AON CORP
Form 10-Q
August 04, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011

OR

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

Commission file number 1-7933

Aon Corporation

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	**36-3051915**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

200 E. RANDOLPH STREET, CHICAGO, ILLINOIS	**60601**
(Address of Principal Executive Offices)	(Zip Code)

(312) 381-1000

(Registrant s Telephone Number,

Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO o

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

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

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

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

Number of shares of common stock, $1.00 par value, outstanding as of June 30, 2011: 326,691,984

Part I Financial Information

ITEM 1. FINANCIAL STATEMENTS

Aon Corporation

Condensed Consolidated Statements of Income

(Unaudited)

	Three Months Ended		Six Months Ended	
(millions, except per share data)	**June 30, 2011**	**June 30, 2010**	**June 30, 2011**	**June 30, 2010**
Revenue				
Commissions, fees and other	$ 2,799	$ 1,883	$ 5,547	$ 3,774
Fiduciary investment income	12	15	23	28
Total revenue	2,811	1,898	5,570	3,802
Expenses				
Compensation and benefits	1,612	1,169	3,209	2,332
Other general expenses	765	461	1,531	929
Total operating expenses	2,377	1,630	4,740	3,261
Operating income	434	268	830	541
Interest income	4	4	10	5
Interest expense	(63)	(33)	(126)	(67)
Other income (expense)	(23)	5	(6)	12
Income from continuing operations before income taxes	352	244	708	491
Income taxes	87	60	190	121
Income from continuing operations	265	184	518	370
Income (loss) from discontinued operations before income taxes	1	(41)	5	(39)
Income taxes	(1)	(15)	1	(13)
Income (loss) from discontinued operations	2	(26)	4	(26)
Net income	267	158	522	344
Less: Net income attributable to noncontrolling interests	9	5	18	13
Net income attributable to Aon stockholders	$ 258	$ 153	$ 504	$ 331
Net income (loss) attributable to Aon stockholders				
Income from continuing operations	$ 256	$ 179	$ 500	$ 357
Income (loss) from discontinued operations	2	(26)	4	(26)
Net income	$ 258	$ 153	$ 504	$ 331
Basic net income (loss) per share attributable to Aon stockholders				
Continuing operations	$ 0.76	$ 0.64	$ 1.48	$ 1.29
Discontinued operations		(0.09)	0.01	(0.10)
Net income	$ 0.76	$ 0.55	$ 1.49	$ 1.19
Diluted net income (loss) per share attributable to Aon stockholders				
Continuing operations	$ 0.75	$ 0.63	$ 1.45	$ 1.27
Discontinued operations		(0.09)	0.01	(0.09)

Net income	$	0.75	$	0.54	$	1.46	$	1.18
Cash dividends per share paid on common stock	$	0.15	$	0.15	$	0.30	$	0.30
Weighted average common shares outstanding - basic		337.7		278.4		338.7		277.1
Weighted average common shares outstanding - diluted		342.7		282.6		344.0		281.7

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

Aon Corporation

Condensed Consolidated Statements of Financial Position

(millions, except share data)		June 30, 2011 (Unaudited)		Dec. 31, 2010
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$	300	$	346
Short-term investments		515		785
Receivables, net		2,785		2,701
Fiduciary assets		11,760		10,063
Other current assets		571		624
Total Current Assets		15,931		14,519
Goodwill		8,975		8,647
Intangible assets, net		3,484		3,611
Fixed assets, net		798		781
Investments		249		312
Other non-current assets		1,059		1,112
TOTAL ASSETS	$	30,496	$	28,982
LIABILITIES AND EQUITY				
LIABILITIES				
CURRENT LIABILITIES				
Fiduciary liabilities	$	11,760	$	10,063
Short-term debt and current portion of long-term debt		52		492
Accounts payable and accrued liabilities		1,557		1,810
Other current liabilities		618		584
Total Current Liabilities		13,987		12,949
Long-term debt		4,479		4,014
Pension and other post employment liabilities		1,773		1,896
Other non-current liabilities		1,792		1,817
TOTAL LIABILITIES		22,031		20,676
EQUITY				
Common stock-$1 par value				
Authorized: 750 shares (issued: 2011 - 386.3; 2010 - 385.9)		386		386
Additional paid-in capital		3,946		4,000
Retained earnings		8,233		7,861
Treasury stock at cost (shares: 2011 - 59.6; 2010 - 53.6)		(2,469)		(2,079)
Accumulated other comprehensive loss		(1,698)		(1,917)
TOTAL AON STOCKHOLDERS EQUITY		8,398		8,251
Noncontrolling interests		67		55
TOTAL EQUITY		8,465		8,306
TOTAL LIABILITIES AND EQUITY	$	30,496	$	28,982

