

AON CORP  
Form 10-Q  
May 05, 2011

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011**

**OR**

**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**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**36-3051915**  
(I.R.S. Employer  
Identification No.)

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200 E. RANDOLPH STREET, CHICAGO, ILLINOIS  
(Address of Principal Executive Offices)

60601  
(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  NO

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  NO

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

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

Number of shares of common stock, \$1.00 par value, outstanding as of March 31, 2011: 330,540,849

## 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, 2011	Mar. 31, 2010
<b>Revenue</b>		
Commissions, fees and other	\$ 2,748	\$ 1,891
Fiduciary investment income	11	13
Total revenue	2,759	1,904
<b>Expenses</b>		
Compensation and benefits	1,597	1,163
Other general expenses	766	468
Total operating expenses	2,363	1,631
<b>Operating income</b>	396	273
Interest income	6	1
Interest expense	(63)	(34)
Other income	17	7
<b>Income from continuing operations before income taxes</b>	356	247
Income taxes	103	61
<b>Income from continuing operations</b>	253	186
<b>Income from discontinued operations before income taxes</b>	4	2
Income taxes	2	2
<b>Income from discontinued operations</b>	2	
<b>Net income</b>	255	186
Less: Net income attributable to noncontrolling interests	9	8
<b>Net income attributable to Aon stockholders</b>	\$ 246	\$ 178
<b>Net income attributable to Aon stockholders</b>		
Income from continuing operations	\$ 244	\$ 178
Income from discontinued operations	2	
<b>Net income</b>	\$ 246	\$ 178
<b>Basic net income per share attributable to Aon stockholders</b>		
Continuing operations	\$ 0.72	\$ 0.65
Discontinued operations		
<b>Net income</b>	\$ 0.72	\$ 0.65
<b>Diluted net income per share attributable to Aon stockholders</b>		
Continuing operations	\$ 0.71	\$ 0.63
Discontinued operations		
<b>Net income</b>	\$ 0.71	\$ 0.63
<b>Cash dividends per share paid on common stock</b>	\$ 0.15	\$ 0.15
<b>Weighted average common shares outstanding - basic</b>	339.4	275.9
<b>Weighted average common shares outstanding - diluted</b>	345.4	283.4

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

*Aon Corporation***Condensed Consolidated Statements of Financial Position**

(millions, except share data)	Mar. 31, 2011 (Unaudited)	Dec. 31, 2010
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 682	\$ 346
Short-term investments	589	785
Receivables, net	2,650	2,701
Fiduciary assets	10,609	10,063
Other current assets	681	624
<b>Total Current Assets</b>	<b>15,211</b>	<b>14,519</b>
Goodwill	8,895	8,647
Intangible assets, net	3,547	3,611
Fixed assets, net	791	781
Investments	318	312
Other non-current assets	1,040	1,112
<b>TOTAL ASSETS</b>	<b>\$ 29,802</b>	<b>\$ 28,982</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Fiduciary liabilities	\$ 10,609	\$ 10,063
Short-term debt and current portion of long-term debt	502	492
Accounts payable and accrued liabilities	1,544	1,810
Other current liabilities	604	584
<b>Total Current Liabilities</b>	<b>13,259</b>	<b>12,949</b>
Long-term debt	4,409	4,014
Pension and other post employment liabilities	1,849	1,896
Other non-current liabilities	1,798	1,817
<b>TOTAL LIABILITIES</b>	<b>21,315</b>	<b>20,676</b>
<b>EQUITY</b>		
Common stock-\$1 par value		
Authorized: 750 shares (issued: 2011 - 386.3; 2010 - 385.9)	386	386
Additional paid-in capital	3,942	4,000
Retained earnings	8,039	7,861
Treasury stock at cost (shares: 2011 - 55.8; 2010 - 53.6)	(2,230)	(2,079)
Accumulated other comprehensive loss	(1,714)	(1,917)
<b>TOTAL AON STOCKHOLDERS EQUITY</b>	<b>8,423</b>	<b>8,251</b>
Noncontrolling interests	64	55
<b>TOTAL EQUITY</b>	<b>8,487</b>	<b>8,306</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 29,802</b>	<b>\$ 28,982</b>

See 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	Comprehensive Income
<b>Balance at December 31, 2010</b>	385.9	\$ 4,386	\$ 7,861	\$ (2,079)	\$ (1,917)	\$ 55	\$ 8,306	\$ 532
Net income			246			9	255	\$ 255
Shares issued - employee benefit plans	0.4	38					38	
Shares purchased				(350)			(350)	
Shares reissued - employee benefit plans		(199)	(17)	199			(17)	
Tax benefit - employee benefit plans		29					29	
Stock compensation expense		74					74	
Dividends to stockholders			(51)				(51)	
Change in net derivative gains/losses					(4)		(4)	(4)
Net foreign currency translation adjustments					195		195	195
Net post-retirement benefit obligations					12		12	12
<b>Balance at March 31, 2011</b>	386.3	\$ 4,328	\$ 8,039	\$ (2,230)	\$ (1,714)	\$ 64	\$ 8,487	\$ 458

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

*Aon Corporation***Condensed Consolidated Statements of Cash Flows****(Unaudited)**

(millions)	Three Months Ended	
	Mar. 31, 2011	Mar. 31, 2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 255	\$ 186
Adjustments to reconcile net income to cash provided by operating activities:		
Gain from sales of businesses, net		(6)
Depreciation of fixed assets	53	31
Amortization of intangible assets	91	27
Stock compensation expense	74	66
Deferred income taxes	11	(12)
Change in assets and liabilities:		
Change in funds held on behalf of clients	427	396
Receivables, net	108	45
Accounts payable and accrued liabilities	(327)	(274)
Restructuring reserves	(28)	(1)
Current income taxes	58	65
Pension and other post employment liabilities	(81)	(55)
Other assets and liabilities	(59)	(1)
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>582</b>	<b>467</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sales of long-term investments	17	66
Purchases of long-term investments	(6)	(10)
Net sales of short-term investments - non-fiduciary	218	97
Net purchases of short-term investments - funds held on behalf of clients	(427)	(396)
Acquisition of businesses, net of cash acquired	(3)	(47)
Capital expenditures	(56)	(33)
<b>CASH USED FOR INVESTING ACTIVITIES</b>	<b>(257)</b>	<b>(323)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Purchase of treasury stock	(350)	(50)
Issuance of stock for employee benefit plans	85	35
Issuance of debt	429	75
Repayment of debt	(79)	(2)
Cash dividends to stockholders	(51)	(41)
Dividends paid to noncontrolling interests		(3)
<b>CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>34</b>	<b>14</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		
	(23)	47
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>336</b>	<b>205</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>346</b>	<b>217</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 682</b>	<b>\$ 422</b>
<b>Supplemental disclosures:</b>		
Interest paid	\$ 76	\$ 30
Income taxes paid, net of refunds	36	10

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





**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 Condensed Consolidated Financial Statements for all periods presented. The consolidated financial statements include the accounts of Aon and its wholly and majority-owned subsidiaries and variable interest entities ( VIEs ) for which Aon is considered to be the primary beneficiary. The consolidated financial statements exclude special-purpose entities ( SPEs ) considered 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, 2010. The presentation of certain amounts in prior period financial statements and related notes has been changed to conform to the 2011 presentation. The results for the three months ended March 31, 2011 are not necessarily indicative of operating results that may be expected for the full year ending December 31, 2011.

*Use of Estimates*

The preparation of the accompanying unaudited Condensed 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. Aon 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 requiring additional disclosures regarding fair value measurements. The amended guidance required entities to disclose additional information regarding assets and liabilities that are transferred between levels of the fair value hierarchy. This guidance also clarified 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. The guidance also required entities to disclose information in the Level 3 rollforward about purchases, sales, issuances and settlements on a

gross basis. See Note 15 Fair Value and Financial Instruments for these disclosures.

In September 2009, the Financial Accounting Standards Board ( FASB ) issued guidance which updated principles related to revenue recognition when there are multiple-element arrangements. This revised guidance related to the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting and modified the manner in which the transaction consideration is allocated across the separately identifiable deliverables. The guidance also expanded the disclosures required for multiple-element revenue arrangements. The effective date for this guidance was January 1, 2011. The Company early adopted this guidance in the fourth quarter 2010 and applied its requirements to all revenue arrangements entered into or materially modified after January 1, 2010. The adoption of this guidance did not have a material impact on the Company's 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 \$179 million and \$60 million at March 31, 2011 and December 31, 2010, respectively.

### 4. Other Income

Other income consists of the following (in millions):

	Three months ended March 31,	
	2011	2010
Equity earnings	\$ 6	\$ 2
Realized gain on sale of investments	10	1
Gain on disposal of businesses		4
Other	1	
	\$ 17	\$ 7

### 5. Acquisitions and Dispositions

#### *Acquisitions*

In first quarter 2011, the Company completed the acquisition of one company, which was included in the Risk Solutions segment. 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 HR Solutions segment, as well as seven other companies, which are included in the Risk Solutions segment. The following table includes the aggregate consideration transferred and the preliminary value of intangible assets recorded as a result of the Company's acquisitions.

(millions)	Three months ended March 31,			
		2011		2010
Consideration transferred:	\$	3	\$	85
Intangible assets:				
Goodwill	\$	1	\$	35
Other intangible assets		3		33
	\$	4	\$	68

The results of operations of these acquisitions are included in the Condensed Consolidated Financial Statements from the dates they were acquired. The results of operations would not have been materially different if these acquisitions had been reported from the beginning of the period.

***Hewitt Associates, Inc.***

On October 1, 2010, the Company completed its acquisition of Hewitt Associates, Inc. (Hewitt), one of the world's leading human resource consulting and outsourcing companies. Aon purchased all of the outstanding shares of Hewitt common stock in a cash-and-stock transaction valued at approximately \$4.9 billion, of which the total amount of cash paid and the total number of shares of stock issued by Aon each represented approximately 50% of the aggregate consideration.

The Company incurred certain acquisition and integration costs associated with the transaction that were expensed as incurred. In the first quarter 2011, the Company's HR Solutions segment incurred \$15 million of these Hewitt related costs which are recorded in Other general expenses in the Condensed Consolidated Statements of Income.

The transaction has been accounted for using the acquisition method of accounting which requires, among other things, that most assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The following table summarizes the preliminary amounts recognized for assets acquired and liabilities assumed as of the acquisition date. Certain estimated values are not yet finalized (see below) and are subject to change, which could be significant. The Company will finalize the amounts recognized as information necessary to complete the analysis is obtained. The Company expects to finalize these amounts as soon as possible but no later than one year from the acquisition date.

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The following table summarizes the preliminary values of assets acquired and liabilities assumed as of the acquisition date (in millions):

	<b>Amounts recorded as of the acquisition date</b>
Working capital (1)	\$ 391
Property, equipment, and capitalized software	319
Identifiable intangible assets:	
Customer relationships	1,800
Trademarks	890
Technology	215
Other noncurrent assets (2)	344
Long-term debt	346
Other noncurrent liabilities (3)	361
Net deferred tax liability (4)	1,035
Net assets acquired	2,217
Goodwill	2,715
Total consideration transferred	\$ 4,932

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(1) Includes cash and cash equivalents, short-term investments, client receivables, other current assets, accounts payable and other current liabilities.

(2) Includes primarily deferred contract costs and long-term investments.

(3) Includes primarily unfavorable lease obligations and deferred contract revenues.

(4) Included in Other current assets (\$31 million), Deferred tax assets (\$62 million), Other current liabilities (\$32 million) and Deferred tax liabilities (\$1.1 billion) in the Company's Consolidated Statements of Financial Position.

The acquired customer relationships are being amortized over a weighted average life of 12 years. The technology asset is being amortized over 7 years and trademarks have been determined to have indefinite useful lives.

The recorded amounts are preliminary and subject to change. The following items are still subject to change:

- Amounts for intangible assets and property, equipment and capitalized software assets, pending finalization of valuation efforts.
- Amounts for contingencies, pending the finalization of the Company's assessment of the portfolio of contingencies.
- Amounts for income tax assets, receivables and liabilities pending the filing of Hewitt pre-acquisition tax returns and the receipt of information from taxing authorities which may change certain estimates and assumptions used.



