

AON CORP  
Form 10-Q  
August 08, 2008

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

# FORM 10-Q



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

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008**



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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**



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(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.)

**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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions 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

Smaller reporting company

(Do not check if a 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 June 30, 2008: 277,670,176

## Part I. Financial Information

## ITEM 1. FINANCIAL STATEMENTS

*Aon Corporation*

## Condensed Consolidated Statements of Financial Position

(millions)	June 30, 2008 (Unaudited)	As of	Dec. 31, 2007
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash	\$ 466	\$	584
Short-term investments	2,566		1,209
Receivables	2,012		2,002
Fiduciary assets	11,358		9,498
Other current assets	229		221
Assets held for sale			4,388
<b>Total Current Assets</b>	<b>16,631</b>		<b>17,902</b>
Goodwill	5,137		4,935
Other intangible assets	245		204
Fixed assets, net	483		498
Long-term investments	414		417
Other non-current assets	1,165		921
<b>TOTAL ASSETS</b>	<b>\$ 24,075</b>	<b>\$</b>	<b>24,877</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Fiduciary liabilities	\$ 11,358	\$	9,498
Short-term debt			252
Accounts payable and accrued liabilities	1,207		1,418
Other current liabilities	694		289
Liabilities held for sale			3,025
<b>Total Current Liabilities</b>	<b>13,259</b>		<b>14,482</b>
Long-term debt	2,022		1,893
Pension, post employment and post retirement liabilities	1,296		1,251
Other non-current liabilities	1,043		1,030
<b>TOTAL LIABILITIES</b>	<b>17,620</b>		<b>18,656</b>
<b>STOCKHOLDERS' EQUITY</b>			
Common stock-\$1 par value	361		361
Additional paid-in capital	3,107		3,064
Retained earnings	6,807		5,607
Accumulated other comprehensive loss	(490)		(726)
Treasury stock at cost	(3,330)		(2,085)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>6,455</b>		<b>6,221</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 24,075</b>	<b>\$</b>	<b>24,877</b>

See the accompanying notes to the condensed consolidated financial statements.



*Aon Corporation***Condensed Consolidated Statements of Income****(Unaudited)**

(millions, except per share data)	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
<b>Revenue</b>				
Commissions, fees and other	\$ 1,912	\$ 1,776	\$ 3,785	\$ 3,505
Investment income	68	90	127	159
<b>Total revenue</b>	<b>1,980</b>	<b>1,866</b>	<b>3,912</b>	<b>3,664</b>
<b>Expenses</b>				
Compensation and benefits	1,155	1,109	2,321	2,162
Other general expenses	512	425	943	848
Depreciation and amortization	58	46	108	93
<b>Total operating expenses</b>	<b>1,725</b>	<b>1,580</b>	<b>3,372</b>	<b>3,103</b>
	255	286	540	561
Interest expense	31	34	64	69
Other income	(2)	(29)	(6)	(29)
<b>Income from continuing operations before provision for income tax</b>	<b>226</b>	<b>281</b>	<b>482</b>	<b>521</b>
Provision for income tax	58	98	135	173
<b>Income from continuing operations</b>	<b>168</b>	<b>183</b>	<b>347</b>	<b>348</b>
<b>Income from discontinued operations</b>	<b>1,428</b>	<b>87</b>	<b>1,491</b>	<b>160</b>
Provision for income tax	463	30	487	55
<b>Income from discontinued operations, net of tax</b>	<b>965</b>	<b>57</b>	<b>1,004</b>	<b>105</b>
<b>Net income</b>	<b>\$ 1,133</b>	<b>\$ 240</b>	<b>\$ 1,351</b>	<b>\$ 453</b>
<b>Basic net income per share</b>				
Continuing operations	\$ 0.58	\$ 0.62	\$ 1.17	\$ 1.18
Discontinued operations	3.33	0.19	3.38	0.35
Net income	\$ 3.91	\$ 0.81	\$ 4.55	\$ 1.53
<b>Diluted net income per share</b>				
Continuing operations	\$ 0.55	\$ 0.57	\$ 1.11	\$ 1.09
Discontinued operations	3.16	0.18	3.21	0.32
Net income	\$ 3.71	\$ 0.75	\$ 4.32	\$ 1.41
<b>Cash dividends per share paid on common stock</b>	<b>\$ 0.15</b>	<b>\$ 0.15</b>	<b>\$ 0.30</b>	<b>\$ 0.30</b>
Weighted average common shares outstanding - diluted	305.3	321.9	312.5	323.1

See the accompanying notes to the condensed consolidated financial statements.



