

American international group



**ASSIGN
BUSTER**

This paper presents an attempt to review the above article published in The Washington Post and authored by Yang Lynn, a staff writer at The Washington Post. The heading of the article provides an overview to the reader to the effect that AIG relives hopes to the taxpayers for their money to be repaid by the firm.

To that note, the author starts by noting that the \$1.5 billion reported by the American International Group provides sufficient evidence that the bailout will not be a wasted venture on the firm. The author bases the confidence of repayment on the fact that the firm reported profits three times in the four quarters. In bid to reconcile the author's concerns with the current and past performance of AIG, I checked the firm's income statement from 2007 to 2009. According to the company's income statement availed by YahooFinance, AIG recorded total revenue of \$110.1 billion in 2007 while the net profit for the same year was \$6.2 billion. In the following year, the company's total revenues dismally went down tenfold from the previous mark. This kind of performance led to the company recording a net loss of \$99.289 million. And it seems by this time the loss-making stage was already set for the firm. This is because even in the year that followed (2009 financial year), AIG's net loss increased over the 2008 record to stand at \$122.44 million.

Therefore, it is evident from previous financial performance of the company that a \$1.5 billion profit is worth reliving the hopes to the taxpayer. Nevertheless, Yang Lynn quickly observes that the \$182 billion assistance from the Federal Reserve still puts the company on the hook despite increasing its credit line by an amount equal to the profit it recorded (that is,

\$1. 5 billion). At paragraph 8, the author points to another hindrance to the company's future hopes. The author notes that the kind of capital structure for AIG is highly hinged on debt finance.

Given that about 89% of the capital constitutes debt and only 11% company's equity, AIG still has an uphill task since they owe more than what they earn. According to Venture Capital Dispatch (2010), a company that highly depends on debt finance should reconsider its position because it is in a high risk bracket even though lenders may not accept this especially when a business is in the startup stage (Para. 4). This thus strengthens the author's concerns that having 89% of the capital sourced from debt finance places AIG at an unpredictable state since it puts it in high risk status. Interesting article Deronde International

Lastly, Yang Lynn identifies market volatility as a vital factor in the company's future. To this end, the author notes that if the stock market becomes stable, this will assure healthy investment holdings for the American International Group. The author throws a pessimistic perspective to the possibility of AIG having healthy investment holdings by noting that the stock market has unexpectedly become volatile and therefore this brings a lot of uncertainty even though it might exhibit improvements as the \$1. 5 billion profit it posted. In conclusion, the article systematically evaluates the recent profit mode of AIG on the backdrop of myriad of challenges that the company faces. The danger of leaning the capital structure on debt finance is highlighted even though it is not dealt with at an in-depth perspective. Market forces also have been identified to present a challenge to the

company's balance sheet and income statement. The future of AIG is therefore uncertain.

Reference List:

Venture Capital Dispatch (2010), "Silicon Valley Bank Spreads Debt Financing to Europe" Wall Street Journal; Available at: <http://blogs.wsj.com/venturecapital/2010/06/09/silicon-valley-bank-spreads-debt-financing-to-europe/> Yahoo Finance (2010) "AIG: Balance Sheet for American International Group" Accessed online from URL: <http://finance.yahoo.com/q/bs?s=AIG+Balance+Sheet&annual> Yahoo Finance (2010) "AIG: Income Statement for American International Group" Accessed online from URL: <http://finance.yahoo.com/q/is?s=AIG+Income+Statement&annual>