- Amounts for deferred tax assets and liabilities pending the finalization of the valuations of assets acquired, liabilities assumed and resulting goodwill.

A single estimate of fair value results from a complex series of the Company's judgments about future events and uncertainties and relies heavily on estimates and assumptions. The Company's judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact the Company's results of operations.

### *Dispositions Discontinued Operations*

Income from discontinued operations before income taxes, as presented in the Condensed Consolidated Statements of Income, of \$4 million and \$2 million, for the three months ended March 2011 and 2010, respectively, represents the gain on sale of businesses sold in prior periods.

## 6. Goodwill and Other Intangible Assets

The change in the net carrying amount of goodwill by operating segment for the three months ended March 31, 2011 is as follows (in millions):

		Risk Solutions		HR Solutions		Total
Balance as of December 31, 2010	\$	5,549	\$	3,098	\$	8,647
Goodwill related to current year acquisitions		1				1
Foreign currency revaluation		217		30		247
Balance as of March 31, 2011	\$	5,767	\$	3,128	\$	8,895

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

	March 31, 2011			December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets with indefinite lives:						
Trademarks	\$ 1,024	\$	\$ 1,024	\$ 1,024	\$	\$ 1,024
Intangible assets with finite lives:						
Trademarks	6	1	5	3		3
Customer Related and Contract Based	2,621	415	2,206	2,605	344	2,261
Marketing, Technology and Other	625	313	312	606	283	323
	\$ 4,276	\$ 729	\$ 3,547	\$ 4,238	\$ 627	\$ 3,611





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Amortization expense on finite lived intangible assets was \$91 million and \$27 million for the three months ended March 31, 2011 and 2010, respectively. The estimated future amortization for intangible assets as of March 31, 2011 is as follows (in millions):

Remainder of 2011	\$	270
2012		414
2013		383
2014		332
2015		285
Thereafter		839
	\$	2,523

### 7. Restructuring

#### *Aon Hewitt Restructuring Plan*

On October 14, 2010, Aon announced a global restructuring plan ( Aon Hewitt Plan ) in connection with the acquisition of Hewitt. The Aon Hewitt Plan is intended to streamline operations across the combined Aon Hewitt organization and includes an estimated 1,500 to 1,800 job eliminations. The Company expects these restructuring activities and related expenses to affect continuing operations into 2013. The Aon Hewitt Plan is expected to result in cumulative costs of approximately \$325 million through the end of the plan, consisting of approximately \$180 million in employee termination costs and approximately \$145 million in real estate realization costs.

From the inception of the Aon Hewitt Plan through March 31, 2011, approximately 730 jobs have been eliminated and total expenses of \$75 million have been incurred. The Company recorded \$23 million of restructuring and related charges in the three months ended March 31, 2011. All costs associated with the Aon Hewitt Plan are included in the HR Solutions segment. Charges related to the restructuring are included in Compensation and benefits and Other general expenses in the accompanying Condensed Consolidated Statements of Income.

The following summarizes 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 Hewitt Plan (in millions):

	2010	First Quarter 2011	Total to Date	Estimated Total Cost for Restructuring Plan (1)
Workforce reduction	\$ 49	\$ 18	\$ 67	\$ 180
Lease consolidation	3	5	8	94
Asset impairments				47
Other costs associated with restructuring (2)				4
Total restructuring and related expenses	\$ 52	\$ 23	\$ 75	\$ 325

(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

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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.

***Aon Benfield Restructuring Plan***

The Company announced a global restructuring plan ( Aon Benfield Plan ) in conjunction with its acquisition of Benfield in 2008. The Aon Benfield Plan is intended to integrate and streamline operations across the combined Aon Benfield organization. The Aon Benfield Plan includes an estimated 710 job eliminations. Additionally, duplicate space and assets will be abandoned. The Company originally estimated that the Aon Benfield Plan would result in cumulative costs totaling approximately \$185 million over a three-year period, of which \$104 million was recorded as part of the Benfield purchase price allocation and \$81 million of which was expected to result in future charges to earnings. During 2009, the Company reduced the Benfield purchase price allocation by \$49 million to reflect actual severance costs being lower than originally estimated. The Company currently estimates the Aon Benfield Plan will result in cumulative costs totaling approximately \$155 million, of which \$55 million was recorded as part of the purchase price allocation, \$88 million has been recorded in earnings from inception to date, and an estimated additional \$12 million will be recorded in future earnings. The Company recorded \$7 million and \$9 million of restructuring and related charges in the three months ended March 31, 2011 and March 31, 2010, respectively.

As of March 31, 2011, approximately 700 jobs have been eliminated under the Aon Benfield Plan. Total payments of \$112 million have been made under the Aon Benfield Plan, from inception to date.

All costs associated with the Aon Benfield Plan are included in the Risk Solutions segment. Charges 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 continue to affect continuing operations in 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):

	Purchase Price Allocation	2009	2010	First Quarter 2011	Total to Date	Estimated Total Cost for Restructuring Period (1)
Workforce reduction	\$ 32	\$ 38	\$ 15	\$ 7	\$ 92	\$ 98
Lease consolidation	22	14	7		43	49
Asset impairments		2	2		4	4
Other costs associated with restructuring (2)	1	1	2		4	4
Total restructuring and related expenses	\$ 55	\$ 55	\$ 26	\$ 7	\$ 143	\$ 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 plan was completed in fourth quarter 2010 and the Company does not expect to incur any further expenses. The total cumulative pretax charges for the 2007 Plan was \$748 million including costs related to workforce reduction, lease consolidation costs, asset impairments, as well as other expenses necessary to implement the restructuring.

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As of March 31, 2011, the Company's liabilities for its restructuring plans are as follows (in millions):

	Aon Hewitt Plan	Aon Benfield Plan	2007 Plan	Other	Total
Balance at January 1, 2010	\$ 45	\$ 202	\$ 16	\$ 263	
Assumed Hewitt restructuring liability (1)	43				43
Expensed	52	24	92		168
Cash payments	(8)	(38)	(178)	(8)	(232)
Foreign exchange translation and other	1	(5)	(3)	2	(5)
Balance at December 31, 2010	88	26	113	10	237
Expensed	23	7			30
Cash payments	(28)	(7)	(23)		(58)
Foreign exchange translation and other			4		4
Balance at March 31, 2011	\$ 83	\$ 26	\$ 94	\$ 10	\$ 213

(1) The Company assumed a \$43 million net real estate related restructuring liability in connection with the Hewitt acquisition.

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

## 8. Investments

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, and funds held under the terms of certain outsourcing agreements to pay certain obligations on behalf of clients. 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 and other investments are included in the following categories in the Condensed Consolidated Statements of Financial Position (in millions):

	March 31, 2011	December 31, 2010
Cash and cash equivalents	\$ 682	\$ 346
Short-term investments	589	785
Fiduciary assets	4,034	3,489
Investments	318	312
	\$ 5,623	\$ 4,932

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

	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Equity method investments	\$ 178	\$ 174
Other investments, at cost	124	123
Fixed-maturity securities	16	15
	\$ 318	\$ 312

## 9. Debt

On March 8, 2011, an indirect wholly-owned subsidiary of Aon issued CAD 375 million (\$382 million at March 31, 2011 exchange rates) of 4.76% senior unsecured debt securities, which are due in March 2018 and are guaranteed by the Company. The Company used the net proceeds from the debt issuance to repay its CAD 375 million 5.05% debt securities upon their maturity on April 12, 2011.

## 10. Stockholders' Equity

### *Common Stock*

In 2007, Aon's Board of Directors increased the Company's authorized share repurchase program to \$4.6 billion. 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 (2010 Share Repurchase Program). Repurchases under the new 2010 share repurchase program commenced in the first quarter 2011, upon conclusion of the prior program. 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 capital. Any repurchased shares will be available for employee stock plans and for other corporate purposes.

In the first quarter 2011, Aon repurchased 6.8 million shares at an average price per share of \$51.29 for a total cost of \$350 million. In the first quarter 2010, Aon repurchased 1.2 million shares at an average price per share of \$40.63 for a total cost of \$50 million. Since the inception of its share repurchase program in 2005, Aon has repurchased a total of 118.7 million shares for an aggregate cost of \$4.9 billion. As of March 31, 2011, Aon was authorized to purchase up to \$1.7 billion of additional shares under the 2010 Share Repurchase Program.

In the first quarter 2011, Aon issued 0.4 million shares of common stock in relation to the exercise of options issued to former holders of Hewitt options as part of the Hewitt acquisition. In addition, in the first quarter 2011 Aon reissued 4.5 million shares of treasury stock for employee benefit programs and 0.09 million shares in connection with employee stock purchase plans. In the first quarter 2010, Aon reissued 4.3 million shares of treasury stock for employee benefit programs and 0.09 million 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.

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Income from continuing operations, Income from discontinued operations and Net income, attributable to participating securities, were as follows (in millions):

	<b>Three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Income from continuing operations	\$ 4	\$ 4
Income from discontinued operations		
Net income	\$ 4	\$ 4

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

	<b>Three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Shares for basic earnings per share (1)	339.4	275.9
Common stock equivalents	6.0	7.5
Shares for diluted earnings per share	345.4	283.4

(1) Includes 5.7 million and 6.5 million of participating securities for the three months ended March 31, 2011 and 2010, 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 1 million and 5 million for the three months ended March 31, 2011 and 2010, respectively.

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

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

	<b>Three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Net change in derivative losses	(4)	(24)
Net foreign currency translation adjustments	195	(141)
Net post-retirement benefit obligations	12	13
Total other comprehensive income (loss)	203	(152)
Less: other comprehensive income (loss) attributable to noncontrolling interests		
Other Comprehensive income (loss) attributable to Aon stockholders	\$ 203	\$ (152)



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

	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Net derivative losses	\$ (28)	\$ (24)
Net foreign currency translation adjustments	363	168
Net post-retirement benefit obligations	(2,049)	(2,061)
Accumulated other comprehensive loss net of tax	\$ (1,714)	\$ (1,917)

## 11. Employee Benefits

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):

	<b>Three months ended March 31,</b>					
	<b>U.S.</b>		<b>International</b>			
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Service cost	\$	\$	\$	5	\$	3
Interest cost	30	31	66	62		
Expected return on plan assets	(30)	(30)	(71)	(60)		
Amortization of net loss	8	6	13	14		
Net periodic benefit cost	\$ 8	\$ 7	\$ 13	\$ 19		

Based on current assumptions, in 2011, Aon plans to contribute \$127 million and \$270 million to its U.S. and material international defined benefit pension plans, respectively. As of March 31, 2011, contributions of \$7 million have been made to the Company's U.S. pension plans and \$85 million have been made to its material international pension plans.

## 12. Stock Compensation Plans

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

	<b>Three months ended March 31,</b>			
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Restricted stock units ( RSUs )	\$ 45	\$ 41		
Performance plans	25	19		
Stock options	3	5		
Employee stock purchase plans	1	1		
Total stock-based compensation expense	\$ 74	\$ 66		



**Stock Awards**

In the first quarter 2011, the Company granted approximately 1.2 million shares in connection with the 2008 Leadership Performance Plan cycle, 0.3 million shares related to a 2006 performance plan, and restricted shares of approximately 2.4 million in connection with the Company's incentive compensation plans. During the first quarter of 2010, the Company granted approximately 1.6 million shares in connection with the completion of the 2007 Leadership Performance Plan cycle and 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,			
	2011		2010	
	Shares	Fair Value (1)	Shares	Fair Value (1)
Non-vested at beginning of period	10,674	\$ 38	12,850	\$ 36
Granted	3,849	49	3,495	39
Vested	(3,536)	41	(4,290)	37
Forfeited	(94)	39	(125)	37
Non-vested at end of period	10,893	41	11,930	36

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

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

	As of March 31,	
	2011	2010
Potential RSUs to be issued based on current performance levels	6,505	7,408
Unamortized expense, based on current performance levels	\$ 160	\$ 187

**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,	
	2011	2010
Weighted average volatility	26.1%	28.5%
Expected dividend yield	1.3%	1.6%
Risk-free rate	2.2%	3.0%

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Weighted average expected life, in years		5.5		6.1
Weighted average estimated fair value per share	\$	10.92	\$	10.36

In connection with its incentive compensation plans, in the first quarter of 2011 and 2010, the Company granted 80,000 stock options at \$53 per share and 141,000 stock options at \$38 per share, respectively.