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

(millions)	Six Months Ended	
	June 30, 2008	June 30, 2007
<b>Cash Flows - Operating Activities:</b>		
Net income	\$ 1,351	\$ 453
Gain from disposal of operations	(1,430)	(4)
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization of property, equipment and software	83	80
Stock compensation expense	142	107
Amortization of intangible assets	25	19
Valuation changes on investments, income on disposals and net bond amortization	6	(14)
Income taxes	360	134
Contribution to major defined benefit pension plans in excess of expense	(66)	(45)
Cash paid (in excess of) less than expense for restructuring plans	32	(20)
Change in funds held on behalf of brokerage and consulting clients	300	450
Change in insurance underwriting assets and liabilities		
Net reinsurance and net due & deferred premium	8	59
Prepaid premiums	6	39
Deferred policy acquisition costs	(3)	(11)
Policy liabilities	3	45
Net due reinsurance		(11)
Change in other assets and liabilities		
Accounts payable and accrued liabilities	(350)	(461)
Other assets and liabilities - net	(199)	13
<b>Cash Provided (used) by Operating Activities</b>	<b>268</b>	<b>833</b>
<b>Cash Flows - Investing Activities:</b>		
Sale of investments		
Fixed maturities		
Maturities	53	51
Calls and prepayments	29	48
Sales	196	337
Equity securities and other investments	1	53
Purchase of investments		
Fixed maturities	(274)	(554)
Other investments	(8)	(6)
Short-term investments - net	(1,704)	209
Acquisition of subsidiaries	(63)	(206)
Proceeds from sale of operations	2,915	39
Property and equipment and other - net	(58)	(82)
<b>Cash Provided (Used) by Investing Activities</b>	<b>1,087</b>	<b>(111)</b>
<b>Cash Flows - Financing Activities:</b>		
Issuance of common stock	35	37
Treasury stock transactions - net	(1,281)	(492)
Repayments of short-term borrowings - net	(231)	(38)
Issuance of long-term debt	363	660
Repayments of long-term debt	(297)	(696)
Cash dividends to stockholders	(89)	(88)

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<b>Cash Used by Financing Activities</b>	(1,500)	(617)
<b>Effect of Exchange Rate Changes on Cash</b>	27	20
<b>Increase (Decrease) in Cash</b>	(118)	125
<b>Cash at Beginning of Period</b>	584	281
<b>Cash at End of Period</b>	\$ 466	\$ 406

See the accompanying notes to the condensed consolidated financial statements.

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

1. Statement of Accounting Principles

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and include all normal recurring adjustments which Aon Corporation ( Aon or the Company ) considers necessary for a fair presentation. Operating results for the second quarter and six months ended June 30, 2008 are not necessarily indicative of results that may be expected for the year ending December 31, 2008.

Refer to the consolidated financial statements and notes in the Annual Report on Form 10-K for the year ended December 31, 2007 for additional details of Aon's financial position, as well as a description of Aon's accounting policies, which have been continued without material change, except as described in Note 12.

The Company's operations include collecting premiums and claims amounts from clients and insurers. Effective first quarter 2008, unremitted amounts are reported as fiduciary assets and liabilities. Previously, assets were reported in short-term investments and receivables. 2007 amounts have been reclassified to conform to this presentation. At June 30, 2008, short-term investments of \$3.5 billion and receivables of \$7.9 billion are included in the Company's fiduciary assets. At December 31, 2007, short-term investments of \$3.1 billion and receivables of \$6.4 billion are included in the Company's fiduciary assets.

