2,029	1,204
U.S. banks	71	—	71	220
U.S. financial service companies	1,231	2	1,233	894
Supranationals	239	—	239	196
<b>Total</b>	<b>\$12,295</b>	<b>\$ 44</b>	<b>\$12,339</b>	<b>\$9,715</b>

The gross replacement values presented in the following table represent the sum of the estimated positive fair values of all of AIGTG's derivatives contracts at September 30, 2001 and December 31, 2000. These values do not represent the credit risk to AIGTG.

The net replacement values presented represent the net sum of estimated positive fair values after the application of legally enforceable master netting agreements and collateral held. The net replacement values most closely represent the net credit risk to AIGTG or the maximum amount exposed to potential loss.

The following table provides the contractual and notional amounts and credit exposure, if applicable, by maturity and type of derivative of AIGTG's derivatives portfolio at September 30, 2001 and December 31, 2000. In addition, the estimated positive fair values associated with the derivatives portfolio are also provided and include a maturity profile for the September 30, 2001 balances based upon the expected timing of the future cash flows.

(in millions)

	Remaining Life				Total 2001	Total 2000
	One Year	Two Through Five Years	Six Through Ten Years	After Ten Years		
Contractual amount of futures, forwards and options:						
Exchange traded futures and options	\$ 10,786	\$ 3,416	\$ 18	\$ —	\$ 14,220	\$ 18,064
Forwards	\$195,121	\$13,730	\$ 645	\$ —	\$209,496	\$234,316
Over the counter purchased options	\$ 83,404	\$17,534	\$39,003	\$116	\$140,057	\$104,919
Over the counter sold options <sup>(a)</sup>	\$ 79,516	\$18,823	\$38,743	\$121	\$137,203	\$103,742

[Table of Contents](#)

	Remaining Life				Total 2001	Total 2000
	One Year	Two Through Five Years	Six Through Ten Years	After Ten Years		
Notional amount:						
Interest rate swaps and forward rate agreements	\$15,030	\$36,998	\$ 7,640	\$ 89	\$59,757	\$63,264
Currency swaps	4,040	5,564	1,022	—	10,626	8,573
Swaptions	1,733	12,999	1,415	—	16,147	15,419
<b>Total</b>	<b>\$20,803</b>	<b>\$55,561</b>	<b>\$10,077</b>	<b>\$ 89</b>	<b>\$86,530</b>	<b>\$87,256</b>
Credit exposure:						
Futures, forwards, swaptions and purchased options contracts and interest rate and currency swaps:						
Gross replacement value	\$ 5,818	\$ 2,412	\$ 981	\$ 1	\$ 9,212	\$10,319
Master netting arrangements	(3,312)	(1,527)	(650)	(1)	(5,490)	(6,136)
Collateral	(6)	(16)	(42)	—	(64)	(107)
<b>Net replacement value<sup>(b)</sup></b>	<b>\$ 2,500</b>	<b>\$ 869</b>	<b>\$ 289</b>	<b>\$ —</b>	<b>\$ 3,658</b>	<b>\$ 4,076</b>

(a) Sold options obligate AIGTG to buy or sell the underlying item if the option purchaser chooses to exercise. The amounts do not represent credit exposure.

(b) The net replacement values with respect to exchange traded futures and options, forward contracts, and purchased over the counter options are presented as a component of trading assets in the accompanying balance sheet. The net replacement values with respect to interest rate and currency swaps are presented as a component of unrealized gain on interest rate and currency swaps, options and forward transactions in the accompanying balance sheet.

AIGTG determines counterparty credit quality by reference to ratings from independent rating agencies or internal analysis. At September 30, 2001 and December 31, 2000, the counterparty credit quality and counterparty breakdown by industry with respect to the net replacement value of AIGTG's derivatives portfolio were as follows:

(in millions)

	Net Replacement Value	
	2001	2000
Counterparty credit quality:		
AAA	\$ 443	\$ 442
AA	1,283	1,807
A	1,145	1,139
BBB	471	460
Below investment grade	88	48
Not externally rated, including exchange traded futures and options*	228	180
<b>Total</b>	<b>\$ 3,658</b>	<b>\$ 4,076</b>
Counterparty breakdown by industry:		
Non-U.S. banks	\$ 1,106	\$ 2,076
U.S. industrials	301	67
Governmental	86	70
Non-U.S. financial service companies	411	282
Non-U.S. industrials	357	243
U.S. banks	796	468
U.S. financial service companies	373	690
Exchanges*	228	180
<b>Total</b>	<b>\$ 3,658</b>	<b>\$ 4,076</b>

\* Exchange traded futures and options are not deemed to have significant credit exposure as the exchanges guarantee that every contract will be properly settled on a daily basis.

Generally, AIG manages and operates its businesses in the currencies of the local operating environment. Thus, exchange gains or losses occur when AIG's foreign currency net investment is affected by changes in the foreign exchange rates relative to the U.S. dollar from one reporting period to the next.



AIG, through its Foreign Exchange Operating Committee, evaluates each of its worldwide consolidated foreign currency net asset or liability positions and manages AIG's translation exposure to adverse movement in currency exchange rates. AIG may use forward exchange contracts and purchase options where the cost of such is reasonable and

## [Table of Contents](#)

markets are liquid to reduce these exchange translation exposures. The exchange gain or loss with respect to these hedging instruments is recorded on an accrual basis as a component of comprehensive income in capital funds.

As an end user, AIG and its subsidiaries, including its insurance subsidiaries, use derivatives to aid in managing AIG's foreign exchange translation exposure. Derivatives may also be used to minimize certain exposures with respect to AIG's debt financing and its insurance operations; to date, such activities have not been significant.

AIG has formed a Derivatives Review Committee. This committee, with certain exceptions, provides an independent review of any proposed derivative transaction. The committee examines, among other things, the nature and purpose of the derivative transaction, its potential credit exposure, if any, and the estimated benefits. This committee does not review those derivative transactions entered into by AIGFP and AIGTG for their own accounts.

Legal risk arises from the uncertainty of the enforceability, through legal or judicial processes, of the obligations of AIG's clients and counterparties, including contractual provisions intended to reduce credit exposure by providing for the netting of mutual obligations. (See also the discussion on master netting agreements above.) AIG seeks to eliminate or minimize such uncertainty through continuous consultation with internal and external legal advisors, both domestically and abroad, in order to understand the nature of legal risk, to improve documentation and to strengthen transaction structure.

### **Accounting Standards**

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities". In June 2000, FASB issued Statement of Financial Accounting Standards No. 138 "Accounting for Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133" (collectively, FASB 133).

FASB 133 requires AIG to recognize all derivatives in the consolidated balance sheet at fair value. The financial statement recognition of the change in the fair value of a derivative depends on a number of factors, including the intended use of the derivative and the extent to which the derivative is effective as part of a hedge transaction. The changes in fair value of the derivative transactions of AIGFP and AIGTG are currently presented, in all material respects, as a component of AIG's operating income. The discussion below relates to the derivative activities of AIG other than those of AIGFP and AIGTG.

On the date the derivative contract is entered into, AIG designates the derivative as: (1) a hedge of the subsequent changes in the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge); (2) a hedge of a forecasted transaction, or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge); or (3) a hedge of a net investment in a foreign operation. Fair value and cash flow hedges may involve foreign currencies ("foreign currency hedges"). The gain or loss in the fair value of a derivative that is designated, qualifies and is highly effective as a fair value hedge is recorded in current period earnings, along with the loss or gain on the hedged item attributable to the hedged risk. The gain or loss in the fair value of a derivative that is designated, qualifies and is highly effective as a cash flow hedge is recorded in other comprehensive income, until earnings are affected by the variability of cash flows. The gain or loss in the fair value of a derivative that is designated, qualifies and is highly effective as a hedge of a net investment in a foreign operation is recorded in the foreign currency translation adjustments account within other comprehensive income. Changes in the fair value of derivatives used for other than the above hedging activities are reported in current period earnings.

AIG documents all relationships between hedging instruments and hedged items, as well as its risk-management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as hedges to specific assets or liabilities on the balance sheet, or specific firm commitments or forecasted transactions. AIG also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

In accordance with the transition provisions of FASB 133, AIG recorded in its consolidated in-

## [Table of Contents](#)

come statement for the first nine months of 2001 a cumulative effect of an accounting change adjustment loss of \$6 million. This amount is presented as a component of Other income (deductions)-net. This loss represents the net fair value of all previously unrecorded derivative instruments as of January 1, 2001, net of tax and after the application of hedge accounting. AIG also recorded in its consolidated statement of comprehensive income for the first nine months of 2001 a cumulative effect of an accounting change adjustment gain of \$150 million. This gain represents the increase in other comprehensive income, net of taxes, arising from recognizing the fair value of all derivative contracts designated as cash flow hedging instruments, and to a lesser extent, hedging instruments used to hedge net investments in foreign operations.

In January 2001, the Emerging Issues Task Force (EITF) issued EITF 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets." EITF 99-20 provides guidance on the calculation of interest income and the recognition of impairments related to beneficial interests held in an investment portfolio. Beneficial interests are investments that represent rights to receive specified cash flows from a pool of underlying assets (i.e., collateralized debt obligations). In accordance with the transition provisions of EITF 99-20, AIG recorded in its consolidated income statement for the first nine months of 2001 a cumulative effect of an accounting change adjustment loss of \$130 million (\$200 million before tax).

In June 2001, FASB issued Statement of Financial Accounting Standard No. 141 "Business Combinations" (FASB 141). FASB 141 requires AIG to apply the purchase method of accounting for all acquisitions initiated after June 30, 2001.

In June 2001, FASB issued Statement of Financial Accounting Standard No. 142 "Goodwill and Other Intangible Assets" (FASB 142). FASB 142 requires AIG to discontinue the amortization of goodwill on its consolidated income statement.

However, FASB 142 requires goodwill to be subject to an assessment of impairment on an annual basis, or more frequently if circumstances indicate that a possible impairment has occurred. AIG is currently evaluating the impact of the impairment provisions of FASB 142, and believes that the impact on its results of operations and financial condition will not be significant. FASB 142 is effective for AIG for the year commencing January 1, 2002.

### **Recent Developments**

On November 9, 2001, AIG issued Zero Coupon Convertible Senior Debentures Due 2031 in an aggregate principal amount at maturity of approximately \$1.52 billion (excluding an over-allotment option of approximately \$228 million principal amount at maturity). The Convertible Debentures are convertible into shares of AIG common stock under certain specified conditions.

The Convertible Debentures are not callable for five years after issuance, and mature in 30 years. However, holders can require AIG to repurchase the Convertible Debentures once every five years. The Convertible Debentures were offered through Morgan Stanley & Co. Incorporated with original issue discount and generated gross proceeds of approximately \$1.0 billion. AIG will use the proceeds of the offering for general corporate purposes.

The Zero Coupon Convertible Senior Debentures were offered at an initial offering price of \$658.01 per \$1,000 of principal amount at maturity. The issue price represents a yield to maturity of 1.4 percent per annum, with a conversion rate of 6.0627 shares of common stock per \$1,000 principal amount at maturity of Convertible Debentures.

**PART II — OTHER INFORMATION**

**ITEM 6 — EXHIBITS AND REPORTS ON FORM 8-K**

- (a) Exhibits  
See accompanying Exhibit Index.
- (b) Reports on Form 8-K

During the three months ended September 30, 2001, Current Reports on Form 8-K were filed as follows:

On August 29, 2001 AIG filed a Current Report on Form 8-K to report closing of the acquisition of AGC.

On September 13, 2001, AIG filed a Current Report on Form 8-K to file the AIG press release announcing its initial estimate of losses resulting from the September 11 terrorist attacks.

On September 18, 2001, AIG filed a Current Report on Form 8-K for the purpose of incorporating the most recent AGC annual, quarterly and current reports.

**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.

AMERICAN INTERNATIONAL GROUP, INC.

---

(Registrant)

/s/ HOWARD I. SMITH

---

Howard I. Smith  
Executive Vice President and  
Chief Financial Officer

Dated: November 13, 2001

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>	<b>Location</b>
2	Plan of acquisition, reorganization, arrangement, liquidation or succession	None
4	Indenture dated as of November 9, 2001 between American International Group, Inc. and The Bank of New York, as Trustee	Filed herewith.
10	Material contracts	None
11	Statement re computation of per share earnings	Included in Note (f) of Notes to Financial Statements.
12	Statement re computation of ratios	Filed herewith.
15	Letter re unaudited interim financial information	None
18	Letter re change in accounting principles	None
19	Report furnished to security holders	None
22	Published report regarding matters submitted to vote of security holders	None
23	Consents of experts and counsel	None
24	Power of attorney	None
99	Additional exhibits	None

**AMERICAN INTERNATIONAL GROUP, INC.**  
**Zero Coupon Convertible Senior Debentures Due 2031**

**INDENTURE**

**Dated as of November 9, 2001**

**THE BANK OF NEW YORK,  
AS TRUSTEE**

---

**Certain Sections of this Indenture relating to  
Sections 310 through 318 of the  
Trust Indenture Act of 1939:**

Trust Indenture Act Section	Indenture Section
Section 310 (a) (1)	7.9
(a) (2)	7.9
(a) (3)	Not Applicable
(a) (4)	Not Applicable
(b)	7.9
Section 311(a)	7.10
(b)	7.10
Section 312(a)	2.5
(b)	12.3
(c)	12.3
Section 313(a)	7.5
(b)	7.5
(c)	7.5
(d)	7.5
Section 314(a)	4.2
(a) (4)	4.3
(b)	Not Applicable
(c) (1)	12.4(1)
(c) (2)	12.4(2)
(c) (3)	Not Applicable
(d)	Not Applicable
(e)	12.5
Section 315(a)	7.1(b)
(b)	6.1
(c)	7.1(a)
(d)	7.1(c)
(e)	6.11

Note: This reconciliation and tie shall not, for any purpose, be deemed to be a part of the Indenture.



Trust Indenture Act Section	Indenture Section
Section 316(a)	2.8
(a)(1)(A)	6.5
(a)(1)(B)	6.4
(a)(2)	Not Applicable
(b)	6.7
(c)	1.5(e)
Section 317(a)(1)	6.8
(a)(2)	6.9
(b)	2.4
Section 318(a)	12.1

---

Note: This reconciliation and tie shall not, for any purpose, be deemed to be a part of the Indenture.

## TABLE OF CONTENTS

Page

### ARTICLE ONE DEFINITIONS AND INCORPORATION BY REFERENCE

Section 1.1	Definitions	1
Section 1.2	Other Definitions	5
Section 1.3	Incorporation by Reference of Trust Indenture Act	6
Section 1.4	Rules of Construction	6
Section 1.5	Acts of Holders	7

### ARTICLE TWO THE SECURITIES

Section 2.1	Form and Dating	8
Section 2.2	Execution and Authentication	9
Section 2.3	Registrar, Paying Agent and Conversion Agent	9
Section 2.4	Paying Agent to Hold Money and Securities in Trust	10
Section 2.5	Securityholder Lists	10
Section 2.6	Transfer and Exchange	10
Section 2.7	Replacement Securities	11
Section 2.8	Outstanding Securities; Determinations of Holders' Action	13
Section 2.9	Temporary Securities	13
Section 2.10	Cancellation	14
Section 2.11	Persons Deemed Owners	14
Section 2.12	Global Securities	14
Section 2.13	Calculations in Respect of Securities	17
Section 2.14	CUSIP Numbers	17

### ARTICLE THREE REDEMPTION AND PURCHASES

Section 3.1	Company's Right to Redeem; Notices to Trustee	17
Section 3.2	Selection of Securities to Be Redeemed	17
Section 3.3	Notice of Redemption	18
Section 3.4	Effect of Notice of Redemption	19
Section 3.5	Deposit of Redemption Price	19
Section 3.6	Securities Redeemed in Part	19
Section 3.7	Purchase of Securities by the Company at Option of the Holder	19
Section 3.8	Company's Right to Elect Manner of Payment of Purchase Price for Payment	21
Section 3.9	Effect of Purchase Notice	25
Section 3.10	Deposit of Purchase Price	26
Section 3.11	Securities Purchased in Part	27
Section 3.12	Repayment to the Company	27

**ARTICLE  
FOUR COVENANTS**

Section 4.1	Payment of Securities	27
Section 4.2	SEC and Other Reports	28
Section 4.3	Compliance Certificate	28
Section 4.4	Maintenance of Office or Agency	28
Section 4.5	Tax Treatment of Securities	28
Section 4.6	Calculation of accrued Original Issue Discount and Tax Original Issue Discount	28

**ARTICLE FIVE  
SUCCESSOR CORPORATION**

Section 5.1	When Company May Merge or Transfer Assets	29
-------------	---	----

**ARTICLE SIX  
DEFAULTS AND REMEDIES**

Section 6.1	Events of Default	30
Section 6.2	Acceleration	31
Section 6.3	Other Remedies	31
Section 6.4	Waiver of Past Defaults	31
Section 6.5	Control by Majority	32
Section 6.6	Limitation on Suits	32
Section 6.7	Rights of Holders to Receive Payment	32
Section 6.8	Collection Suit by Trustee	33
Section 6.9	Trustee May File Proofs of Claim	33
Section 6.10	Priorities	33
Section 6.11	Undertaking for Costs	34
Section 6.12	Waiver of Stay, Extension or Usury Laws	34

**ARTICLE SEVEN  
TRUSTEE**

Section 7.1	Duties of Trustee	34
Section 7.2	Rights of Trustee	35
Section 7.3	Individual Rights of Trustee	37
Section 7.4	Trustee's Disclaimer	37
Section 7.5	Reports by Trustee to Holders	37
Section 7.6	Compensation and Indemnity	37
Section 7.7	Replacement of Trustee	38
Section 7.8	Successor Trustee by Merger	38
Section 7.9	Eligibility; Disqualification	38
Section 7.10	Preferential Collection of Claims Against Company	39

**ARTICLE EIGHT  
DISCHARGE OF INDENTURE**

Section 8.1	Satisfaction and Discharge of Indenture	39
Section 8.2	Application of Trust Money	40

**ARTICLE NINE  
AMENDMENTS**

Section 9.1	Without Consent of Holders	40
Section 9.2	With Consent of Holders	41
Section 9.3	Compliance with Trust Indenture Act	42
Section 9.4	Revocation and Effect of Consents, Waivers and Actions	42
Section 9.5	Notation on or Exchange of Securities	42
Section 9.6	Trustee to Sign Supplemental Indentures	42
Section 9.7	Effect of Supplemental Indentures	43

**ARTICLE TEN  
CONVERSIONS**

Section 10.1	Conversion Privilege	43
Section 10.2	Conversion Procedure; Conversion Price; Fractional Shares	44
Section 10.3	Adjustment of Conversion Price for Common Stock	46
Section 10.4	Consolidation or Merger of the Company	52
Section 10.5	Notice of Adjustment	53
Section 10.6	Notice in Certain Events	53
Section 10.7	Company To Reserve Stock: Registration; Listing	54
Section 10.8	Taxes on Conversion	54
Section 10.9	Company Determination Final	55
Section 10.10	Responsibility of Trustee for Conversion Provisions	55
Section 10.11	Unconditional Right of Holders to Convert	55

**ARTICLE ELEVEN  
CONTINGENT INTEREST**

Section 11.1	Contingent Interest	55
Section 11.2	Payment of Contingent Interest; Contingent Interest Rights Preserved	58
Section 11.3	Contingent Interest: Conversion, Redemption or Purchase	58
Section 11.4	Defaulted Interest	59
Section 11.5	Contingent Interest Notification	60

**ARTICLE TWELVE  
MISCELLANEOUS**

Section 12.1	Trust Indenture Act Controls	60
Section 12.2	Notices	60
Section 12.3	Communication by Holders with Other Holders	61
Section 12.4	Certificate and Opinion as to Conditions Precedent	61
Section 12.5	Statements Required in Certificate or Opinion	61
Section 12.6	Separability Clause	62
Section 12.7	Legal Holidays	62
Section 12.8	GOVERNING LAW	62
Section 12.9	No Recourse Against Others	62
Section 12.10	Successors	62
Section 12.11	Effect of Headings and Table of Contents	62
Section 12.12	Multiple Originals	62

EXHIBIT A  
EXHIBIT B

Form of Global Security  
Form of Certificated Security

INDENTURE, dated as of November 9, 2001, between AMERICAN INTERNATIONAL GROUP, INC., a Delaware corporation ("Company"), and THE BANK OF NEW YORK, a New York banking corporation, as Trustee.