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

	Three months ended March 31,			
	2011		2010	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	13,919	\$ 32	15,937	\$ 33
Granted	80	53	141	38
Exercised	(2,344)	33	(1,274)	29
Forfeited and expired	(127)	37	(177)	29
Outstanding at end of period	11,528	32	14,627	33
Exercisable at end of period	9,461	30	9,428	32

The weighted average remaining contractual life, in years, of outstanding options was 3.8 years and 4.0 years at March 31, 2011 and 2010, 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 \$52.96 as of March 31, 2011, which would have been received by the option holders had those option holders exercised their options as of that date. At March 31, 2011, the aggregate intrinsic value of options outstanding was \$242 million, of which \$218 million was exercisable.

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

	Three months ended March 31,	
	2011	2010
Aggregate intrinsic value of stock options exercised	\$ 41	\$ 15
Cash received from the exercise of stock options	82	32
Tax benefit realized from the exercise of stock options	7	1

Unamortized deferred compensation expense, which includes both options and awards, amounted to \$327 million as of March 31, 2011, with a remaining weighted-average amortization period of approximately 2.1 years.

### 13. Derivatives and Hedging

Aon is exposed to market risk primarily from changes in foreign currency exchange rates and interest rates. To manage the risk related to these exposures, Aon enters into various derivative transactions that reduce Aon's market risks by creating offsetting market exposures. Aon does not enter into derivative transactions for trading purposes.

*Foreign Exchange Risk Management*

Aon and its subsidiaries are exposed to foreign exchange risk when they receive revenues, pay expenses, or enter into intercompany loans denominated in a currency that differs from their functional currency. Aon uses foreign exchange derivatives, typically forward contracts, options and cross currency swaps, to reduce its overall exposure to the effects of currency fluctuations on cash

flows. Aon has hedged these exposures up to five years in the future. Aon also uses foreign exchange derivatives, typically forward contracts and options, to hedge its net investments in foreign operations for up to two years in the future and to reduce the impact of currency fluctuations on the translation of the financial statements for foreign operations and to manage the Company's global liquidity profile for one year in the future.

### ***Interest Rate Risk Management***

Aon holds variable-rate short-term brokerage and other operating deposits. Aon uses interest rate derivatives, typically swaps, to reduce its exposure to the effects of interest rate fluctuations on the forecasted interest receipts from these deposits for up to two years in the future.

Certain derivatives also give rise to credit risks from the possible non-performance by counterparties. The credit risk is generally limited to the fair value of those contracts that are favorable to Aon. Aon has limited its credit risk by using International Swaps and Derivatives Association (ISDA) master agreements, collateral and credit support arrangements, entering into non-exchange-traded derivatives with highly-rated major financial institutions and by using exchange-traded instruments. Aon monitors the credit-worthiness of, and exposure to, its counterparties. As of March 31, 2011, all net derivative positions were free of credit risk contingent features. In addition, Aon did not receive or pledge collateral for any derivatives as of March 31, 2011.

The notional and fair values of derivative instruments are as follows (in millions):

	Notional Amount		Derivative Assets (1) Fair Value		Derivative Liabilities (2) Fair Value	
	Mar 31, 2011	Dec 31, 2010	Mar 31, 2011	Dec 31, 2010	Mar 31, 2011	Dec 31, 2010
<b>Derivatives accounted for as hedges:</b>						
Interest rate contracts	\$ 1,351	\$ 1,326	\$ 10	\$ 15	\$ 2	\$
Foreign exchange contracts	1,545	1,522	118	157	135	157
	2,896	2,848	128	172	137	157
<b>Derivatives not accounted for as hedges:</b>						
Foreign exchange contracts	234	238	1	2	2	1
Total	\$ 3,130	\$ 3,086	\$ 129	\$ 174	\$ 139	\$ 158

(1) Included within Other assets

(2) Included within Other liabilities

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The amounts of derivative gains (losses) recognized in the Condensed Consolidated Financial Statements for the three months ended March 31, 2011 and 2010 are as follows (in millions):

Gain (Loss) recognized in Accumulated Other Comprehensive Loss:	Three months ended	
	March 31	
	2011	2010
<b>Cash Flow Hedges:</b>		
Interest rate contracts	\$ (2)	\$ 2
Foreign exchange contracts		(75)
Total	(2)	(73)
<b>Foreign Net Investment Hedges:</b>		
Foreign exchange contracts	\$ (13)	\$ 73

**Gain (Loss) reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion):**

<b>Cash Flow Hedges:</b>		
Interest rate contracts (1)	\$	\$ 6
Foreign exchange contracts (2)		(39)
Total		(33)
<b>Foreign Net Investment Hedges:</b>		
Foreign exchange contracts	\$	\$

(1) Included within Fiduciary investment income and Interest expense

(2) Included within Other general expenses and Interest expense

Three months ended March 31	Amount of Gain (Loss) Recognized in Income on Derivative (1)		Amount of Gain (Loss) Recognized in Income on Related Hedged Item (2)	
	2011	2010	2011	2010
<b>Fair value hedges:</b>				
Foreign exchange contracts	\$ (7)	\$ 7	\$ 8	\$ (6)

(1) Relates to fixed rate debt

(2) Included in Interest expense

It is estimated that approximately \$18 million of pretax losses currently included within Accumulated other comprehensive loss will be reclassified into earnings in the next twelve months.

The amount of gain (loss) recognized in income on the ineffective portion of derivatives for the three months ended March 31, 2011 and 2010 was negligible.



In both first quarters of 2011 and 2010, Aon recorded a loss of \$1 million in Other general expenses for foreign exchange derivatives not designated or qualifying as hedges.

#### 14. Variable Interest Entities

##### *Unconsolidated Variable Interest Entities*

Aon has an ownership 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 VIE. 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, and therefore this entity is not consolidated. The investment in Juniperus is accounted for using the equity method of accounting.

The Company's potential loss at March 31, 2011 is limited to its investment in Juniperus of \$72 million, which is recorded in Investments in the Condensed Consolidated Statements of Financial Position.

#### 15. Fair Value and Financial Instruments

Accounting standards establish a three tier fair value hierarchy which prioritizes the inputs used in measuring fair values as follows:

- Level 1 – observable inputs such as quoted prices for identical assets in active markets;
- Level 2 – inputs other than quoted prices for identical assets in active markets, that are observable either directly or indirectly; and
- Level 3 – unobservable inputs in which there is little or no market data which requires the use of valuation techniques and the development of assumptions.

The following methods and assumptions are used to estimate the fair values of the Company's financial instruments:

*Money market funds and highly liquid debt securities* are carried at cost and amortized cost, respectively, as an approximation of fair value. Based on market convention, the Company considers cost a practical and expedient measure of fair value.

*Fixed maturity investments* are carried at fair value, which is based on quoted market prices or on estimated values if they are not actively traded. In some cases where a market price is not available, the Company will make use of acceptable expedients (such as matrix pricing) to estimate fair value.

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*Derivatives* are carried at fair value, based upon industry standard valuation techniques that use, where possible, current market-based or independently sourced pricing inputs, such as interest rates, currency exchange rates, or implied volatilities.

*Debt* is carried at outstanding principal balance, less any unamortized discount or premium. Fair value is based on quoted market prices or estimates using discounted cash flow analyses based on current borrowing rates for similar types of borrowing arrangements.

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The following tables present the categorization of the Company's assets and liabilities that are measured at fair value on a recurring basis at March 31, 2011 and December 31, 2010 (in millions):

	Balance at March 31, 2011	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Money market funds and highly liquid debt securities (1)	\$ 2,721	\$ 2,318	\$ 403	\$
Other investments				
Fixed maturity securities				
Corporate bonds	12			12
Government bonds	4		4	
Derivatives				
Interest rate contracts	10		10	
Foreign exchange contracts	119		119	
<b>Liabilities:</b>				
Derivatives				
Interest rate contracts	2		2	
Foreign exchange contracts	137		137	

(1) Includes \$2,318 million of money market funds and \$403 million of highly liquid debt securities that are classified as Fiduciary assets, Short-term investments or Cash and cash equivalents in the Condensed Consolidated Statements of Financial Position, depending on their nature and initial maturity. See Note 8 Investments for additional information regarding the Company's investments.

	Balance at December 31, 2010	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Money market funds and highly liquid debt securities (1)	\$ 2,618	\$ 2,591	\$ 27	\$
Other investments				
Fixed maturity securities				
Corporate bonds	12			12
Government bonds	3		3	
Derivatives				
Interest rate contracts	15		15	
Foreign exchange contracts	159		159	
<b>Liabilities:</b>				
Derivatives				
Foreign exchange contracts	158		158	

(1) Includes \$2,591 million of money market funds and \$27 million of highly liquid debt securities that are classified as Fiduciary assets, Short-term investments or Cash and cash equivalents in the Condensed Consolidated Statements of Financial Position, depending on their nature and initial maturity. See Note 8 Investments for additional information regarding the Company's investments.



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The following table presents the changes in the Level 3 fair-value category (in millions):

	Three months ended March 31,	
	2011	2010
	Other Investments	Other Investments
Balance at beginning of period	\$ 12	\$ 100
Total gains (losses):		
Included in earnings		
Included in other comprehensive income		(1)
Purchases		
Sales		(1)
Transfers		(87)
Balance at end of period	\$ 12	\$ 11

There were no realized or unrealized gains or losses related to assets and liabilities measured at fair value using level three inputs included in income for the three months ended March 31, 2011.

The following table discloses the Company's financial instruments where the carrying amounts and fair values differ (in millions):

	March 31, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	\$ 4,409	\$ 4,592	\$ 4,014	\$ 4,172

### 16. Commitments and Contingencies

#### *Legal*

Aon and its subsidiaries are subject to numerous claims, tax assessments, lawsuits and proceedings that arise in the ordinary course of business, which frequently include errors and omissions ( E&O ) claims. The damages claimed in these matters are or may be substantial, including, in many instances, claims for punitive, treble or extraordinary damages. Aon has historically purchased E&O insurance and other insurance to provide protection against certain losses that arise in such matters. Aon has exhausted or materially depleted its coverage under some of the policies that protect the Company and, consequently, is self-insured or materially self-insured for some historical claims. Accruals for these exposures, and related insurance receivables, when applicable, have been provided to the extent that losses are deemed probable and are reasonably estimable. These accruals and receivables are adjusted from time to time as developments warrant. Amounts related to settlement provisions are recorded in Other general expenses in the Condensed Consolidated Statements of Income.

At the time of the 2004-05 investigation of the insurance industry by the Attorney General of New York and other regulators, purported classes of clients filed civil litigation against Aon and other companies under a variety of legal theories, including state tort, contract, fiduciary duty, antitrust and statutory theories and federal antitrust and Racketeer Influenced and Corrupt Organizations Act ( RICO ) theories. The federal actions were consolidated in the U.S. District Court for the District of New Jersey, and a state court collective action was filed in California. In the New Jersey actions, the Court dismissed plaintiffs' federal antitrust and RICO claims in separate orders in August and October 2007,

respectively. In August 2010, the U.S. Court of Appeals for the Third Circuit affirmed

the dismissals of most, but not all, of the claims. In March 2011, Aon entered into a Memorandum of Understanding documenting a settlement of the civil cases consolidated in the U.S. District Court for the District of New Jersey. Under that agreement, Aon will pay \$550,000 in exchange for dismissal of the class claims. Several non-class claims brought by individual plaintiffs who opted out of the class action proceeding will remain pending, but the Company does not believe these present material exposure to the Company individually or in the aggregate. The outcome of these lawsuits, and any losses or other payments that may result, cannot be predicted at this time.

Following inquiries from regulators, the Company commenced an internal review of its compliance with certain U.S. and non-U.S. anti-corruption laws, including the U.S. Foreign Corrupt Practices Act ( FCPA ). In January 2009, Aon Limited, Aon's principal U.K. brokerage subsidiary, entered into a settlement agreement with the Financial Services Authority ( FSA ) to pay a £5.25 million fine arising from its failure to exercise reasonable care to establish and maintain effective systems and controls to counter the risks of bribery arising from the use of overseas firms and individuals who helped it win business. The U.S. Securities and Exchange Commission ( SEC ) and the U.S. Department of Justice ( DOJ ) continue to investigate these matters. Aon is fully cooperating with these investigations and has agreed with the U.S. agencies to toll any applicable statute of limitations pending completion of the investigations. Based on current information, the Company is unable to predict at this time when the SEC and DOJ matters will be concluded, or what regulatory or other outcomes may result.