2. New Accounting Pronouncement

In December 2007, the FASB issued Statement No. 141 (revised 2007), *Business Combinations* ( Statement No. 141(R) ) and Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*. Statement No. 141(R) replaces Statement No. 141 and applies to all transactions or other events in which an entity obtains control over one or more businesses. This Statement requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. Business combinations achieved in stages require recognition of the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values. Statement No. 141(R) also changes the requirements for recognizing assets acquired and liabilities assumed arising from contingencies, and requires direct acquisition costs to be expensed.

Statement No. 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This Statement also requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. Statement No. 160 requires retrospective adjustments, for all periods presented, of stockholders' equity and net income for noncontrolling interests.

Both Statements are effective for Aon as of January 1, 2009. Early adoption is prohibited. Aon is currently evaluating these Statements to determine what impact, if any, they will have on its consolidated financial statements.



In March 2008, the Financial Accounting Standards Board issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, an amendment of FASB Statement No. 133. This Statement changes disclosure requirements for derivative instruments and hedging activities.

Companies are required to provide enhanced disclosures about (i) how and why a company uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under Statement No. 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect a Company's financial position, financial performance and cash flows. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2008. Aon is currently evaluating this Statement to determine the extent of disclosures that will be necessary.

In June 2008, the FASB issued Staff Position No. EITF 03-6-1 ( FSP EITF 03-6-1 ), *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*. The staff position holds that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities as defined in EITF 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128*, and therefore should be included in computing earnings per share using the two class method. Certain of Aon's restricted stock awards allow the holder to receive a nonforfeitable dividend equivalent.

FSP EITF 03-6-1 is effective for Aon as of January 1, 2009. All prior periods earnings per share data that are disclosed must be adjusted to conform to the current presentation. Early application is not permitted. Aon is currently evaluating the FSP to determine what impact it will have on its consolidated financial statements.

### 3. Stock Compensation Plans

Aon's Stock Incentive Plan (as amended and restated) provides for the grant of non-qualified and incentive stock options, stock appreciation rights, restricted stock and restricted stock units ( RSUs ). The annual rate at which awards are granted each year is based upon financial and competitive business conditions.

#### *Compensation expense*

Stock based compensation expense recognized during 2008 and 2007, which includes RSUs, stock options, performance plan awards and stock purchases related to the Employee Stock Purchase Plan, are based on the value of the portion of stock-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in Aon's condensed consolidated statements of income includes compensation expense for stock-based payment awards granted prior to, but not yet vested as of December 31, 2005 based on the grant date fair value estimated in accordance with the pro forma provisions of FASB Statement No. 123, and compensation expense for the stock-based payment awards granted subsequent to December 31, 2005 based on the grant date fair value estimated in accordance with the provisions of FASB Statement No. 123(R). Because stock-based compensation expense recognized is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The following table summarizes stock-based compensation expense related to all stock-based payments recognized in continuing operations in the condensed consolidated statements of income in compensation and benefits (in millions):



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	Three months ended June 30,				Six months ended June 30,			
	2008		2007		2008		2007	
RSUs	\$	30	\$	25	\$	75	\$	58
Performance plans		17		22		31		30
Stock options		7		5		13		11
Employee stock purchase plan		1		1		2		2
Total	\$	55	\$	53	\$	121	\$	101

**Stock Awards**

Stock awards, in the form of RSUs, are granted to certain executives and key employees of Aon. Prior to 2006, RSUs granted to employees were service-based. Beginning with awards granted in 2006, awards to employees may consist of performance-based RSUs and service-based RSUs. Service-based awards generally vest between five and ten years from the date of grant. For most employees, individuals whose incentive compensation is over \$50,000 are partially paid in RSUs, which vest ratably over three years. Stock awards are issued as they vest. With certain limited exceptions, any break in continuous employment will cause forfeiture of all unvested awards. The compensation cost associated with each stock award is amortized over the service period using the straight-line method. Dividend equivalents are paid on certain service-based RSUs, based on the initial grant amount.

