AON CORP
Form 10-Q
May 04, 2010

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-Q

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

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010**

**OR**

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

**Commission file number 1-7933**

# Aon Corporation

(Exact Name of Registrant as Specified in Its Charter)

| | |
|---|---|
| **DELAWARE**<br>(State or Other Jurisdiction of<br>Incorporation or Organization) | **36-3051915**<br>(I.R.S. Employer<br>Identification No.) |
| **200 E. RANDOLPH STREET, CHICAGO, ILLINOIS**<br>(Address of Principal Executive Offices) | **60601**<br>(Zip Code) |

**(312) 381-1000**

(Registrant s Telephone Number,

Including Area Code)

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 x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer x | Accelerated filer o |
| Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO x

Number of shares of common stock, $1.00 par value, outstanding as of March 31, 2010: 269,418,951

**Part I Financial Information**

**ITEM 1. FINANCIAL STATEMENTS**

***Aon Corporation***

**Condensed Consolidated Statements of Income**

**(Unaudited)**

| (millions, except per share data) | Three Months Ended Mar. 31, 2010 | | Mar. 31, 2009 | |
|---|---|---|---|---|
| **Revenue** | | | | |
| Commissions, fees and other | $ | 1,891 | $ | 1,821 |
| Fiduciary investment income | | 13 | | 25 |
| Total revenue | | 1,904 | | 1,846 |
| | | | | |
| **Expenses** | | | | |
| Compensation and benefits | | 1,163 | | 1,014 |
| Other general expenses | | 468 | | 466 |
| Total operating expenses | | 1,631 | | 1,480 |
| **Operating Income** | | 273 | | 366 |
| | | | | |
| Interest income | | 1 | | 7 |
| Interest expense | | (34) | | (29) |
| Other income (expense) | | 7 | | (1) |
| **Income from continuing operations before income taxes** | | 247 | | 343 |
| Income taxes | | 61 | | 108 |
| **Income from continuing operations** | | 186 | | 235 |
| | | | | |
| **Income from discontinued operations before income taxes** | | 2 | | 91 |
| Income taxes | | 2 | | 41 |
| **Income from discontinued operations** | | | | 50 |
| | | | | |
| **Net income** | | 186 | | 285 |
| Less: Net income attributable to noncontrolling interests | | 8 | | 5 |
| **Net income attributable to Aon stockholders** | $ | 178 | $ | 280 |
| | | | | |
| **Net income attributable to Aon stockholders** | | | | |
| Income from continuing operations | $ | 178 | $ | 230 |
| Income from discontinued operations | | | | 50 |
| **Net income** | $ | 178 | $ | 280 |
| | | | | |
| **Basic net income per share attributable to Aon stockholders** | | | | |
| Continuing operations | $ | 0.65 | $ | 0.81 |
| Discontinued operations | | | | 0.18 |
| **Net income** | $ | 0.65 | $ | 0.99 |
| | | | | |
| **Diluted net income per share attributable to Aon stockholders** | | | | |
| Continuing operations | $ | 0.63 | $ | 0.79 |
| Discontinued operations | | | | 0.17 |
| **Net income** | $ | 0.63 | $ | 0.96 |

| | | | | |
|---|---|---|---|---|
| **Cash dividends per share paid on common stock** | $ | 0.15 | $ | 0.15 |
| | | | | |
| **Weighted average common shares outstanding - basic** | | 275.9 | | 284.3 |
| | | | | |
| **Weighted average common shares outstanding - diluted** | | 283.4 | | 292.0 |

See the accompanying notes to the Condensed Consolidated Financial Statements (unaudited).

*Aon Corporation*

**Condensed Consolidated Statements of Financial Position**

| (millions) | Mar. 31, 2010 (Unaudited) | Dec. 31, 2009 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 422 | $ 217 |
| Short-term investments | 312 | 422 |
| Receivables, net | 1,983 | 2,052 |
| Fiduciary assets | 11,089 | 10,835 |
| Other current assets | 462 | 463 |
| **Total Current Assets** | 14,268 | 13,989 |
| Goodwill | 5,887 | 6,078 |
| Intangible assets, net | 770 | 791 |
| Fixed assets, net | 452 | 461 |
| Investments | 308 | 319 |
| Other non-current assets | 1,274 | 1,320 |
| **TOTAL ASSETS** | $ 22,959 | $ 22,958 |
| | | |
| **LIABILITIES AND EQUITY** | | |
| **LIABILITIES** | | |
| **CURRENT LIABILITIES:** | | |
| Fiduciary liabilities | $ 11,089 | $ 10,835 |
| Short-term debt and current portion of long-term debt | 84 | 10 |
| Accounts payable and accrued liabilities | 1,269 | 1,535 |
| Other current liabilities | 334 | 260 |
| **Total Current Liabilities** | 12,776 | 12,640 |
| Long-term debt | 2,013 | 1,998 |
| Pension and other post employment liabilities | 1,770 | 1,889 |
| Other non-current liabilities | 943 | 1,000 |
| **TOTAL LIABILITIES** | 17,502 | 17,527 |
| | | |
| **EQUITY** | | |
| Common stock-$1 par value Authorized: 750 shares (issued: 3/31/10 - 362.7; 12/31/09 - 362.7) | 363 | 363 |
| Additional paid-in capital | 3,135 | 3,215 |
| Retained earnings | 7,500 | 7,335 |
| Treasury stock at cost (shares: 3/31/10 - 93.2; 12/31/09 - 96.4) | (3,725) | (3,859) |
| Accumulated other comprehensive loss | (1,871) | (1,675) |
| **TOTAL AON STOCKHOLDERS EQUITY** | 5,402 | 5,379 |
| Noncontrolling interests | 55 | 52 |
| **TOTAL EQUITY** | 5,457 | 5,431 |
| **TOTAL LIABILITIES AND EQUITY** | $ 22,959 | $ 22,958 |