A retail insurance brokerage subsidiary of Aon provides insurance brokerage services to Northrop Grumman Corporation ( Northrop ). This Aon subsidiary placed Northrop's excess property insurance program for the period covering 2005. Northrop suffered a substantial loss in August 2005 when Hurricane Katrina damaged Northrop's facilities in the Gulf states. Northrop's excess insurance carrier, Factory Mutual Insurance Company ( Factory Mutual ), denied coverage for the claim pursuant to a flood exclusion. Northrop sued Factory Mutual in the United States District Court for the Central District of California and later sought to add this Aon subsidiary as a defendant, asserting that if Northrop's policy with Factory Mutual does not cover the losses suffered by Northrop stemming from Hurricane Katrina, then this Aon subsidiary will be responsible for Northrop's losses. On August 26, 2010, the court granted in large part Factory Mutual's motion for partial summary judgment regarding the applicability of the flood exclusion and denied Northrop's motion to add this Aon subsidiary as a defendant in the federal lawsuit. On January 27, 2011, Northrop filed suit against this Aon subsidiary in state court in Los Angeles, California, pleading claims for negligence, breach of contract and negligent misrepresentation. Aon believes that it has meritorious defenses and intends to vigorously defend itself against these claims. The outcome of this lawsuit, and the amount of any losses or other payments that may result, cannot be predicted at this time.

Another retail insurance brokerage subsidiary of Aon has been sued in Tennessee state court by a client, Opry Mills Mall Limited Partnership ( Opry Mills ), that sustained flood damage to its property in May 2010. The lawsuit seeks \$200 million from numerous insurers with whom this Aon subsidiary placed the client's property insurance coverage. The insurers contend that only \$50 million in coverage is available for the loss because the flood event occurred on property in a high hazard flood zone. Opry Mills is seeking full coverage from the insurers for the loss and has sued this Aon subsidiary in the alternative for the same \$150 million difference on various theories of professional liability if the court determines there is not full coverage. Aon believes it has meritorious defenses and intends to vigorously defend itself against these claims. The outcome of this lawsuit, and any losses or other payments that may result, cannot be predicted at this time.

From time to time, Aon's clients may bring claims and take legal action pertaining to the performance of fiduciary responsibilities. Whether client claims and legal action related to the Company's performance of fiduciary responsibilities are founded or unfounded, if such claims and legal actions



are resolved in a manner unfavorable to the Company, they may adversely affect Aon's financial results and materially impair the market perception of the Company and that of its products and services.

Although the ultimate outcome of all matters referred to above cannot be ascertained, and liabilities in indeterminate amounts may be imposed on Aon or its subsidiaries, on the basis of present information, amounts already provided, availability of insurance coverages and legal advice received, it is the opinion of management that the disposition or ultimate determination of such claims will not have a material adverse effect on the consolidated financial position of Aon. However, it is possible that future results of operations or cash flows for any particular quarterly or annual period could be materially affected by an unfavorable resolution of these matters.

### *Guarantees and Indemnifications*

Aon provides a variety of guarantees and indemnifications to its customers and others. The maximum potential amount of future payments represents the notional amounts that could become payable under the guarantees and indemnifications if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or other methods. These amounts may bear no relationship to the expected future payments, if any, for these guarantees and indemnifications. Any anticipated amounts payable which are deemed to be probable and estimable are accrued in Aon's consolidated financial statements.

Aon has total letters of credit ( LOCs ) outstanding for approximately \$74 million at March 31, 2011. These letters of credit cover the beneficiaries related to Aon's Canadian pension plan scheme and secure deductible retentions on Aon's own workers compensation program, an Aon Hewitt sublease agreement for office space, and one of the U.S. pension plans. In addition, Aon has issued a contingent LOC for up to \$85 million in support of an acquisition, which closed on April 26, 2011 (See Note 18 Subsequent Event Glenrand Acquisition ). Aon also has issued letters of credit to cover contingent payments for taxes and other business obligations to third parties, and other guarantees for miscellaneous purposes at its international subsidiaries. Amounts are accrued in the Condensed Consolidated Financial Statements to the extent the guarantees are probable and estimable.

Aon has certain contractual contingent guarantees for premium payments owed by clients to certain insurance companies. Costs associated with these guarantees, to the extent estimable and probable, are provided in Aon's allowance for doubtful accounts. The maximum exposure with respect to such contractual contingent guarantees was approximately \$5 million at March 31, 2011.

Aon has provided commitments to fund certain limited partnerships in which it has an interest in the event that the general partners request funding. Some of these commitments have specific expiration dates and the maximum potential funding under these commitments was \$81 million at March 31, 2011. In the first quarter 2011 the Company funded \$3 million of these commitments and did not fund any commitments in the first quarter 2010.

Aon expects that, as prudent business interests dictate, additional guarantees and indemnifications may be issued from time to time.

## **17. Segment Information**

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Aon classifies its businesses into two operating segments: Risk Solutions and HR Solutions. Unallocated income and expenses, when combined with the operating segments and after the elimination of intersegment revenues and expenses, total to the amounts in the Condensed Consolidated Financial Statements.

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Operating segments have been determined using a management approach, which is consistent with the basis and manner in which Aon's chief operating decision-maker uses financial information for the purposes of allocating resources and evaluating performance. Aon evaluates performance based on stand-alone operating segment operating income and generally accounts for intersegment revenue as if the revenue were from third parties and at what management believes are current market prices.

Risk Solutions acts as an advisor and insurance and reinsurance broker, helping clients manage their risks, via consultation, as well as negotiation and placement of insurance risk with insurance carriers through Aon's global distribution network.

HR Solutions partners with organizations to solve their most complex benefits, talent and related financial challenges, and improve business performance by designing, implementing, communicating and administering a wide range of human capital, retirement, investment management, health care, compensation and talent management strategies.

Aon's total revenue is as follows (in millions):

	<b>Three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Risk Solutions	\$ 1,649	\$ 1,587
HR Solutions	1,117	322
Intersegment elimination	(7)	(5)
Total revenue	\$ 2,759	\$ 1,904

Commissions, fees and other revenues by product are as follows (in millions):

	<b>Three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Retail brokerage	\$ 1,251	\$ 1,186
Reinsurance brokerage	387	388
Total Risk Solutions Segment	1,638	1,574
Consulting services	569	275
Outsourcing	556	47
Intrasegment	(8)	
Total HR Solutions Segment	1,117	322
Intersegment	(7)	(5)
Total commissions, fees and other revenue	\$ 2,748	\$ 1,891

Fiduciary investment income by segment is as follows (in millions):

	<b>Three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Risk Solutions	\$ 11	\$ 13
HR Solutions		
Total fiduciary investment income	\$ 11	\$ 13

A reconciliation of segment operating income before tax to income from continuing operations before income taxes is as follows (in millions):

	<b>Three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Risk Solutions	\$ 306	\$ 257
HR Solutions	123	49
Unallocated expenses	(33)	(33)
Operating income from continuing operations before income taxes	396	273
Interest income	6	1
Interest expense	(63)	(34)
Other income	17	7
Income from continuing operations before income taxes	\$ 356	\$ 247

Unallocated expenses include administrative or other costs not attributable to the operating segments, such as corporate governance costs and the costs associated with corporate investments. Interest income represents income earned primarily on operating cash balances and certain income producing securities. Interest expense represents the cost of worldwide debt obligations.

Other income primarily consists of equity earnings, realized gains or losses on the sale of investments, and gains or losses on the disposal of businesses.

#### **18. Subsequent Event Glenrand Acquisition**

On April 26, 2011, Aon completed its acquisition of all the outstanding equity of Glenrand MIB Limited ( Glenrand ). Glenrand is a provider of insurance brokerage and risk advisory services in South Africa and Sub-Saharan African nations. The acquisition of Glenrand provides Aon with an increased number of corporate and commercial clients, including a number of clients listed on the Johannesburg Stock Exchange and strengthens Aon's network in South Africa. In accordance with the terms of the share purchase agreement dated December 9, 2010, the consideration consists of a payment of \$78 million in cash plus an additional amount of \$11 million which is to be held in an escrow account pending resolution of a legal dispute dating back to 2006.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**EXECUTIVE SUMMARY OF FIRST QUARTER 2011 FINANCIAL RESULTS**

The challenging global economic environment and competitive pricing pressure continues to provide headwinds for our Risk Solutions and HR Solutions businesses. The current global economy continues to place pressure on our business in four primary ways:

- Pricing pressure in both the risk and benefits businesses resulting from the competitive environment and excess capacity due to an imbalance of supply and demand,
- decreased drivers of economic growth, such as payroll, number of active employees, corporate revenues and asset values,
- client cost-driven behavior, where clients are actively looking to reduce spending in order to meet budget reductions and/or decrease discretionary project spend, and
- sector specific weakness, including financial services, construction, private equity and mergers and acquisitions, all of which have been particularly impacted by the current economic downturn

We have committed to our stockholders that we will focus on three key metrics: grow organically, expand margins, and increase earnings per share. Our performance against these three metrics for the first quarter of 2011 is as follows:

- Organic revenue growth, a non-GAAP measure as defined under the caption *Review of Consolidated Results - General* below, was 2%, an improvement compared to the prior year's organic revenue decline, as global economic conditions begin to stabilize following the economic slowdown that has impacted the global markets since 2008.
- Adjusted operating margin, a non-GAAP measure as defined under the caption *Review of Consolidated Results - General* below, was 16.0% for Aon overall, 19.0% for the Risk Solutions segment, and 14.4% for the HR Solutions segment. Adjusted operating margins declined across both operating segments and for the Company overall. The decrease is primarily due to higher intangible asset amortization expense and an unfavorable impact from foreign exchange rates.
- Adjusted diluted earnings per share from continuing operations attributable to Aon's stockholders, a non-GAAP measure as defined under the caption *Review of Consolidated Results - General* below, was \$0.80 per share in first quarter 2011, compared to \$0.83 per share in first quarter 2010. This decrease is primarily due to additional intangible asset amortization expense and a higher effective tax rate as a result of the acquisition of Hewitt.

Additionally, the following is a summary of our first quarter 2011 financial results:

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- Revenue increased \$855 million, or 45%, to \$2.8 billion due primarily to an increase from the Hewitt acquisition and other acquisitions, net of dispositions, 2% growth in organic revenue, and a 1% favorable impact from foreign currency translation. Fiduciary investment income decreased \$2 million due to the continued decline in global interest rates. Organic revenue growth was 2% in the Risk Solutions segment and flat in the HR Solutions segment.
  
- Operating expenses increased \$732 million compared to the prior year to \$2.4 billion, primarily as a result of the inclusion of operating and integration expenses from the Hewitt acquisition including a \$61 million increase in intangible asset amortization expense, and unfavorable foreign exchange rates.

These increases were partially offset by lower restructuring expense of \$46 million and savings from restructuring programs as well as from other operational expense improvements.

- Operating margin from continuing operations increased to 14.4% in the first quarter 2011 from 14.3% in the first quarter 2010. The increase in operating margin reflects lower costs and increased benefits related to our restructuring initiatives, partially offset by Hewitt-related costs, higher amortization of intangible asset expense associated with the Hewitt acquisition, and lease termination costs.
- Net income from continuing operations attributable to Aon stockholders increased \$66 million, or 37%, from the first quarter 2010 to \$244 million.

## REVIEW OF CONSOLIDATED RESULTS

### General

In our discussion of operating results, we sometimes refer to supplemental information derived from consolidated financial information specifically related to organic revenue growth, adjusted pretax margin, adjusted diluted earnings per share, and the impact of foreign exchange rate fluctuations on operating results.