Performance-based RSUs are granted to certain executives and key employees. Vesting of performance-based RSUs is contingent upon meeting various individual, divisional or company-wide performance conditions, including revenue generation or growth in revenue, pretax income or earnings per share over a three- to five-year period. The performance condition is not considered in the determination of grant date fair value of these awards. Compensation cost is recognized over the performance period, and in certain cases an additional vesting period, based on management's estimate of the number of units expected to vest. Compensation cost will be adjusted to reflect the actual number of shares earned at the end of the programs. The issuance of shares under these performance-based plans may range from 0-200% of the number of units granted, based on the plan. Dividend equivalents are generally not paid on performance-based RSUs.

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

	Six months ended June 30,	
	2008	2007
Potential RSUs to be issued based on current performance levels	5,708	4,971
Shares forfeited during the period	295	
RSUs awarded during the period		9
Unamortized expense, based on current performance levels	\$ 100	\$ 128

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

Six months ended June 30,	2008		2007	
	Shares	Fair Value	Shares	Fair Value
Non-vested at beginning of period	14,150	\$ 31	12,870	\$ 28
Granted	2,967	42	3,625	38
Vested	(3,315)	28	(1,702)	28
Forfeited	(285)	32	(233)	30
Non-vested at end of period	13,517	34	14,560	30

**Stock Options**

Options to purchase common stock are granted to certain executives and key employees of Aon and its subsidiaries, generally at 100% of market value on the date of grant. Generally, employees are required to complete two continuous years of service before the options begin to vest in increments until the completion of a 4-year period of continuous employment, although a number of options were granted that require five continuous years of service before all options would vest. The maximum contractual term on stock options is generally ten years from the date of grant.

Aon uses a lattice-binomial option-pricing model to value stock options. Lattice-based option valuation models utilize a range of assumptions over the expected term of the options. Expected volatilities are based on the average of the historical volatility of Aon's stock price and the implied volatility of traded options and Aon's stock. Aon uses historical data to estimate option exercise and employee terminations within the valuation model, stratifying between executives and key employees. The expected dividend yield assumption is based on the Company's historical and expected future dividend rate. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

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

Key employees	Three months ended June 30,	
	2008	2007
Weighted average volatility	30.2%	27.1%
Expected dividend yield	1.5%	1.6%
Risk-free rate	2.8%	4.6%
Weighted average expected life, in years	5.7	5.8
Weighted average estimated fair value per share	\$ 13.32	\$ 12.54

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	2008		Six months ended June 30,		2007	
	Executives	Key Employees	Executives	Key Employees	Executives	Key Employees
Weighted average volatility	29.3%	29.8%	26.2%	26.8%		
Expected dividend yield	1.3%	1.4%	1.7%	1.6%		
Risk-free rate	3.3%	3.1%	4.7%	4.6%		
Weighted average expected life, in years	5.1	5.7	4.6	5.8		
Weighted average estimated fair value per share	\$ 11.26	\$ 12.81	\$ 9.58	\$ 11.65		

A summary of Aon's stock options is as follows (shares in thousands):

	2008		Six months ended June 30,		2007	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Beginning outstanding	26,479	\$ 31	32,889	\$ 30		
Granted	1,497	44	1,809	40		
Exercised	(3,881)	29	(4,771)	28		
Forfeited and expired	(1,389)	41	(396)	32		
Outstanding at end of period	22,706	31	29,531	31		
Exercisable at end of period	12,827	30	17,374	31		

The weighted average remaining contractual life, in years, of outstanding options was 5.0 years and 5.4 years at June 30, 2008 and 2007, 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 \$45.94 as of June 30, 2008, which would have been received by the option holders had those option holders exercised their options as of that date. At June 30, 2008, the aggregate intrinsic value of options outstanding was \$334 million, of which \$200 million was exercisable. The aggregate intrinsic value of options exercised during the second quarter and six months ended June 30, 2008 were \$49 million and \$63 million, respectively, and for the second quarter and six months ended June 30, 2007 were \$40 million and \$59 million, respectively.

Unamortized deferred compensation expense, which includes both options and awards, amounted to \$348 million as of June 30, 2008, with a remaining weighted-average amortization period of approximately 2.1 years.