See the accompanying notes to the Condensed Consolidated Financial Statements (unaudited).

*Aon Corporation*

**Condensed Consolidated Statement of Stockholders Equity**

**(Unaudited)**

| (millions) | Shares | Common Stock and Additional Paid-in Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Loss, Net of Tax | Non-controlling Interests | Total |
|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2009** | 362.7 | $ 3,578 | $ 7,335 | $ (3,859) | $ (1,675) | $ 52 | $ 5,431 |
| Adoption of new accounting guidance | | | 44 | | (44) | | |
| **Balance at January 1, 2010** | 362.7 | 3,578 | 7,379 | (3,859) | (1,719) | 52 | 5,431 |
| Net income | | | 178 | | | 8 | 186 |
| Shares issued - employee benefit plans | | 31 | | | | | 31 |
| Shares purchased | | | | (50) | | | (50) |
| Shares reissued - employee benefit plans | | (184) | (16) | 184 | | | (16) |
| Tax benefit - employee benefit plans | | 9 | | | | | 9 |
| Stock-based compensation | | 66 | | | | | 66 |
| Dividends to stockholders | | | (41) | | | | (41) |
| Change in net derivative gains/losses | | | | | (24) | | (24) |
| Net foreign currency translation adjustments | | | | | (141) | | (141) |
| Net post-retirement benefit obligations | | | | | 13 | | 13 |
| Purchase of subsidiary shares from noncontrolling interests | | (2) | | | | (4) | (6) |
| Capital contribution by noncontrolling interests | | | | | | 2 | 2 |
| Dividends paid to noncontrolling interests on subsidiary common stock | | | | | | (3) | (3) |
| **Balance at March 31, 2010** | 362.7 | $ 3,498 | $ 7,500 | $ (3,725) | $ (1,871) | $ 55 | $ 5,457 |

See accompanying notes to Condensed Consolidated Financial Statements (unaudited).

*Aon Corporation*

**Condensed Consolidated Statements of Cash Flows**

**(Unaudited)**

| (millions) | Three Months Ended Mar. 31, 2010 | Mar. 31, 2009 |
|---|---|---|
| **Cash Flows from Operating Activities:** | | |
| Net income | $ 186 | $ 285 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Gains from sale of businesses, net | (6) | (92) |
| Depreciation and amortization | 58 | 60 |
| Stock-based compensation expense | 66 | 40 |
| Deferred income taxes | (12) | 14 |
| Change in assets and liabilities: | | |
| Change in funds held on behalf of clients | 396 | 512 |
| Receivables, net | 45 | 179 |
| Accounts payable and accrued liabilities | (274) | (260) |
| Restructuring reserves | (1) | (8) |
| Current income taxes | 65 | 82 |
| Pension and other post employment liabilities | (55) | (142) |
| Other assets and liabilities | (4) | (117) |
| **Cash Provided by Operating Activities** | 464 | 553 |
| **Cash Flows from Investing Activities:** | | |
| Sales of long-term investments | 66 | 7 |
| Purchase of long-term investments | (10) | (12) |
| Net sales (purchases) of short-term investments - non-fiduciary | 97 | (193) |
| Net purchases of short-term investments - funds held on behalf of clients | (396) | (512) |
| Acquisition of businesses, net of cash acquired | (47) | (33) |
| Proceeds from sale of businesses | | 128 |
| Capital expenditures | (33) | (21) |
| **Cash Used for Investing Activities** | (323) | (636) |
| **Cash Flows from Financing Activities:** | | |
| Purchase of treasury stock | (50) | |
| Issuance of stock for employee benefit plans | 35 | 55 |
| Issuance (repayments) of debt | 73 | (1) |
| Cash dividends to stockholders | (41) | (41) |
| **Cash Provided by Financing Activities** | 17 | 13 |
| **Effect of Exchange Rate Changes on Cash** | 47 | (11) |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | 205 | (81) |
| **Cash and Cash Equivalents at Beginning of Period** | 217 | 582 |
| **Cash and Cash Equivalents at End of Period** | $ 422 | $ 501 |
| **Supplemental disclosures:** | | |
| Interest paid | $ 30 | $ 37 |
| Income taxes paid, net of refunds | 10 | 53 |

See the accompanying notes to the Condensed Consolidated Financial Statements (unaudited).