Each party agrees as follows for the benefit of the other party and for the equal and ratable benefit of the Holders of the Company's Zero Coupon Convertible Senior Debentures Due 2031:

## ARTICLE ONE

### DEFINITIONS AND INCORPORATION BY REFERENCE

#### Section 1.1 Definitions.

"accrued" when used with respect to Original Issue Discount shall mean the amount of Original Issue Discount that has accrued on a Security from its Issue Price based on a 1.40% per annum interest rate compounded semi-annually using a 360-day year composed of twelve 30-day months. The determination of the amount of accrued Original Issue Discount shall be made without reference to the payment of any contingent interest payable pursuant to Article Eleven.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct or cause the direction of the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Applicable Procedures" means, with respect to any transfer or transaction involving a Global Security or beneficial interest therein, the rules and procedures of the Depository for such Security, in each case to the extent applicable to such transaction and as in effect from time to time.

"Board of Directors" means either the board of directors of the Company or any duly authorized committee of such board.

"Board Resolution" means a resolution of the Board of Directors.

"Business Day" means each day of the year, other than a Saturday or Sunday, on which banking institutions in The City of New York are not authorized or obligated by law or regulation to close.

"Capital Stock" for any corporation means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) stock issued by that corporation.

---

“Certificated Securities” means Securities that are in the form of the Securities attached hereto as Exhibit B.

“Common Stock” includes any stock of any class of the Company that has no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Company and that is not subject to redemption by the Company. However, subject to the provisions of Section 10.4, shares issuable on conversion of Securities shall include only shares of the class designated as Common Stock of the Company at the date of this instrument or shares of any class or classes resulting from any reclassification or reclassifications thereof and that have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Company and that are not subject to redemption by the Company; provided that if at any time there shall be more than one such resulting class, the shares of each such class then so issuable shall be substantially in the proportion that the total number of shares of such class resulting from all such reclassifications bears to the total number of shares of all such classes resulting from all such reclassifications.

“Company” means the party named as the “Company” in the preamble to this Indenture until a successor replaces it pursuant to the applicable provisions of this Indenture and, thereafter, shall mean such successor. The foregoing sentence shall likewise apply to any subsequent such successor or successors.

“Company Request” or “Company Order” means a written request or order signed in the name of the Company by any two Officers.

“contingent interest” means interest that accrues and is payable as provided in Article Eleven.

“Conversion Price” means, as of any day, the sum of the Issue Price and the accrued Original Issue Discount divided by the number of shares of Common Stock then issuable upon conversion of a Security. Each \$1,000 Principal Amount of Security is initially convertible into 6.0627 shares of Common Stock.

“Corporate Trust Office” means the principal office of the Trustee at which at any time its corporate trust business shall be administered, which office at the date hereof is located at 101 Barclay Street, New York, NY 10286, Attention: Corporate Trust Department, or such other address as the Trustee may designate from time to time by notice to the Holders and the Company, or the principal corporate trust office of any successor Trustee (or such other address as a successor Trustee may designate from time to time by notice to the Holders and the Company).

“Default” means any event which is, or after notice or passage of time or both would be, an Event of Default.

“Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time.

“Global Securities” means Securities that are in the form of the Securities attached hereto as Exhibit A, and that are registered in the register of Securities in the name of a Depositary or a nominee thereof.

“Holder” or “Securityholder” means a Person in whose name a Security is registered on the Registrar’s books.

“Indenture” means this Indenture, as amended or supplemented from time to time in accordance with the terms hereof, including the provisions of the TIA that are deemed to be a part hereof.

“Issue Date” of any Security means the date on which the Security was originally issued or deemed issued as set forth on the face of the Security.

“Issue Price” of any Security means, in connection with the original issuance of such Security, the initial issue price at which the Security is sold as set forth on the face of the Security.

“London Business Day” means each day on which dealings in United States dollars are transacted in the London interbank market.

“NYSE” means The New York Stock Exchange, Inc.

“Officer” means the Chairman of the Board, any Vice Chairman, the Chief Executive Officer, the President, any Executive Vice President, any Senior Vice President, the Treasurer, the Controller, or the Secretary or any Assistant Treasurer or Assistant Secretary of the Company.

“Officers’ Certificate” means a written certificate containing the information specified in Sections 12.4 and 12.5, signed in the name of the Company by any two Officers, and delivered to the Trustee. An Officers’ Certificate given pursuant to Section 4.3 shall be signed by the principal executive, financial or accounting Officer of the Company but need not contain the information specified in Sections 12.4 and 12.5.

“Opinion of Counsel” means a written opinion containing the information specified in Sections 12.4 and 12.5, from legal counsel who is reasonably acceptable to the Trustee. The counsel may be an employee of, or counsel to, the Company or the Trustee.

“Original Issue Discount” of any Security means the difference between the Issue Price and the Principal Amount of the Security as set forth on the face of the Security.

“Person” means any individual, corporation, company, limited liability company, association, partnership, joint venture, association, joint-stock company, trust, business trust, unincorporated organization, or government or any agency or political subdivision thereof.

“Predecessor Security” of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 2.7 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Security.



"Principal," "Principal Amount" or "principal amount" of a Security means the principal amount due at the final Stated Maturity of the Security as set forth on the face of the Security.

"Redemption Date" or "redemption date" shall mean the date specified in a notice of redemption on which the Securities may be redeemed in accordance with the terms of the Securities and this Indenture.

"Redemption Price" or "redemption price" shall have the meaning set forth in Section 6 of the Securities.

"Responsible Officer" shall mean, when used with respect to the Trustee, any officer within the corporate trust department of the Trustee, including any vice president, assistant vice president, assistant secretary, assistant treasurer, trust officer or any other officer of the Trustee who customarily performs functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of such person's knowledge of and familiarity with the particular subject and who shall have direct responsibility for the administration of this Indenture.

"SEC" means the Securities and Exchange Commission, as from time to time constituted, created under the Exchange Act, or, if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the TIA, then the body performing such duties at such time.

"Securities" means any of the Company's Zero Coupon Convertible Senior Debentures Due 2031 issued under this Indenture.

"Securities Act" means the Securities Act of 1933, as amended from time to time.

"Securityholder" or "Holder" means a person in whose name a Security is registered on the Registrar's books.

"Stated Maturity", when used with respect to any Security or any installment of contingent interest thereon, means the date specified in such Security as the fixed date on which the Principal Amount, Redemption Price or Purchase Price of such Security or such installment of interest is due and payable.

"Subsidiary" means any corporation, partnership, limited liability company or business trust of which at least a majority of the Outstanding Voting Stock shall at the time directly or indirectly be owned or controlled by the Company or by one or more Subsidiaries or by the Company and one or more Subsidiaries.

"Tax Original Issue Discount" means the amount of ordinary interest income on a Security that must be accrued as original issue discount for United States federal income tax purposes pursuant to Treasury Regulation Section 1.1275-4.

“TIA” means the Trust Indenture Act of 1939 as in effect on the date of this Indenture, provided, however, that in the event the TIA is amended after such date, TIA means, to the extent required by any such amendment, the TIA as so amended.

“Trading Day” means a day during which trading in the shares of Common Stock occurs regular way on the NYSE or, if the shares of Common Stock are not listed on the NYSE, on the principal other national or regional securities exchange on which the shares of Common Stock are then listed or, if the shares of Common Stock are not listed on a national or regional securities exchange, as reported on the Nasdaq or, if the shares of Common Stock are not so quoted, on the principal other market on which the shares of Common Stock are then traded.

“Trustee” means the party named as the “Trustee” in the first paragraph of this Indenture until a successor replaces it pursuant to the applicable provisions of this Indenture and, thereafter, shall mean such successor. The foregoing sentence shall likewise apply to any subsequent such successor or successors.

“Voting Stock” of a Person means Capital Stock of such Person of the class or classes pursuant to which the holders thereof have the general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees of such Person (irrespective of whether or not at the time Capital Stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

#### Section 1.2 Other Definitions.

<b>Term Section:</b>	<b>Defined in:</b>
“Act”	1.5
“Agent”	11.1(2)
“Agent Members”	2.12(b)
“cash”	3.8(a)
“Common Stock Record Date”	11.1
“Company Notice”	3.8(d)
“Company Notice Date”	3.8(b)
“Contingent Interest Payment Date”	11.2
“Contingent Interest Record Date”	11.2
“Conversion Agent”	2.3
“Current Market Price”	10.3(f)
“Defaulted Interest”	11.4
“Depositary”	2.1(a)
“distributed assets”	10.3(d)
“Downside Contingent Interest”	11.1
“DTC”	2.1(a)
“Event of Default”	6.1
“Ex-Dividend Time”	10.1
“Fair Market Value”	10.3(f)
“Legal Holiday”	12.7
“LIBOR”	11.1
“Market Price”	3.8(c)
“Non-Electing Share”	10.4
“Notice of Default”	6.1

Term Section:	Defined in:
"Outstanding"	2.8
"Paying Agent"	2.3
"Per Share Distribution Amount"	10.3(e)
"Protected Purchaser"	3.7
"Purchase Date"	3.7
"Purchase Notice"	3.7
"Purchase Price"	3.7
"Reference Banks"	11.1(2)
"Reference Debt Security"	11.1
"Registrar"	2.3
"Regular Cash Dividend"	11.1
"Relevant Value"	11.1
"Representative Amount"	11.1
"Sale Price"	3.8(c)
"Spread Determination Date"	11.1
"Special Record Date"	11.4(a)
"Spread"	11.1(2)
"Telerate LIBOR Page"	11.1
"Telerate Page"	11.1
"Trigger Event"	10.3(d)

Section 1.3 Incorporation by Reference of Trust Indenture Act. Whenever this Indenture refers to a provision of the TIA, the provision is incorporated by reference in and made a part of this Indenture. The following TIA terms used in this Indenture have the following meanings:

"indenture securities" means the Securities.

"indenture to be qualified" means this Indenture.

"indenture trustee" or "institutional trustee" means the Trustee.

"obligor" on the indenture securities means the Company.

All other TIA terms used in this Indenture that are defined by the TIA, defined by TIA reference to another statute or defined by SEC rule have the meanings assigned to them by such definitions.

Section 1.4 Rules of Construction. Unless the context otherwise requires:

- (1) a term has the meaning assigned to it;
- (2) an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles;
- (3) "or" is not exclusive;
- (4) "including" means including, without limitation; and
- (5) words in the singular include the plural, and words in the plural include the singular.

Section 1.5 Acts of Holders. (a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken

by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by an agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company, as described in Section 12.2. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section.

(b) The fact and date of the execution by any person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to such officer the execution thereof. Where such execution is by a signer acting in a capacity other than such signer's individual capacity, such certificate or affidavit shall also constitute sufficient proof of such signer's authority. The fact and date of the execution of any such instrument or writing, or the authority of the person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

(c) The principal amount and serial number of any Security and the ownership of Securities shall be proved by the register for the Securities.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Security shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

(e) If the Company shall solicit from the Holders any request, demand, authorization, direction, notice, consent, waiver or other Act, the Company may, at its option, by or pursuant to a Board Resolution, fix in advance a record date for the determination of Holders entitled to give such request, demand, authorization, direction, notice, consent, waiver or other Act, but the Company shall have no obligation to do so. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other Act may be given before or after such record date, but only the Holders of record at the close of business on such record date shall be deemed to be Holders for the purposes of determining whether Holders of the requisite proportion of Outstanding Securities have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other Act, and for that purpose the Outstanding Securities shall be computed as of such record date; provided that no such authorization, agreement or consent by the Holders on such record date shall be deemed effective unless it shall become effective pursuant to the provisions of this Indenture not later than six months after the record date.

**ARTICLE TWO**  
**THE SECURITIES**

Section 2.1 Form and Dating. The Securities and the Trustee's certificate of authentication shall be substantially in the form of Exhibits A and B, which are a part of this Indenture. The Securities may have notations, legends or endorsements required by law, stock exchange rule or usage (provided that any such notation, legend or endorsement required by usage is in a form acceptable to the Company). The Company shall provide any such notations, legends or endorsements to the Trustee in writing. Each Security shall be dated the date of its authentication.

(a) Global Securities. The Securities shall be issued, initially in the form of one or more Global Securities, which shall be deposited with the Trustee at its Corporate Trust Office, as custodian for the Depository (as defined below) and registered in the name of The Depository Trust Company ("DTC") or the nominee thereof (DTC, or any successor thereto, and any such nominee being hereinafter referred to as the "Depository"), duly executed by the Company and authenticated by the Trustee as hereinafter provided. The aggregate principal amount of the Global Securities may from time to time be increased or decreased by adjustments made on the records of the Trustee and the Depository as hereinafter provided but in no event more than the aggregate principal amount permitted by Section 2.2.

Each Global Security shall represent such of the Outstanding Securities as shall be specified therein and each shall provide that it shall represent the aggregate amount of Outstanding Securities from time to time endorsed thereon and that the aggregate amount of Outstanding Securities represented thereby may from time to time be reduced or increased, as appropriate, to reflect exchanges, redemptions, repurchases and conversions.

(b) Book-Entry Provisions. This Section 2.1(b) shall apply only to Global Securities deposited with or on behalf of the Depository.

The Company shall execute and the Trustee shall, in accordance with this Section 2.1(b), authenticate and deliver initially one or more Global Securities that (a) shall be registered in the name of the Depository, (b) shall be held by the Trustee as custodian for the Depository and (c) shall be substantially in the form of Exhibit A attached hereto.

(c) Certificated Securities. Securities not issued as interests in the Global Securities will be issued in certificated form substantially in the form of Exhibit B attached hereto.

Section 2.2 Execution and Authentication. The Securities shall be executed on behalf of the Company by any Officer. The signature of the Officer on the Securities may be manual or facsimile.

Securities bearing the manual or facsimile signatures of individuals who were at the time of the execution of the Securities Officers shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and

delivery of such Securities or did not hold such offices at the date of authentication of such Securities.

No Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein duly executed by the Trustee by manual signature of an authorized signatory, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder.

The Trustee shall authenticate and deliver the Securities for original issue in an aggregate principal amount of \$1,519,734,000 (or up to \$1,747,694,000 aggregate principal amount to the extent Morgan Stanley & Co. Incorporated exercises its option to purchase additional Securities pursuant to the Underwriting Agreement, dated November 7, 2001, between the Company and Morgan Stanley & Co. Incorporated) upon one or more Company Orders without any further action by the Company. The aggregate principal amount of the Securities due at the final Stated Maturity thereof Outstanding at any time may not exceed the amount set forth in the foregoing sentence.

The Securities shall be issued only in registered form without coupons and only in denominations of \$1,000 of principal amount and any whole multiple of \$1,000.

Section 2.3 Registrar, Paying Agent and Conversion Agent. The Company shall maintain an office or agency where Securities may be presented for registration of transfer or for exchange ("Registrar"), an office or agency where Securities may be presented for purchase or payment ("Paying Agent") and an office or agency where Securities may be presented for conversion ("Conversion Agent"). The Registrar shall keep a register of the Securities and of their transfer and exchange. The Company may have one or more co-registrars, one or more additional paying agents and one or more additional conversion agents. The term Paying Agent includes any additional paying agent, including any named pursuant to Section 4.4. The term Conversion Agent includes any additional conversion agent, including any named pursuant to Section 4.4.

If the Company appoints a Registrar, Paying Agent or Conversion Agent other than the Trustee, the Company shall notify the Trustee of the name and address of any such Agent. If the Company fails to maintain a Registrar, Paying Agent or Conversion Agent, the Trustee shall act as such and shall be entitled to appropriate compensation therefor pursuant to Section 7.6. The Company or any Subsidiary or an Affiliate of either of them may act as Paying Agent, Registrar, Conversion Agent or co-registrar.

The Company initially appoints the Trustee as Registrar, Conversion Agent, Calculation Agent and Paying Agent in connection with the Securities.

Section 2.4 Paying Agent to Hold Money and Securities in Trust. Except as otherwise provided herein, on or prior to each due date of payments in respect of any Security, the Company shall deposit with the Paying Agent a sum of money (in immediately available funds if deposited on the due date) or shares of Common Stock sufficient to make such payments when so becoming due. The Company shall require each Paying Agent (other than the Trustee) to agree in writing that the Paying Agent shall hold in trust for the benefit of Securityholders or

the Trustee all money and shares of Common Stock held by the Paying Agent for the making of payments in respect of the Securities and shall notify the Trustee of any default by the Company in making any such payment. At any time during the continuance of any such default, the Paying Agent shall, upon the written request of the Trustee, forthwith pay to the Trustee all money and shares of Common Stock so held in trust. If the Company, a Subsidiary or an Affiliate of either acts as Paying Agent, it shall segregate the money and shares of Common Stock held by it as Paying Agent and hold it as a separate trust fund. The Company at any time may require a Paying Agent to pay all money and shares of Common Stock held by it to the Trustee and to account for any funds and Common Stock disbursed by it. Upon doing so, the Paying Agent shall have no further liability for the money or shares of Common Stock.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the Principal Amount, Redemption Price, Purchase Price or contingent interest on any Security and remaining unclaimed for two years after such amount has become due and payable shall be paid to the Company on Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in the Borough of Manhattan, The City of New York, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication. Any unclaimed balance of such money then remaining will be repaid to the Company.

Section 2.5 Securityholder Lists. The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Securityholders. If the Trustee is not the Registrar, the Company shall cause to be furnished to the Trustee at least semiannually on March 31 and September 30 a listing of Securityholders dated within 15 days of the date on which the list is furnished and at such other times as the Trustee may request in writing a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Securityholders. The Company may exclude from such list any names and addresses received by the Trustee in its capacity as Registrar.

Section 2.6 Transfer and Exchange. (a) Subject to Section 2.12 hereof, upon surrender for registration of transfer of any Security, together with a written instrument of transfer satisfactory to the Registrar duly executed by the Securityholder or such Securityholder's attorney duly authorized in writing, at the office or agency of the Company designated as Registrar or co-registrar pursuant to Section 2.3, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Securities of any authorized denomination or denominations, of a like aggregate Principal Amount. The Company shall not charge a service charge for any registration of transfer or exchange, but the Company may require payment of a sum sufficient to pay all taxes, assessments or other governmental charges that may be imposed in connection with the transfer or exchange of the Securities from the Securityholder requesting such transfer or exchange.

At the option of the Holder, Securities may be exchanged for other Securities of any authorized denomination or denominations, of a like aggregate Principal Amount upon surrender of the Securities to be exchanged, together with a written instrument of transfer satisfactory to the Registrar duly executed by the Securityholder or such Securityholder's attorney duly authorized in writing, at such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.

The Company shall not be required to make, and the Registrar need not register, transfers or exchanges of Securities selected for redemption (except, in the case of Securities to be redeemed in part, the portion thereof not to be redeemed) or any Securities in respect of which a Purchase Notice has been given and not withdrawn by the Holder thereof in accordance with the terms of this Indenture (except, in the case of Securities to be purchased in part, the portion thereof not to be purchased) or any Securities for a period of 15 days before the mailing of a notice of redemption of Securities to be redeemed.

(b) Notwithstanding any provision to the contrary herein, so long as a Global Security remains Outstanding and is held by or on behalf of the Depositary, transfers of a Global Security, in whole or in part, shall be made only in accordance with Section 2.12 and this Section 2.6(b). Transfers of a Global Security shall be limited to transfers of such Global Security, in whole or in part, to the Depositary, to nominees of the Depositary or to a successor of the Depositary or such successor's nominee.

(c) Successive registrations and registrations of transfers and exchanges as aforesaid may be made from time to time as desired, and each such registration shall be noted on the register for the Securities.

(d) Any Registrar appointed pursuant to Section 2.3 hereof shall provide to the Trustee such information as the Trustee may reasonably require in connection with the delivery by such Registrar of Securities upon transfer or exchange of Securities.

(e) All Securities issued upon any registration of transfer or exchange of Securities shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

Section 2.7 Replacement Securities. If (a) any mutilated Security is surrendered to the Trustee, or (b) the Company and the Trustee receive evidence to their satisfaction of the destruction, loss or theft of any Security, and there is delivered to the Company and the Trustee such security or indemnity as may be required by them to save each of them harmless, then, in the absence of notice to the Company or the Trustee that such Security has been acquired by a protected purchaser within the meaning of Article 8 of the Uniform Commercial Code as in effect from time to time in the State of New York (a "Protected Purchaser"), the Company shall execute and upon its written request the Trustee shall authenticate and deliver, in exchange for any such mutilated Security or in lieu of any such destroyed, lost or stolen Security, a new Security of like tenor and principal amount, bearing a certificate number not contemporaneously Outstanding.



In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, or is about to be purchased by the Company pursuant to Article Three hereof, or such Security has been surrendered for conversion pursuant to Article Ten, the Company in its discretion may, instead of issuing a new Security, pay, purchase or convert such Security, as the case may be.