Cash received from the exercise of stock options was \$178 million and \$139 million during the six months ended June 30, 2008 and 2007, respectively. The tax benefit realized from stock options exercised in the first six months of 2008 and 2007 was \$16 million and \$25 million, respectively.

During the first six months ended June 30, 2008, a majority of option exercises and award vestings were satisfied through the reissuance of treasury shares.



4. Income Per Share

Income per share is calculated as follows:

(millions, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Income from continuing operations	\$ 168	\$ 183	\$ 347	\$ 348
Income from discontinued operations, net of tax	965	57	1,004	105
Net income for basic per share calculation	1,133	240	1,351	453
Interest expense on convertible debt securities, net of tax		2		3
Net income for diluted per share calculation	\$ 1,133	\$ 242	\$ 1,351	\$ 456
Basic shares outstanding	289	296	297	297
Effect of convertible debt securities		12		13
Common stock equivalents	16	14	16	13
Diluted potential common shares	305	322	313	323
Basic net income per share:				
Continuing operations	\$ 0.58	\$ 0.62	\$ 1.17	\$ 1.18
Discontinued operations	3.33	0.19	3.38	0.35
Net income	\$ 3.91	\$ 0.81	\$ 4.55	\$ 1.53
Diluted net income per share:				
Continuing operations	\$ 0.55	\$ 0.57	\$ 1.11	\$ 1.09
Discontinued operations	3.16	0.18	3.21	0.32
Net income	\$ 3.71	\$ 0.75	\$ 4.32	\$ 1.41

Certain common stock equivalents related to options were not included in the computation of diluted net income per share because those options exercise price was greater than the average market price of the common shares. The number of options excluded from the quarterly calculation was 2 million and 7 million at June 30, 2008 and 2007, respectively. For six months ended June 30, 2008 and 2007, the number of options excluded was 3 million and 7 million, respectively.

5. Comprehensive Income

The components of comprehensive income, net of tax, are as follows:

(millions)	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Net income	\$ 1,133	\$ 240	\$ 1,351	\$ 453
Net derivative losses	(22)		(19)	(2)
Net unrealized investment gains (losses)	7	(37)	20	(28)
Net foreign exchange translation	(60)	18	246	62
Change in postretirement plans	(19)	12	(11)	50



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\$ 1,039 \$ 233 \$ 1,587 \$ 535

The components of accumulated other comprehensive loss, net of tax, are as follows:

(millions)	June 30, 2008	December 31, 2007
Net derivative gains	5	\$ 24
Net unrealized investment gains	96	76
Net foreign exchange translation	530	284
Postretirement plans	(1,121)	(1,110)
Accumulated other comprehensive loss	\$ (490)	\$ (726)

## 6. Business Segments

Aon classifies its businesses into two operating segments: Risk and Insurance Brokerage Services and Consulting. Unallocated income and expense, when combined with the operating segments and after the elimination of intersegment revenues, totals to the amounts in the accompanying condensed consolidated financial statements.

The Risk and Insurance Brokerage Services segment consists primarily of Aon's retail and reinsurance brokerage operations, as well as related insurance services, including underwriting management, captive insurance company management services, and premium financing. The Consulting segment provides a broad range of consulting services. These services are delivered predominantly to corporate clientele utilizing two subsegments (Consulting Services and Outsourcing) that operate in the following practice areas: Consulting Services - employee benefits, compensation, management consulting, communications, strategic human resource consulting and financial advisory and litigation consulting, and Outsourcing - human resource outsourcing. Results relating to Aon's accident, health and life operations, which were previously reported in a separate Insurance Underwriting segment, have been reclassified to discontinued operations for all periods presented. The remaining operations that were previously reported in the Insurance Underwriting segment, which relate to property and casualty insurance that is in runoff, are now included in unallocated income and expense for all periods presented. Unallocated income consists of investment income from equity, fixed-maturity and short-term investments. These assets include non-income producing equities. Unallocated expenses include administrative costs not attributable to the operating segments, such as corporate governance costs. Interest expense represents the cost of worldwide debt obligations.