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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ( U.S. GAAP ) and include all normal recurring adjustments which Aon Corporation ( Aon or the Company ) considers necessary to present fairly the Company s consolidated financial statements for all periods presented. The consolidated financial statements include the accounts of Aon and its majority-owned subsidiaries and variable interest entities ( VIEs ) for which Aon is considered to be the primary beneficiary. The consolidated financial statements exclude VIEs for which Aon is not the primary beneficiary. All material intercompany accounts and transactions have been eliminated.

Certain information and footnote disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. The results for the three months ended March 31, 2010 are not necessarily indicative of operating results that may be expected for the full year ending December 31, 2010.

***Use of Estimates***

The preparation of the accompanying consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of reserves and expenses. These estimates and assumptions are based on management s best estimates and judgments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. Illiquid credit markets, volatile equity markets, and foreign currency movements have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

2. Accounting Principles and Practices

***Changes in Accounting Principles***

On January 1, 2010, the Company adopted guidance amending current principles related to the transfers of financial assets and the consolidation of VIEs. This guidance eliminates the concept of a qualifying special-purpose entity ( QSPE ) and the related exception for applying consolidation guidance, creates more stringent conditions for reporting the transfer of a portion of a financial asset as a sale, clarifies other sale-accounting criteria, and changes the initial measurement of a transferor s interest in transferred financial assets. Consequently, former QSPEs are evaluated for consolidation based on the updated VIE guidance. In addition, the new guidance requires companies to take a qualitative approach in determining a VIE s primary beneficiary and requires companies to more frequently reassess whether they must consolidate VIEs. Additional year-end and interim period disclosures are also required outlining a company s involvement with VIEs and any significant change in risk exposure due to that involvement, as well as how its involvement with VIEs impacts the Company s financial statements. See Note 9 regarding the consolidation of Private Equity Partnership Structures I, LLC ( PEPS I ).

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On January 1, 2010, the Company adopted guidance requiring additional disclosures regarding fair value measurements. The amended guidance requires entities to disclose additional information regarding assets and liabilities that are transferred between levels of the fair value hierarchy. This guidance also clarifies existing guidance pertaining to the level of disaggregation at which fair value disclosures should be made and the requirements to disclose information about the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. See Note 15 for these disclosures. The guidance also requires entities to disclose information in the Level 3 rollforward about purchases, sales, issuances and settlements on a gross basis. These disclosures will be effective for Aon beginning in the first quarter of 2011. The Company is currently evaluating this guidance to determine what additional disclosures, if any, will be required.

***Recent Accounting Pronouncements***

In September 2009, the Financial Accounting Standards Board ( FASB ) issued guidance updating current principles related to revenue recognition when there are multiple-element arrangements. This revised guidance relates to the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting and modifies the manner in which the transaction consideration is allocated across the separately identifiable deliverables. The guidance also expands the disclosures required for multiple-element revenue arrangements. These changes will be effective for Aon beginning in the first quarter of 2011, and may be applied retrospectively for all periods presented or prospectively to arrangements entered into or modified after the adoption date. Early adoption is permitted. The Company is currently evaluating this guidance to determine what impact, if any, it will have on its consolidated financial statements.

3. Cash and Cash Equivalents

Cash and cash equivalents include cash balances and all highly liquid investments with initial maturities of three months or less. Cash and cash equivalents included restricted balances of $186 million and $85 million at March 31, 2010 and December 31, 2009, respectively.

4. Other Income (Expense)

Other income (expense) consists of the following (in millions):

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| Equity income of non-consolidated subsidiaries | $ | 2 | $ | 1 |
| Realized gain on sale of investments | | 1 | | |
| Gain (loss) on disposal of businesses, net | | 4 | | (1) |
| Other | | | | (1) |
| | $ | 7 | $ | (1) |

5. Acquisitions and Dispositions

***Acquisitions***

In first quarter 2010, the Company completed the acquisition of the JP Morgan Compensation and Benefit Strategies Division of JP Morgan Retirement Plan Services, LLC, which is included in the Consulting segment, as well as seven other companies, which are included in the Risk and Insurance Brokerage Services segment.  In first quarter 2009, the Company completed the acquisition of four companies, all of which were included in the Risk and Insurance Brokerage Services segment.  The following table includes the aggregate amount paid and the intangible assets recorded as a result of the acquisitions made during the first quarter 2010 and 2009.  For certain of the acquisitions made in the first quarter 2010, the Company is in the process of obtaining third-party valuations for the intangible assets other than goodwill, and therefore, at quarter end the allocation of the purchase prices are still subject to refinement.

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| **(millions)** | **2010** | | **2009** | |
| Cash paid | $ | 47 | $ | 26 |
| | | | | |
| Intangible assets: | | | | |
| Goodwill | $ | 35 | $ | 11 |
| Other intangible assets | | 33 | | 13 |
| | $ | 68 | $ | 24 |

The results of operations of these acquisitions are included in the condensed consolidated financial statements from the dates they were acquired. These acquisitions would not produce a materially different result if they had been reported from the beginning of the period.