### *Organic Revenue*

We use supplemental information related to organic revenue to help us and our investors evaluate business growth from existing operations. Organic revenue excludes the impact of foreign exchange rate changes, acquisitions, divestitures, transfers between business units, fiduciary investment income, reimbursable expenses, and unusual items. Supplemental information related to organic growth represents a measure not in accordance with U.S. GAAP, and should be viewed in addition to, not instead of, our Condensed Consolidated Statements of Income. Industry peers provide similar supplemental information about their revenue performance, although they may not make identical adjustments. Reconciliation of this non-GAAP measure, organic revenue growth percentages, to the reported Commissions, fees and other revenue growth percentages, has been provided in the Review by Segment caption, below.

### *Adjusted Operating Margins*

We use adjusted operating margin as a measure of core operating performance of our Risk Solutions and HR Solutions businesses. Adjusted operating margin excludes the impact of noteworthy items, including restructuring charges and Hewitt-related costs. This supplemental information related to adjusted operating margin represents a measure not in accordance with U.S. GAAP, and should be viewed in addition to, not instead of, our Condensed Consolidated Statements of Income. A reconciliation of this non-GAAP measure to the reported operating margin is as follows (in millions):





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	Three Months Ended March 31, 2011			Three Months Ended March 31, 2010		
	Total Aon (1)	Risk Solutions	HR Solutions	Total Aon	Risk Solutions	HR Solutions
Revenue - U.S. GAAP	\$ 2,759	\$ 1,649	\$ 1,117	\$ 1,904	\$ 1,587	\$ 322
Operating income - U.S. GAAP	396	306	123	273	257	49
Restructuring charges	30	7	23	76	69	7
Hewitt related costs	15		15			
Operating income - as adjusted	\$ 441	\$ 313	\$ 161	\$ 349	\$ 326	\$ 56
Operating margins - U.S. GAAP	14.4%	18.6%	11.0%	14.3%	16.2%	15.2%
Operating margins - as adjusted	16.0%	19.0%	14.4%	18.3%	20.5%	17.4%

(1) Includes unallocated expenses and the elimination of intersegment revenue.

*Adjusted Diluted Earnings per Share from Continuing Operations*

We also use adjusted diluted earnings per share from continuing operations as a measure of Aon's core operating performance. Adjusted diluted earnings per share excludes the impact of restructuring charges and Hewitt-related costs, along with related income taxes and represents a measure not in accordance with U.S. GAAP and should be viewed in addition to, not instead of, our Condensed Consolidated Statements of Income. Reconciliations of this non-GAAP measure to the reported diluted earnings per share are as follows (in millions except per share data):

	Three Months Ended March 31, 2011			Three Months Ended March 31, 2010		
	U.S. GAAP	Adjustments	As Adjusted	U.S. GAAP	Adjustments	As Adjusted
Operating income	\$ 396	\$ 45	\$ 441	\$ 273	\$ 76	\$ 349
Interest income	6		6	1		1
Interest expense	(63)		(63)	(34)		(34)
Other income	17		17	7		7
Income from continuing operations before income taxes	356	45	401	247	76	323
Income taxes	103	13	116	61	19	80
Income from continuing operations	253	32	285	186	57	243
Less: Net income attributable to noncontrolling interests	9		9	8		8
Income from continuing operations attributable to Aon stockholders	\$ 244	\$ 32	\$ 276	\$ 178	\$ 57	\$ 235
Diluted earnings per share from continuing operations attributable to Aon stockholders	\$ 0.71	\$ 0.09	\$ 0.80	\$ 0.63	\$ 0.20	\$ 0.83
Weighted average common shares outstanding - diluted	345.4	345.4	345.4	283.4	283.4	283.4

*Impact of Foreign Exchange Rate Fluctuations*

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Because we conduct business in more than 120 countries, foreign exchange rate fluctuations have a significant impact on our business. In comparison to the U.S. dollar, foreign exchange rate movements may be significant and may distort true period-to-period comparisons of changes in revenue or pretax income. Therefore, to give financial statement users more meaningful information about our operations, we have provided a discussion of the impact of foreign currency exchange rates on our financial results. The methodology used to calculate this impact isolates the impact of the change in currencies between periods by translating last year's revenue, expenses and net income at this year's foreign exchange rates. Currency fluctuations in the first quarter 2011 had an unfavorable impact of \$0.02 on adjusted net income from continuing operations per diluted share when the Company translates prior year quarter results at current quarter foreign exchange rates.

**Summary of Results**

The consolidated results of continuing operations follow (in millions):

	<b>Three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Revenue:</b>		
Commissions, fees and other	\$ 2,748	\$ 1,891
Fiduciary investment income	11	13
Total revenue	2,759	1,904
<b>Expenses:</b>		
Compensation and benefits	1,597	1,163
Other general expenses	766	468
Total operating expenses	2,363	1,631
<b>Operating income</b>	<b>396</b>	<b>273</b>
Interest income	6	1
Interest expense	(63)	(34)
Other income	17	7
<b>Income from continuing operations before income taxes</b>	<b>356</b>	<b>247</b>
Income taxes	103	61
<b>Income from continuing operations</b>	<b>253</b>	<b>186</b>
<b>Income from discontinued operations, after-tax</b>	<b>2</b>	
<b>Net income</b>	<b>255</b>	<b>186</b>
Less: Net income attributable to noncontrolling interests	9	8
<b>Net income attributable to Aon stockholders</b>	<b>\$ 246</b>	<b>\$ 178</b>

**Consolidated Results for First Quarter 2011 Compared to First Quarter 2010****Revenue**

Revenue increased by \$855 million, or 45%, in first quarter 2011 compared to first quarter 2010. This increase consists of a \$795 million increase in the HR Solutions segment and a \$62 million increase in the Risk Solutions segment. The increase in the HR Solutions segment was primarily driven by the Hewitt acquisition, and a 1% positive impact from foreign exchange rates. The 4% increase in the Risk Solutions segment was primarily driven by a 2% increase in organic revenue, a 1% increase from acquisitions, net of dispositions, and a 1% favorable impact from foreign exchange rates. The \$2 million decline in Fiduciary investment income was due to a decline in global interest rates.

**Compensation and Benefits**

Compensation and benefits increased \$434 million, or 37%, from first quarter 2010. This increase was primarily driven by the Hewitt acquisition, partially offset by the realization of benefits from restructuring initiatives.

*Other General Expenses*

Other general expenses increased by \$298 million, or 64%, in first quarter 2011 compared to first quarter 2010. The overall increase was due largely to the impact of the Hewitt acquisition, reflecting the inclusion of operating

expenses and intangible asset amortization expense. Excluding the impact from the Hewitt acquisition, the increase was primarily due to lease termination costs and the unfavorable impact of foreign exchange rates.

***Interest Income***

Interest income represents income earned on operating cash balances and other income-producing investments. It does not include interest earned on funds held on behalf of clients. Interest income increased \$5 million from 2010 due to higher cash balances.

***Interest Expense***

Interest expense, which represents the cost of our worldwide debt obligations, increased \$29 million, or 85%, from 2010 due mainly to an increase in the level of debt outstanding related to the Hewitt acquisition.

***Other Income***

Other income increased \$10 million from 2010. This was driven primarily by gains from the sale of certain investments and distributions from certain private equity securities.

***Income from Continuing Operations before Income Taxes***

Income from continuing operations before income taxes was \$356 million, a 44% increase from \$247 million in 2010. The increase in income was driven by the inclusion of Hewitt's operating results, lower costs and increased benefits from restructuring initiatives, partially offset by increased interest expense and unfavorable foreign exchange rates.

***Income Taxes***

The effective tax rate on income from continuing operations was 29.0% and 24.9% for the first quarter 2011 and 2010, respectively. The 2011 rate reflects changes in the geographical mix of income reflecting the impact of the Hewitt acquisition. The 2010 tax rate was favorably impacted by deferred tax adjustments. The underlying tax rate for continuing operations is expected to be approximately 30% for full year 2011, reflecting changes in the geographical mix of income following the Hewitt acquisition.

***Income from Continuing Operations attributable to Aon stockholders***

Income from continuing operations attributable to Aon stockholders increased to \$244 million or \$0.71 diluted net income per share in 2011 from \$178 million or \$0.63 diluted net income per share in 2010. Currency fluctuations negatively impacted income from continuing operations in first quarter 2011 by \$0.02 per diluted share, when the first quarter 2010 Condensed Consolidated Statement of Income is translated using 2011 foreign exchange rates.

***Discontinued Operations***

The after-tax gain from discontinued operations was \$2 million (no diluted per share impact) as compared to no income or loss in first quarter 2010.

**Restructuring Initiatives**

***Aon Hewitt Restructuring Plan***

We announced a global restructuring plan (the Aon Hewitt Plan ) in connection with the Hewitt acquisition. The Aon Hewitt Plan, which will continue into 2013, is intended to streamline operations across the combined Aon Hewitt organization. The restructuring plan is expected to result in cumulative costs of approximately \$325 million through the end of the plan, consisting of approximately \$180 million in employee termination costs and approximately \$145 million in real estate rationalization costs. An

estimated 1,500 to 1,800 positions globally, predominately non-client facing, are expected to be eliminated as part of the plan.

From the inception of the Aon Hewitt Plan through March 31, 2011, approximately 730 jobs have been eliminated and total expenses of \$75 million have been incurred. We recorded \$23 million of restructuring and related charges in the three months ended March 31, 2011. All costs associated with the Aon Hewitt Plan are included in the HR Solutions segment. Charges related to the restructuring are included in Compensation and benefits and Other general expenses in the accompanying Condensed Consolidated Statements of Income.

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 Hewitt Plan (in millions):

	2010		First Quarter 2011		Total to Date		Estimated Total Cost for Restructuring Plan (1)
Workforce reduction	\$	49	\$	18	\$	67	\$ 180
Lease consolidation		3		5		8	94
Asset impairments							47
Other costs associated with restructuring (2)							4
Total restructuring and related expenses	\$	52	\$	23	\$	75	\$ 325

(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 restructuring plan, before any potential reinvestment of savings, is expected to deliver approximately \$280 million of annual savings in 2013. We estimate that we realized approximately \$24 million in restructuring cost savings in the first quarter 2011. With other integration savings, we expect to achieve approximately \$355 million in annual cost savings across Aon Hewitt in 2013, which includes the approximately \$280 million of annual savings related to the restructuring plan, and additional savings in areas such as information technology, procurement and public company costs. All of the components of the restructuring and integration plan are not finalized and actual total savings, costs and timing may vary from those estimated due to changes in the scope or assumptions underlying the plan.

#### ***Aon Benfield Restructuring Plan***

We announced a global restructuring plan ( Aon Benfield Plan ) in conjunction with our 2008 merger with Benfield. The restructuring plan is intended to integrate and streamline operations across the combined Aon Benfield organization. The Aon Benfield Plan includes an estimated 710 job eliminations. Additionally, duplicate space and assets will be abandoned. We originally estimated that this plan would result in cumulative costs totaling approximately \$185 million over a three-year period, of which \$104 million was recorded as part of the Benfield



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purchase price allocation and \$81 million of which was expected to result in future charges to earnings. During 2009, we reduced the Benfield purchase price allocation by \$49 million to reflect actual severance costs being lower than originally estimated. We currently estimate the Aon Benfield Plan will result in cumulative costs totaling approximately \$155 million, of which \$55 million was recorded as part of the purchase price

allocation, \$88 million has been recorded in earnings from inception to date, and an estimated additional \$12 million will be recorded in future earnings. We recorded \$7 million and \$9 million of restructuring and related charges in the three months ended March 31, 2011 and 2010, respectively.

As of March 31, 2011, approximately 700 jobs have been eliminated under the Aon Benfield Plan. Total payments of \$112 million have been made under this plan to date.

The following is a summary of 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 Aon Benfield Plan (in millions):

	Purchase Price Allocation	2009	2010	First Quarter 2011	Total to Date	Estimated Total Cost for Restructuring Period (1)
Workforce reduction	\$ 32	\$ 38	\$ 15	\$ 7	\$ 92	\$ 98
Lease consolidation	22	14	7		43	49
Asset impairments		2	2		4	4
Other costs associated with restructuring (2)	1	1	2		4	4
Total restructuring and related expenses	\$ 55	\$ 55	\$ 26	\$ 7	\$ 143	\$ 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 us 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.

All costs associated with the Aon Benfield Plan are included in the Risk Solutions segment. Charges related to the restructuring are included in Compensation and benefits and Other general expenses in the Condensed Consolidated Statements of Income. We expect these restructuring activities and related expenses to affect continuing operations through 2011.