The accounting policies of the operating segments are the same as those described in this Form 10-Q and Aon's Annual Report on Form 10-K for the year ended December 31, 2007, except that the disaggregated financial results have been prepared using a management approach, which is consistent with the basis and manner in which Aon senior management internally disaggregates financial information for the purposes of assisting in making internal operating decisions. Aon evaluates performance based on stand-alone operating segment income before income taxes and generally accounts for intersegment revenue as if the revenue were from third parties, that is, considered by management to be at current market prices.

Revenues are generally attributed to geographic areas based on the location of the resources producing the revenues. Intercompany revenues and expenses are eliminated in computing consolidated revenues and operating expenses.

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Revenue by subsegment is as follows:

(millions)	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
<b>Risk management and insurance brokerage:</b>				
Americas	\$ 625	\$ 618	\$ 1,156	\$ 1,137
United Kingdom	223	218	384	374
Europe, Middle East & Africa	382	307	907	741
Asia Pacific	152	138	262	238
Reinsurance brokerage and related services	251	234	515	481
<b>Total Risk and Insurance Brokerage Services</b>	<b>1,633</b>	<b>1,515</b>	<b>3,224</b>	<b>2,971</b>
<b>Consulting services</b>				
Consulting services	279	269	568	533
Outsourcing	57	56	111	121
<b>Total Consulting</b>	<b>336</b>	<b>325</b>	<b>679</b>	<b>654</b>
Intersegment revenues	(7)	(6)	(16)	(16)
<b>Total operating segments</b>	<b>1,962</b>	<b>1,834</b>	<b>3,887</b>	<b>3,609</b>
Unallocated income	18	32	25	55
<b>Total revenue</b>	<b>\$ 1,980</b>	<b>\$ 1,866</b>	<b>\$ 3,912</b>	<b>\$ 3,664</b>

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Aon's operating segments' geographic revenue and income before income tax is as follows:

Three months ended June 30: (millions)	Risk and Insurance Brokerage Services		Consulting	
	2008	2007	2008	2007
Revenue				
United States	\$ 531	\$ 545	\$ 149	\$ 165
Americas, other than U.S.	206	176	37	31
United Kingdom	272	266	70	67
Europe, Middle East & Africa	452	373	62	50
Asia Pacific	172	155	18	12
Total revenue	\$ 1,633	\$ 1,515	\$ 336	\$ 325
Income before income tax	\$ 235	\$ 278	\$ 43	\$ 44

Six months ended June 30: (millions)	Risk and Insurance Brokerage Services		Consulting	
	2008	2007	2008	2007
Revenue				
United States	\$ 1,010	\$ 1,033	\$ 301	\$ 328
Americas, other than U.S.	364	306	70	61
United Kingdom	492	483	134	128
Europe, Middle East & Africa	1,060	885	138	112
Asia Pacific	298	264	36	25
Total revenue	\$ 3,224	\$ 2,971	\$ 679	\$ 654
Income before income tax	\$ 479	\$ 520	\$ 106	\$ 91

A reconciliation of segment income before income tax to income from continuing operations before provision for income tax is as follows:

(millions)	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Risk and Insurance Brokerage Services	\$ 235	\$ 278	\$ 479	\$ 520
Consulting	43	44	106	91
Segment income before income tax	278	322	585	611
Unallocated investment income	17	29	22	51
Unallocated expenses	(37)	(34)	(58)	(68)
Property & Casualty - revenues	1	3	3	4
Property & Casualty - expenses	(2)	(5)	(6)	(8)
Interest expense	(31)	(34)	(64)	(69)
Income from continuing operations before provision for income tax	\$ 226	\$ 281	\$ 482	\$ 521

7. Goodwill and Other Intangible Assets

Goodwill represents the excess of cost over the fair market value of net assets acquired. Goodwill is allocated to Aon's various reporting units, which are either its operating segments or one reporting level below the operating segments. Goodwill is not amortized but is instead subject to impairment testing at least annually. When a business entity is sold, goodwill is allocated to the disposed entity based on the fair value of that entity compared to the fair value of the reporting unit in which it was included.