***Dispositions - Continuing Operations***

Some of Aon s U.S. ( Cananwill ), U.K., Canadian, and Australian subsidiaries (together Cananwill International ) originated short-term loans (generally with terms of 12 months or less) to businesses to finance their insurance premium obligations, and then sold these premium finance agreements to unaffiliated companies, typically bank Special Purpose Entities ( SPEs ), in whole loan securitization transactions that met the criteria for sales accounting. Cananwill s results were included in the Risk and Insurance Brokerage Services segment.

In December 2008, Aon signed a definitive agreement to sell the U.S. Cananwill operations. This disposition was completed in February 2009. A pretax loss of $7 million was recorded, of which $2 million was recorded in first quarter 2009 and $5 million in 2008, and is included in Other income (expense) in the Condensed Consolidated Statements of Income. Aon may receive up to $10 million from the buyer over the two years following the sale based on the amount of insurance premiums and related obligations financed by the buyer over this period that are generated from certain of Cananwill s producers. As of March 31, 2010, Aon had received $5 million from the buyer, which is recorded in Other income (expense) in the Condensed Consolidated Statements of Income.

In connection with this sale, Aon has guaranteed the collection of the principal amount of the premium finance notes sold to the buyer, which, at March 31, 2010, was $4 million, if losses exceed the historical credit loss reserve for the business. Historical losses in this business have been very low since the premium finance notes are generally fully collateralized by the lender s right, in the event of non-payment, to cancel the underlying insurance contract and collect the unearned premium from the insurance carrier. The Company does not expect to incur any significant losses related to this guarantee.

In June and July of 2009, the Company entered into agreements with third parties with respect to Aon s Cananwill International operations. As a result of these agreements, these third parties began originating, financing and servicing premium finance loans generated by referrals from Aon s brokerage operations. The third parties did not acquire the existing portfolio of Aon s premium finance loans, and as such, the Company did not extend any guarantees under these agreements.

***Dispositions - Discontinued Operations***

*AIS Management Corporation*

In 2008, Aon reached a definitive agreement to sell AIS Management Corporation ( AIS ), which was previously included in the Risk and Insurance Brokerage Services segment, to Mercury General Corporation, for $120 million in cash at closing, plus a potential earn-out of up to $35 million payable over the two years following the completion of the agreement. The disposition was completed in January 2009 and resulted in a pretax gain of $86 million in first quarter 2009. As of March 31, 2010, Aon had not received any of this potential earn-out.

The operating results of all businesses classified as discontinued operations are as follows (in millions):

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| Revenues | $ | | $ | 1 |
| Income (loss) before income taxes: | | | | |
| Operations | $ | | $ | (2) |
| Gain on sale: | | | | |
| AIS | | | | 86 |
| Other | | 2 | | 7 |
| | | 2 | | 91 |
| Income taxes | | 2 | | 41 |
| Net Income | $ | | $ | 50 |

6. Goodwill and Other Intangible Assets

The changes in the net carrying amount of goodwill by operating segment for the three months ended March 31, 2010 are as follows (in millions):

| | Risk and Insurance Brokerage Services | | Consulting | | Total | |
|---|---|---|---|---|---|---|
| Balance as of December 31, 2009 | $ | 5,693 | $ | 385 | $ | 6,078 |
| Goodwill related to current year acquisitions | | 4 | | 31 | | 35 |
| Goodwill related to prior year acquisitions | | 1 | | | | 1 |
| Foreign currency revaluation | | (228) | | 1 | | (227) |
| Balance as of March 31, 2010 | $ | 5,470 | $ | 417 | $ | 5,887 |

Other intangible assets by asset class are as follows (in millions):

| | March 31, 2010 | | | | December 31, 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Gross Carrying Amount | | Accumulated Amortization | | Gross Carrying Amount | | Accumulated Amortization | |
| Trademarks | $ | 134 | $ | | $ | 136 | $ | |
| Customer Related and Contract Based | | 759 | | 248 | | 757 | | 234 |
| Marketing, Technology and Other | | 370 | | 245 | | 376 | | 244 |
| | $ | 1,263 | $ | 493 | $ | 1,269 | $ | 478 |

Amortization expense on intangible assets was $27 million and $23 million for the three months ended March 31, 2010 and 2009, respectively. As of March 31, 2010, the estimated amortization for intangible assets is as follows (in millions):

| | | |
|---|---|---|
| Remainder of 2010 | $ | 72 |
| 2011 | | 103 |
| 2012 | | 93 |
| 2013 | | 84 |
| 2014 | | 73 |
| Thereafter | | 211 |
| | $ | 636 |

7. Restructuring

***Aon Benfield Restructuring Plan***

The Company announced a global restructuring plan ( Aon Benfield Plan ) in conjunction with its acquisition of Benfield in 2008. The restructuring plan is intended to integrate and streamline operations across the combined Aon Benfield organization. The Aon Benfield Plan includes an estimated 700 job eliminations, of which approximately 575 jobs have been eliminated as of March 31, 2010. Additionally, duplicate space and assets will be abandoned. The Company currently estimates the Plan will result in cumulative costs totaling approximately $155 million, of which $55 million was recorded as part of the purchase price allocation, $64 million has been recorded in earnings to date, and an estimated additional $36 million will be recorded in future earnings. Expenses include workforce reduction, lease consolidation costs, asset impairments, as well as other expenses necessary to implement the restructuring initiative. The Company recorded $9 million of restructuring and related charges in the first three months of both 2010 and 2009. Total payments of $85 million have been made under this Plan to date.

