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# AIG executives' promises to return bonuses have gone largely unfulfilled

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When word spread earlier this year that American International Group had paid more than $165 million in retention bonuses at the division that had precipitated the company's downfall, outrage erupted, with employees getting death threats and President Obama urging that every legal avenue be pursued to block the payments.

New York Attorney General Andrew M. Cuomo threatened to publicize the recipients' names, prompting executives at AIG Financial Products to hastily agree to return about $45 million in bonuses by the end of the year.

But as the final days of 2009 tick away, a majority of that money remains unpaid. Only about $19 million has been given back, according to a report by the special inspector general for the government's bailout program.

Some of the employees who had offered to return their bonuses have instead left the company, taking their cash with them.

Others remain at Financial Products but are also holding on to their money until they see what Kenneth R. Feinberg, the Obama administration's "compensation czar," decides about whether they should get future bonus payments they have also been promised. Feinberg, AIG and government officials have been involved in ongoing negotiations over the status of past and future bonuses at the insurance giant.

Dozens of employees have hired lawyers, bracing for a fight if AIG or government officials try to block the payments.

Cuomo has said little publicly in recent months about the AIG bonuses. On Tuesday, his office had no comment when asked about the payments.

When the controversy erupted in March, Cuomo agreed to keep the employees' identities secret as long as a significant share of the money was returned to the company. Some of them said his demand amounted to blackmail. But AIG officials said at the time that at least 18 of firm's top 25 executives had agreed to return at least some of their bonus money. "We are deeply gratified that a vast majority of FP's senior leadership have expressed a willingness to forsake their recent retention payments," the company said.

But now, the government, AIG and the employees are on a collision course.

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Everyone is keenly aware that another round of retention payments at Financial Products is due soon, threatening to draw public attention to the issue once again. AIG is scheduled to pay out an additional $198 million to employees in March.

"They have a contractual right to be paid this money. They put in their time, and they have performed all their obligations successfully." said Andrew Goodstadt, a New York lawyer who represents more than a dozen Financial Products employees. "They're willing to assert their contractual rights in a court of law. They have extremely strong claims."

Goodstadt said his clients include computer systems specialists, mathematicians and other employees who did not have a hand in the risky credit derivatives that brought the firm down. Rather, he said, many employees who remain at Financial Products have worked to unwind the troubled trades on its books and protect the massive taxpayer investment in AIG, whose total rescue package peaked at more than $180 billion in capital and loans.

They stuck around, he said, in large part because of the company's promise of the retention payments. In addition, Goodstadt emphasized that the company told employees in March that their offers to return bonus payments were voluntary and nonbinding.

One former Financial Products executive said some of his colleagues had stayed with the company only because they expected to receive bonus payments this coming March. After that, he said, they will have "no reason at all" to stay. "There's no more carrot," he said.

A resolution to the bonus controversy has been bedeviled by a growing lack of trust between AIG employees and the government.

Financial Products employees say they were on the brink of an agreement earlier this year that would reduce the total amount of money due in 2010 and spread those payments out over time to avoid the scrutiny that would come with a large, lump-sum payment. But they claim Feinberg scrapped that plan after he was appointed in June and urged AIG to find a way to significantly scale back the upcoming bonus payments.

People familiar with recent discussions between Feinberg and executives at AIG, including face-to-face talks with chief executive Robert H. Benmosche, said Feinberg has insisted that Financial Products employees return the money they said they would before he signs off on any deal involving 2010 compensation.

"Feinberg is adamant those pledges be honored," said one of the people. "It's non-negotiable."

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They also said he has continued to urge that the amount of money due in March 2010 be reduced.

"I don't know how they resolve it now. There's no trust there," said one Financial Products executive, who, like others, spoke on the condition of anonymity because of the sensitivity of the payments. "In order to negotiate, there has to be good faith and trust, and the government has shown those two things don't exist with them."

AIG declined to provide official comment, but company officials have previously argued that it is essential to keep employees at Financial Products. While the most disastrous and risky deals have been purged from the books, AIG officials say a mass exodus of employees from the division could still wreak havoc and end up harming the government's nearly 80 percent stake in the company.

AIG said in an October statement that it was working through various compensation issues with Feinberg, "including future payments to employees of AIG Financial Products." The company noted that Financial Products employees "have until the end of the year to fulfill their commitments to return a portion of their March 2009 payment. We expect FP employees will honor their commitments."