The changes in the net carrying amount of goodwill by operating segment for the six months ended June 30, 2008 are as follows:

(millions)	Risk and Insurance Brokerage Services	Consulting	Total
Balance as of December 31, 2007	\$ 4,547	\$ 388	\$ 4,935
Goodwill acquired	11		11
Foreign currency revaluation and other	193	(2)	191
Balance as of June 30, 2008	\$ 4,751	\$ 386	\$ 5,137

Other intangible assets are classified into two categories:

- Customer Related and Contract Based include client lists as well as non-compete covenants, and
- Marketing, Technology and Other are all other purchased intangibles.

Other intangible assets by asset class are as follows:

(millions)	Customer Related and Contract Based	Marketing, Technology and Other	Total
As of June 30, 2008			
Gross carrying amount	\$ 244	\$ 363	\$ 607
Accumulated amortization	173	189	362
Net carrying amount	\$ 71	\$ 174	\$ 245

(millions)	Customer Related and Contract Based	Marketing, Technology and Other	Total
As of December 31, 2007			
Gross carrying amount	\$ 206	\$ 332	\$ 538

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Accumulated amortization		168		166		334
Net carrying amount	\$	38	\$	166	\$	204

Amortization expense for intangible assets for the years ended December 31, 2008, 2009, 2010, 2011 and 2012 is estimated to be \$59 million, \$45 million, \$39 million, \$33 million and \$25 million, respectively.

8. Restructuring Charges***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 Company estimates that the 2007 Plan will result in cumulative pretax charges totaling approximately \$360 million. Expenses will include workforce reduction and lease consolidation costs, asset impairments, as well as other expenses necessary to implement the restructuring initiative. Costs related to the restructuring are included in compensation and benefits, other general expenses, and depreciation and amortization in the accompanying condensed consolidated statements of income. The Company expects the restructuring and related expenses to affect continuing operations through the end of 2009.

Below is a summary of the 2007 Plan restructuring and related expenses by type incurred and estimated to be incurred through the end of the restructuring initiative.

(millions)	2007	First Quarter	Actual 2008 Second Quarter	Six Months	Total Incurred to Date	Estimated Total for Restructuring Period (1)
Workforce reduction	\$ 17	\$ 51	\$ 25	\$ 76	\$ 93	\$ 185
Lease consolidation	22	5	13	18	40	95
Asset impairments	4	2	12	14	18	52
Other costs associated with restructuring	3	2	3	5	8	28
Total restructuring and related expenses	\$ 46	\$ 60	\$ 53	\$ 113	\$ 159	\$ 360

(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 approved 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.

The following is a summary of actual restructuring and related expenses incurred and estimated to be incurred through the end of the restructuring initiative, by segment.

(millions)	2007	First Quarter	Actual 2008 Second Quarter	Six Months	Total Incurred to Date	Estimated Total for Restructuring Period
Risk and Insurance Brokerage Services	\$ 41	\$ 57	\$ 49	\$ 106	\$ 147	\$ 307

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Consulting		5		3		4		7		12		53
Total restructuring and related expenses	\$	46	\$	60	\$	53	\$	113	\$	159	\$	360

As of June 30, 2008, the Company's liabilities for the 2007 plan are as follows:



<b>(millions)</b>		
Balance at January 1, 2007	\$	
Expensed in 2007		42
Cash payments in 2007		(17)
Balance at December 31, 2007		25
Expensed in 2008		99
Cash payments in 2008		(47)
Balance at June 30, 2008	\$	77

### **2005 Restructuring Plan**

In 2005, the Company commenced a restructuring plan that resulted in cumulative pretax charges totaling \$366 million, of which \$25 million and \$1 million was recorded in continuing and discontinued operations, respectively, in second quarter 2007. \$34 million and \$2 million was recorded in continuing and discontinued operations, respectively, for the six months ended June 30, 2007. Restructuring costs included \$15 million and \$18 million in workforce reductions, \$8 million and \$11 million in lease consolidation costs, \$1 million and \$3 million of asset impairments and \$2 million and \$4 million of other expenses for the second quarter and six months ended June 30, 2007, respectively. These costs are included in compensation and benefits, other general expenses and depreciation and amortization in the accompanying condensed consolidated statements of income.