All costs associated with the Aon Benfield Plan are included in the Risk and Insurance Brokerage Services segment. Costs related to the restructuring are included in Compensation and benefits and Other general expenses in the accompanying Condensed Consolidated Statements of Income. The Company expects these restructuring activities and related expenses to affect continuing operations into 2011.

The following summarizes the restructuring and related costs by type that have been incurred and are estimated to be incurred through the end of the restructuring initiative related to the Aon Benfield plan (in millions):

| | Actual | | | | Estimated |
|---|---|---|---|---|---|
| | **Purchase Price Allocation** | **2009** | **First Quarter 2010** | **Total to Date** | **Total Cost for Restructuring Period (1)** |
| Workforce reduction | $ 32 | $ 38 | $ 5 | $ 75 | $ 93 |
| Lease consolidation | 22 | 14 | 3 | 39 | 55 |
| Asset impairments | | 2 | | 2 | 4 |
| Other costs associated with restructuring (2) | 1 | 1 | 1 | 3 | 3 |
| Total restructuring and related expenses | $ 55 | $ 55 | $ 9 | $ 119 | $ 155 |

(1) Actual costs, when incurred, will vary due to changes in the assumptions built into this plan. Significant assumptions likely to change when plans are finalized and implemented include, but are not limited to, changes in severance calculations, changes in the assumptions underlying sublease loss calculations due to changing market conditions, and changes in the overall analysis that might cause the Company to

add or cancel component initiatives.

(2) Other costs associated with restructuring initiatives, including moving costs and consulting and legal fees, are recognized when incurred.

***2007 Restructuring Plan***

In 2007, the Company announced a global restructuring plan intended to create a more streamlined organization and reduce future expense growth to better serve clients ( 2007 Plan ). The 2007 Plan includes an estimated 4,600 job eliminations. As of March 31, 2010, approximately 3,775 positions have been eliminated. The Company has closed or consolidated several offices resulting in sublease losses or lease buy-outs. The Company currently estimates that the 2007 Plan will result in cumulative pretax charges totaling approximately $750 million. Expenses include workforce reduction, lease consolidation costs, asset impairments, as well as other expenses necessary to implement the restructuring initiative. The Company recorded $67 million and $34 million of restructuring and related charges in the first three months of 2010 and 2009, respectively. Costs related to the restructuring are included in Compensation and benefits and Other general expenses in the accompanying Condensed Consolidated Statements of Income. The Company expects the restructuring activities and related expenses to affect continuing operations through the first half of 2010.

The following summarizes the restructuring and related expenses by type that have been incurred and are estimated to be incurred through the end of the restructuring initiative related to the 2007 Plan (in millions):

| | Actual | | | | | Estimated Total Cost for Restructuring Period (1) |
|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | First Quarter 2010 | Total to Date | |
| Workforce reduction | $ 17 | $ 166 | $ 251 | $ 57 | $ 491 | $ 510 |
| Lease consolidation | 22 | 38 | 78 | 6 | 144 | 149 |
| Asset impairments | 4 | 18 | 15 | 1 | 38 | 39 |
| Other costs associated with restructuring (2) | 3 | 29 | 13 | 3 | 48 | 52 |
| Total restructuring and related expenses | $ 46 | $ 251 | $ 357 | $ 67 | $ 721 | $ 750 |

(1) Actual costs, when incurred, will vary due to changes in the assumptions built into this plan. Significant assumptions likely to change when plans are finalized and implemented include, but are not limited to, changes in severance calculations, changes in the assumptions underlying sublease loss calculations due to changing market conditions, and changes in the overall analysis that might cause the Company to add or cancel component initiatives.

(2) Other costs associated with restructuring initiatives, including moving costs and consulting and legal fees, are recognized when incurred.

The following summarizes the restructuring and related expenses by segment that have been incurred and are estimated to be incurred through the end of the restructuring initiative, related to the 2007 Plan (in millions):

| | Actual | Estimated Total Cost for |
|---|---|---|

| | 2007 | 2008 | 2009 | First Quarter 2010 | Total to Date | Restructuring Period |
|---|---|---|---|---|---|---|
| Risk and Insurance Brokerage Services | $ 41 | $ 234 | $ 322 | $ 60 | $ 657 | $ 683 |
| Consulting | 5 | 17 | 35 | 7 | 64 | 67 |
| Total restructuring and related expenses | $ 46 | $ 251 | $ 357 | $ 67 | $ 721 | $ 750 |

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***Restructuring Liabilities***