The Aon Benfield Plan, before any potential reinvestment of savings, is expected to deliver cumulative cost savings of approximately \$122 million in 2011. We estimate that we realized approximately \$29 million of cost savings in the first three months 2011. The actual savings, total costs and timing of the restructuring plan may vary from those estimated due to changes in the scope, underlying assumptions of the plan, and foreign exchange rates.

#### **2007 Restructuring Plan**

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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 plan was completed in fourth quarter 2010 and the Company does not expect to incur any further expenses. The total cumulative pretax charges for the 2007 Plan was \$748 million including costs related to workforce reduction, lease consolidation costs, asset impairments, as well as other expenses necessary to implement the restructuring.

### **LIQUIDITY AND FINANCIAL CONDITION**

#### **Liquidity**

##### *Executive Summary*

We believe that our balance sheet and strong cash flow provide us with financial flexibility to create long-term value for our stockholders. Our primary sources of liquidity are cash flow from operations, available cash reserves and debt capacity available under various credit facilities. Our primary uses of liquidity are operating expenses, principal and interest payments on debt obligations, capital expenditures, acquisitions, share repurchases, restructuring, pension obligations and stockholder dividends.

Cash on our balance sheets includes funds available for general corporate purposes. Funds held on behalf of clients in a fiduciary capacity are segregated and shown together with uncollected insurance premiums in Fiduciary assets in the Condensed Consolidated Statement of Financial Position, with a corresponding offset in Fiduciary liabilities. The Company is permitted to earn income on these funds and therefore for cash flow presentation, the activity in the funds is shown as a component of our investing cash flows, with a corresponding offset to operating cash flows. Fiduciary funds cannot be used for general corporate purposes, and should not be considered as a source of liquidity for Aon.

### *Summary Cash Flow table*

(millions)	Three months ended March 31,	
	2011	2010
<b>Cash provided by operating activities:</b>		
Net income, adjusted for non-cash items	\$ 484	\$ 292
Change in assets and liabilities, excluding funds held on behalf of clients	(329)	(221)
	155	71
Funds held on behalf of clients	427	396
	582	467
<b>Cash used for investing activities:</b>		
Excluding funds held on behalf of clients	170	73
Funds held on behalf of clients	(427)	(396)
	(257)	(323)
<b>Cash provided by financing activities</b>		
	34	14
<b>Effect of exchange rate changes on cash and cash equivalents</b>		
	(23)	47
<b>Net increase in cash and cash equivalents</b>	\$ 336	\$ 205

### *Operating Activities*

Net cash provided by operating activities in first quarter 2011 increased \$115 million compared to 2010. Excluding the change in funds held on behalf of clients, cash provided by operating activities increased \$84 million compared to 2010. The primary contributors to cash flow from operations in 2011, excluding the change in funds held on behalf of clients, were net income (adjusted for non-cash items) of \$484 million, an increase from net receivables of \$108 million, and a \$58 million increase in taxes payable, partially offset by a \$327 million decrease in accounts payable and accrued liabilities, which declined primarily due to incentive compensation payments. Pension contributions were \$92 million and \$81 million for the quarter ended March 31, 2011 and 2010 respectively. In 2011, we expect to contribute approximately \$397 million to our pension plans, with the majority attributable to non-U.S. pension plans, which are subject to changes in foreign exchange rates.

We expect cash generated by operations for 2011 to be sufficient to service our debt and contractual obligations, fund cash requirements of our restructuring programs, finance capital expenditures, continue acquisitions of shares under our share repurchase program, and continue to pay dividends to our stockholders. Although 2011 cash from operations is expected to be sufficient to service these obligations, we have the ability to borrow under our credit facilities to accommodate timing differences in cash flows. We have committed credit facilities of approximately \$1.3 billion, all of which was available at March 31, 2011. We can access these facilities on a same, or next, day basis. Additionally, we believe that we could access capital markets for debt financing for longer-term funding, under current market conditions, if needed.



***Investing Activities***

Cash used for investing activities was \$257 million in 2011. Excluding the change in funds held on behalf of clients, \$170 million was provided by investing activities, primarily comprised of \$229 million in sales, net of purchases, of investments, partially offset by capital expenditures of \$56 million, and \$3 million for business acquisitions.

Cash used for investing activities was \$323 million in 2010. Excluding the change in funds held on behalf of clients, \$73 million was provided by investing activities in 2010, primarily comprised of \$153 million in sales, net of purchases, of investments, partially offset by \$47 million for business acquisitions representing eight acquisitions, the largest being the JP Morgan Compensation and Benefit Strategies Division of JP Morgan Retirement Plan Services LLC, and capital expenditures of \$33 million.

***Financing Activities***

Cash provided by financing activities in the first quarter 2011 was \$34 million. This was primarily driven by the issuance of \$429 million of debt, and proceeds from the exercise of stock options and issuance of shares purchased through the employee stock purchase programs of \$85 million, partially offset by \$350 million for the repurchase of shares, \$79 million repayment of debt, and \$51 million in cash dividends to stockholders.

Cash provided by financing activities in the first quarter 2010 was \$14 million. This was primarily driven by the issuance of \$75 million of short-term debt and proceeds from the exercise of stock options and the issuance of shares purchased through the employee stock purchase programs of \$35 million, partially offset by \$50 million for the repurchase of shares, \$41 million in cash dividends to stockholders, and \$3 million in cash dividends paid to non-controlling interests.

***Cash and Investments***

At March 31, 2011, our cash and cash equivalents and short-term investments were \$1.3 billion, an increase of \$140 million from December 31, 2010, of which \$382 million was from our Canadian debt issuance. Of the total balance as of March 31, 2011, approximately \$179 million was restricted as to its use, which was comprised of \$124 million of operating funds required by the Financial Services Authority in the U.K. and \$55 million held as collateral for various business purposes. At March 31, 2011, \$87 million of cash and cash equivalents and short-term investments were held in the U.S. and \$1.2 billion was held by our subsidiaries in other countries. Due to differences in tax rates, the repatriation of funds from certain countries into the U.S. could have an unfavorable tax impact.

In our capacity as an insurance broker or agent, we collect premiums from insureds and, after deducting our commission, remit the premiums to the respective insurance underwriter. We also collect claims or refunds from underwriters on behalf of insureds, which are then returned to the insureds. Unremitted insurance premiums and claims are held by us in a fiduciary capacity. In addition, some of our outsourcing agreements require us to hold funds on behalf of clients to pay obligations on their behalf. The levels of fiduciary assets and liabilities can fluctuate significantly, depending on when we collect the premiums, claims and refunds, make payments to underwriters and insureds, collect funds from clients and make payments on their behalf, and foreign currency movements. Fiduciary assets, because of their nature, are required to be invested in very liquid securities with highly-rated, credit-worthy financial institutions. In our Condensed Consolidated Statements of Financial

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Position, the amount we report for Fiduciary assets and Fiduciary liabilities are equal. Our Fiduciary assets included cash and investments of \$4.0 billion and fiduciary receivables of \$6.6 billion at March 31, 2011. While we earn investment income on the fiduciary assets held in cash and investments, the cash and investments are not owned by us, and cannot be used for general corporate purposes.

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As disclosed in Note 15 Fair Value and Financial Instruments, of the Notes to the Condensed Consolidated Financial Statements, the majority of our investments carried at fair value are money market funds. Money market funds are carried at cost as an approximation of fair value. Based on market convention, we consider cost a practical and expedient measure of fair value. These money market funds are held throughout the world with various financial institutions. We do not believe that there are any market liquidity issues affecting the fair value of these investments.

As of March 31, 2011, our investments in money market funds and highly liquid debt instruments had a fair value of \$2.7 billion and are reported as Short-term investments or Fiduciary assets in the Condensed Consolidated Statements of Financial Position depending on their nature and initial maturity.

The following table summarizes our Fiduciary assets and non-fiduciary Cash and cash equivalents, and Short-term investments as of March 31, 2011 (in millions):

Asset Type	Balance Sheet Classification				Total
	Cash and Cash Equivalents	Short-term Investments	Fiduciary Assets		
Certificates of deposit, bank deposits or time deposits	\$ 682	\$	\$ 1,898	\$	2,580
Money market funds		585	1,733		2,318
Highly liquid debt instruments			403		403
Other investments due within one year		4			4
Cash and investments	682	589	4,034		5,305
Fiduciary receivables			6,575		6,575
<b>Total</b>	<b>\$ 682</b>	<b>\$ 589</b>	<b>\$ 10,609</b>	<b>\$</b>	<b>11,880</b>

### *Share Repurchase Program*

In the first quarter 2011, we completed the \$4.6 billion share repurchase program authorized by our Board of Directors in 2005 and began to repurchase shares under our new share repurchase program which was authorized by our Board of Directors in January 2010. Under the 2010 Share Repurchase Program, we are authorized to repurchase up to \$2 billion of 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 capital. Any repurchased shares will be available for employee stock plans and for other corporate purposes.

In the first quarter 2011, we repurchased 6.8 million shares at an average price per share of \$51.29 for a total cost of \$350 million. In the first quarter 2010, we repurchased 1.2 million shares at an average price per share of \$40.63 for a total cost of \$50 million. Since the inception of our share repurchase program in 2005, we have repurchased a total of 118.7 million shares for an aggregate cost of \$4.9 billion. As of March 31, 2011, we were authorized to purchase up to \$1.7 billion of additional shares under the 2010 Share Repurchase Program. The timing and amount of future purchases will be based on market and other conditions.

For information regarding share repurchases made during the first quarter of 2011, see Part II, Item 2 Unregistered Sales of Equity Securities and Use of Proceeds below.



*Shelf Registration Statement*

On June 8, 2009, we filed a registration statement with the SEC, registering the offer and sale from time to time of an indeterminate amount of, among other securities, debt, preferred stock, common

stock and convertible securities. Our offer and sale of \$1.5 billion in unsecured notes on September 7, 2010 to partially finance the Hewitt acquisition was issued under this registration statement. The availability of any further potential liquidity under this shelf registration statement is dependent on investor demand, market conditions and other factors. There can be no assurance regarding when, or if, we will issue any additional securities under the registration statement.

***Credit Facilities***

At March 31, 2011, we have a three-year \$400 million unsecured revolving credit facility in the U.S. (U.S. Facility), which expires in 2012. Sixteen banks are participating in the facility, which is for general corporate purposes, including commercial paper support. Additionally, we have a five-year 650 million (\$916 million at March 31, 2011 exchange rates) multi-currency foreign credit facility ( Euro Facility ) available, which expires in October 2015. At March 31, 2011, we had no borrowings under either of these credit facilities.

For both our U.S. and Euro Facilities, the two most significant covenants require us to maintain a ratio of consolidated EBITDA (earnings before interest, taxes, depreciation and amortization), adjusted for Hewitt related transaction costs and up to \$50 million in non-recurring cash charges ( Adjusted EBITDA ) to consolidated interest expense of 4 to 1 and a ratio of consolidated debt to Adjusted EBITDA of not greater than 3 to 1. We were in compliance with these and all other covenants as of March 31, 2011.

***Rating Agency Ratings***

The major rating agencies ratings of our debt at May 5, 2011 appear in the table below.

	<b>Ratings</b>		
	<b>Senior Long-term Debt</b>	<b>Commercial Paper</b>	<b>Outlook</b>
Standard & Poor's	BBB+	A-2	Stable
Moody's Investor Services	Baa2	P-2	Stable
Fitch, Inc.	BBB+	F-2	Stable

Moody's Investor Services raised its outlook to Stable from Negative during the first quarter 2011.

A downgrade in the credit ratings of our senior debt and commercial paper would increase our borrowing costs, reduce or eliminate our access to capital, reduce our financial flexibility, increase our commercial paper interest rates or possibly restrict our access to the commercial paper market altogether, or may impact future pension contribution requirements.

***Letters of Credit and Other Guarantees***

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We have outstanding letters of credit ( LOCs ) totaling \$74 million at March 31, 2011. These LOCs cover the beneficiaries related to our Canadian pension plan scheme, cover deductible retentions for our workers compensation program, secure a sublease agreement for office space, secure one of our U.S. pension plans, and cover contingent payments for taxes and other business obligations to third parties. In addition, at March 31, 2011 we had a contingent LOC for up to \$85 million in support of a an acquisition, which expired when the acquisition was completed in April 2011. See Note 18 Subsequent Event-Glenrand Acquisition of the Notes to the Condensed Consolidated Financial Statements.