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
Balance at December 31, 2010	385.9	$ 4,386	$ 7,861	$ (2,079)	$ (1,917)	$ 55	$ 8,306	$ 532
Net income			504			18	522	$ 522
Shares issued - employee benefit plans	0.4	69					69	
Shares purchased				(673)			(673)	
Shares reissued - employee benefit plans		(283)	(32)	283			(32)	
Tax benefit - employee benefit plans		39					39	
Stock compensation expense		121					121	
Dividends to stockholders			(100)				(100)	
Change in net derivative gains/losses					(5)		(5)	(5)
Net foreign currency translation adjustments					197		197	197
Net post-retirement benefit obligation					27		27	27
Dividends paid to noncontrolling interests on subsidiary common stock						(6)	(6)	
Balance at June 30, 2011	386.3	$ 4,332	$ 8,233	$ (2,469)	$ (1,698)	$ 67	$ 8,465	$ 741

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

Aon Corporation

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(millions)	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 522	$ 344
Adjustments to reconcile net income to cash provided by operating activities:		
(Gain) loss from sales of businesses, net	(4)	33
Depreciation of fixed assets	111	62
Amortization of intangible assets	182	56
Stock compensation expense	121	123
Deferred income taxes	17	(16)
Change in assets and liabilities:		
Change in funds held on behalf of clients	742	633
Receivables, net	(18)	2
Accounts payable and accrued liabilities	(303)	(343)
Restructuring reserves	(54)	(18)
Current income taxes	122	46
Pension and other post employment liabilities	(146)	(41)
Other assets and liabilities	(131)	2
CASH PROVIDED BY OPERATING ACTIVITIES	1,161	883
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of long-term investments	96	77
Purchases of long-term investments	(20)	(15)
Net sales (purchases) of short-term investments - non-fiduciary	290	(79)
Net purchases of short-term investments - funds held on behalf of clients	(742)	(633)
Acquisition of businesses, net of cash acquired	(87)	(55)
Capital expenditures	(99)	(71)
CASH USED FOR INVESTING ACTIVITIES	(562)	(776)
CASH FLOWS FROM FINANCING ACTIVITIES		
Purchase of treasury stock	(653)	(100)
Issuance of stock for employee benefit plans	162	81
Issuance of debt	1,469	75
Repayment of debt	(1,504)	(77)
Cash dividends to stockholders	(100)	(82)
Dividends paid to noncontrolling interests	(6)	(11)
CASH USED FOR FINANCING ACTIVITIES	(632)	(114)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(13)	50
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(46)	43
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	346	217
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 300	$ 260
Supplemental disclosures:		
Interest paid	$ 150	$ 50
Income taxes paid, net of refunds	14	63

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 the financial statements and related notes for prior periods has been changed to conform to the presentation in the Annual Report on Form 10-K for the year ended December 31, 2010. The results for the three and six months ended June 30, 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, 6

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 $200 million and $60 million at June 30, 2011 and December 31, 2010, respectively. The increase in the restricted balances is primarily due to a requirement by the Financial Services Authority for the Company to hold approximately $123 million of operating funds in the U.K.

4. Other Income (Expense)

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

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Equity (losses) earnings	$ (2)	$ 4	$ 4	$ 6
Realized (loss) gain on sale of investments	(1)		9	1
(Loss) gain on disposal of businesses	(1)	2	(1)	6
Loss on extinguishment of debt	(19)		(19)	
Other		(1)	1	(1)
	$ (23)	$ 5	$ (6)	$ 12

5. Acquisitions and Dispositions

Acquisitions

In the first six months of 2011, the Company completed the acquisition of two companies in the Risk Solutions segment, including Glenrand MIB Limited (Glenrand). In the first six months of 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 13 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)	Six months ended June 30, 2011	2010
Consideration	$ 92	$ 104
Intangible assets:		
Goodwill	$ 59	$ 41
Other intangible assets	28	38
	$ 87	$ 79

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 three months and six months ended June 30, 2011, the Company s HR Solutions segment incurred $5 million and $20 million, respectively, 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 analyses is obtained. The Company expects to finalize these amounts as soon as possible but no later than one year from the acquisition date.