As of March 31, 2010, the Company s liabilities for its restructuring plans are as follows (in millions):

| | Benfield Plan | 2007 Plan | 2005 Plan | Total |
|---|---|---|---|---|
| Balance at January 1, 2009 | $ 104 | $ 101 | $ 28 | $ 233 |
| Expensed in 2009 | 53 | 342 | (1) | 394 |
| Cash payments in 2009 | (67) | (248) | (12) | (327) |
| Purchase accounting adjustment | (49) | | | (49) |
| Foreign exchange translation | 4 | 7 | 1 | 12 |
| Balance at December 31, 2009 | 45 | 202 | 16 | 263 |
| Expensed in 2010 | 9 | 66 | | 75 |
| Cash payments in 2010 | (18) | (56) | (2) | (76) |
| Foreign exchange translation | (2) | (7) | | (9) |
| Balance at March 31, 2010 | $ 34 | $ 205 | $ 14 | $ 253 |

Aon s unpaid restructuring liabilities are included in Accounts payable and accrued liabilities and Other non-current liabilities in the Condensed Consolidated Statements of Financial Position.

8. <u>Investments</u>

The Company earns income on cash balances and investments, as well as on premium trust balances that Aon maintains for premiums collected from insureds but not yet remitted to insurance companies. Premium trust balances and a corresponding liability are included in Fiduciary assets and Fiduciary liabilities in the accompanying Condensed Consolidated Statements of Financial Position.

The Company s interest-bearing assets are included in the following categories in the Condensed Consolidated Statements of Financial Position (in millions):

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| Cash and cash equivalents | $ 422 | $ 217 |
| Short-term investments | 312 | 422 |
| Fiduciary assets | 3,600 | 3,329 |
| Investments | 308 | 319 |
| | $ 4,642 | $ 4,287 |

The Company s investments are as follows (in millions):

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| Equity method investments | $ 183 | $ 113 |

| | | |
|---|---|---|
| Cost method investments | 59 | 54 |
| Other investments | 52 | 49 |
| Fixed-maturity securities | 14 | 16 |
| PEPS I preferred stock | | 87 |
| | $ 308 | $ 319 |

9. Variable Interest Entities

***Consolidated Variable Interest Entities***

In 2001, Aon sold the vast majority of its limited partnership ( LP ) portfolio, valued at $450 million, to PEPS I, a QSPE. In accordance with recently issued VIE guidance, former QSPEs must now be assessed to determine if they are VIEs. Aon has concluded that PEPS I is a VIE and that it holds a variable interest in PEPS I. Aon has also concluded that it is the primary beneficiary of PEPS I, as it has the power to direct the activities that most significantly impact economic performance and it has the obligation or right to absorb losses or receive benefits that could potentially be significant to PEPS I. As a result of adopting this new guidance, Aon consolidated PEPS I effective January 1, 2010. The financial statement impact of consolidating PEPS I resulted in:

- The removal of the $87 million PEPS I preferred stock, previously reported in investments, and
- The addition of $77 million of equity method investments in LP s; cash of $57 million, of which $52 million is restricted; long-term debt of $47 million; a decrease in accumulated other comprehensive income net of tax of $44 million; and an increase in retained earnings of $44 million.

As part of the original transaction, Aon is required to purchase from PEPS I additional securities equal to the unfunded LP commitments, as they are requested. These securities are rated below investment grade. Aon funded less than $1 million of commitments in first quarter 2010. As of March 31, 2010, the unfunded commitments were $42 million. The commitments have specific expiration dates and the general partners may decide not to draw on these commitments.

***Unconsolidated Variable Interest Entities***

At March 31, 2010, Aon held a 38% interest in Juniperus Insurance Opportunity Fund Limited (Juniperus), which is an investment vehicle that invests in an actively managed and diversified portfolio of insurance risks. Aon has concluded that Juniperus is a variable interest entity. However, Aon has concluded that it is not the primary beneficiary as it lacks the power to direct the activities of Juniperus that most significantly impact economic performance. The investment in Juniperus is accounted for using the equity method of accounting.

Aon s potential loss at March 31, 2010 is limited to its investment in Juniperus of $70 million, which is recorded in Investments in the Condensed Consolidated Statements of Financial Position. Aon has not provided any financing to Juniperus other than previously contractually required amounts.

10. Debt

At March 31, 2010, the Company had borrowed $75 million under its five-year 650 million ($872 million at March 31, 2010 exchange rates) multi-currency foreign credit facility ( Euro credit facility ). This borrowing is included in Short-term debt and current portion of long-term debt in the Condensed Consolidated Statements of Financial Position.

As a result of adopting new guidance on VIEs, Aon consolidated PEPS I effective January 1, 2010, and recorded $47 million of long-term debt in the Condensed Consolidated Statements of Financial Position.

11. Stockholders   Equity

***Common Stock***

Under the share repurchase program begun in 2005, Aon   s Board of Directors has authorized the Company to repurchase up to $4.6 billion of its outstanding common stock.  Shares may be repurchased through the open market or in privately negotiated transactions from time to time, based on prevailing market conditions, and will be funded from available cash. Any repurchased shares will be available for employee stock plans and for other corporate purposes. In first quarter 2010, Aon repurchased 1.2 million shares at a cost of $50 million. Since the inception of this share repurchase program, the Company has repurchased a total of 107.1 million shares for an aggregate cost of $4.4 billion. As of March 31, 2010, the Company was authorized to purchase up to $215 million of additional shares under this stock repurchase program. The timing and amount of future purchases will be based on market and other conditions.