Upon the issuance of any new Securities under this Section 2.7, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Security issued pursuant to this Section 2.7 in lieu of any mutilated, destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the mutilated, destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all benefits of this Indenture equally and proportionately with any and all other Securities duly issued hereunder.

The provisions of this Section 2.7 are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

Section 2.8 Outstanding Securities; Determinations of Holders' Action. Securities Outstanding at any time are all the Securities authenticated by the Trustee except for those cancelled by it, those paid pursuant to Section 2.7, those delivered to it for cancellation and those described in this Section 2.8 as not Outstanding. The Securities shall cease to be Outstanding upon the satisfaction and discharge of the Indenture pursuant to Article Eight. A Security does not cease to be Outstanding because the Company or an Affiliate thereof holds the Security; provided, however, that in determining whether the Holders of the requisite principal amount of Securities have given or concurred in any request, demand, authorization, direction, notice, consent, waiver, or other Act hereunder, Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent, waiver or other Act, only Securities which a Responsible Officer of the Trustee actually knows to be so owned shall be so disregarded. Subject to the foregoing, only Securities Outstanding at the time of such determination shall be considered in any such determination (including, without limitation, determinations pursuant to Articles Six and Nine).

If a Security is replaced pursuant to Section 2.7, it ceases to be Outstanding unless the Trustee receives proof satisfactory to it that the replaced Security is held by a Protected Purchaser.

If the Paying Agent holds, in accordance with this Indenture, on a Redemption Date, or on the Business Day following a Purchase Date, or on Stated Maturity, money or securities, if permitted hereunder, sufficient to pay Securities payable on that date, then immediately after such Redemption Date, Purchase Date or Stated Maturity, as the case may be,

such Securities shall cease to be Outstanding and Original Issue Discount and contingent interest, if any, shall cease to accrue.

Securities for whose payment or redemption money, Common Stock or other securities in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Securities shall be deemed to be no longer Outstanding; provided that, if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefore satisfactory to the Trustee has been made or, if the Securities are to be purchased, a Purchase Notice shall have been duly given and not be subject to withdrawal.

If a Security is converted in accordance with Article Ten, then from and after the time of conversion on the date of conversion, such Security shall cease to be Outstanding and Original Issue Discount and contingent interest, if any, shall cease to accrue on such Security.

Section 2.9 Temporary Securities. Pending the preparation of definitive Securities, the Company may execute, and upon Company Order the Trustee shall authenticate and deliver, temporary Securities which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determine, as conclusively evidenced by their execution of such Securities.

If temporary Securities are issued, the Company will cause definitive Securities to be prepared without unreasonable delay. After the preparation of definitive Securities, the temporary Securities shall be exchangeable for definitive Securities upon surrender of the temporary Securities at the office or agency of the Company designated for such purpose pursuant to Section 2.3, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a like principal amount of definitive Securities of authorized denominations. Until so exchanged the temporary Securities shall in all respects be entitled to the same benefits under this Indenture as definitive Securities.

Section 2.10 Cancellation. All Securities surrendered for payment, purchase by the Company pursuant to Article Three, conversion, redemption or registration of transfer or exchange shall, if surrendered to any person other than the Trustee, be delivered to the Trustee and shall be promptly cancelled by it. The Company may at any time deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder, which the Company may have acquired in any manner whatsoever, and all Securities so delivered shall be promptly cancelled by the Trustee. The Company may not issue new Securities to replace Securities it has paid or delivered to the Trustee for cancellation or that any Holder has converted pursuant to Article Ten. No Securities shall be authenticated in lieu of or in exchange for any Securities cancelled as provided in this Section, except as expressly permitted by this Indenture. All cancelled Securities held by the Trustee shall be disposed of by the Trustee in accordance with the Trustee's customary procedure.

Section 2.11 Persons Deemed Owners. Prior to due presentment of a Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Security is registered as the owner of such Security for the purpose of receiving payment of principal of the Security or the payment of any Redemption Price or Purchase Price in respect thereof, and (subject to Section 11.4) contingent interest thereon, for the purpose of conversion and for all other purposes whatsoever, whether or not such Security be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

Section 2.12 Global Securities. (a) Notwithstanding any other provisions of this Indenture or the Securities, (A) transfers of a Global Security, in whole or in part, shall be made only in accordance with Section 2.6 and Section 2.12(a)(i), (B) transfers of a beneficial interest in a Global Security for a Certificated Security shall comply with Section 2.6, Section 2.12(a)(ii) below and Section 2.12(b)(1) below, and (C) transfers of a Certificated Security shall comply with Section 2.6 and Sections 2.12(a)(iii) and (iv) below.

(i) Transfer of Global Security. A Global Security may not be transferred, in whole or in part, to any Person other than the Depository or a nominee of the Depository or any successor to either of them, and no such transfer to any such other Person may be registered. No transfer of a Security to any person shall be effective under this Indenture or the Securities unless and until such Security has been registered in the name of such Person. Nothing in this Section 2.12(a)(i) shall prohibit or render ineffective any transfer of a beneficial interest in a Global Security effected in accordance with the other provisions of this Section 2.12(a).

(ii) Restrictions on Transfer of a Beneficial Interest in a Global Security for a Certificated Security. A beneficial interest in a Global Security may not be exchanged for a Certificated Security except upon satisfaction of the requirements set forth below and in Section 2.12(b)(1) below. Upon receipt by the Trustee of a transfer of a beneficial interest in a Global Security in accordance with Applicable Procedures for a Certificated Security, together with written instructions to the Trustee to make, or direct the Registrar to make, an adjustment on its books and records with respect to such Global Security to reflect a decrease in the aggregate principal amount of the Securities represented by the Global Security, then the Trustee shall cause, or direct the Registrar to cause, in accordance with the standing instructions and procedures existing between the Depository and the Registrar, the aggregate principal amount of the Securities represented by the Global Security to be decreased by the aggregate principal amount of the Certificated Security to be issued, shall issue such Certificated Security and shall debit or cause to be debited to the account of the Person specified in such instructions a beneficial interest in the Global Security equal to the principal amount of the Certificated Security so issued.

(iii) Transfer and Exchange of Certificated Securities. When Certificated Securities are presented to the Registrar with a request:

(y) to register the transfer of such Certificated Securities; or

(z) to exchange such Certificated Securities for an equal principal amount of Certificated Securities of other authorized denominations,

the Registrar shall register the transfer or make the exchange as provided in Section 2.6; provided, however, that the Certificated Securities surrendered for transfer or exchange shall be duly endorsed or accompanied by a written instrument of transfer in form reasonably satisfactory to the Company, duly executed by the Holder thereof or his attorney duly authorized in writing.

(iv) Restrictions on Transfer of a Certificated Security for a Beneficial Interest in a Global Security. A Certificated Security may not be exchanged for a beneficial interest in a Global Security.

(b) The provisions of clauses (1), (2), (3), (4) and (5) below shall apply only to Global Securities:

- (1) Notwithstanding any other provisions of this Indenture or the Securities, a Global Security shall not be exchanged, in whole or in part, for a Security registered in the name of any Person other than the Depository or one or more nominees of the Depository or the successor to either of them, provided that a Global Security may be exchanged for Securities registered in the names of any person designated by the Depository in the event that (i) the Depository has notified the Company that it is unwilling or unable to continue as Depository for such Global Security or such Depository has ceased to be a "clearing agency" registered under the Exchange Act, and a successor Depository is not appointed by the Company within 90 days, (ii) an Event of Default has occurred and is continuing with respect to the Securities or (iii) the Company delivers to the Trustee a Company Order to that effect. Any Global Security exchanged pursuant to clause (i) or (iii) above shall be so exchanged in whole and not in part, and any Global Security exchanged pursuant to clause (ii) above may be exchanged in whole or from time to time in part as directed by the Depository.
- (2) Certificated Securities issued in exchange for a Global Security or any portion thereof shall be issued in definitive, fully registered form, without interest coupons, shall have an aggregate principal amount equal to that of such Global Security or portion thereof to be so exchanged, shall be registered in such names and be in such authorized denominations as the Depository shall designate. Any Global Security to be exchanged in whole shall be surrendered by the Depository to the Trustee, as Registrar. With regard to any Global Security to be exchanged in part, either such Global Security shall be so surrendered for exchange or, if the Trustee is acting as custodian for the Depository or its nominee with respect to such Global Security, the principal amount thereof shall be reduced, by an amount equal to the portion thereof to be so exchanged, by means of an appropriate adjustment made on the records of the Trustee.

- (3) Subject to the provisions of clause (5) below, the registered Holder may grant proxies and otherwise authorize any person, including Agent Members (as defined below) and persons that may hold interests through Agent Members, to take any Act of a Holder that a Holder is entitled to take under this Indenture or the Securities.
- (4) In the event of the occurrence of any of the events specified in clause (1) above, the Company will promptly make available to the Trustee a reasonable supply of Certificated Securities in definitive, fully registered form, without interest coupons.
- (5) Neither any members of, or participants in, the Depositary (collectively, the "Agent Members") nor any other persons on whose behalf Agent Members may act shall have any rights under this Indenture with respect to any Global Security registered in the name of the Depositary or any nominee thereof, or under any such Global Security, and the Depositary or such nominee, as the case may be, may be treated by the Company, the Trustee and any agent of the Company or the Trustee as the absolute owner and holder of such Global Security for all purposes whatsoever.

Notwithstanding the foregoing, nothing herein shall prevent the Company, the Trustee or any agent of the Company or the Trustee from giving effect to any written certification, proxy or other authorization furnished by the Depositary or such nominee, as the case may be, or impair, as between the Depositary, its Agent Members and any other person on whose behalf an Agent Member may act, the operation of customary practices of such Persons governing the exercise of the rights of any Person having a beneficial interest in a Security.

Section 2.13 Calculations in Respect of Securities. The Company or its agents will be responsible for making all calculations and determinations called for under the Securities including, but not limited to, the determination of the market prices for the Securities and of the Common Stock, the Sale Price and the amounts of contingent interest payments, if any, on the Securities. Any calculations made in good faith and without manifest error will be final and binding on Holders of the Securities.

Section 2.14 CUSIP Numbers. The Company may issue the Securities with one or more "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use CUSIP numbers in notices of redemption and Purchase Notices as a convenience to Holders; provided that any such redemption notice or Purchase Notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of a redemption or Purchase Notice and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption or repurchase shall not be affected by any defect in or omission of such numbers.

## ARTICLE THREE

### REDEMPTION AND PURCHASES

Section 3.1 Company's Right to Redeem; Notices to Trustee. Prior to November 9, 2006, the Securities will not be redeemable at the Company's option. Beginning on and including November 9, 2006, the Company, at its option, may redeem the Securities in accordance with the provisions of Sections 6 and 8 of the Securities for cash at any time as a whole, or from time to time in part, at the Redemption Price. If the Company elects to redeem Securities pursuant to Section 6 of the Securities, it shall notify the Trustee in writing of the Redemption Date, the principal amount of Securities to be redeemed and the Redemption Price.

The Company shall give the notice to the Trustee provided for in this Section 3.1 by a Company Order, at least 25 days (unless a shorter notice shall be satisfactory to the Trustee) but not more than 70 days before the Redemption Date.

Section 3.2 Selection of Securities to Be Redeemed. If less than all the Outstanding Securities are to be redeemed, unless the procedures of the Depositary provide otherwise, the Trustee shall select the Securities to be redeemed by lot, on a pro rata basis or by another method the Trustee considers fair and appropriate (so long as such method is not prohibited by the rules of any stock exchange on which the Securities are then listed). The Trustee shall, within five Business Days after it receives the notice provided for in Section 3.1, make the selection from Outstanding Securities not previously called for redemption.

Securities and portions of Securities that the Trustee selects shall be in principal amounts of \$1,000 or whole multiples of \$1,000. Provisions of this Indenture that apply to Securities called for redemption also apply to portions of Securities called for redemption. The Trustee shall notify the Company promptly of the Securities or portions of the Securities to be redeemed.

Securities and portions of Securities that are to be redeemed are convertible by the Holder up to, but not including, the third Business Day prior to the Redemption Date. If any Security selected for partial redemption is converted in part before termination of the conversion right with respect to the portion of the Security so selected, the converted portion of such Security shall be deemed (so far as may be) to be the portion selected for redemption. Securities that have been converted during a selection of Securities to be redeemed may be treated by the Trustee as Outstanding for the purpose of such selection.

Section 3.3 Notice of Redemption. At least 15 days but not more than 60 days before a Redemption Date, the Company shall mail a notice of redemption by first-class mail, postage prepaid, to each Holder of Securities to be redeemed.

The notice shall identify the Securities to be redeemed and shall state:

- (1) the Redemption Date;
- (2) the Redemption Price;

- (3) the Conversion Price;
- (4) the name and address of the Paying Agent and Conversion Agent;
- (5) that Securities called for redemption may be converted at any time up to, but not including, the third Business Day prior to the Redemption Date;
- (6) that Holders who want to convert their Securities must satisfy the requirements set forth in Section 9 of the Securities;
- (7) that Securities called for redemption must be surrendered to the Paying Agent to collect the Redemption Price;
- (8) if fewer than all of the Outstanding Securities are to be redeemed, the certificate numbers, if any, and principal amounts of the particular Securities to be redeemed;
- (9) that, unless the Company defaults in making payment of such Redemption Price, Original Issue Discount and contingent interest, if any, on Securities called for redemption, Original Issue Discount and contingent interest will cease to accrue on and after the Redemption Date; and
- (10) the CUSIP number(s) of the Securities.

Notices of redemption may be given by the Company or, at the Company's request, the Trustee shall give the notice of redemption in the Company's name and at the Company's expense.

Section 3.4 Effect of Notice of Redemption. Once notice of redemption is given, Securities called for redemption become due and payable on the Redemption Date and at the Redemption Price stated in the notice except for Securities that are converted in accordance with the terms of this Indenture. Upon surrender to the Paying Agent, such Securities shall be paid at the Redemption Price stated in the notice; provided, however, that any contingent interest that is due and payable on or prior to the Redemption Date shall be payable to the Holders of such Securities, or one or more Predecessor Securities, as provided in Article Eleven.

Section 3.5 Deposit of Redemption Price. Prior to 10:00 a.m. (New York City time) on the Redemption Date, the Company shall deposit with the Paying Agent (or if the Company or a Subsidiary or an Affiliate of either of them is the Paying Agent, shall segregate and hold in trust) money sufficient to pay the Redemption Price of all Securities to be redeemed on that date other than Securities or portions of Securities called for redemption that on or prior thereto have been delivered by the Company to the Trustee for cancellation or have been converted. The Paying Agent shall as promptly as practicable return to the Company any money not required for payment of the Redemption Price because of conversion of Securities pursuant to Article Ten. If such money is then held by the Company in trust and is not required for payment of the Redemption Price it shall be discharged from such trust.

Section 3.6 Securities Redeemed in Part. Upon surrender of a Security that is redeemed in part, the Company shall execute and the Trustee shall authenticate and deliver to the Holder a new Security in an authorized denomination equal in principal amount to the unredeemed portion of the Security surrendered.

Section 3.7 Purchase of Securities by the Company at Option of the Holder. Securities shall be purchased by the Company pursuant to Section 7 of the Securities at the option of the Holder on November 9, 2006, November 9, 2011, November 9, 2016, November 9, 2021 and November 9, 2026 (each, a "Purchase Date"), at a purchase price of \$705.55, \$756.53, \$811.18, \$869.79 and \$932.63, respectively, plus any accrued Original Issue Discount and any accrued and unpaid contingent interest, in each case, up to but excluding such Purchase Date (the "Purchase Price"), subject to the provisions of Section 3.8; provided, however, that any contingent interest that is due and payable on or prior to the Purchase Date shall be paid to the Holders of the Securities, or one or more Predecessor Securities, as provided in Article Eleven. Purchases of Securities hereunder shall be made, at the option of the Holder thereof, upon:

- (1) delivery to the Paying Agent by the Holder of a written notice of purchase (a "Purchase Notice") during the period beginning at any time from the opening of business on the date that is 24 Business Days prior to the relevant Purchase Date until the close of business on the fourth Business Day prior to such Purchase Date stating:
  - (A) the certificate number of the Security which the Holder will deliver to be purchased or the appropriate Depository procedures if Certificated Securities have not been issued,
  - (B) the portion of the principal amount of the Security that the Holder will deliver to be purchased, which portion must be in principal amounts of \$1,000 or a whole multiple of \$1,000,
  - (C) that such Security shall be purchased by the Company as of the Purchase Date pursuant to the terms and conditions specified in Section 7 of the Securities and in this Indenture, and
  - (D) in the event the Company elects, pursuant to Section 3.8, to pay the Purchase Price, in whole or in part, in shares of Common Stock but such portion of the Purchase Price shall ultimately be paid to such Holder entirely in cash because any of the conditions to payment of the Purchase Price in shares of Common Stock is not satisfied prior to the close of business on the relevant Purchase Date, as set forth in Section 3.8, whether such Holder elects (i) to withdraw such Purchase Notice as to some or all of the Securities to which such Purchase Notice relates (stating the principal amount and certificate numbers, if any, of the Securities as to which such withdrawal shall relate), or (ii) to receive cash in respect of the entire Purchase Price for all Securities (or portions thereof) to which such Purchase Notice relates; and



- (2) book-entry transfer or delivery of such Security to the Paying Agent at any time after delivery of the Purchase Notice (together with all necessary endorsements) at the offices of the Paying Agent, such delivery being a condition to receipt by the Holder of the Purchase Price therefor; provided, however, that such Purchase Price shall be so paid pursuant to this Section 3.7 only if the Security so delivered to the Paying Agent shall conform in all respects to the description thereof in the related Purchase Notice.

If a Holder, in such Holder's Purchase Notice and in any written notice of withdrawal delivered by such Holder pursuant to the terms of Section 3.8, fails to indicate such Holder's choice with respect to the election set forth in clause (D) of Section 3.7 (1), such Holder shall be deemed to have elected to receive cash in respect of the entire Purchase Price for all Securities subject to such Purchase Notice in the circumstances set forth in such clause (D).

The Company shall purchase from the Holder thereof, pursuant to this Section 3.7, a portion of a Security, if the principal amount of such portion is \$1,000 or a whole multiple of \$1,000. Provisions of this Indenture that apply to the purchase of all of a Security also apply to the purchase of such portion of such Security.

Any purchase by the Company contemplated pursuant to the provisions of this Section 3.7 shall be consummated by the delivery of the consideration to be received by the Holder promptly following the later of the Purchase Date and the time of the book-entry transfer or delivery of the Security.

Notwithstanding anything herein to the contrary, any Holder delivering to the Paying Agent the Purchase Notice contemplated by this Section 3.7 shall have the right to withdraw such Purchase Notice at any time up to, but excluding, the third Business Day prior to the Purchase Date by delivery of a written notice of withdrawal to the Paying Agent in accordance with Section 3.9.

The Paying Agent shall promptly notify the Company of the receipt by it of any Purchase Notice or written notice of withdrawal thereof.

Section 3.8 Company's Right to Elect Manner of Payment of Purchase Price for Payment. (a) The Securities to be purchased on any Purchase Date pursuant to Section 3.7(a) may be paid for, in whole or in part, at the election of the Company, in U.S. legal tender ("cash") or shares of Common Stock, or in any combination of cash and shares of Common Stock, subject to the conditions set forth in Sections 3.8(c) and (d). The Company shall designate, in the Company Notice delivered pursuant to Section 3.8(d), whether the Company will purchase the Securities for cash or shares of Common Stock, or, if a combination thereof, the percentages of the Purchase Price of Securities in respect of which it will pay in cash or shares of Common Stock; provided that the Company will pay cash for fractional interests in shares of Common Stock. For purposes of determining the existence of potential fractional interests, all Securities subject to purchase by the Company held by a Holder shall be considered together (no matter how many separate certificates are to be presented). Each Holder whose Securities are purchased pursuant to Section 3.7 shall receive the same percentage of cash or

shares of Common Stock in payment of the Purchase Price for such Securities, except with regard to the payment of cash in lieu of fractional shares of Common Stock. The Company may not change its election with respect to the consideration (or components or percentages of components thereof) to be paid once the Company has given its Company Notice to Holders except pursuant to Section 3.8(c) in the event of a failure to satisfy, prior to the close of business on the Business Day immediately preceding the Purchase Date, any condition to the payment of the Purchase Price, in whole or in part, in shares of Common Stock.