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

		Amounts recorded as of the acquisition date
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

(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 property, equipment and capitalized software assets, pending finalization of valuation efforts.

- 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 Continuing Operations

In the first six months of 2011, the Company completed the sale of one Company in the Risk Solutions segment. A pretax loss of $1.8 million was recognized on this sale, which is included in Other income (expense) in the Condensed Consolidated Statements of Income.

Dispositions Discontinued Operations

Income from discontinued operations before income taxes, as presented in the Condensed Consolidated Statements of Income, was $1 million and $5 million, for the three and six months ended June 30, 2011, which represents proceeds from the sale of businesses in prior periods. For the three and six months ended 2010, the Company incurred a loss from discontinued operations of $41 million and $39 million, respectively, related primarily to the settlement of legacy litigation.

6. Goodwill and Other Intangible Assets

The change in the net carrying amount of goodwill by operating segment for the six months ended June 30, 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	59		59
Goodwill related to disposals	(2)		(2)
Goodwill related to prior year acquisitions		18	18
Transfers	83	(83)	
Foreign currency revaluation and other	270	(17)	253
Balance as of June 30, 2011	$ 5,959	$ 3,016	$ 8,975

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

	June 30, 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		2,655		490		2,165		2,605		344		2,261
Marketing, Technology and Other		621		331		290		606		283		323
	$	4,306	$	822	$	3,484	$	4,238	$	627	$	3,611

Amortization expense on finite lived intangible assets was $91 million and $182 million for the three and six months ended June 30, 2011, respectively. Amortization expense on finite lived intangible assets was $29 million and $56 million for the three and six months ended June 30, 2010, respectively.

The estimated future amortization for intangible assets as of June 30, 2011 is as follows (in millions):

Remainder of 2011	$	232
2012		418
2013		387
2014		336
2015		289
Thereafter		798
	$	2,460

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 June 30, 2011, approximately 860 jobs have been eliminated and total expenses of $106 million have been incurred. The Company recorded $31 million and $54 million of restructuring and related charges in the three and six months ended June 30, 2011, respectively. 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	Second Quarter 2011	Six Months 2011	Total Inception to Date	Estimated Total Cost for Restructuring Plan (1)
Workforce reduction	$ 49	$ 6	$ 24	$ 73	$ 180
Lease consolidation	3	20	25	28	95
Asset impairments		4	4	4	47
Other costs associated with restructuring (2)		1	1	1	3
Total restructuring and related expenses	$ 52	$ 31	$ 54	$ 106	$ 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.

Following the Hewitt acquisition and the associated increase in personnel and property portfolio, the Company continues to review the propriety of its existing leasehold restructuring accruals based on its current plans. In the second quarter of 2011, the Company reoccupied some of its previously vacated leasehold space and therefore determined that certain amounts previously accrued for this space were no longer necessary. The reversal of these accruals for each of the Company s restructuring plans are discussed below. In addition, the reoccupation of this space resulted in expenses that had previously been included as part of lease consolidation costs being reversed and included within Other general expenses. The impact on each of the Company s restructuring plans is discussed below.

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 730 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 recorded a net restructuring benefit of $12 million and $5 million in the three and six months ended June 30, 2011, respectively. Included in this benefit is $17 million related to the reversal of accruals associated with reoccupying leasehold space. In addition, $6 million of lease expenses were recorded as part of Other general expenses that were previously included as lease consolidation costs.

The Company recorded $6 million and $15 million of restructuring and related charges in the three and six months ended June 30, 2010, respectively.

The Company currently estimates the Aon Benfield Plan will result in cumulative costs totaling approximately $138 million, of which $55 million was recorded as part of the purchase price allocation, $76 million has been recorded in earnings from inception to date, and an estimated additional $7 million will be recorded in future earnings.