In January 2010, the Company s Board of Directors authorized a new share repurchase program under which up to $2 billion of common stock may be repurchased from time to time depending on market conditions or other factors through open market or privately negotiated transactions. Repurchases will commence under the new share repurchase program upon conclusion of the existing program.

In connection with the acquisition of two entities controlled by Aon s then-Chairman and Chief Executive Officer in 2001, Aon obtained approximately 22.4 million shares of its common stock. These treasury shares are restricted as to their reissuance.

In first quarter 2010, Aon reissued 4.3 million shares of treasury stock for employee benefit plans and 86,000 shares of treasury stock in connection with employee stock purchase plans. In first quarter 2009, Aon issued 966,000 new shares of common stock for employee benefit plans and reissued approximately 4.0 million shares of treasury stock for employee benefit plans and 69,000 shares in connection with employee stock purchase plans.

***Participating Securities***

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities, as defined, and therefore should be included in computing basic and diluted earnings per share using the two class method. Certain of Aon s restricted stock awards allow the holder to receive a non-forfeitable dividend equivalent. Income from continuing operations, Income from discontinued operations and Net income, attributable to participating securities, were as follows (in millions):

| | Three months ended March 31, 2010 | 2009 |
|---|---|---|
| Income from continuing operations | $ 4 | $ 6 |
| Income from discontinued operations | | 1 |
| Net income | $ 4 | $ 7 |

Weighted average shares outstanding are as follows (in millions):

| | Three months ended March 31, 2010 | 2009 |
|---|---|---|
| Shares for basic earnings per share (1) | 275.9 | 284.3 |
| Common stock equivalents | 7.5 | 7.7 |
| Shares for diluted earnings per share | 283.4 | 292.0 |

(1) Includes 6.5 million and 7.3 million of participating securities for the three months ended March 31, 2010 and 2009, respectively.

Certain common stock equivalents primarily related to options were not included in the computation of diluted net income per share because their inclusion would have been antidilutive.  The number of shares excluded from the calculation was 5 million for both the three months ended March 31 2010 and 2009.

***Other Comprehensive Income (Loss)***

The components of comprehensive income, net of related tax, are as follows (in millions):

| | Three months ended March 31, 2010 | | 2009 | |
|---|---|---|---|---|
| Net income | $ | 186 | $ | 285 |
| Net derivative losses | | (24) | | (9) |
| Net unrealized investment losses | | | | (8) |
| Net foreign currney translation adjustments | | (141) | | (94) |
| Net post-retirement benefit obligations | | 13 | | 56 |
| Comprehensive income | | 34 | | 230 |
| Less: Comprehensive income attributable to noncontrolling interests | | 8 | | 5 |
| Comprehensive income attributable to Aon stockholders | $ | 26 | $ | 225 |

The components of Accumulated other comprehensive loss, net of related tax, are as follows (in millions):

| | March 31, 2010 | | Janaury 1, 2010 (1) | | December 31, 2009 | |
|---|---|---|---|---|---|---|
| Net derivative losses | $ | (24) | $ | | $ | |
| Net unrealized investment gains | | | | | | 44 |
| Net foreign currency translation adjustments | | 160 | | 301 | | 301 |
| Net post-retirement benefit obligations | | (2,007) | | (2,020) | | (2,020) |
| Accumulated other comprehensive loss, net of tax | $ | (1,871) | $ | (1,719) | $ | (1,675) |

(1) Reflects impact of adopting new accounting guidance which resulted in the consolidation of PEPS I effective January 1, 2010.

12. Employee Benefits

***Pension Plans***

The following table provides the components of the net periodic benefit cost for Aon s U.S. pension plans, along with the material international plans, which are located in the U.K., the Netherlands, and Canada (in millions):

| | Three months ended March 31, U.S. 2010 | | 2009 | | International 2010 | | 2009 | |
|---|---|---|---|---|---|---|---|---|
| Service cost | $ | | $ | | $ | 3 | $ | 4 |
| Interest cost | | 31 | | 31 | | 62 | | 54 |
| Expected return on plan assets | | (30) | | (26) | | (60) | | (52) |
| Amortization of prior-service cost | | | | (1) | | | | 1 |
| Amortization of net loss | | 6 | | 12 | | 14 | | 9 |

| | | | | |
|---|---|---|---|---|
| Net periodic benefit cost | $ 7 | $ 16 | $ 19 | $ 16 |

In first quarter 2009, a curtailment gain of $83 million was recognized as a result of the Company ceasing crediting future benefits relating to salary and service of the U.S. defined benefit pension plan, which is reported in Compensation and benefits in the Condensed Consolidated Statements of Income.