At least three Business Days before each Company Notice Date, the Company shall deliver an Officers' Certificate to the Trustee specifying:

(i) the manner of payment selected by the Company,

(ii) the information required by Section 3.8(d) in the Company Notice,

(iii) if the Company elects to pay the Purchase Price, or a specified percentage thereof, in shares of Common Stock, that the conditions to such manner of payment set forth in Section 3.8(c) have been or will be complied with, and

(iv) whether the Company desires the Trustee to give the Company Notice required by Section 3.8(d).

(b) At the option of the Company, the Purchase Price of Securities in respect of which a Purchase Notice pursuant to Section 3.7 has been given, or a specified percentage thereof, may be paid by the Company with cash equal to the aggregate Purchase Price of such Securities. The Company Notice, as provided in Section 3.8(d), shall be sent to Holders not less than 24 Business Days prior to such Purchase Date (the "Company Notice Date").

(c) At the option of the Company, the Purchase Price of Securities in respect of which a Purchase Notice pursuant to Section 3.7 has been given, or a specified percentage thereof, may be paid by the Company by the issuance of a number of shares of Common Stock equal to the quotient obtained by dividing (i) the portion of the Purchase Price to be paid in shares of Common Stock by (ii) 100% of the Market Price determined by the Company in the Company Notice, subject to the next succeeding paragraph.

The Company will not issue fractional shares of Common Stock in payment of the Purchase Price. Instead, the Company will pay cash based on the current market price for all fractional shares. It is understood that if a Holder elects to have more than one Security purchased, the number of shares of Common Stock shall be based on the aggregate amount of Securities to be purchased.

If the Company elects to purchase the Securities by the issuance of shares of Common Stock or in any combination of cash and Common Stock, the Company Notice, as provided in Section 3.8(d), shall be sent to the Holders not later than the Company Notice Date.

The Company's right to exercise its election to purchase Securities through the issuance of shares of Common Stock shall be conditioned upon:

- (i) the Company's not having given its Company Notice of an election to pay entirely in cash and its giving of timely Company Notice of an election to purchase all or a specified percentage of the Securities with shares of Common Stock as provided herein;
- (ii) the registration of such shares of Common Stock under the Securities Act and the Exchange Act, in each case, if required;
- (iii) the listing of such shares of Common Stock on a United States national securities exchange or the quotation of such shares of Common Stock in an inter-dealer quotation system of any registered United States national securities association, in each case, if the Common Stock is then listed on a national securities exchange or quoted in an inter-dealer quotation system;
- (iv) any necessary qualification or registration of such shares of Common Stock under applicable state securities laws or the availability of an exemption from such qualification and registration; and
- (v) the receipt by the Trustee of (A) an Officers' Certificate stating that the terms of the issuance of the shares of Common Stock are in conformity with this Indenture, (B) an Opinion of Counsel to the effect that the shares of Common Stock to be issued by the Company in payment of the Purchase Price in respect of the Securities have been duly authorized and, when issued and delivered pursuant to the terms of this Indenture in payment of the Purchase Price in respect of the Securities, will be validly issued, fully paid and non-assessable and (c) an Officers' Certificate, stating that the conditions to the issuance of the shares of Common Stock have been satisfied.

Such Officers' Certificate shall also set forth the number of shares of Common Stock to be issued for each \$1,000 principal amount at Stated Maturity of Securities and the Sale Price of a share of Common Stock on each Trading Day during the period commencing on the first Trading Day of the period during which the Market Price is calculated and ending on but excluding the third Business Day prior to the applicable Purchase Date. If the foregoing conditions are not satisfied prior to the close of business on the last day prior to the Purchase Date and the Company has elected to purchase the Securities through the issuance of shares of Common Stock, the Company shall pay the entire Purchase Price of the Securities in cash.

The "Market Price" means the average of the Sale Prices of the shares of Common Stock for the five-Trading Day period immediately preceding but excluding the third Business Day prior to the applicable Purchase Date (if the fourth Business Day prior to the applicable Purchase Date is a Trading Day, or if not, then on the last Trading Day prior to the fourth Business Day), appropriately adjusted to take into account the occurrence, during the period commencing on the first of the Trading Days during the five-Trading Day period and ending on the Purchase Date, of any event described in Sections 10.3 or 10.4.

The "Sale Price" of the shares of Common Stock on any date means the closing per share sale price (or, if no closing sale price is reported, the average of the closing bid and ask prices

or, if more than one in either case, the average of the average closing bid and the average ask prices) on such date as reported on the NYSE or, if the shares of Common Stock are not listed on the NYSE, as reported on a national securities exchange, or if not reported on a national securities exchange, as reported by the Nasdaq. In the absence of such quotations, the Company shall be entitled to determine the closing sales price on the basis of such quotations as it considers appropriate. Sale Prices shall be determined without reference to extended or after hours trading.

Upon determination of the actual number of shares of Common Stock to be issued upon redemption or repurchase of Securities, the Company shall be required to disseminate a press release through Dow Jones & Company, Inc. or Bloomberg Business News containing this information or publish the information on the Company's web site or through such other public medium as the Company may use at that time.

(d) In connection with any purchase of Securities pursuant to Section 7 of the Securities, the Company shall, no less than 24 Business Days prior to each Purchase Date, give notice to Holders setting forth information specified in this Section 3.8(d) (the "Company Notice").

In the event the Company has elected to pay the Purchase Price (or a specified percentage thereof), with shares of Common Stock, the Company Notice shall:

- (1) state that each Holder will receive a number of shares of Common Stock with a value equal to 100% of the Market Price equal to such specified percentage of the Purchase Price of the Securities to be paid in Common Stock (except any cash amount to be paid in lieu of fractional shares);
- (2) set forth the method of calculating the Market Price of the shares of Common Stock; and
- (3) state that because the Market Price of shares of Common Stock will be determined prior to the Purchase Date Holders of the Securities will bear the market risk with respect to the value of the shares of Common Stock to be received from the date such Market Price is determined to the Purchase Date.

In any case, each Company Notice shall include a form of Purchase Notice to be completed by a Holder and shall state:

- (i) the Purchase Price;
- (ii) the name and address of the Paying Agent and the Conversion Agent;
- (iii) if the Securities are then convertible, that Securities as to which a Purchase Notice has been given may be converted only if the Purchase Notice is withdrawn in accordance with the terms of this Indenture;
- (iv) that Securities must be surrendered to the Paying Agent to collect the Purchase Price;

(v) that the Purchase Price for any security as to which a Purchase Notice has been given and not withdrawn will be paid promptly following the later of the Purchase Date and the time of surrender of such Security;

(vi) that, unless the Company defaults in making payment on Securities for which a Purchase Notice has been submitted, Original Issue Discount and any contingent interest on such Securities will cease to accrue on and after the Purchase Date; provided, however, that any contingent interest that is due and payable prior to the Purchase Date will be payable to the Holders of Securities, or one or more Predecessor Securities, as provided in Article Eleven; and

(vii) the CUSIP number of the Securities.

Company Notices may be given by the Company or, at the Company's request, the Trustee shall give such Company Notice in the Company's name and at the Company's expense.

(e) All shares of Common Stock delivered upon purchase of the Securities shall be duly authorized, validly issued, fully paid and nonassessable.

(f) If a Holder of a purchased Security is paid in shares of Common Stock, the Company shall pay any documentary, stamp or similar issue or transfer tax due on such issue of Common Stock. However, the Holder shall pay any such tax which is due because the Holder requests the Common Stock to be issued in a name other than the Holder's name. The Paying Agent may refuse to deliver the certificates representing the shares of Common Stock being issued in a name other than the Holder's name until the Paying Agent receives a sum sufficient to pay any tax which will be due because the shares of Common Stock are to be issued in a name other than the Holder's name. Nothing herein shall preclude any income tax withholding required by law or regulations.

Section 3.9 Effect of Purchase Notice. Upon receipt by the Paying Agent of the Purchase Notice specified in Section 3.7, the Holder of the Security in respect of which such Purchase Notice was given shall (unless such Purchase Notice is validly withdrawn) thereafter be entitled to receive solely the Purchase Price with respect to such Security. Such Purchase Price shall be paid to such Holder, subject to receipt of funds and/or securities by the Paying Agent, promptly following the later of (x) the Purchase Date with respect to such Security (provided the Holder has satisfied the conditions in Section 3.7) and (y) the time of delivery of such Security to the Paying Agent by the Holder thereof in the manner required by Section 3.7. Securities in respect of which a Purchase Notice has been given by the Holder thereof may not be converted pursuant to Article Ten hereof on or after the date of the delivery of such Purchase Notice unless such Purchase Notice has first been validly withdrawn.

A Purchase Notice may be withdrawn by means of a written notice of withdrawal delivered to the office of the Paying Agent in accordance with the Purchase Notice at any time prior to but excluding the third Business Day before the Purchase Date, specifying:

- (1) the certificate number, if any, of the Security in respect of which such notice of withdrawal is being submitted, or the appropriate Depository procedures if Certified Securities have not been issued,

- (2) the principal amount of the Security with respect to which such notice of withdrawal is being submitted, and
- (3) the principal amount, if any, of such Security which remains subject to the original Purchase Notice and which has been or will be delivered for purchase by the Company.

A written notice of withdrawal of a Purchase Notice may be in the form set forth in the preceding paragraph or may be in the form of a conditional withdrawal contained in a Purchase Notice pursuant to the terms of Section 3.7 (1)(D).

The Company may, in its sole and complete discretion, accept a written notice of withdrawal on or after the third Business Day prior to a Purchase Date. The decision of the Company to accept or reject such a withdrawal notice shall be conclusive and binding on the Holder proposing to make the withdrawal.

There shall be no purchase of any Securities pursuant to Section 3.7 if there has occurred and is continuing an Event of Default on the Purchase Date (other than a default in the payment of the Purchase Price with respect to such Securities or a default that is cured by the repurchase). The Paying Agent will promptly return to the respective Holders thereof any Securities (x) with respect to which a Purchase Notice has been withdrawn in compliance with this Indenture, or (y) held by it during the continuance of an Event of Default (other than a default in the payment of the Purchase Price with respect to such Securities or a default that is cured by the repurchase) in which case, upon such return, the Purchase Notice with respect thereto shall be deemed to have been withdrawn.

Section 3.10 Deposit of Purchase Price. Prior to 10:00 a.m. (New York City Time) on the Business Day following the Purchase Date, the Company shall deposit with the Trustee or with the Paying Agent (or, if the Company or a Subsidiary or an Affiliate of either of them is acting as the Paying Agent, shall segregate and hold in trust as provided in Section 2.4) an amount of cash (in immediately available funds if deposited on such Business Day) or Common Stock, if permitted hereunder, sufficient to pay the aggregate Purchase Price of all the Securities or portions thereof that are to be purchased as of the Purchase Date.

As soon as practicable after the Purchase Date the Company shall deliver to each Holder entitled to receive shares of Common Stock through the Paying Agent, a certificate for the number of full shares of Common Stock issuable in payment of the Purchase Price and cash in lieu of any fractional interests. The person in whose name the certificate for the shares of Common Stock is registered shall be treated as a holder of record of Common Stock on the Business Day following the Purchase Date. No payment or adjustment will be made for dividends on the shares of Common Stock the record date for which occurred on or prior to the Purchase Date.

Section 3.11 Securities Purchased in Part. Any Certificated Security that is to be purchased only in part shall be surrendered at the office of the Paying Agent (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or such

Holder's attorney duly authorized in writing) and the Company shall execute and the Trustee shall authenticate and deliver to the Holder of such Security, without service charge, a new Security or Securities, of any authorized denomination as requested by such Holder in aggregate principal amount equal to, and in exchange for, the portion of the principal amount of the Security so surrendered which is not purchased.

Section 3.12 Repayment to the Company. The Trustee and the Paying Agent shall return to the Company any cash or shares of Common Stock that remain unclaimed as provided in Section 12 of the Securities, together with interest or dividends, if any, thereon, held by them for the payment of the Purchase Price; provided, however, that to the extent that the aggregate amount of cash or shares of Common Stock deposited by the Company pursuant to Section 3.10 exceeds the aggregate Purchase Price of the Securities or portions thereof which the Company is obligated to purchase as of the Purchase Date then, unless otherwise agreed in writing with the Company, promptly after the Business Day following the Purchase Date, the Trustee shall return any such excess to the Company together with interest or dividends, if any, thereon.

#### **ARTICLE FOUR**

##### **COVENANTS**

Section 4.1 Payment of Securities. The Company shall promptly make all payments in respect of the Securities on the dates and in the manner provided in the Securities or pursuant to this Indenture. The Principal Amount of the Securities payable at final Stated Maturity shall be deposited with the Trustee or Paying Agent by 10:00 a.m., New York City time, by the Company. Principal Amount, Issue Price, accrued Original Issue Discount, Redemption Price, Purchase Price and contingent interest, if any, shall be considered paid on the applicable date due if on such date the Trustee or the Paying Agent holds, in accordance with this Indenture, cash or securities, if permitted hereunder, sufficient to pay all such amounts then due.

The Company shall, to the extent permitted by law, pay interest on overdue Principal Amount, contingent interest, if any, or the cash portion of the Repurchase Price at the per annum rate of interest of 1.40%, compounded semi-annually, which interest (to the extent payment of such interest shall be legally enforceable) shall accrue from the date such overdue amounts were originally due and payable until such amount is paid or payment is duly provided for. Any such interest shall be payable on demand.

Section 4.2 SEC and Other Reports. The Company shall file with the Trustee and the Commission, and transmit to Holders, such information, documents and other reports, and such summaries thereof, as may be required pursuant to the TIA at the times and in the manner provided pursuant to the TIA; provided that any such information, documents or reports required to be filed with the SEC pursuant to section 13 or 15(d) of the Exchange Act shall be filed with the Trustee within 15 days after the same is so required to be filed with the SEC.

Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein,

including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

Section 4.3 Compliance Certificate. The Company shall deliver to the Trustee within 120 days after the end of each fiscal year of the Company (beginning with the fiscal year ending on December 31, 2001) an Officers' Certificate, stating whether or not to the knowledge of the signers thereof, the Company is in default in the performance and observance of any of the terms, provisions and conditions of this Indenture (without regard to any period of grace or requirement of notice provided hereunder) and if the Company shall be in default, specifying all such defaults and the nature and status thereof of which they may have knowledge.

Section 4.4 Maintenance of Office or Agency. The Trustee will maintain (and the Company, to the extent the Trustee is not also the Registrar, Paying Agent or Conversion Agent, will ensure that the Registrar, Paying Agent and Conversion Agent maintain), in the Borough of Manhattan, the City of New York, an office or agency of the Trustee, Registrar, Paying Agent and Conversion Agent where Securities may be presented or surrendered for payment, where Securities may be surrendered for registration of transfer, exchange, purchase, redemption or conversion and where notices and demands to or upon the Company in respect of the Securities and this Indenture may be served. The office of The Bank of New York, 5 Penn Plaza, New York, NY 10001 (Attention: Corporate Trust Administration), shall initially be such office or agency for all of the aforesaid purposes.

Section 4.5 Tax Treatment of Securities. The Company agrees, and by acceptance of a beneficial ownership interest in the Securities, each beneficial holder of Securities will be deemed to have agreed, for United States federal income tax purposes, to treat the Securities as indebtedness that is subject to Section 1.1275-4 of the United States Treasury Regulations (the "Contingent Debt Regulations"). A holder of Securities may obtain the comparable yield and projected payment schedule by submitting a written request for it to the Company at the following address: American International Group, Inc., 70 Pine Street, New York, New York 10270, Attention: Vice President and Director of Taxes or telephoning (212) 770-7000.

Section 4.6 Calculation of Accrued Original Issue Discount and Tax Original Issue Discount. The Company shall file with the Trustee, within 30 days following the end of each calendar year, a written notice specifying (i) the amount of accrued Original Issue Discount and Tax Original Issue Discount (including the daily rates and accrual periods) accrued on Outstanding Securities as of the end of such year and (ii) such other specific information relating to such accrued Original Issue Discount and Tax Original Issue Discount as may then be relevant under the Internal Revenue Code of 1986, as amended from time to time.

## **ARTICLE FIVE**

### **SUCCESSOR CORPORATION**

Section 5.1 When Company May Merge or Transfer Assets. The Company shall not consolidate with or merge with or into any other Person or convey, transfer, sell, lease or otherwise dispose of all or substantially all of its properties and assets to any Person, unless:



(a) either (1) the Company shall be the continuing corporation or (2) the Person (if other than the Company) formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance, transfer or lease all or substantially all of the properties and assets of the Company substantially as an entirety (i) shall be organized and validly existing under the laws of the United States or any State thereof or the District of Columbia and (ii) shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, all of the obligations of the Company under the Securities and this Indenture;

(b) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing; and

(c) the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture, comply with this Article Five and that all conditions precedent herein provided for relating to such transaction have been satisfied.

The successor Person formed by such consolidation or into which the Company is merged or the successor Person to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor had been named as the Company herein; and thereafter, except in the case of a lease and obligations the Company may have under a supplemental indenture, the Company shall be discharged from all obligations and covenants under this Indenture and the Securities. Subject to Section 9.6, the Company, the Trustee and the successor Person shall enter into a supplemental indenture to evidence the succession and substitution of such successor Person and such discharge and release of the Company.

## **ARTICLE SIX**

### **DEFAULTS AND REMEDIES**

Section 6.1 Events of Default. So long as any Securities are Outstanding, each of the following shall be an "Event of Default":

(1) the Company defaults in the payment of the Principal Amount, Redemption Price or Purchase Price on any Security when the same becomes due and payable;

(2) the Company defaults in the payment of contingent interest when due and payable, and continuance of such default for a period of 30 days;

(3) the Company fails to comply with any other term, agreement or covenant in the Securities or this Indenture (other than those referred to in clause (1) and (2) above) and such failure continues for 60 days after receipt by the Company of a Notice of Default;

(4) the entry by a court having jurisdiction in the premises of (i) a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable bankruptcy, insolvency, reorganization or other similar law or (ii) a decree or order adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under any applicable law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 60 consecutive days; or

(5) the commencement by the Company of a voluntary case or proceeding under any applicable bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by the Company to the entry of a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against the Company, or the filing by the Company of a petition or answer or consent seeking reorganization or relief under any applicable law, or the consent by the Company to the filing of such petition or to the appointment of or the taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or the making by the Company of an assignment for the benefit of creditors, or the admission in writing by the Company of its inability to pay its debts generally as they become due, or the taking of corporate action by the Company expressly in furtherance of any such action.

A Default under clause (3) above is not an Event of Default until the Trustee notifies the Company, or the Holders of at least 25% in aggregate principal amount of the Securities at the time Outstanding notify the Company and the Trustee, of the Default and the Company does not cure such Default (and such Default is not waived) within the time specified in clause (3) above after actual receipt of such notice. Any such notice must specify the Default, demand that it be remedied and state that such notice is a "Notice of Default."

The Trustee shall, within 90 days of the occurrence of a Default, give to the Holders of the Securities notice of all uncured Defaults known to it, the status of each such Default and what action the Company is taking or proposes to take with respect thereto; provided, however, the Trustee shall be protected in withholding such notice if it, in good faith, determines that the withholding of such notice is in the best interest of such Holders, except in the case of a Default in the payment of the Principal Amount, Redemption Price, Purchase Price or any contingent interest on any of the Securities when due.

Section 6.2 Acceleration. If an Event of Default occurs and is continuing, the Trustee by notice to the Company, or the Holders of at least 25% in aggregate principal amount of the Securities at the time Outstanding by notice to the Company and the Trustee, may declare the Issue Price plus accrued Original Issue Discount, and any accrued and unpaid contingent interest on all the Securities to be immediately due and payable. Upon such a declaration, such

accelerated amount shall be due and payable immediately. The Holders of a majority in aggregate principal amount of the Securities at the time Outstanding, by notice to the Trustee (and without notice to any other Securityholder) may rescind an acceleration and its consequences if the rescission would not conflict with any judgment or decree and if all existing Events of Default have been cured or waived except nonpayment of the amounts that have become due solely as a result of acceleration and if all amounts due to the Trustee under Section 7.6 have been paid. No such rescission shall affect any subsequent Default or impair any right consequent thereto.

**Section 6.3 Other Remedies.** If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy to collect the payment of the Issue Price plus accrued Original Issue Discount, and any accrued and unpaid contingent interest on the Securities or to enforce the performance of any provision of the Securities or this Indenture.

The Trustee may maintain a proceeding even if the Trustee does not possess any of the Securities or does not produce any of the Securities in the proceeding. A delay or omission by the Trustee or any Holder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of, or acquiescence in, the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative.