We also have provided commitments to fund certain limited partnerships in which we have an interest in the event that the general partners request funding. Some of these commitments have specific expiration dates and the maximum potential funding under these commitments was \$81 million at March 31, 2011. In the first quarter 2011, we funded \$3 million of these commitments and did not fund any commitments in the first quarter 2010.

### *Adequacy of Liquidity Sources*

We believe that cash flows from operations and available credit facilities will be sufficient to meet our liquidity needs, including principal and interest payments on debt obligations, capital expenditures, pension contributions, cash restructuring costs, and anticipated working capital requirements, for the foreseeable future. Our cash flows from operations, borrowing availability and overall liquidity are subject to risks and uncertainties. See *Information Concerning Forward-Looking Statements* below.

### **Financial Condition**

At March 31, 2011, our net assets of \$8.5 billion, representing total assets minus total liabilities, increased from \$8.3 billion at December 31, 2010. Working capital increased \$0.4 billion to \$2.0 billion.

### *Borrowings*

Total debt at March 31, 2011 was \$4.9 billion, an increase of \$0.4 billion from December 31, 2010, which was attributable to the timing of the issuance of Canadian debt securities, the proceeds of which were used to refinance maturing Canadian debt securities in April 2011. On March 8, 2011, one of our indirect wholly-owned subsidiary issued CAD 375 million (\$382 million at March 31, 2011 exchange rates) of 4.76% senior unsecured debt securities, which are due in March 2018 and are guaranteed by us. We used the net proceeds from the debt issuance to repay our CAD 375 million 5.05% debt securities upon its maturity on April 12, 2011.

Our total debt as a percentage of total capital attributable to Aon stockholders 36.8% and 35.3% at March 31, 2011 and December 31, 2010, respectively. The increase in the debt to capital ratio at March 31, 2010 was the result of the timing of the Canadian debt issuance.

### *Equity*

Equity at March 31, 2011 was \$8.5 billion, an increase of \$181 million from December 31, 2010. The increase resulted primarily from Net income of \$255 million, a decrease in Accumulated other comprehensive loss, and stock-based compensation of \$74 million, which was partially offset by share repurchases of \$350 million and \$51 million of dividends to shareholders.

Accumulated other comprehensive loss decreased \$203 million from December 31, 2010, primarily reflecting the following:

- positive net foreign currency translation adjustments of \$195 million, which was attributable to the weakening of the U.S. dollar against foreign currencies,

- a decrease of \$12 million in net post-retirement benefit obligations, and
- net derivative losses of \$4 million.

#### **VARIABLE INTEREST ENTITIES**

##### *Unconsolidated Variable Interest Entities*

Aon has an ownership 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 VIE. 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.

The Company's potential loss at March 31, 2011 is limited to its investment in Juniperus of \$72 million, which is recorded in Investments in the Condensed Consolidated Statements of Financial Position.

## REVIEW BY SEGMENT

### General

We serve clients through the following segments:

- **Risk Solutions** acts as an advisor and insurance and reinsurance broker, helping clients manage their risks, via consultation, as well as negotiation and placement of insurance risk with insurance carriers through our global distribution network.
- **HR Solutions** partners with organizations to solve their most complex benefits, talent and related financial challenges, and improve business performance by designing, implementing, communicating and administering a wide range of human capital, retirement, investment management, health care, compensation and talent management strategies.

### Risk Solutions

(in millions)	Three Months Ended			
	2011		March 31, 2010	
Revenue	\$	1,649	\$	1,587
Operating income		306		257
Operating margin		18.6%		16.2%

The demand for property and casualty insurance generally rises as the overall level of economic activity increases and generally falls as such activity decreases, affecting both the commissions and fees generated by our brokerage business. The economic activity that impacts property and casualty insurance is described as exposure units, and is most closely correlated with employment levels, corporate revenue and asset values. During first quarter 2011 we continued to see a soft market, which began in 2007, in our retail brokerage product line. In a soft market, premium rates flatten or decrease, along with commission revenues, due to increased competition for market share among insurance carriers or increased underwriting capacity. Changes in premiums have a direct and potentially material impact on the insurance brokerage industry, as commission revenues are generally based on a percentage of the premiums paid by insureds.

Additionally, beginning in late 2008 and continuing into first quarter 2011, we faced difficult conditions as a result of unprecedented disruptions in the global economy, the repricing of credit risk and the deterioration of the financial markets. Weak global economic conditions have reduced our customers' demand for our retail brokerage and reinsurance brokerage products, which have had a negative impact on our operational results.

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Risk Solutions generated approximately 60% of our consolidated total revenues in first quarter 2011. Revenues are generated primarily through fees paid by clients, commissions and fees paid by insurance and reinsurance companies, and investment income on funds held on behalf of clients. Our revenues vary from quarter to quarter throughout the year as a result of the timing of our clients' policy renewals, the net effect of new and lost business, the timing of services provided to our clients, and the income we earn on investments, which is heavily influenced by short-term interest rates.

We operate in a highly competitive industry and compete with many retail insurance brokerage and agency firms, as well as with individual brokers, agents, and direct writers of insurance coverage. Specifically, we address the highly specialized product development and risk management needs of commercial enterprises, professional groups, insurance companies, governments, health care providers, and non-profit groups, among others; provide affinity products for professional liability, life, disability income, and personal lines for individuals, associations, and businesses; provide products and services via GRIP Solutions; provide reinsurance services to insurance and reinsurance companies and other risk assumption entities by acting as brokers or intermediaries on all classes of reinsurance; provide capital management transaction and advisory products and services, including mergers and acquisitions and other financial advisory services, capital raising, contingent capital financing, insurance-linked securitizations and derivative applications; provide managing underwriting to independent agents and brokers as well as corporate clients; provide risk consulting, actuarial, loss prevention, and administrative services to businesses and consumers; and manage captive insurance companies.

**Revenue**

Commissions, fees and other revenue for Risk Solutions was as follows (in millions):

Three months ended March 31,	2011		2010	
Retail brokerage:				
Americas	\$	532	\$	487
International (1)		719		699
Total retail brokerage		1,251		1,186
Reinsurance brokerage		387		388
Total	\$	1,638	\$	1,574

(1) Includes the U.K., Europe, Middle East, Africa and Asia Pacific

In the first quarter 2011, Commissions, fees and other revenue increased \$64 million, or 4%, from 2010 driven primarily by a 2% increase in organic revenue, a 1% increase from acquisitions, net of dispositions and 1% from the favorable impact of foreign exchange rates.

The reconciliation of organic revenue growth to reported commissions, fees and other revenue growth for 2011 versus 2010 is as follows:

Three months ended March 31,	Percent Change	Less: Currency Impact	Less: Acquisitions, Divestitures, & Other	Organic Revenue
Retail brokerage:				
Americas	9%	1%	4%	4%
International	3			3
Total retail brokerage	5	1	1	3
Reinsurance brokerage			(1)	
Total	4%	1%	1%	2%





**Retail brokerage** Commissions, fees and other revenue increased 5% driven by organic revenue growth across both the Americas and International operations, a 1% increase related to acquisitions, net of dispositions, and a 1% favorable impact from foreign exchange rates.

The 9% increase in **Americas** reflects 4% growth in organic revenue, a 4% increase from acquisitions, net of dispositions, and 1% from favorable foreign exchange rates. Organic revenue growth increased due to strong growth in Latin America and Affinity products, and modest growth in US Retail.

The 3% increase in **International** is driven by growth organic revenue growth. There was no material impact resulting from foreign exchange rates or acquisitions, net of dispositions. International organic revenue increased 3% driven by strong growth in Asia and New Zealand and modest growth in EMEA Retail.

**Reinsurance brokerage** Commissions, fees and other revenue was flat compared to prior year both on an actual and organic revenue basis. Revenue growth in facultative placements was offset primarily by soft pricing in U.S. treaty placements. Favorable foreign exchange rates offset the unfavorable impact related to net dispositions.

### *Operating Income*

Operating income increased \$49 million or 19% from the first quarter 2010 to \$306 million in 2011, and operating income margins increased to 18.6% from 16.2% in 2010. Operating margin improvement was driven by reduced costs of restructuring and realization of the benefits of those restructuring plans, which was partially offset by the negative impact of foreign exchange rates.

### **HR Solutions**

(in millions)	Three Months Ended			
	March 31,			
	2011		2010	
Revenue	\$	1,117	\$	322
Operating income		123		49
Operating margin		11.0%		15.2%

In October 2010, we completed the acquisition of Hewitt, one of the world's leading human resource consulting and outsourcing companies. Hewitt operates globally together with Aon's existing consulting and outsourcing operations under the newly created Aon Hewitt brand. Hewitt's operating results are included in Aon's results of operations beginning October 1, 2010.

Our HR Solutions segment generated approximately 40% of our consolidated total revenues in 2011 and provides a broad range of human capital services, as follows:

*Consulting Services:*

- *Health and Benefits* advises clients about how to structure, fund, and administer employee benefit programs that attract, retain, and motivate employees. Benefits consulting includes health and welfare, executive benefits, workforce strategies and productivity, absence management, benefits administration, data-driven health, compliance, employee commitment, investment advisory and elective benefits services.
- *Retirement* specializes in global actuarial services, defined contribution consulting, investment consulting, tax and ERISA consulting, and pension administration.

- *Compensation* focuses on compensatory advisory/counsel including: compensation planning design, executive reward strategies, salary survey and benchmarking, market share studies and sales force effectiveness, with special expertise in the financial services and technology industries.
- *Strategic Human Capital* delivers advice to complex global organizations on talent, change and organizational effectiveness issues, including talent strategy and acquisition, executive on-boarding, performance management, leadership assessment and development, communication strategy, workforce training and change management.

*Outsourcing Services:*

- *Benefits Outsourcing* applies our HR expertise primarily through defined benefit (pension), defined contribution (401(k)), and health and welfare administrative services. Our model replaces the resource-intensive processes once required to administer benefit plans with more efficient, effective, and less costly solutions.
- *Human Resource Business Processing Outsourcing ( HR BPO )* provides market-leading solutions to manage employee data; administer benefits, payroll and other human resources processes; and record and manage talent, workforce and other core HR process transactions as well as other complementary services such as absence management, flexible spending, dependent audit and participant advocacy.

Beginning in late 2008, the disruption in the global credit markets and the deterioration of the financial markets created significant uncertainty in the marketplace. Weak economic conditions globally continued into first quarter 2011. The prolonged economic downturn is adversely impacting our clients' financial condition and therefore the levels of business activities in the industries and geographies where we operate. While we believe that the majority of our practices are well positioned to manage through this time, these challenges are reducing demand for some of our services and putting continued pressure on pricing of those services, which is having an adverse effect on our new business and results of operations.

*Revenue*

In first quarter 2011, Commissions, fees and other revenue for HR Solutions increased \$795 million from first quarter 2010, reflecting the impact of the Hewitt acquisition. Commissions, fees and other revenue were as follows (in millions):

Three months ended March 31,	2011		2010	
Consulting services	\$	569	\$	275
Outsourcing		556		47
Intrasegment		(8)		
Total	\$	1,117	\$	322

Organic revenue growth was flat for the first quarter 2011, as detailed in the following reconciliation:



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Three months ended March 31,	Percent Change	Less: Currency Impact	Less: Acquisitions, Divestitures, & Other	Organic Revenue
Consulting services	107%	1%	102%	4%
Outsourcing	1,083	3	1,083	(3)
Intrasegment	N/A	N/A	N/A	N/A
Total	247%	1%	246%	%

**Consulting services** increased \$294 million, or 107%, resulting from the Hewitt acquisition, organic revenue growth of 4%, which was driven mainly by growth in the international health and benefits and human capital consulting, and favorable foreign exchange rates.

**Outsourcing** revenue increased \$509 million driven by the Hewitt acquisition and favorable foreign exchange rates, partially offset by a 3% decrease in organic revenue due primarily to price compression and timing differences.