Also in first quarter 2009, a curtailment gain of $10 million was recognized in discontinued operations resulting from the sale of our Combined Insurance Company of America ( CICA ) subsidiary. The curtailment gain related to the Company s U.S. Retiree Health and Welfare Plan, in which CICA employees were allowed to participate through the end of 2008, pursuant to the terms of the sale.

Based on current assumptions, in 2010 Aon plans to contribute $30 million and $326 million to its U.S. and material international defined benefit pension plans, respectively. As of March 31, 2010, contributions of $6 million have been made to the U.S. pension plans and $75 million to its material international pension plans.

13. Stock Compensation Plans

The following table summarizes stock-based compensation expense in continuing operations in the Condensed Consolidated Statements of Income in Compensation and benefits (in millions):

| | Three months ended March 31, 2010 | | Three months ended March 31, 2009 | |
|---|---|---|---|---|
| Restricted stock units ( RSUs ) | $ | 41 | $ | 34 |
| Performance plans | | 19 | | 5 |
| Stock options | | 5 | | |
| Employee stock purchase plans | | 1 | | 1 |
| Total stock-based compensation expense | $ | 66 | $ | 40 |

During the first half of 2009, the Company converted its stock administration system to a new service provider. In connection with this conversion, a reconciliation of the methodologies utilized was performed, which resulted in a $16 million reduction of expense for the three months ended March 31, 2009.

***Stock Awards***

During the first three months of 2010, the Company granted approximately 1.6 million shares in connection with the completion of the 2007 Leadership Performance Plan ( LPP ) cycle. During the first three months of 2009, the Company granted approximately 2.0 million shares in connection with the completion of the 2006 LPP cycle. In addition, during the first three months of both 2010 and 2009, the Company granted restricted shares of approximately 1.9 million in connection with the Company s incentive compensation plans.

A summary of the status of Aon s non-vested stock awards is as follows (shares in thousands):

| | Three months ended March 31, 2010 | | | Three months ended March 31, 2009 | | |
|---|---|---|---|---|---|---|
| | Shares | | Fair Value (1) | Shares | | Fair Value (1) |
| Non-vested at beginning of period | 12,850 | $ | 36 | 14,060 | $ | 35 |
| Granted | 3,495 | | 39 | 3,855 | | 39 |

| | | | | |
|---|---|---|---|---|
| Vested | (4,290) | 37 | (4,127) | 39 |
| Forfeited | (125) | 37 | (89) | 38 |
| Non-vested at end of period | 11,930 | 36 | 13,699 | 35 |

(1) Represents weighted average fair value per share of award at date of grant.

Information regarding Aon s performance-based plans follows (shares in thousands, dollars in millions):

| | As of March 31 | |
|---|---|---|
| | 2010 | 2009 |
| Potential RSUs to be issued based on current performance levels | 7,408 | 5,258 |
| Unamortized expense, based on current performance levels | $ 187 | $ 117 |

***Stock Options***

The weighted average assumptions, the weighted average expected life and estimated fair value of employee stock options are summarized as follows:

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | 2010 | 2009 | | |
| | All Other Options | LPP Options | Special Stock Plan Options | All Other Options |
| Weighted average volatility | 28.5% | 35.5% | 35.5% | 35.5% |
| Expected dividend yield | 1.6% | 1.3% | 1.3% | 1.3% |
| Risk-free rate | 3.0% | 1.6% | 1.8% | 2.0% |
| | | | | |
| Weighted average expected life, in years | 6.1 | 4.4 | 5.6 | 6.5 |
| Weighted average estimated fair value per share | $ 10.36 | $ 12.25 | $ 13.77 | $ 14.60 |

In connection with its incentive compensation plans in the first quarter 2010, the Company granted 141,000 stock options at $38 per share. Beginning in the first quarter 2010, the Company eliminated the grant of options under two of its key equity award programs, the LPP and the Special Stock Program, in order to manage share usage and expense. In 2009, in connection with the 2009 LPP Plan, the Company granted 1.0 million shares at $39 per share.

A summary of the status of Aon s stock options and related information is as follows (shares in thousands):

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| Outstanding at beginning of period | 15,937 | $ 33 | 19,666 | $ 31 |
| Granted | 141 | 38 | 975 | 39 |
| Exercised | (1,274) | 29 | (1,963) | 26 |
| Forfeited and expired | (177) | 29 | (467) | 42 |
| Outstanding at end of period | 14,627 | 33 | 18,211 | 32 |
| Exercisable at end of period | 9,428 | 32 | 9,301 | 31 |

The weighted average remaining contractual life, in years, of outstanding options was 4.0 years and 4.6 years at March 31, 2010 and 2009, respectively.

The aggregate intrinsic value represents the total pretax intrinsic value, based on options with an exercise price less than the Company s closing stock price of $42.71 as of March 31, 2010, which would have been received by the option holders had those option holders exercised their options as of that date. At March 31, 2010, the aggregate intrinsic value of options outstanding was $141 million, of which $100 million was exercisable.

Other information related to the Company s stock options is as follows (in millions):

| | Three months ended March 31, | |
|---|---|---|
| | **2010** | **2009** |
| Aggregate intrinsic value of stock options exercised | $ 15 | |