**Section 6.4 Waiver of Past Defaults.** The Holders of a majority in aggregate principal amount of the Securities at the time Outstanding, by notice to the Trustee (and without notice to any other Holder), may waive an existing Default and its consequences except:

- (1) an Event of Default described in Section 6.1(1) or (2);
- (2) a Default in respect of a provision that under Section 9.2 cannot be amended without the consent of each Holder affected; or
- (3) a Default that constitutes a failure to convert any Securities in accordance with the terms of Article Ten.

When a Default is waived, it is deemed cured, but no such waiver shall extend to any subsequent or other Default or impair any consequent right.

This Section 6.4 shall be in lieu of Section 316(a)1(B) of the TIA and such Section 316(a)1(B) is hereby expressly excluded from this Indenture, as permitted by the TIA.

**Section 6.5 Control by Majority.** The Holders of a majority in aggregate principal amount of the Securities at the time Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture or that the Trustee determines in good faith is unduly prejudicial to the rights of other Holders or would involve the Trustee in personal liability unless the Trustee is offered indemnity satisfactory to it. This Section 6.5 shall be in lieu of Section 316(a)1(A) of the TIA and such Section 316(a)1(A) is hereby expressly excluded from this Indenture, as permitted by the TIA.

Section 6.6 Limitation on Suits. A Holder may not pursue any remedy with respect to this Indenture or the Securities unless:

- (1) the Holder gives to the Trustee written notice stating that an Event of Default is continuing;
- (2) the Holders of at least 25% in aggregate principal amount of the Securities at the time Outstanding make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer to the Trustee security or indemnity satisfactory to the Trustee against any loss, liability or expense;
- (4) the Trustee does not comply with the request within 60 days after receipt of such notice, request and offer of security or indemnity; and
- (5) the Holders of a majority in aggregate principal amount of the Securities at the time Outstanding do not give the Trustee a direction inconsistent with the request during such 60-day period.

A Holder may not use this Indenture to prejudice the rights of any other Holder or to obtain a preference or priority over any other Holder.

Section 6.7 Rights of Holders to Receive Payment. Notwithstanding any other provision of this Indenture, the right of any Holder to receive payment of the Principal Amount, Redemption Price, Purchase Price or contingent interest, if any, in respect of the Securities held by such Holder, on or after the respective due dates expressed in the Securities or any Redemption Date, and to convert the Securities in accordance with Article Ten, or to bring suit for the enforcement of any such payment on or after such respective dates or the right to convert, shall not be impaired or affected adversely without the consent of such Holder.

Section 6.8 Collection Suit by Trustee. If an Event of Default described in Section 6.1(1) occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company for the whole amount owing with respect to the Securities and the amounts provided for in Section 7.6.

Section 6.9 Trustee May File Proofs of Claim. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or any other obligor upon the Securities or the property of the Company or of such other obligor or their creditors, the Trustee (irrespective of whether the Principal Amount, Redemption Price, Purchase Price or contingent interest, if any, in respect of the Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment of any such amount) shall be entitled and empowered, by intervention in such proceeding or otherwise,

(a) to file and prove a claim for the whole amount of the Principal Amount, Redemption Price, Purchase Price, or contingent interest, if any, and to file such other papers or

documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel or any other amounts due the Trustee under Section 7.6) and of the Holders allowed in such judicial proceeding, and

(b) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 7.6.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

Section 6.10 Priorities. If the Trustee collects any money pursuant to this Article Six, it shall pay out the money in the following order:

FIRST: to the Trustee for amounts due under Section 7.6;

SECOND: to Holders for amounts due and unpaid on the Securities for the Principal Amount, Redemption Price, Purchase Price or contingent interest, if any, as the case may be, ratably, without preference or priority of any kind, according to such amounts due and payable on the Securities; and

THIRD: the balance, if any, to the Company.

The Trustee may fix a record date and payment date for any payment to Holders pursuant to this Section 6.10. At least 15 days before such record date, the Trustee shall mail to each Holder and the Company a notice that states the record date, the payment date and the amount to be paid.

Section 6.11 Undertaking for Costs. In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court may require any party litigant in such suit to file an undertaking to pay the costs of such suit, and may assess costs against any such party litigant, in the manner and to the extent provided in the TIA; provided, that neither this Section nor the TIA shall be deemed to authorize any court to require such an undertaking or to make such an assessment in any suit instituted by the Company or the Trustee. This Section 6.11 shall be in lieu of Section 315(e) of the TIA and such Section 315(e) is hereby expressly excluded from this Indenture, as permitted by the TIA.

Section 6.12 Waiver of Stay, Extension or Usury Laws. The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or

extension law or any usury or other law wherever enacted, now or at any time hereafter in force, which would prohibit or forgive the Company from paying all or any portion of the Principal Amount, Redemption Price or Purchase Price, or any contingent interest, as contemplated herein, or which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

## ARTICLE SEVEN

### TRUSTEE

Section 7.1 Duties of Trustee. (a) If an Event of Default has occurred and is continuing, the Trustee shall exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in its exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) Except during the continuance of an Event of Default:

(1) the Trustee need perform only those duties that are specifically set forth in this Indenture and no others; and

(2) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture, but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture, but need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein.

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(1) this Section (c) does not limit the effect of Section (b) of this Section 7.1; and

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; and

(3) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 6.5.

(d) Every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (a), (b), (c) and (e) of this Section 7.1.

(e) The Trustee may refuse to perform any duty or exercise any right or power or extend or risk its own funds or otherwise incur any financial liability unless it receives indemnity satisfactory to it against any loss, liability or expense.

(f) Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee (acting in any capacity hereunder) shall be under no liability for interest on any money received by it hereunder unless otherwise agreed in writing with the Company.

Section 7.2 Rights of Trustee. Subject to its duties and responsibilities under the TIA,

(a) the Trustee may conclusively rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, conclusively rely upon an Officers' Certificate;

(c) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder;

(d) the Trustee may consult with counsel selected by it and any advice or Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken or suffered or omitted by it hereunder in good faith and in accordance with such advice or Opinion of Counsel;

(e) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Holders, pursuant to the provisions of this Indenture, unless such Holders shall have offered to the Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities which may be incurred therein or thereby;

(f) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution;

(g) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney; and

(h) the rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder.

Section 7.3 Individual Rights of Trustee. The Trustee in its individual or any other capacity may become the owner or pledgee of Securities and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not the Trustee. Any Paying Agent, Registrar, Conversion Agent or co-registrar may do the same with like rights. However, the Trustee must comply with Sections 7.9 and 7.10.

Section 7.4 Trustee's Disclaimer. The Trustee makes no representation as to the validity or adequacy of this Indenture or the Securities, it shall not be accountable for the Company's use or application of the proceeds from the Securities, and it shall not be responsible for any statement in this Indenture or the Securities (other than its certificate of authentication).

Section 7.5 Reports by Trustee to Holders. The Trustee shall transmit to Holders such reports concerning the Trustee and its actions under this Indenture as may be required pursuant to the TIA at the times and in the manner provided pursuant thereto.

A copy of each report at the time of its mailing to Holders shall be filed with the SEC and each securities exchange, if any, on which the Securities are listed. The Company agrees to notify the Trustee promptly whenever the Securities become listed on any securities exchange and of any delisting thereof.

Section 7.6 Compensation and Indemnity. The Company agrees:

(a) to pay to the Trustee from time to time such compensation as the Company and the Trustee shall from time to time agree in writing for all services rendered by it hereunder (which compensation shall not be limited (to the extent permitted by law) by any provision of law in regard to the compensation of a trustee of an express trust);

(b) except as otherwise provided in this Indenture, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses, advances and disbursements of its agents and counsel), except



any such expense, disbursement or advance as may be attributable to its negligence or bad faith; and

(c) to indemnify the Trustee for, and to hold it harmless against, any loss, damage, claim, liability, cost or expense incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of this trust, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

When the Trustee incurs expenses or renders services in connection with an Event of Default specified in Section 6.1(4) or Section 6.1(5), the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable Federal or state bankruptcy, insolvency or other similar law.

The provisions of this Section shall survive the termination of this Indenture and the resignation and removal of the Trustee.

Section 7.7 Replacement of Trustee. The Trustee may resign by so notifying the Company; provided, however, no such resignation shall be effective until a successor Trustee has accepted its appointment pursuant to this Section 7.7. The Holders of a majority in aggregate principal amount of the Securities at the time Outstanding may remove the Trustee by so notifying the Trustee and the Company. The Company shall remove the Trustee if:

- (1) the Trustee fails to comply with Section 7.9;
- (2) the Trustee is adjudged bankrupt or insolvent;
- (3) a receiver or public officer takes charge of the Trustee or its property; or
- (4) the Trustee otherwise becomes incapable of acting.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Company shall promptly appoint, by resolution of its Board of Directors, a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company satisfactory in form and substance to the Company. Thereupon the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to Holders. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee.

If a successor Trustee does not take office within 120 days after the retiring Trustee resigns or is removed, the Trustee, the Company or the Holders of a majority in aggregate principal amount of the Securities at the time Outstanding may petition, in the case of the Trustee, at the expense of the Company, any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee fails to comply with Section 7.9, any Holder who has been a bona fide Holder for at least six months may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

Section 7.8 Successor Trustee by Merger. If the Trustee consolidates with, merges or converts into, or transfers all or substantially all its corporate trust business or assets to, another corporation, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee, provided such corporation shall be otherwise qualified and eligible under this Article Seven, without the execution or filing of any paper or any further act

on the part of any of the parties hereto. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities.

Section 7.9 Eligibility; Disqualification. If the Trustee has or shall acquire a conflicting interest within the meaning of the TIA, the Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the TIA and this Indenture. To the extent permitted by the TIA, the Trustee shall not be deemed to have a conflicting interest by virtue of being a trustee under the Indenture, dated July 15, 1989, between the Company, and the Trustee. The Trustee (or its parent holding company) shall have a combined capital and surplus of at least \$50,000,000 as set forth in its most recent published annual report of condition. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article Seven.

Section 7.10 Preferential Collection of Claims Against Company. If and when the Trustee shall be or become a creditor of the Company (or any other obligor upon the Securities), the Trustee shall be subject to the provisions of the TIA regarding the collection of claims against the Company (or any such other obligor).

## **ARTICLE EIGHT**

### **DISCHARGE OF INDENTURE**

Section 8.1 Satisfaction and Discharge of Indenture. This Indenture shall cease to be of further effect (except as to any surviving rights of conversion, registration of transfer or exchange of Securities herein expressly provided for), and the Trustee, on demand of and at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when

(1) either

(A) all Securities theretofore authenticated and delivered (other than (i) Securities which have been mutilated, destroyed, lost or stolen and which have been replaced or paid as provided in Section 2.7 and (ii) Securities for whose payment money, Common Stock or other securities has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 2.4) have been delivered to the Trustee for cancellation; or

(B) all such Securities not theretofore delivered to the Trustee for cancellation

(i) have become due and payable, or

(ii) will become due and payable within one year, or

(iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company,

and the Company, in the case of (i), (ii) or (iii) above, has deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose an amount sufficient to pay and discharge the entire indebtedness on such Securities not theretofore delivered to the Trustee for cancellation, for the Principal Amount, Redemption Price and any contingent interest payable to the date of such deposit (in the case of Securities which have become due and payable) or to the final Stated Maturity or Redemption Date, as the case may be;

(2) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 7.6 and, if money shall have been deposited with the Trustee pursuant to subclause (B) of Clause (1) of this Section, the obligations of the Trustee under the last paragraph of Section 2.4 shall survive.

#### Section 8.2 Application of Trust Money

Subject to the provisions of the last paragraph of Section 2.4, all money deposited with the Trustee pursuant to Section 8.1 shall be held in trust and applied by it, in accordance with the provisions of the Securities and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the Principal Amount, Redemption Price and any contingent interest for whose payment such money has been deposited with the Trustee. All moneys deposited with the Trustee pursuant to Section 8.1 (and held by it or any Paying Agent) for the payment of Securities subsequently converted shall be returned to the Company upon Company Request.

### **ARTICLE NINE**

#### **AMENDMENTS**

Section 9.1 Without Consent of Holders. The Company and the Trustee may amend this Indenture or the Securities without the consent of any Securityholder to:

(a) add to the covenants of the Company for the benefit of the Holders of Securities;

(b) surrender any right or power herein conferred upon the Company;

(c) provide for conversion rights of Holders of Securities if any reclassification or change of the Common Stock or any consolidation, merger or sale of all or substantially all of the Company's assets occurs;

(d) provide for the assumption of the Company's obligations to the Holders of Securities in the case of a merger, consolidation, conveyance, transfer or lease pursuant to Article Five hereof;

(e) reduce the Conversion Price; provided, however, that such reduction must remain in effect for at least 20 days;

(f) comply with the requirements of the SEC in order to effect or maintain the qualification of this Indenture under the TIA;

(g) secure the Securities;

(h) cure any ambiguity or correct or supplement any provision herein which may be inconsistent with any other provision herein or which is otherwise defective, or to make any other provisions with respect to matters or questions arising under this Indenture which the Company may deem necessary or desirable and which shall not be inconsistent with the provisions of this Indenture; provided, however, that such action shall not adversely affect the interests of the Holders of Securities in any material respect; and

(i) add or modify any other provisions herein with respect to matters or questions arising hereunder which the Company and the Trustee may deem necessary or desirable and which will not adversely affect the interests of the Holders of Securities in any material respect.

Section 9.2 With Consent of Holders. Except as provided below in this Section 9.2, this Indenture or the Securities may be amended, modified or supplemented, and noncompliance in any particular instance with any provision of this Indenture or the Securities may be waived, in each case with the written consent of the Holders of at least a majority of the principal amount of the Securities at the time Outstanding.

Without the written consent or the affirmative vote of each Holder of Securities affected thereby, an amendment or waiver under this Section 9.2 may not:

(a) alter the manner or rate of accrual of Original Issue Discount or the rate of contingent interest;

(b) reduce the Principal Amount, accrued Original Issue Discount, the Redemption Price or Purchase Price of any Security;

(c) change the currency of payment of any amount owed or owing under the Security;

(d) adversely affect the conversion rights of any Holder of any Security;

(e) adversely affect the purchase right of any Holder of any Security;

(f) impair the right of any Holder to institute suit for the enforcement of any payment or with respect to, or conversion of, any Security;

(g) modify any of the provisions of this Section, or reduce the principal amount of Outstanding Securities required to waive a Default, except to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby; or

(h) reduce the percentage of the principal amount of the Outstanding Securities the consent of whose Holders is required for any supplemental indenture or the consent of whose Holders is required for any waiver provided for in this Indenture.

It shall not be necessary for the consent of the Holders under this Section 9.2 to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof.

After an amendment under this Section 9.2 becomes effective, the Company shall mail to each Holder a notice briefly describing the amendment.

Nothing in this Section 9.2 shall impair the ability of the Company and the Trustee to amend this Indenture or the Securities without the consent of any Securityholder to provide for the assumption of the Company's obligations to the Holders of Securities in the case of a merger, consolidation, conveyance, transfer or lease pursuant to Article Five hereof.

Section 9.3 Compliance with Trust Indenture Act. Every supplemental indenture executed pursuant to this Article shall comply with the TIA.

Section 9.4 Revocation and Effect of Consents, Waivers and Actions. Until an amendment, waiver or other action by Holders becomes effective, a consent thereto by a Holder of a Security hereunder is a continuing consent by the Holder and every subsequent Holder of that Security or portion of the Security that evidences the same obligation as the consenting Holder's Security, even if notation of the consent, waiver or action is not made on the Security. However, any such Holder or subsequent Holder may revoke the consent, waiver or action as to such Holder's Security or portion of the Security if the Trustee receives the notice of revocation before the date the amendment, waiver or action becomes effective. After an amendment, waiver or action becomes effective, it shall bind every Securityholder.

Section 9.5 Notation on or Exchange of Securities. Securities authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities so modified as to conform, in the opinion of the Trustee and the Board of Directors, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities.

Section 9.6 Trustee to Sign Supplemental Indentures. The Trustee shall sign any supplemental indenture authorized pursuant to this Article Nine if the amendment contained therein does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may, but need not, sign such supplemental indenture. In signing such supplemental indenture the Trustee shall receive, and (subject to the provisions of Section 7.1) shall be fully protected in relying upon, an Officers' Certificate and an Opinion of Counsel stating that such amendment is authorized or permitted by this Indenture.

Section 9.7 Effect of Supplemental Indentures. Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

## **ARTICLE TEN**

### **CONVERSIONS**

Section 10.1 Conversion Privilege. (a) Subject to and upon compliance with the provisions of this Article Ten, a Holder of a Security shall have the right, at such Holder's option, to convert all or any portion (if the portion to be converted is \$1,000 or a whole multiple of \$1,000) of such Security into shares of Common Stock at the Conversion Price in effect on the date of conversion. The Securities shall be convertible only upon the occurrence of one of the following events:

(1) during any fiscal quarter commencing after December 31, 2001 or on any Business Day commencing after September 30, 2031, if the Sale Price of the Common Stock exceeds 120% of the Conversion Price for at least (a) 20 Trading Days in the 30 consecutive Trading Days ending on the last Trading Day of the immediately preceding fiscal quarter (it being understood for purposes of this Section 10.1(a)(1) that the Conversion Price in effect on the close of each of the 30 consecutive Trading Days should be used) or (b) after (but not including) September 30, 2031, one Trading Day;

(2) if such Security has been called for redemption pursuant to Article Three hereof, at any time on or after the date the notice of redemption has been given up to, but not including, the third Business Day preceding the Redemption Date; or

(3) as provided in Section (b) of this Section 10.1.

The Conversion Agent shall, on behalf of the Company, determine on a daily basis whether the Securities shall be convertible as a result of the occurrence of an event specified in clause (1) above and, if the Securities shall be so convertible, the Conversion Agent shall promptly deliver to the Company and the Trustee written notice thereof. Whenever the Securities shall become convertible pursuant to this Section 10.1, the Company or, at the Company's request, the Trustee in the name and at the expense of the Company, shall notify the Holders of the event triggering such convertibility in the manner provided in Section 12.2, and the Company shall also publicly announce such information and publish it on the Company's

Web site. Any notice so given shall be conclusively presumed to have been duly given, whether or not the Holder receives such notice.

(b) In addition, in the event that:

(1) (A) the Company distributes to all holders of its shares of Common Stock rights or warrants entitling them (for a period expiring within 45 days of the record date for the determination of the stockholders entitled to receive such distribution) to subscribe for or purchase shares of Common Stock, at a price per share less than the average of the Sale Prices of the Common Stock for the ten Trading Days immediately preceding, but not including, the date such distribution is first publicly announced by the Company, or (B) the Company distributes to all holders of its shares of Common Stock, cash or other assets, debt securities or rights or warrants to purchase its securities, where the Fair Market Value of such distribution per share of Common Stock exceeds 15% of the Sale Price of a share of Common Stock on the Trading Day immediately preceding, but not including, the date such distribution is first publicly announced by the Company, then, in either case, the Securities may be surrendered for conversion at any time on and after the date that the Company gives notice to the Holders of such right, which shall be not less than 10 days prior to the Ex-Dividend Time for such distribution, until the earlier of the close of business on the Business Day immediately preceding, but not including, the Ex-Dividend Time or the date the Company publicly announces that such distribution will not take place; provided that, no adjustment to the Conversion Price or the ability of a Holder of a Security to convert will be made if the Holder will otherwise participate in such distribution without conversion; or

(2) (A) the Company consolidates with or merges with or into another Person or conveys, transfers, sells, leases or otherwise disposes of all or substantially all of its properties and assets, (B) the Company is not the resulting or surviving entity, (C) such transaction is not with an Affiliate of the Company and (D) after the completion or consummation of such transaction either (i) 50% of the beneficial owners of the surviving or resulting entity's Voting Stock were not holders of the Company's Capital Stock prior to the transaction or (ii) 50% of the surviving or resulting entity's directors (or persons performing similar functions) were not directors of the Company, or directors approved by the Board of Directors, immediately prior to the transaction, then the Securities may be surrendered for conversion at any time from and after the date 15 days prior to the anticipated effective date of the transaction and ending on and including the date 15 days after the consummation of the transaction. The Board of Directors shall determine the anticipated effective date of the transaction, and such determination shall be conclusive and binding on the Holders and shall be publicly announced by the Company and posted on its Web site not later than two Business Days prior to such 15th day.

"Ex-Dividend Time" means, with respect to any issuance or distribution on shares of Common Stock, the first date on which the shares of Common Stock trade regular way on the principal securities market on which the shares of Common Stock are then traded without the right to receive such issuance or distribution.