**Operating Income**

Operating income was \$123 million, an increase of \$74 million, or 151%, from 2010. This increase was principally driven by the acquisition of Hewitt and expense savings driven by operational improvement, partially offset by higher restructuring costs and Hewitt-related integration costs. In first quarter 2011, operating margins in this segment were 11.0%, which is a decrease from 15.2% in first quarter 2010, driven largely by the mix of businesses and the impact of higher intangible amortization costs related to the acquisition of Hewitt.

**Unallocated Income and Expense**

A reconciliation of our operating income to income from continuing operations before income taxes is as follows (in millions):

Three months ended March 31,	2011	2010
Operating income (loss):		
Risk Solutions	\$ 306	\$ 257
HR Solutions	123	49
Unallocated expenses	(33)	(33)
Operating income	396	273
Interest income	6	1
Interest expense	(63)	(34)
Other income	17	7
Income from continuing operations before income taxes	\$ 356	\$ 247

**Unallocated operating loss** includes corporate governance costs not allocated to the operating segments. Net unallocated expenses of \$33 million were flat compared to last year.

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**Interest income** consists primarily of income earned on our operating cash balances and other income-producing securities. It does not include interest earned on funds held on behalf of clients. Interest income was \$6 million in 2011, an increase of \$5 million from 2010, reflecting higher cash balances.

**Interest expense**, which represents the cost of our worldwide debt obligations, increased \$29 million primarily as a result of the debt issued in connection with the Hewitt acquisition.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There have been no changes in our critical accounting policies, which include restructuring, pensions, goodwill and other intangible assets, contingencies, share-based payments, and income taxes, as discussed in our 2010 Annual Report on Form 10-K.

## NEW ACCOUNTING PRONOUNCEMENTS

Note 2 Accounting Principles and Practices of the Notes to the Condensed Consolidated Financial Statements contains a discussion of recently issued accounting pronouncements and their impact or future potential impact on our financial results, if determinable.

## INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

This report contains certain statements related to future results, or states our intentions, beliefs and expectations or predictions for the future which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to expectations or forecasts of future events. They use words such as anticipate, believe, estimate, expect, forecast, project, intend, plan, potential, and other similar terms, and future or conditional tense verbs like could, may, might, should, will and would. We also identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. For example, we may use forward-looking statements when addressing topics such as: market and industry conditions, including competitive and pricing trends; changes in our business strategies and methods of generating revenue; the development and performance of our services and products; changes in the composition or level of our revenues; our cost structure and the outcome of cost-saving or restructuring initiatives; the outcome of contingencies; dividend policy; the expected impact of acquisitions and dispositions; pension obligations; cash flow and liquidity; future actions by regulators; and the impact of changes in accounting rules. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from either historical or anticipated results depending on a variety of factors. Potential factors that could impact results include:

- general economic conditions in different countries in which Aon does business around the world;
- changes in the competitive environment;
- changes in global equity and fixed income markets that could influence the return on invested assets;
- changes in the funding status of our various defined benefit pension plans and the impact of any increased pension funding resulting from those changes;
- rating agency actions that could affect our ability to borrow funds;



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- fluctuations in exchange and interest rates that could impact revenue and expense;
- the impact of class actions and individual lawsuits including client class actions, securities class actions, derivative actions and ERISA class actions;
- the impact of investigations brought by U.S. state attorneys general, U.S. state insurance regulators, U.S. federal prosecutors, U.S. federal regulators, and regulatory authorities in the U.K. and other countries;
- the cost of resolution of other contingent liabilities and loss contingencies, including potential liabilities arising from errors and omission claims against us;

- failure to retain and attract qualified personnel;
- the impact of, and potential challenges in complying with, legislation and regulation in the jurisdictions in which we operate, particularly given the global scope of our business and the possibility of conflicting regulatory requirements across jurisdictions in which we do business;
- the extent to which we retain existing clients and attract new businesses and our ability to incentivize and retain key employees;
- the extent to which we manage certain risks created in connection with the various services, including fiduciary and advisory services, among others, that we currently provide, or will provide in the future, to clients;
- disruption from the merger with Hewitt making it more difficult to maintain business and operational relationships;
- the possibility that the expected efficiencies and cost savings from the merger with Hewitt will not be realized, or will not be realized within the expected time period;
- the risk that the Hewitt businesses will not be integrated successfully;
- our ability to implement restructuring initiatives and other initiatives intended to yield cost savings, and the ability to achieve those cost savings;
- changes in commercial property and casualty markets and commercial premium rates that could impact revenues;
- the outcome of inquiries from regulators and investigations related to compliance with the U.S. Foreign Corrupt Practices Act ( FCPA ) and non-U.S. anti-corruption laws; and
- changes in costs or assumptions associated with our HR Solutions outsourcing and consulting arrangement that affect the profitability of these arrangements.

Any or all of our forward-looking statements may turn out to be inaccurate, and there are no guarantees about our performance. The factors identified above are not exhaustive. Aon and its subsidiaries operate in a dynamic business environment in which new risks may emerge frequently. Accordingly, readers should not place undue reliance on forward-looking statements, which speak only as of the dates on which they are made. We are under no obligation (and expressly disclaim any obligation) to update or alter any forward-looking statement that we may make from time to time, whether as a result of new information, future events or otherwise. Further information about factors that could materially affect Aon, including our results of operations and financial condition, is contained in the Risk Factors section in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to potential fluctuations in earnings, cash flows and the fair value of certain of our assets and liabilities due to changes in interest and foreign exchange rates. To manage the risk from these exposures, we enter into a variety of derivative instruments. We do not enter into derivatives or financial instruments for trading purposes.

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We are subject to foreign exchange rate risk from translating the financial statements of our foreign subsidiaries into U.S. dollars. Our primary exposures are to the British pound, the Euro, the Canadian dollar, and the Australian dollar. We use over-the-counter ( OTC ) options and forward contracts to reduce the impact of foreign currency fluctuations on the translation of our foreign operations financial statements.

Additionally, some of our foreign brokerage subsidiaries receive revenues in currencies that differ from their functional currencies. Our U.K. subsidiary earns a portion of its revenue in U.S. dollars and Euros but most of its expenses are incurred in pounds sterling. Our policy is to convert into pounds

sterling sufficient U.S. dollar and Euro revenue to fund the subsidiary's pound sterling expenses using OTC options and forward exchange contracts. At March 31, 2011, we have hedged approximately 41% and 83% of our U.K. subsidiaries' expected U.S. dollar and Euro transaction exposures for the next twelve months, respectively. We do not generally hedge these exposures beyond three years.

The translated value of revenue and expense from our international brokerage operations are subject to fluctuations in foreign exchange rates. First quarter 2011 diluted earnings per share were adversely impacted by approximately \$0.02 related to translation losses.

We also use forward contracts to offset foreign exchange risk associated with foreign denominated inter-company notes.

Our income is affected by changes in international and domestic short-term interest rates. We monitor our net exposure to short-term interest rates and, as appropriate, hedge our exposure with various derivative financial instruments. This activity primarily relates to brokerage funds held on behalf of clients in the U.S. and on the continent of Europe. A decrease in global short-term interest rates adversely affects our income.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of disclosure controls and procedures.** We have conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act ) as of the end of the period covered by this quarterly report of March 31, 2011. Based on this evaluation, our chief executive officer and chief financial officer concluded as of March 31, 2011 that our disclosure controls and procedures were effective such that the information relating to Aon, including our consolidated subsidiaries, required to be disclosed in our Securities and Exchange Commission ( SEC ) reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to Aon s management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

**Changes in internal control over financial reporting.** During the first quarter 2011, the Company commenced a review and subsequent project to replace and upgrade certain core financial systems. These financial system enhancements and related processes are expected to result in modifications to our internal controls principally in Europe, Middle East and Africa and Latin America, supporting financial transaction processing and reporting. The implementation of these changes to software and systems is expected to be executed in phases throughout 2011. Additionally, in the third quarter 2011 we expect to upgrade financial systems relating to our Order-To-Cash PeopleSoft platform used by the HR Solutions North American operations. Other than the changes above, no changes in Aon s internal control over financial reporting (as defined in Rule 13a 15(F) of the Exchange Act) occurred during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, Aon s internal control over financial reporting.

## PART II

## OTHER INFORMATION

## ITEM 1.

## LEGAL PROCEEDINGS

See Note 16 (Commitments and Contingencies) to the Condensed Consolidated Financial Statements contained in Part I, Item 1, which is incorporated by reference herein.

## Item 1A. Risk Factors.

The risk factors set forth in Part 1, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010 reflect certain risks associated with existing and potential lines of business and contain forward-looking statements as discussed in Part I, Item 2 of this report. Readers should consider them in addition to the other information contained in this report as our business, financial condition or results of operations could be adversely affected if any of these risks actually occur. There have been no material changes in our risk factors from those previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010.

## ITEM 2.

## UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

- (a) None.
- (b) None.
- (c) Issuer Purchases of Equity Securities.

The following information relates to the repurchase of equity securities by Aon or any affiliated purchaser during each month within the first quarter of 2011:

Period	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1) (2)
1/1/11 1/31/11		\$		\$ 2,014,948,003
2/1/11 2/28/11	5,853,824	51.22	5,853,824	1,715,097,624
3/1/11 3/31/11	967,000	51.67	967,000	1,655,130,636
Total	6,820,824	\$ 51.29	6,820,824	1,655,130,636

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- (1) Does not include commissions paid to repurchase shares.

(2) In the fourth quarter of 2007, our Board of Directors increased the authorized share repurchase program to \$4.6 billion. Shares may be repurchased through the open market or in privately negotiated transactions. Through March 31, 2011, we repurchased 118.7 million shares of common stock at an average price (excluding commissions) of \$40.97 per share for an aggregate purchase price of \$4.6 billion since inception of this stock repurchase program, which has now been fully utilized. In January 2010, our 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. Through March 31, 2011, we repurchased 334.9 million shares through this program through the open market or in privately negotiated transactions. The remaining authorized amount for stock purchase under the 2010 program is \$1.7 billion.

**ITEM 6.**

**EXHIBITS**

Exhibits The exhibits filed with this report are listed on the attached Exhibit Index.

**SIGNATURE**

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.

Aon Corporation  
(Registrant)

May 5, 2011

By: /s/ Laurel Meissner  
LAUREL MEISSNER  
SENIOR VICE PRESIDENT AND  
GLOBAL CONTROLLER  
(Principal Accounting Officer and duly authorized  
officer of Registrant)



**AON CORPORATION**

**Exhibit Index**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
4.1	Amended and Restated Trust Deed dated January 12, 2011, between Aon Services Luxembourg & Co. S.C.A. (formerly known as Aon Financial Services Luxembourg S.A.), Aon Corporation and BNY Corporate Trustee Services Limited.
4.2	Indenture dated as of March 8, 2011, among Aon Finance N.S.1ULC, Aon Corporation and Computershare Trust Company of Canada incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on March 8, 2011.
10.1#	Employment Agreement dated as of September 30, 2010 between Aon Corporation and Russell P. Fradin.
10.2#	Change in Control Agreement entered into as of November 19, 2010 between Aon Corporation and Russell P. Fradin.
10.3#	Employment Agreement dated and effective as of February 25, 2008 between Aon Corporation and Michael J. O Connor.
10.4#	Aon Corporation Leadership Performance Program for 2001-2013.
10.5#*	Aon Hewitt Performance Program for 2011-2013.
10.6#	Senior Executive Incentive Compensation Plan.
12.1	Statement regarding Computation of Ratio of Earnings to Fixed Charges.
31.1	Certification of CEO.
31.2	Certification of CFO.
32.1	Certification of CEO Pursuant to section 1350 of Title 18 of the United States Code.
32.2	Certification of CFO Pursuant to section 1350 of Title 18 of the United States Code.
101	Interactive Data Files. The following materials are filed electronically with this Quarterly Report on Form 10-Q: 101.INS XBRL Report Instance Document 101.SCH XBRL Taxonomy Extension Schema Document 101.CAL XBRL Taxonomy Calculation Linkbase Document 101.DEF XBRL Taxonomy Definition Linkbase Document 101.PRE XBRL Taxonomy Presentation Linkbase Document 101.LAB XBRL Taxonomy Calculation Linkbase Document

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# Indicates a management contract or compensatory plan or arrangement.

\* Portions of the Exhibit have been omitted and have been filed separately pursuant to an application for confidential treatment filed with the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.