As of June 30, 2011, approximately 705 jobs have been eliminated under the Aon Benfield Plan. Total payments of $116 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	Second Quarter 2011	Six Months 2011	Total Inception to Date	Estimated Total Cost for Restructuring

							Period (1)
Workforce reduction	$ 32	$ 38	$ 15	$ 4	$ 11	$ 96	$ 101
Lease consolidation	22	14	7	(16)	(16)	27	29
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	$ (12)	$ (5)	$ 131	$ 138

---

(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 the fourth quarter of 2010 and the Company does not expect to incur any further expenses. In the second quarter of 2011, the Company recorded a restructuring benefit of $5 million related to the reversal of accruals associated with reoccupied leasehold space. In addition, $3 million of lease expenses were recorded as part of Other general expenses that were previously included as lease consolidation costs.

The Company recorded $25 million and $92 million of restructuring and related charges in the three and six months ended June 30, 2010, respectively.

The total cumulative pretax charges for the 2007 Plan is $743 million including costs related to workforce reduction, lease consolidation costs, asset impairments, as well as other expenses necessary to implement the restructuring.

As of June 30, 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 (2)	50	(5)	(5)		40
Cash payments	(49)	(12)	(37)	(2)	(100)
Foreign exchange translation and other	2	1	5		8
Balance at June 30, 2011	$ 91	$ 10	$ 76	$ 8	$ 185

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

(2) Includes impact of reoccupying previously vacated leased properties.

Aon s 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):

		June 30, 2011		December 31, 2010
Cash and cash equivalents	$	300	$	346
Short-term investments		515		785
Fiduciary assets		4,344		3,489
Investments		249		312
	$	5,408	$	4,932

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

		June 30, 2011		December 31, 2010
Equity method investments	$	170	$	174
Other investments, at cost (1)		64		123
Fixed-maturity securities		15		15
	$	249	$	312

(1) The reduction in Other invesments is primarily due to sales and redemptions.

9. Debt

On May 24, 2011 Aon entered into an underwriting agreement for the sale of $500 million of 3.125% unsecured Senior Notes due 2016 (the Notes). On June 15, 2011, Aon entered into a Term Credit Agreement for unsecured term loan financing of $450 million (2011 Term Loan Facility) due on October 1, 2013. The 2011 Term Loan Facility is a variable rate loan which is based on LIBOR plus a margin and at June 30, 2011, the effective annualized rate was approximately 1.56%. The Company used the net proceeds from the Notes issuance and 2011 Term Loan Facility borrowings to repay all amounts outstanding under its $1.0 billion three-year credit agreement dated August 13, 2010 (2010 Term Loan Facility), which was entered into in connection with the acquisition of Hewitt. The Company recorded a $19 million loss on the extinguishment of the 2010 Term Loan Facility as a result of the write-off of the related deferred financing costs, which is included in Other income (expense) in the Consolidated Statements of Income.

On March 8, 2011, an indirect wholly-owned subsidiary of Aon issued CAD 375 million ($379 million at June 30, 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 this 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 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 second quarter 2011, Aon repurchased 5.8 million shares at an average price per share of $52.52 for a total cost of $303 million. In the first six months of 2011, Aon repurchased 12.6 million shares at an average price per share of $51.85, for a total cost of $653 million. In addition, on June 30, 2011 Aon repurchased 0.4 million shares for a total cost of $20 million with settlement occurring on July 6, 2011. These shares are not included in the number of shares repurchased for the second quarter or first six months in 2011. In the second quarter 2010, Aon repurchased 1.2 million shares at an average price per share of $41.03, for a total cost of $50 million. In the first six months of 2010, Aon repurchased 2.4 million shares for a total cost of $100 million. Since the inception of its share repurchase program in 2005, Aon has repurchased a total of 124.5 million shares for an aggregate cost of $5.2 billion. As of June 30, 2011, Aon was authorized to purchase up to $1.4 billion of additional shares under the 2010 Share Repurchase Program.

In the six months ended June 30, 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 six months ended June 30, 2011 Aon reissued 6.5 million shares of treasury stock for employee benefit programs and 0.1 million shares in connection with employee stock purchase plans. In the six months ended June 30, 2010, Aon reissued 5.7 million shares of treasury stock for employee benefit programs and 0.2 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.

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

	Three months ended June 30,		**Six months ended June 30,**	
	2011	**2010**	**2011**	**2010**
Income from continuing operations	$ 4	$ 4	$ 8	$ 8
Income (loss) from discontinued operations		(1)		(1)
Net income	$ 4	$ 3	$ 8	$ 7

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

	Three months ended June 30,	**Six months ended June 30,**
	2011	