Section 10.2 Conversion Procedure; Conversion Price; Fractional Shares. (a) Each Security shall be convertible at the office of the Conversion Agent into fully paid and nonassessable shares (calculated to the nearest 1/100th of a share) of Common Stock. The Security will be converted into shares of Common Stock at the Conversion Price therefor. No payment or adjustment shall be made in respect of dividends on the Common Stock or accrued Original Issue Discount or contingent interest on a converted Security, except as described in Section 11.3 hereof. The Company shall not issue any fraction of a share of Common Stock in connection with any conversion of Securities, but instead shall make a cash payment (calculated to the nearest cent) equal to such fraction multiplied by the Sale Price of the Common Stock on the last Trading Day prior to the date of conversion. Notwithstanding the foregoing, a Security in respect of which a Holder has delivered a Purchase Notice exercising such Holder's option to require the Company to repurchase such Security may be converted only if such notice of exercise is withdrawn in accordance with the Section 3.9 hereof.

(b) Before any Holder of a Security shall be entitled to convert the same into Common Stock, such Holder shall, in the case of Securities issued in global form, comply with the procedures of the Depository in effect at that time, and in the case of Certificated Securities, surrender such Securities, duly endorsed to the Company or in blank, at the office of the Conversion Agent, and shall give written notice to the Company at said office or place that such Holder elects to convert the same and shall state in writing therein the principal amount of Securities to be converted and the name or names (with addresses) in which such Holder wishes the certificate or certificates for Common Stock to be issued.

Before any such conversion, a Holder also shall pay all funds required, if any, relating to interest on the Securities, as provided in Section 11.3, and all taxes or duties, if any, as provided in Section 10.8.

If more than one Security shall be surrendered for conversion at one time by the same Holder, the number of full shares of Common Stock which shall be deliverable upon conversion shall be computed on the basis of the aggregate principal amount of the Securities (or specified portions thereof to the extent permitted thereby) so surrendered. Subject to the next succeeding sentence, the Company will, as soon as practicable thereafter, issue and deliver at said office or place to such Holder of a Security, or to such Holder's nominee or nominees, certificates for the number of full shares of Common Stock to which such Holder shall be entitled as aforesaid, together with cash in lieu of any fraction of a share to which such Holder would otherwise be entitled. The Company shall not be required to deliver certificates for shares of Common Stock while the stock transfer books for such stock or the security register are duly closed for any purpose, but certificates for shares of Common Stock shall be issued and delivered as soon as practicable after the opening of such books or security register.

(c) A Security shall be deemed to have been converted as of the close of business on the date of the notification of the Conversion Agent by the Depository of the due completion of the procedures of the Depository or the due surrender of such Securities for conversion as provided above, and the person or persons entitled to receive the Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such Common Stock as of the close of business on such date.



(d) In case any Security shall be surrendered for partial conversion, the Company shall execute and the Trustee shall authenticate and deliver to or upon the written order of the Holder of the Security so surrendered, without charge to such Holder (subject to the provisions of Section 10.8 hereof), a new Security or Securities in authorized denominations in an aggregate principal amount equal to the unconverted portion of the surrendered Securities.

Section 10.3 Adjustment of Conversion Price for Common Stock. The Conversion Price shall be adjusted from time to time as follows:

(a) In case the Company shall, at any time or from time to time while any of the Securities are Outstanding, pay a dividend or make a distribution in shares of Common Stock to all holders of its outstanding shares of Common Stock, then the Conversion Price in effect at the opening of business on the date following the record date fixed for the determination of stockholders entitled to receive such dividend or other distribution shall be reduced by multiplying such Conversion Price by a fraction:

- (1) the numerator of which shall be the number of shares of Common Stock outstanding at the close of business on the record date fixed for such determination; and
- (2) the denominator of which shall be the sum of such number of shares and the total number of shares constituting such dividend or other distribution.

Such reduction shall become effective immediately after the opening of business on the day following the record date fixed for such determination. If any dividend or distribution of the type described in this Section 10.3(a) is declared but not so paid or made, the Conversion Price shall again be adjusted to the Conversion Price which would then be in effect if such dividend or distribution had not been declared.

(b) In case the Company shall, at any time or from time to time while any of the Securities are Outstanding, subdivide its outstanding shares of Common Stock into a greater number of shares of Common Stock, then the Conversion Price in effect at the opening of business on the day following the day upon which such subdivision becomes effective shall be proportionately reduced, and conversely, in case the Company shall, at any time or from time to time while any of the Securities are outstanding, combine its outstanding shares of Common Stock into a smaller number of shares of Common Stock, then the Conversion Price in effect at the opening of business on the day following the day upon which such combination becomes effective shall be proportionately increased.

Such reduction or increase, as the case may be, shall become effective immediately after the opening of business on the day following the day upon which such subdivision or combination becomes effective.

(c) In case the Company shall, at any time or from time to time while any of the Securities are Outstanding, issue rights or warrants to all holders of its shares of Common Stock entitling them for a period of not more than 45 days after the record date mentioned below to subscribe for or purchase shares of Common Stock at a price per share less than the Sale Price on the Trading Day immediately preceding the date of the announcement of such issuance, then

the Conversion Price shall be adjusted so that the same shall equal the price determined by multiplying the Conversion Price in effect at the opening of business on the date after the record date fixed for the determination of stockholders entitled to receive such rights or warrants by a fraction:

- (1) the numerator of which shall be the number of shares of Common Stock outstanding on the close of business on the record date fixed for the determination of stockholders entitled to receive such rights or warrants, plus the number of shares of Common Stock which the aggregate offering price of the total number of shares of Common Stock so offered for subscription or purchase would purchase at such Sale Price of the Common Stock; and
- (2) the denominator of which shall be the number of shares of Common Stock outstanding at the close of business on the record date fixed for the determination of stockholders entitled to receive such rights or warrants, plus the total number of additional shares of Common Stock so offered for subscription or purchase;

provided that no adjustment for a transaction referred to in this Section 10.3(c) shall be made if the Holders of the Securities may participate in the transaction on a basis and with notice that the Board of Directors determines to be fair and appropriate in light of the basis and notice on which holders of shares of the Company's Common Stock may participate in the transaction.

Such adjustment shall become effective immediately after the opening of business on the day following the record date fixed for such issuance. To the extent that shares of Common Stock are not delivered pursuant to such rights or warrants, upon the expiration or termination of such rights or warrants, the Conversion Price shall be readjusted to the Conversion Price which would then be in effect had the adjustments made upon the issuance of such rights or warrants been made on the basis of the delivery of only the number of shares of Common Stock actually delivered. In the event that such rights or warrants are not so issued, the Conversion Price shall again be adjusted to be the Conversion Price which would then be in effect if the date fixed for the determination of stockholders entitled to receive such rights or warrants had not been fixed. In determining whether any rights or warrants entitle the holders to subscribe for or purchase shares of Common Stock at less than such Sale Price, and in determining the aggregate offering price of such shares of Common Stock, there shall be taken into account any consideration received for such rights or warrants, the value of such consideration if other than cash, to be determined by the Board of Directors, whose determination shall be conclusive and binding.

(d) In case the Company shall, at any time or from time to time while any of the Securities are Outstanding, by dividend or otherwise, distribute to all holders of its shares of Common Stock (including any such distribution made in connection with a consolidation or merger in which the Company is the continuing corporation and the Common Stock is not changed or exchanged), shares of its capital stock (other than any dividends or distributions to which Section 10.3(a) applies), evidences of its indebtedness or other assets, including securities, but excluding (i) any rights or warrants referred to in Section 10.3(c), (ii) dividends or

distributions of stock, securities or other property or assets (including cash) in connection with a transaction to which Section 10.4 applies, (iii) any reclassification covered by the definition of Common Stock and (iv) dividends and distributions paid exclusively in cash (such capital stock, evidence of its indebtedness, other assets or securities being distributed hereinafter in this Section 10.3(d) called the "distributed assets"), then, in each such case, subject to other provisions of this Section 10.3(d), the Conversion Price shall be reduced so that the same shall be equal to the price determined by multiplying the Conversion Price in effect immediately prior to the close of business on the record date fixed for the determination of stockholders entitled to such distribution by a fraction:

- (1) the numerator of which shall be the Current Market Price of the Common Stock, less the Fair Market Value on such date of the portion of the distributed assets so distributed applicable to one share of Common Stock (determined on the basis of the number of shares of Common Stock outstanding on the record date fixed for such distribution) on such date; and
- (2) the denominator of which shall be such Current Market Price;

provided that no adjustment for a transaction referred to in this Section 10.3(d) shall be made if all Holders of the Securities may participate in the transaction on a basis and with notice that the Board of Directors determines to be fair and appropriate in light of the basis and notice on which holders of shares of the Company's Common Stock may participate in the transaction.

Such reduction shall become effective immediately prior to the opening of business on the day following the record date fixed for such distribution. In the event that such dividend or distribution is not so paid or made, the Conversion Price shall again be adjusted to be the Conversion Price which would then be in effect if such dividend or distribution had not been declared.

If the Board of Directors determines the Fair Market Value of any distribution for purposes of this Section 10.3(d) by reference to the actual or when issued trading market for any distributed assets comprising all or part of such distribution, it must in doing so consider the prices in such market over the same period used in computing the Current Market Price pursuant to Section 10.3(e) to the extent possible.

Rights or warrants distributed by the Company to all holders of its shares of Common Stock entitling them to subscribe for or purchase shares of the Company's capital stock (either initially or under certain circumstances), which rights or warrants, until the occurrence of a specified event or events ("Trigger Event"), (i) are deemed to be transferred with such shares of Common Stock, (ii) are not exercisable and (iii) are also issued in respect of future issuances of shares of Common Stock, shall be deemed not to have been distributed for purposes of this Section 10.3(d) (and no adjustment to the Conversion Price under this Section 10.3(d) will be required) until the occurrence of the earliest Trigger Event. In the case of any such rights or warrants which shall all have been redeemed or repurchased without exercise by any holders thereof, the Conversion Price shall be readjusted upon such redemption or repurchase to give effect to the Trigger Event as though it were a cash distribution, equal to the per share

redemption or repurchase price received by a holder of shares of Common Stock with respect to such rights or warrants (assuming such holder had retained such rights or warrants), made to all holders of shares of Common Stock as of the date of such redemption or repurchase. In the case of any such rights or warrants that expire or terminate without exercise, the Conversion Price shall be readjusted as if such rights and warrants had never been issued.

For purposes of this Section 10.3(d) and Sections 10.3(a), 10.3(b) and 10.3(c), any dividend or distribution to which this Section 10.3(d) is applicable that also includes (i) shares of Common Stock, (ii) a subdivision or combination of shares of Common Stock to which Section 10.3(b) applies or (iii) rights or warrants to subscribe for or purchase shares of Common Stock to which Section 10.3(c) applies (or any combination thereof), shall be deemed instead to be:

(1) a dividend or distribution of the evidences of indebtedness, assets, shares of capital stock, rights or warrants, other than such shares of Common Stock, such subdivision or combination or such rights or warrants to which Sections 10.3(a), 10.3(b) and 10.3(c) apply, respectively (and any Conversion Price reduction required by this Section 10.3(d) with respect to such dividend or distribution shall then be made), immediately followed by

(2) a dividend or distribution of such shares of Common Stock, such subdivision or combination or such rights or warrants (and any further Conversion Price reduction required by Sections 10.3(a), 10.3(b) and 10.3(c) with respect to such dividend or distribution shall then be made), except:

(A) the record date of such dividend or distribution shall be substituted as (i) "the record date fixed for the determination of stockholders entitled to receive such dividend or other distribution" and "record date fixed for such determination" within the meaning of Section 10.3(a), (ii) "the day upon which such subdivision becomes effective" and "the day upon which such combination becomes effective" within the meaning of Section 10.3(b), and (iii) as "the date fixed for the determination of stockholders entitled to receive such rights or warrants," "the record date fixed for the determination of the stockholders entitled to receive such rights or warrants" and "record date fixed for such issuance" within the meaning of Section 10.3(c); and

(B) any shares of Common Stock included in such dividend or distribution shall not be deemed "outstanding at the close of business on the record date fixed for such determination" within the meaning of Section 10.3(a) and any reduction or increase in the number of shares of Common Stock resulting from such subdivision or combination shall be disregarded in connection with such dividend or distribution.

(e) In case the Company shall, at any time during any calendar year while any of the Securities are Outstanding, by dividend or otherwise, make a distribution to all holders of its shares of Common Stock payable exclusively in cash in an aggregate amount per share of Common Stock that, when combined with the aggregate amount paid per share of Common Stock in respect of all other distributions to all holders of its shares of Common Stock paid exclusively in cash within that calendar year up to, but excluding, the date fixed for the determination of stockholders entitled to receive such distribution, less the amount of all Regular Cash Dividends per share of Common Stock declared within that calendar year up to, but excluding, the record date fixed for such determination, exceeds 15% of the Current Market Price on the date that such dividend or distribution is first publicly announced (such amount per share of Common Stock in excess of such 15%, the "Per Share Distribution Amount"), the Conversion Price in effect immediately prior to the close of business on the date fixed for the determination of the stockholders entitled to such distribution shall be reduced by multiplying such Conversion Price by a fraction of which the numerator shall be the Current Market Price on the date fixed for such payment less the Per Share Distribution Amount

and the denominator shall be such Current Market Price, such reduction to become effective immediately prior to the opening of business on the day following the date fixed for such payment.

No adjustment for a transaction referred to in this Section 10.3(e) shall be made if the cash dividend or distribution is not made or if all Holders of the Securities may participate in the transaction on a basis and notice that the Board of Directors determines to be fair and appropriate in light of the basis and notice which holders of the shares of the Company's Common Stock may participate in the transaction.

(f) For purposes of this Article Ten, the following terms shall have the meanings indicated:

"Current Market Price" on any date in question means the average of the daily Sale Prices per share of Common Stock for the ten consecutive Trading Days selected by the Board of Directors commencing not more than 20 Trading Days before, and ending not later than, the earlier of the date in question and the day before the "ex" date (as hereinafter defined) with respect to the transaction requiring such adjustment; provided, however, that if:

(1) the "ex" date for any other transaction that requires an adjustment to the Conversion Price pursuant to Section 10.3(a), (b), (c), (d) or (e) falls after the first of the ten consecutive Trading Days so selected by the Board of Directors, the Sale Price for each such Trading Day falling prior to the "ex" date for such other transaction shall be adjusted by multiplying such Sale Price by the same fraction by which the Conversion Price is so required to be adjusted as a result of such other transaction;

(2) the "ex" date for any other transaction that requires an adjustment to the Conversion Price pursuant to Section 10.3(a), (b), (c), (d) or (e) falls on or before the last of the ten consecutive Trading Days so selected by the Board of Directors, the Sale Price for each such Trading Day falling on and after the "ex" date for such other transaction shall be adjusted by dividing such Sale Price by the same fraction by which the Conversion Price is so required to be adjusted as a result of such other transaction.

For purposes of this paragraph, the term "ex" date, when used:

(1) with respect to any dividend, distribution or issuance, means the first date on which the shares of Common Stock trade regular way on the relevant exchange or in the relevant market from which the Sale Price was obtained without the right to receive such dividend, distribution or issuance; and

(2) with respect to any subdivision or combination of shares of Common Stock, means the first date on which the shares of Common Stock trade regular way on such exchange or in such market after the time at which such subdivision or combination becomes effective.

Notwithstanding the foregoing, whenever successive adjustments to the Conversion Price are called for pursuant to this Section 10.3, such adjustments shall be made to the Current Market Price as may be necessary or appropriate to effectuate the intent of this Section 10.3 and to avoid unjust or inequitable results as determined in good faith by the Board of Directors whose good faith determination shall be conclusive and binding.

"Fair Market Value" shall mean the amount which a willing buyer would pay a willing seller in an arm's-length transaction (as determined by the Board of Directors, whose determination shall be conclusive).

(g) The Company shall be entitled to make such additional reductions in the Conversion Price, in addition to those required by Sections 10.3(a), (b), (c), (d) or (e), as shall be necessary, as determined by the Board of Directors, in order that any dividend or distribution of Common Stock, any subdivision or combination of shares of Common Stock or any issuance of rights or warrants referred to above shall not be taxable to the holders of Common Stock for United States Federal income tax purposes.

(h) The Company may, from time to time, reduce the Conversion Price by any amount for any period of time, if such period is at least 20 days and the reduction is irrevocable during the period. Whenever the Conversion Price is reduced pursuant to the preceding sentence, the Company shall mail to the Trustee and each Holder at the address of such Holder as it appears in the register of the Securities maintained by the Registrar, at least five Business Days prior to the date the reduced Conversion Price takes effect, a notice of the reduction stating the reduced Conversion Price and the period during which it will be in effect.

(i) In any case in which this Section 10.3 shall require that any adjustment be made effective as of or retroactively immediately following a record date, the Company may elect to defer issuing to the Holder of any Securities converted after such record date the shares of Common Stock issuable upon such conversion over and above the shares of Common Stock issuable upon such conversion on the basis of the Conversion Price prior to adjustment; provided, however, that the Company shall deliver to such Holder a due bill or other appropriate instrument evidencing such Holder's right to receive such additional shares upon the occurrence of the event requiring such adjustment.

(j) All calculations under this Section 10.3 shall be made to the nearest cent or one-hundredth of a share, with one-half cent and 0.005 of a share, respectively, being rounded upward. Notwithstanding any other provision of this Section 10.3, the Company shall not be required to make any adjustment of the Conversion Price unless such adjustment would require an increase or decrease of at least 1% of such price. Any lesser adjustment shall be carried forward and shall be made at the time of and together with the next subsequent adjustment which, together with any adjustment or adjustments so carried forward, shall amount to an increase or decrease of at least 1% in such price. Any adjustments under this Section 10.3 shall be made successively whenever an event requiring such an adjustment occurs.

(k) In the event that at any time, as a result of an adjustment made pursuant to this Section 10.3, the Holder of any Securities thereafter surrendered for conversion shall become entitled to receive any shares of stock of the Company other than shares of Common Stock into which the Securities originally were convertible, the Conversion Price of such other shares so receivable upon conversion of any such Security shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to Common Stock contained in subparagraphs (a) through (d) of this Section 10.3.

(l) No adjustment shall be made pursuant to Section 10.3 (i) if the effect thereof would be to reduce the Conversion Price below the par value (if any) of the Common Stock or (ii) if the Holders of the Securities may participate without conversion in the transaction that would otherwise give rise to an adjustment pursuant to this Section 10.3 on a basis and with notice that the Board of Directors determines to be fair and appropriate in light of the basis and notice on which holders of shares of the Company's Common Stock may participate in the transaction.

Section 10.4 Consolidation or Merger of the Company. If any of the following events occur, namely:

(1) any reclassification or change of the outstanding Common Stock (other than any reclassification or change covered by the definition of Common Stock or a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination);

(2) any merger, consolidation, statutory share exchange or combination of the Company with another corporation as a result of which holders of Common Stock shall be entitled to receive stock, securities or other property or assets (including cash) or any combination thereof with respect to or in exchange for such Common Stock; or

(3) any sale, lease or conveyance of the properties and assets of the Company as, or substantially as, an entirety to any other corporation as a result of which holders of Common Stock shall be entitled to receive stock, securities or other property or assets (including cash) or any combination thereof with respect to or in exchange for such Common Stock;

the Company or the successor or purchasing corporation, as the case may be, shall execute with the Trustee a supplemental indenture (which shall comply with the TIA as in force at the date of execution of such supplemental indenture, if such supplemental indenture is then required to so comply) providing that such Securities shall be convertible into the kind and amount of shares of stock and other securities or property or assets (including cash) or any combination thereof which such Holder would have been entitled to receive upon such reclassification, change, merger, consolidation, statutory share exchange, combination, sale, lease or conveyance had such Securities been converted into Common Stock immediately prior to such reclassification, change, merger, consolidation, statutory share exchange, combination, sale, lease or conveyance assuming such holder of Common Stock did not exercise its rights of election, if any, as to the kind or amount of securities, cash or other property receivable upon such merger, consolidation, statutory share exchange, sale, lease or conveyance (provided that, if the kind or amount of securities, cash or other property receivable upon such merger, consolidation, statutory share exchange, sale, lease or conveyance is not the same for each share of Common Stock in respect of which such rights of election shall not have been exercised ("Non-Electing Share"), then for the purposes of this Section 10.4, the kind and amount of securities, cash or other property receivable upon such merger, consolidation, statutory share exchange, sale, lease or conveyance for each Non-Electing Share shall be deemed to be the kind and amount so receivable per share by a plurality of the Non-Electing Shares). Such supplemental indenture shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Article Ten.

The Company shall cause notice of the execution of such supplemental indenture to be mailed to each Holder, at the address of such Holder as it appears on the register of the Securities maintained by the Registrar, within 20 days after execution thereof. Failure to deliver such notice shall not affect the legality or validity of such supplemental indenture.

The above provisions of this Section 10.4 shall similarly apply to successive reclassifications, changes, mergers, consolidations, statutory share exchanges, combinations, sales, leases and conveyances.

If this Section 10.4 applies to any event or occurrence, Section 10.3 shall not apply.

Section 10.5 Notice of Adjustment. Whenever an adjustment in the Conversion Price with respect to the Securities is required:

(1) the Company shall forthwith place on file with the Trustee and any Conversion Agent for such securities a certificate of the Treasurer or Assistant Treasurer of the Company, stating the adjusted Conversion Price determined as provided herein and setting forth in reasonable detail such facts as shall be necessary to show the reason for and the manner of computing such adjustment; and

(2) a notice stating that the Conversion Price has been adjusted and setting forth the adjusted Conversion Price shall forthwith be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company, to each Holder in the manner provided in Section 12.2. Any notice so given shall be conclusively presumed to have been duly given, whether or not the Holder receives such notice.

Section 10.6 Notice in Certain Events. In case:

(1) of a consolidation, merger to which the Company is a party or a sale or conveyance to another Person of all or substantially all of the property and assets of the Company, in each case, for which approval of the stockholders of the Company is required; or

(2) of the voluntary or involuntary dissolution, liquidation or winding up of the Company; or

(3) of any action triggering an adjustment of the Conversion Price referred to in clauses (x) or (y) below;

then, in each case, the Company shall cause to be filed with the Trustee and the Conversion Agent, and shall cause to be given, to the Holders of the Securities in the manner provided in Section 12.2, at least 15 days prior to the applicable date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of any distribution or grant of rights or warrants triggering an adjustment to the Conversion Price pursuant to this Article Ten, or, if a record date is not to be taken, the date as of which the holders of record of Common Stock entitled to such distribution, rights or warrants are to be determined, or (y) the date on which any consolidation, merger, sale, conveyance, dissolution, liquidation or winding up is expected to become effective.

Failure to give such notice or any defect therein shall not affect the legality or validity of the proceedings described in clause (1), (2) or (3) of this Section 10.6.

Section 10.7 Company To Reserve Stock: Registration; Listing.



(a) The Company shall, in accordance with the laws of the State of Delaware, at all times reserve and keep available, free from preemptive rights, out of its authorized but unissued shares of Common Stock, for the purpose of effecting the conversion of the Securities, such number of its duly authorized shares of Common Stock as shall from time to time be sufficient to effect the conversion of all Securities then Outstanding into shares of Common Stock (assuming that, at the time of the computation, all such Securities would be held by a single Holder); provided, however, that nothing contained herein shall preclude the Company from satisfying its obligations in respect of the conversion of the Securities by delivery of purchased shares of Common Stock which are then held in the treasury of the Company. The Company covenants that all shares of Common Stock which may be issued upon conversion of Securities will upon issue be fully paid and nonassessable.

(b) The Company covenants that so long as the Common Stock shall be listed on the NYSE, the Company will, if permitted by the rules of such exchange, list and keep listed all Common Stock issuable upon conversion of the Securities, and the Company will endeavor to list the shares of Common Stock required to be delivered upon conversion of the Securities prior to such delivery upon any other national securities exchange upon which the outstanding Common Stock is listed at the time of such delivery.

#### Section 10.8 Taxes on Conversion.

The issue of stock certificates on conversion of Securities shall be made without charge to the converting Holder for any documentary, stamp or similar issue or transfer taxes in respect of the issue thereof, and the Company shall pay any and all documentary, stamp or similar issue or transfer taxes that may be payable in respect of the issue or delivery of shares of Common Stock on conversion of Securities pursuant hereto. The Company shall not, however, be required to pay any such tax which may be payable in respect of any transfer involved in the issue or delivery of shares of Common Stock or the portion, if any, of the Securities which are not so converted in a name other than that in which the Securities so converted were registered, and no such issue or delivery shall be made unless and until the Person requesting such issue has paid to the Company the amount of such tax or has established to the satisfaction of the Company that such tax has been paid.

Section 10.9 Company Determination Final.

Any determination that the Company or the Board of Directors must make pursuant to this Article Ten shall be conclusive if made in good faith and in accordance with the provisions of this Article, absent manifest error.

Section 10.10 Responsibility of Trustee for Conversion Provisions.

The Trustee has no duty to determine when an adjustment under this Article Ten should be made, how it should be made or what it should be. The Trustee makes no representation as to the validity or value of any securities or assets issued upon conversion of Securities. The Trustee shall not be responsible for any failure of the Company to comply with this Article Ten.

Section 10.11 Unconditional Right of Holders to Convert.

Notwithstanding any other provision in this Indenture, the Holder of any Security shall have the right, which is absolute and unconditional, to convert its Security in accordance with this Article Ten and to bring an action for the enforcement of any such right to convert, and such rights shall not be impaired or affected without the consent of such Holder.

**ARTICLE ELEVEN**

**CONTINGENT INTEREST**

Section 11.1 Contingent Interest. On or after November 9, 2006, the Company will become obligated to make contingent interest payments to Holders of Securities as provided in Section 11.2, if:

- (1) during any six-month period from November 9 to May 8 and from May 9 to November 8 the average Sale Price during the five Trading Days ending on and

including the third scheduled Trading Day immediately preceding the first day of the applicable six-month period equals 120% or more of the Relevant Value of the Security on the day immediately preceding the first day of the applicable six-month period; provided, however, that if the Company should declare a dividend for which the record date (the "Common Stock Record Date") falls prior to the first day of a six-month period, but the payment date for such dividend falls within such six-month period, then the five Trading Day period shall be calculated by reference to the five Trading Days ending on and including the third Trading Day immediately preceding such Common Stock Record Date. During any six-month period when contingent interest accrues pursuant to this Section 11.1(1), each contingent interest payment due and payable on each \$1,000 Principal Amount of Security shall be calculated for each of the first three months and the second three months of the applicable six-month period, and in each instance shall equal the greater of (i) .00125 multiplied by the sum of the Issue Price and accrued Original Issue Discount for such Security on the last day of the relevant three-month period and (ii) the sum of all Regular Cash Dividends paid by the Company per share on the Common Stock during such three-month period multiplied by the number of shares of Common Stock issuable upon conversion of such Security at the Conversion Price applicable on the record date or dates for such cash dividends.

(2) during any six-month period from November 9 to May 8 and from May 9 to November 8 the Sale Price for any 20 out of the last 30 Trading Days ending on but not including the third Business Day prior to the commencement of such six-month period is less than or equal to 95% of the Conversion Price in effect at the close of business on each of those 20 Trading Days (the "Trading Condition").

After contingent interest begins to accrue pursuant to this Section 11.1(2), it will continue to accrue until but excluding the first day of the first subsequent six-month period for which the Trading Condition is not satisfied, at which time it shall cease to be payable unless and until the Trading Condition is satisfied for any subsequent six-month period.

During any six-month period when contingent interest accrues pursuant to this Section 11.1(2), each contingent interest payment due and payable on each \$1,000 Principal Amount of Security shall be calculated by multiplying (i) the Downside Contingent Interest Rate by (ii) the Issue Price and Original Issue Discount of such Security accrued to the day prior to the commencement of the applicable six-month period.

The Company will appoint a contingent interest rate agent (the “Agent”), which may be any Affiliate of the Company. For the determination of the Contingent Interest Rate, the Agent will, at 11:00 a.m. London time, two London Business Days prior to the applicable Spread Determination Date, seek indicative reference spreads from three nationally-recognized investment banks (the “Reference Banks”) that would be applicable to the issuance by the Company of a Reference Debt Security, and the “Spread” shall be the average of such three indicative reference spreads provided that if at least three such indicative reference spreads cannot reasonably be obtained by the Agent, but two such indicative reference spreads are obtained, then the average of two indicative reference spreads shall be used, and if only one such indicative reference spread can reasonably be obtained by the Agent, this one indicative reference spread shall be used.

If the Agent is unable to establish the Spread on a Spread Determination Date, the Spread for that period will be the Spread most recently determined (except if there is no Spread most recently determined, in which case the Spread shall be a spread mutually agreed upon by the Agent and the Company reflecting current market conditions), and such Spread shall remain in effect until the Agent shall determine a new Spread. The Spread determined with respect to any Spread Determination Date shall remain in effect from and including such Spread Determination Date to but excluding the next succeeding Spread Determination Date.

The determination of any Downside Contingent Interest will be conclusive and binding upon the Holders of the Securities in the absence of manifest error. The Company may remove the Agent and appoint a successor Agent at any time.

“Downside Contingent Interest Rate” means an interest rate per annum, equal to the difference between (A) LIBOR plus the Spread minus (B) 1.40%, but in no event less than zero. The Downside Contingent Interest Rate will be calculated by the Agent on the second London Business Day prior to the commencement of any six-month period for which the Trading Condition has been satisfied.

“LIBOR” means the offered rate appearing on the Telerate LIBOR Page, as of 11:00 a.m., London time, on the second London Business Day prior to the applicable six-month period for deposits of United States dollars having a six-month maturity date. If such rate does not appear on the Telerate LIBOR Page, then LIBOR will be determined on the basis of the rates, at approximately 11:00 a.m., London time, on the second London Business Day prior to the applicable six-month period and in a Representative Amount offered to prime banks in the London interbank market by four major banks in that market selected by the Agent. The Agent will request the principal London office of each of these banks to provide a quotation of its rate. If at least two such quotations are provided, LIBOR will be the arithmetic mean of such quotations. If fewer than two quotations are provided, LIBOR will be the arithmetic mean of the rates for loans of United States dollars having a six-month maturity date, and in a Representative Amount, to leading European banks quoted at approximately 11:00 a.m., in The City of New York, on the second London Business Day prior to the applicable six-month period, by three major banks selected by the Agent. If fewer than three banks selected by the Agent are quoting, LIBOR for the six-month period will be LIBOR in effect for the prior six-month period.

“Reference Debt Security” means an unsecured, unsubordinated debt obligation of the Company that (i) has a five year maturity, (ii) is not subject to redemption or repayment, or entitled to the benefits of a sinking fund, prior to such maturity, (iii) bears interest at LIBOR, which is reset semi-annually and (iv) has the same covenants and events of default as the Company’s Series-F Medium Term Notes being offered on the date of this Indenture.

“Regular Cash Dividend” means quarterly or other periodic cash dividends paid on the Common Stock as declared by the Board of Directors in accordance with the Company’s cash dividend policy in effect from time to time and shall exclude any cash dividend determined by the Board of Directors to be extraordinary, special or nonrecurring, such determination to be conclusive.

“Relevant Value” means the sum of the Issue Price and the accrued Original Issue Discount of one Security having a Principal Amount of \$1,000 divided by the number of shares of Common Stock into which such Security is convertible.

“Representative Amount” means an amount that, in the Agent’s judgment, is representative of a single transaction in the relevant market at the relevant time.

“Spread Determination Date” means each of November 9, 2006, November 9, 2011, November 9, 2016, November 9, 2021 and November 9, 2026.

“Telerate LIBOR Page” means Telerate Page 3750 or any replacement page or pages, on which London interbank rates of major banks for United States dollars are displayed.

“Telerate Page” means the display on Bridge Telerate Inc., or any successor service, on the page or pages specified herein, or any replacement page or pages on that service.

Any contingent interest payable pursuant to this Section 11.1 shall accrue based on a year of twelve 30-day months.

The Original Issue Discount of the Securities will continue to accrue at the yield set forth in paragraph 1 of the Security to Stated Maturity whether or not contingent interest payments are made.

Section 11.2 Payment of Contingent Interest; Contingent Interest Rights Preserved. If payable, contingent interest will be paid (x) in the case of contingent interest payable pursuant to Section 11.1(1) on the payment date for the related Regular Cash Dividend or, if the Company does not pay a Regular Cash Dividend during a six-month period, on the last day of such six-month period or (y) in the case of contingent interest payable pursuant to Section 11.1(2), on the last day of such six-month period (any such date, a "Contingent Interest Payment Date"). Contingent interest payments on any Security that are payable, and are punctually paid or duly provided for, on any Contingent Interest Payment Date shall be paid to the Person who is the Holder of that Security at the close of business on (x) in the case of contingent interest payable pursuant to Section 11.1(1), the relevant Common Stock Record Date or, if the Company does not pay a Regular Cash Dividend during a six-month period, to the Person who is the Holder of that Security on the 15th day (whether or not a Business Day) preceding the last day of such six-month period or (y) in the case of the payment of contingent interest pursuant to Section 11.1(2), the 15th day (whether or not a Business Day) preceding the last day of such six month period (any such date, a "Contingent Interest Record Date"). Each payment of contingent interest on any Security shall be paid by check mailed to the Person entitled thereto at such address as shall appear in the Registrar's books.

#### Section 11.3 Contingent Interest: Conversion, Redemption or Purchase

(a) Except as provided below, if any Securities are surrendered for conversion on any day other than a Contingent Interest Payment Date, the Holder of such Securities shall not be entitled to receive any contingent interest that has accrued on such Securities since the prior Contingent Interest Payment Date. By delivery to the Holder of the number of shares of Common Stock or other consideration issuable upon conversion in accordance with Article Ten, any accrued and unpaid contingent interest on such Securities will be deemed to have been paid in full.

If any Securities are surrendered for conversion subsequent to the Contingent Interest Record Date preceding a Contingent Interest Payment Date but on or prior to such Contingent Interest Payment Date, the Holder of such Securities at the close of business on such Contingent Interest Record Date shall (except in the case of a Security redeemed or repurchased prior to the Contingent Interest Payment Date) receive the contingent interest payable on such Securities on such Contingent Interest Payment Date notwithstanding the conversion thereof. Securities surrendered for conversion during the period from the close of business on any Contingent Interest Record Date preceding any Contingent Interest Payment Date to the opening of business on such Contingent Interest Payment Date shall be accompanied by payment by Holders, for the account of the Company, in New York Clearing House same day funds or other funds acceptable to the Company of an amount equal to the contingent interest payable on such Contingent Interest Payment Date on the Securities being surrendered for conversion (unless such Security has been called for redemption on a Redemption Date prior to such Contingent Interest Payment Date). Except as provided in this Section 11.3, no adjustments in respect of payments of contingent interest on Securities surrendered for conversion or any dividends or distributions or interest on the Common Stock or securities issued upon conversion shall be made upon the conversion of any Securities.

(b) In the case of a Contingent Interest Record Date occurring before a Redemption Date or Purchase Date but relating to a Contingent Interest Payment Date occurring after the Redemption Date or Purchase Date, no contingent interest shall be paid to the Holders of record on such Contingent Interest Record Date with respect to any Security redeemed on the Redemption Date or repurchased on the Purchase Date.

Section 11.4 Defaulted Interest. Any contingent interest on any Security that is payable, but is not punctually paid or duly provided for, within 30 days following any Contingent Interest Payment Date (herein called "Defaulted Interest"), shall forthwith cease to be payable to the registered Holder thereof on the relevant Contingent Interest Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in clause (a) or (b) below:

(a) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Securities (or their respective Predecessor Securities) are registered at the close of business on a special record date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Security and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit on or prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled as provided in this clause to such Defaulted Interest. Thereupon the Trustee shall fix a special record date (the "Special Record Date") for the payment of such Defaulted Interest, which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Holder at his address as it appears on the list of Securityholders maintained pursuant to Section 2.5, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date thereof having been so mailed, such Defaulted Interest shall be paid to the persons in whose names the Securities (or their respective Predecessor Securities) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following clause (b).

(b) The Company may make payment of any Defaulted Interest in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after

notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of this Article Eleven, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to contingent interest accrued and unpaid, which were carried by such other Security.

Section 11.5 Contingent Interest Notification. Upon determination that Holders of Securities will be entitled to receive contingent interest during a six-month period, on or prior to the start of such six-month period, the Company shall be required to disseminate a press release through Dow Jones & Company, Inc. or Bloomberg Business News containing this information or publish the information on the Company's Website or through such other public medium as the Company may use at that time.

## **ARTICLE TWELVE**

### **MISCELLANEOUS**

Section 12.1 Trust Indenture Act Controls. If any provision of this Indenture limits, qualifies, or conflicts with another provision which is required to be included in this Indenture by the TIA, the required provision shall control.

Section 12.2 Notices. Any request, demand, authorization, notice, waiver, consent or communication shall be in writing and delivered in person or mailed by first-class mail, postage prepaid, addressed as follows or transmitted by a guaranteed overnight courier service to the following facsimile numbers:

if to the Company:

American International Group, Inc.  
70 Pine Street  
New York, NY 10270  
Attention: Secretary

if to the Trustee:

The Bank of New York  
101 Barclay Street  
New York, NY 10286  
Telephone No. (212) 896-7200  
Facsimile No. (212) 896-7298  
Attention: Corporate Trust Department

The Company or the Trustee by notice given to the other in the manner provided above may designate additional or different addresses for subsequent notices or communications.

Any notice or communication given to a Securityholder shall be mailed to the Securityholder, by first-class mail, postage prepaid, at the Securityholder's address as it appears on the registration books of the Registrar and shall be sufficiently given if so mailed within the time prescribed.

Failure to mail a notice or communication to a Securityholder or any defect in it shall not affect its sufficiency with respect to other Securityholders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not received by the addressee.

If the Company mails a notice or communication to the Securityholders, it shall mail a copy to the Trustee and each Registrar, Paying Agent, Conversion Agent or co-registrar.

Section 12.3 Communication by Holders with Other Holders. Securityholders may communicate pursuant to TIA Section 312(b) with other Securityholders with respect to their rights under this Indenture or the Securities. The Company, the Trustee, the Registrar, the Paying Agent, the Conversion Agent and anyone else shall have the protection of TIA Section 312(c).

Section 12.4 Certificate and Opinion as to Conditions Precedent. Upon any request or application by the Company to the Trustee to take any action under this Indenture, the Company shall furnish to the Trustee:

- (1) an Officers' Certificate stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with; and
- (2) an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

Section 12.5 Statements Required in Certificate or Opinion. Each Officers' Certificate or Opinion of Counsel with respect to compliance with a covenant or condition provided for in this Indenture shall include:

- (1) a statement that each person making such Officers' Certificate or Opinion of Counsel has read such covenant or condition;
- (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such Officers' Certificate or Opinion of Counsel are based;
- (3) a statement that, in the opinion of each such person, he has made such examination or investigation as is necessary to enable such person to express an informed opinion as to whether or not such covenant or condition has been complied with; and
- (4) a statement that, in the opinion of such person, such covenant or condition has been complied with.

Section 12.6 Separability Clause. In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 12.7 Legal Holidays. A "Legal Holiday" is any day other than a Business Day. If any specified date (including a date for giving notice) is a Legal Holiday, the action shall be taken on the next succeeding day that is not a Legal Holiday, and, if the action to be taken on such date is a payment in respect of the Securities, no interest, if any, shall accrue for the intervening period.

Section 12.8 GOVERNING LAW. THIS INDENTURE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

Section 12.9 No Recourse Against Others. A director, officer, employee or stockholder, as such, of the Company shall not have any liability for any obligations of the Company under the Securities or this Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Security, each Securityholder shall waive and release all such liability. The waiver and release shall be part of the consideration for the issue of the Securities.

Section 12.10 Successors. All agreements of the Company in this Indenture and the Securities shall bind its successor. All agreements of the Trustee in this Indenture shall bind its successor.

Section 12.11 Effect of Headings and Table of Contents. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 12.12 Multiple Originals. The parties may sign any number of copies of this Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. One signed copy is enough to prove this Indenture.



IN WITNESS WHEREOF, the undersigned, being duly authorized, have executed this Indenture on behalf of the respective parties hereto as of the date first above written.

AMERICAN INTERNATIONAL GROUP, INC.

By: /s/ Howard I. Smith

---

Name: Howard I. Smith  
Title: Executive Vice President and Chief  
Financial Officer

By: /s/ Kathleen E. Shannon

---

Name: Kathleen E. Shannon  
Title: Vice President, Secretary and Associate  
General Counsel

THE BANK OF NEW YORK  
As Trustee

By: /s/ Julie Salovitch-Miller

---

Name: Julie Salovitch-Miller  
Title: Vice President

**EXHIBIT A**

**[FORM OF FACE OF GLOBAL SECURITY]**

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY TO AMERICAN INTERNATIONAL GROUP, INC. OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS TO NOMINEES OF THE DEPOSITORY TRUST COMPANY, OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

PURSUANT TO THE INDENTURE, AMERICAN INTERNATIONAL GROUP, INC. AGREES, AND BY ACCEPTANCE OF A BENEFICIAL OWNERSHIP INTEREST IN THE SECURITY, EACH BENEFICIAL HOLDER OF THE SECURITIES WILL BE DEEMED TO HAVE AGREED, FOR UNITED STATES FEDERAL INCOME TAX PURPOSES, TO TREAT THE SECURITIES AS INDEBTEDNESS THAT IS SUBJECT TO SECTION 1.1275-4 OF THE UNITED STATES TREASURY REGULATIONS (THE "CONTINGENT DEBT REGULATIONS"). YOU MAY OBTAIN THE AMOUNT OF ORIGINAL ISSUE DISCOUNT, ISSUE DATE, YIELD TO MATURITY, COMPARABLE YIELD AND PROJECTED PAYMENT SCHEDULE FOR THE SECURITY BY TELEPHONING AMERICAN INTERNATIONAL GROUP, INC. AT (212) 770-7000 OR SUBMITTING A WRITTEN REQUEST FOR SUCH INFORMATION TO:

---

AMERICAN INTERNATIONAL GROUP, INC., 70 PINE STREET, NEW YORK, NEW YORK 10270 ATTENTION: VICE PRESIDENT AND DIRECTOR OF TAXES.

**AMERICAN INTERNATIONAL GROUP, INC.**

**Zero Coupon Convertible Senior Debentures Due 2031**

No.	Principal Amount: \$ (at final Stated Maturity)
Issue Date: November 9, 2001	CUSIP: 026874 AP2
Issue Price: \$658.01	Original Issue Discount: \$341.99
(for each \$1,000 Principal Amount at final Stated Maturity)	(for each \$1,000 Principal Amount at final Stated Maturity)

AMERICAN INTERNATIONAL GROUP, INC., a Delaware corporation, promises to pay to Cede & Co. or registered assigns, the principal amount of [\_\_\_\_\_ dollars (\$\_\_\_\_\_)] on November 9, 2031. Payment of the Principal Amount, Redemption Price, contingent interest, if any, and, to the extent payable in cash, the Purchase Price on this Security will be made at the office or agency of the Company maintained for that purpose in The Borough of Manhattan, The City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; provided, however, that at the option of the Company payment of contingent interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Registrar's books.

This Security shall not bear interest except as specified on the reverse side of this Security. Original Issue Discount will accrue as specified on the reverse side of this Security. This Security is convertible as specified on the reverse side of this Security.

Reference is hereby made to the further provisions of this Security set forth on the reverse side of this Security, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

Dated: November 9, 2001

AMERICAN INTERNATIONAL GROUP, INC.

By: \_\_\_\_\_  
Title: \_\_\_\_\_

TRUSTEE'S CERTIFICATE OF  
AUTHENTICATION

THE BANK OF NEW YORK  
as Trustee, certifies that this is one of the Securities  
referred to in the within-mentioned Indenture

By \_\_\_\_\_  
Authorized Signatory

Dated: November 9, 2001

[FORM OF REVERSE OF GLOBAL SECURITY]

**Zero Coupon Convertible Senior Debentures Due 2031**

This Security is one of a duly authorized issue of Zero Coupon Convertible Senior Debentures Due 2031 (the "Securities") of American International Group, Inc., a Delaware corporation (including any successor corporation under the Indenture hereinafter referred to, the "Company"), issued under an Indenture, dated as of November 9, 2001 (the "Indenture"), between the Company and The Bank of New York, as Trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. Capitalized terms used but not defined herein have the meanings assigned to them in the Indenture referred to above unless otherwise indicated.

1. Interest.

This Security shall not bear interest, except as specified in this Section or in Section 5 hereof. If the Principal Amount, Redemption Price, cash portion of any Purchase Price, any amount payable upon acceleration of this Security or any contingent interest portion of such Principal Amount is not paid when due, then in each such case the overdue amount shall, to the extent permitted by law, bear interest at the rate of 1.40% per annum, compounded semi-annually, which interest shall accrue from the date such overdue amount was originally due to the date payment of such amount has been made or duly provided for. All such interest shall be payable on demand. The accrual of such interest on overdue amounts shall be in addition to, and not in lieu of, the continued accrual of Original Issue Discount.

Original Issue Discount, in the period during which a Security remains Outstanding, shall accrue based on a 1.40% per annum interest rate compounded semi annually using a 360-day year composed of twelve 30-day months, from the Issue Date of this Security.

2. Method of Payment.

Subject to the terms and conditions of the Indenture, the Company will make payments in cash, shares of Common Stock or a combination thereof, as the case may be, in respect of the Principal Amount, Redemption Price, and Purchase Price to Holders who surrender Securities to a Paying Agent to collect such payments in respect of the Securities.

3. Paying Agent, Conversion Agent and Registrar.

Initially, The Bank of New York will act as Paying Agent, Conversion Agent and Registrar. The Company may appoint and change any Paying Agent, Conversion Agent or Registrar without notice, other than notice to the Trustee; provided that the Company will maintain at least one Paying Agent in the City of New York, Borough of Manhattan, which shall initially be an office or agency of the Trustee. The Company or any of its Subsidiaries or any of their Affiliates may act as Paying Agent, Conversion Agent or Registrar.

4. Indenture.

The Securities are general unsecured obligations of the Company limited to \$1,519,734,000 aggregate principal amount (and up to \$1,747,694,000 if Morgan Stanley & Co. Incorporated exercises its option to purchase additional Securities in full pursuant to the Underwriting Agreement, dated November 7, 2001, between the Company and Morgan Stanley & Co. Incorporated). The Indenture does not limit other indebtedness of the Company, secured or unsecured and does not contain any covenant or restriction on the business or operation of the Company.

5. Contingent Interest.

Contingent interest, if any, will accrue and be payable on such Contingent Interest Payment Date and to Holders of this Debenture as of such Contingent Interest Record Dates as provided in the Indenture. Original Issue Discount will continue to accrue whether or not contingent interest is paid.

6. Redemption at the Option of the Company.

No sinking fund is provided for the Securities. The Securities are redeemable for cash at the option of the Company, in whole or in part, at any time or from time to time on, or after November 9, 2006 upon not less than 15 nor more than 60 days' notice by mail for a redemption price equal to the following:



## Redemption Date

November 9:	
2006	\$ 705.55
2007	715.47
2008	725.52
2009	735.71
2010	746.05
2011	756.53
2012	767.16
2013	777.93
2014	788.86
2015	799.95
2016	811.18
2017	822.58
2018	834.14
2019	845.86
2020	857.74
2021	869.79
2022	882.01
2023	894.40
2024	906.96
2025	919.71
2026	932.63
2027	945.73
2028	959.02
2029	972.49
2030	986.15
At final Stated Maturity (November 9, 2031)	1,000.00

plus any accrued Original Issue Discount from the most recent November 9, and any accrued and unpaid contingent interest, in each case, up to but excluding the Redemption Date (the "Redemption Price"), but contingent interest that is due and payable on or prior to the Redemption Date will be paid to the Holders of such Securities, or one or more Predecessor Securities, as provided in the Indenture.

### 7. Purchase By the Company at the Option of the Holder.

Subject to the terms and conditions of the Indenture, the Company shall become obligated to purchase, at the option of the Holder, all or any portion of the Securities held by such Holder on November 9, 2006, November 9, 2011, November 9, 2016, November 9, 2021 and November 9, 2026, in whole multiples of \$1,000 at a Purchase Price of \$705.55, \$756.53, \$811.18, \$869.79 and \$932.63, respectively, plus accrued Original issue

Discount and any accrued and unpaid contingent interest on such Security to but excluding the Purchase Date, but contingent interest that is due and payable prior to the Purchase Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, as provided in the Indenture. To exercise such right, a Holder shall deliver to the Company a Purchase Notice containing the information set forth in the Indenture, at any time from the opening of business on the date that is 24 Business Days prior to such Purchase Date until the close of business on the fourth Business Day prior to the Purchase Date, and shall deliver the Securities to the Paying Agent as set forth in the Indenture.

The Purchase Price may be paid, at the option of the Company, in cash or by the issuance and delivery of shares of Common Stock, or in any combination thereof, subject to the terms and conditions of the Indenture.

Holders have the right to withdraw any Purchase Notice by delivering to the Paying Agent a written notice of withdrawal up to, but not including, the third Business Day prior to the Purchase Date, all as provided in the Indenture.

If cash (and/or Common Stock if permitted under the Indenture) sufficient to pay the Purchase Price of all Securities or portions thereof to be purchased as of the Purchase Date is deposited with the Paying Agent, on the Business Day following the Purchase Date, Original Issue Discount and contingent interest, if any, will cease to accrue on such Securities (or portions thereof) immediately after such Purchase Date, and the Holder thereof shall have no other rights as such other than the right to receive the Purchase Price upon surrender of such Security.

#### 8. Notice of Redemption.

Notice of redemption pursuant to Section 6 of this Security will be mailed at least 15 days but not more than 60 days before the Redemption Date to each Holder of Securities to be redeemed at the Holder's registered address. If money sufficient to pay the Redemption Price of all Securities (or portions thereof) to be redeemed on the Redemption Date is deposited with the Paying Agent prior to or on the Redemption Date, on and after such Redemption Date Original Issue Discount and contingent interest, if any, will cease to accrue on such Securities or portions thereof, and the Holder hereof shall have no other rights as such other than the right to receive the Redemption Price. Securities in denominations larger than \$1,000 of principal amount may be redeemed in part but only in whole multiples of \$1,000 of principal amount.

#### 9. Conversion.

Subject to the occurrence of certain events and in compliance with the provisions of the Indenture, a Holder is entitled, at such Holder's option, to convert the Holder's Security (or any portion of the principal amount thereof that is \$1,000 or a whole multiple of \$1,000), into fully paid and nonassessable shares of Common Stock at the Conversion Price in effect at the time of conversion. The Company will notify

Holders of any event triggering the right to convert the Securities as specified above in accordance with the Indenture.

A Security in respect of which a Holder has delivered a Purchase Notice exercising the option of such Holder to require the Company to purchase such Security may be converted only if such Purchase Notice is withdrawn in accordance with the terms of the Indenture.

The Conversion Price is subject to adjustment in certain events described in the Indenture. Each \$1,000 Principal Amount of Security is initially convertible into 6.0627 shares of Common Stock. A Holder which surrenders Securities for conversion will receive cash or a check in lieu of any fractional share of Common Stock.

To surrender a Security for conversion, a Holder must (1) complete and manually sign the conversion notice below (or complete and manually sign a facsimile of such notice) and deliver such notice to the Conversion Agent, (2) surrender the Security to the Conversion Agent, (3) furnish appropriate endorsements and transfer documents and (4) pay any transfer or similar tax, if required.

No payment or adjustment will be made for dividends on the shares of Common Stock, except as provided in the Indenture.

If the Company (i) is a party to a consolidation, merger or binding share exchange (ii) reclassifies the Common Stock or (iii) conveys, transfers or leases its properties and assets substantially as an entirety to any Person, the right to convert a Security into shares of Common Stock may be changed into a right to convert it into securities, cash or other assets of the Company or such other Person, in each case in accordance with the Indenture.

#### 10. Denominations; Transfer; Exchange.

The Securities are in fully registered form, without coupons, in denominations of \$1,000 of principal amount and whole multiples of \$1,000. A Holder may transfer or exchange Securities in accordance with the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or the Indenture. The Registrar need not transfer or exchange any Securities selected for redemption (except, in the case of a Security to be redeemed in part, the portion of the Security not to be redeemed) or any Securities in respect of which a Purchase Notice has been given and not withdrawn (except, in the case of a Security to be purchased in part, the portion of the Security not to be purchased) or any Securities for a period of 15 days before the mailing of a notice of redemption of Securities to be redeemed.

11. Persons Deemed Owners.

The registered Holder of this Security may be treated as the owner of this Security for all purposes.

12. Unclaimed Money or Securities.

The Trustee and the Paying Agent shall return to the Company upon written request any money or securities held by them for the payment of any amount with respect to the Securities that remains unclaimed for two years. After return to the Company, Holders entitled to the money or securities must look to the Company for payment as general creditors.

13. Amendment; Waiver.

Subject to certain exceptions set forth in the Indenture, (i) the Indenture or the Securities may be amended with the written consent of the Holders of at least a majority in aggregate principal amount of the Outstanding Securities and (ii) certain Defaults may be waived with the written consent of the Holders of a majority in aggregate principal amount of the Outstanding Securities. Subject to certain exceptions set forth in the Indenture, without the consent of any Securityholder, the Company and the Trustee may amend the Indenture or the Securities (i) to add to the covenants of the Company for the benefit of the Holders of Securities, (ii) to surrender any right or power conferred upon the Company in the Indenture, (iii) to provide for conversion rights of Holders of Securities if any reclassification or change of the Company's Common Stock or any consolidation, merger or sale of all or substantially all of the Company's assets occurs, (iv) to provide for the assumption of the Company's obligations to the Holders of Securities in the case of a merger, consolidation, conveyance, transfer or lease pursuant to Article Five of the Indenture, (v) to reduce the Conversion Price; provided, however, that such reduction in the Conversion Price shall remain in effect for at least 20 days, (vi) to comply with the requirements of the SEC in order to effect or maintain the qualification of the Indenture under the TIA, (vii) to secure the Securities, (viii) to cure any ambiguity, or correct or supplement any provision in the Indenture which may be inconsistent with any other provision therein or which is otherwise defective, or to make any other provisions with respect to matters or questions arising under the Indenture which shall not be inconsistent with the provisions of the Indenture; provided, however, that such action pursuant to this clause shall not adversely affect the interests of the Holders of Securities in any material respect, and (ix) to add or modify any other provisions in the Indenture with respect to matters or questions arising hereunder which the Company and the Trustee may deem necessary or desirable and which will not adversely affect the interests of the Holders of Securities in any material respect.

14. Defaults and Remedies.

If any Event of Default with respect to Securities shall occur and be continuing, the Issue Price of, and accrued Original Issue Discount and any accrued and

unpaid contingent interest on, all the Securities may be declared due and payable in the manner and with the effect provided in the Indenture.

15. Trustee Dealings with the Company.

Subject to certain limitations imposed by the TIA, the Trustee under the Indenture, in its individual or any other capacity, may become the owner or pledgee of Securities and may otherwise deal with and collect obligations owed to it by the Company or its Affiliates and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee.

16. Calculations in Respect of Securities.

The Company or its agents will be responsible for making all calculations called for under the Securities including, but not limited to, the determination of the market prices for the Securities and of the Common Stock and the amounts of contingent interest payments, if any, on the Securities. Any calculations made in good faith and without manifest error will be final and binding on Holders of the Securities.

17. No Recourse Against Others.

A director, officer, employee or shareholder, as such, of the Company shall not have any liability for any obligations of the Company under the Securities or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Security, each Securityholder waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Securities.

18. Authentication.

This Security shall not be valid or obligatory for any purpose until an authorized signatory of the Trustee manually signs the Trustee's Certificate of Authentication on the front of this Security.

19. Abbreviations.

Customary abbreviations may be used in the name of a Securityholder or an assignee, such as TEN COM (=tenants in common), TEN ENT (=tenants by the entireties), JT TEN (=joint tenants with right of survivorship and not as tenants in common), CUST (=custodian), and U/G/M/A (=Uniform Gift to Minors Act).

20. GOVERNING LAW.

THE LAWS OF THE STATE OF NEW YORK SHALL GOVERN THE INDENTURE AND THIS SECURITY.

**ASSIGNMENT FORM**

**CONVERSION NOTICE**

To assign this Security, fill in the form below:

I or we assign and transfer this Security to

\_\_\_\_\_

(Insert assignee's soc. sec. or tax ID no.)

\_\_\_\_\_

(Print or type assignee's name, address and zip code)  
and irrevocably appoint

\_\_\_\_\_ agent to transfer this  
Security on the books of the Company. The agent may  
substitute another to act for him

To convert this Security into Common Stock of the  
Company, check the box [ ]

To convert only part of this Security, state the principal  
amount to be converted (which must be \$1,000 or a whole  
multiple of \$1,000):

If you want the stock certificate made out in another  
person's name fill in the form below:

\_\_\_\_\_

(Insert the other person's soc. sec. tax ID no.)

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

(Print or type other person's name, address and zip code)

Date: \_\_\_\_\_ Your Signature: \_\_\_\_\_

(Sign exactly as your name appears on the other side of this Security)

Signature Guaranteed

Participant in a Recognized Signature  
Guarantee Medallion Program

By: \_\_\_\_\_  
Authorized Signatory



**EXHIBIT B**

**AMERICAN INTERNATIONAL GROUP, INC.**

**Zero Coupon Convertible Senior Debentures Due 2031**

No.	Principal Amount: \$ (at final Stated Maturity)
Issue Date: November 9, 2001	CUSIP: 026874 AP2
Issue Price: \$658.01 (for each \$1,000 Principal Amount at final Stated Maturity)	Original Issue Discount: \$341.99 (for each \$1,000 Principal Amount at final Stated Maturity)

AMERICAN INTERNATIONAL GROUP, INC., a Delaware corporation, promises to pay to \_\_\_\_\_ or registered assigns, the principal amount of [\_\_\_\_\_ dollars (\$\_\_\_\_\_)] on November 9, 2031. Payment of the Principal Amount, Redemption Price, contingent interest, if any, and, to the extent payable in cash, the Purchase Price on this Security will be made at the office or agency of the Company maintained for that purpose in The Borough of Manhattan, The City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; provided, however, that at the option of the Company payment of contingent interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Registrar's books.

This Security shall not bear interest except as specified on the reverse side of this Security. Original Issue Discount will accrue as specified on the reverse side of this Security. This Security is convertible as specified on the reverse side of this Security.

Reference is hereby made to the further provisions of this Security set forth on the reverse side of this Security, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

---



IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

Dated:

AMERICAN INTERNATIONAL GROUP, INC.

By:

Title:

B-2

---

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

THE BANK OF NEW YORK,  
as Trustee, certifies that this is one of the Securities referred  
to in the within-mentioned Indenture

By: \_\_\_\_\_  
Authorized Signatory

Dated:

[FORM OF REVERSE OF CERTIFICATED SECURITY IS IDENTICAL TO EXHIBIT A]

B-4

## AMERICAN INTERNATIONAL GROUP, INC.

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES  
(in millions, except ratios)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2001	2000	2001	2000
Income before income taxes, minority interest and cumulative effect of accounting changes	\$5,422	\$ 7,327	\$ 617	\$ 2,598
Less — Equity income (loss) of less than 50% owned persons	24	5	13	6
Add — Dividends from less than 50% owned persons	1	2	—	1
	<u>5,399</u>	<u>7,324</u>	<u>604</u>	<u>2,593</u>
Add —				
Fixed charges	3,155	2,843	1,063	1,104
Less —				
Capitalized interest	56	47	24	18
	<u>8,498</u>	<u>\$10,120</u>	<u>\$ 1,643</u>	<u>\$ 3,679</u>
Income before income taxes, minority interest, cumulative effect of accounting changes and fixed charges				
Fixed charges:				
Interest costs	\$3,046	\$ 2,732	\$ 1,027	\$ 1,067
Rent expense*	109	111	36	37
	<u>3,155</u>	<u>\$ 2,843</u>	<u>\$ 1,063</u>	<u>\$ 1,104</u>
Total fixed charges				
Ratio of earnings to fixed charges**	2.69	3.56	1.55	3.33

\* The proportion deemed representative of the interest factor.

\*\* Income before income taxes, minority interest and cumulative effect of accounting changes with respect to nine and three months ended September 30, 2001 were materially impacted by WTC and related losses and acquisition, restructuring and related charges. Thus, the ratio of earnings to fixed charges has been adversely impacted. The pro forma ratios of earnings to fixed charges for the nine and three months ended September 30, 2001 which exclude such losses and charges from income before income taxes, minority interest and cumulative effect of accounting changes are 3.62 and 3.67, respectively.

The ratio shown is significantly affected as a result of the inclusion of the fixed charges and operating results of AIG Financial Products Corp. and its subsidiaries (AIGFP). AIGFP structures borrowings through guaranteed investment agreements and engages in other complex financial transactions, including interest rate and currency swaps. In the course of its business, AIGFP enters into borrowings that are primarily used to purchase assets that yield rates greater than the rates on the borrowings with the intent of earning a profit on the spread and to finance the acquisition of securities utilized to hedge certain transactions. The pro forma ratios of earnings to fixed charges, which exclude the effects of the operating results of AIGFP, are 1.70 and 4.98 for the third quarter and 3.75 and 5.05 for the first nine months of 2001 and 2000, respectively. As AIGFP will continue to be a subsidiary, AIG expects that these ratios will continue to be lower than they would be if the fixed charges and operating results of AIGFP were not included therein.