Restructuring and related expenses incurred by segment were as follows for the second quarter and six months ended June 30, 2007, respectively: Risk and Insurance Brokerage Services - \$21 million and \$28 million and Consulting - \$4 million and \$6 million.

The following table sets forth the activity related to the 2005 restructuring plan liabilities:

<b>(millions)</b>		
Balance at December 31, 2006	\$	134
Expensed in 2007		38
Cash payments in 2007		(110)
Foreign currency revaluation		1
Balance at December 31, 2007		63
Cash payments in 2008		(22)
Foreign exchange translation		1
Balance at June 30, 2008	\$	42

Aon's unpaid restructuring liabilities are included in accounts payable and accrued liabilities as well as other non-current liabilities in the condensed consolidated statements of financial position.

9. Capital Stock

During the first six months of 2008, Aon issued 47,000 new shares of common stock for employee benefit plans. In addition, Aon reissued approximately 6.2 million shares of treasury stock for employee benefit programs and 183,000 shares in connection with the employee stock purchase plans.

In 2007, Aon announced that its Board of Directors had increased the authorized repurchase program to \$4.6 billion. 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. The Company repurchased approximately 24.5 million shares at a cost of \$1.1 billion in second quarter 2008. For the first six months of 2008, the Company repurchased approximately 33.4 million shares at a cost of \$1.5 billion. In the third quarter 2008 through August 4, the Company had repurchased 7.3 million shares at a cost of \$333 million.

There are also 22.4 million shares of common stock held in treasury at June 30, 2008 which are restricted as to their reissuance.

10. Disposal of Operations

In fourth quarter 2007, the Company announced that it had signed separate definitive agreements to sell its Combined Insurance Company of America ( CICA ) and Sterling Life Insurance Company ( Sterling ) subsidiaries. These two subsidiaries were previously included in the Insurance Underwriting segment. On April 1, 2008, the CICA business was sold to ACE Limited for cash consideration of \$2.56 billion, and Sterling was sold to Munich Re Group for cash consideration of \$352 million. Additionally, CICA paid a \$325 million dividend to Aon before the sale transaction was completed. A pretax gain of \$1.4 billion was recognized on the sale of these businesses in the second quarter of 2008. The final purchase price is subject to adjustment based on, among other things, agreed-to net worth calculations.

Aon's insurance subsidiaries have been involved in both the cession and assumption of reinsurance with other companies. Aon's reinsurance consists primarily of certain property and casualty lines that are in runoff. Aon's insurance subsidiaries remain liable to the extent that the reinsurers are unable to meet their obligations. In connection with the sale of Aon Warranty Group ( AWG ) in 2006, Aon sold Virginia Surety Company ( VSC ). VSC remains liable to policyholders to the extent reinsurers of the property and casualty business do not meet their obligations. Aon has provided a corporate guarantee with respect to these reinsurance recoverables, which total \$719 million at June 30, 2008. The estimated fair value of the guarantee was \$10 million at June 30, 2008.

*A&A Discontinued Operations*

Prior to its acquisition by Aon, Alexander & Alexander Services, Inc. ( A&A ) discontinued its property and casualty insurance underwriting operations in 1985, some of which were then placed into run-off, with the remainder sold in 1987. In connection with those sales, A&A provided indemnities to the purchaser for various estimated and potential liabilities, including provisions to cover future losses attributable to insurance pooling arrangements, a stop-loss reinsurance agreement, and actions or omissions by various underwriting agencies previously managed by an A&A subsidiary.

As of June 30, 2008, the liabilities associated with the foregoing indemnities were included in other non-current liabilities in the condensed consolidated statements of financial position. Such liabilities amounted to \$66 million. Reinsurance recoverables and other assets related to these liabilities are \$83 million. The remaining insurance liabilities represent estimates of known and future claims expected to be settled over the next 20 to 30 years, principally with regard to asbestos, pollution and other health exposures. Although these insurance liabilities represent a best estimate of the probable liabilities, adverse

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developments may occur given the nature of the information available and the variables inherent in the estimation processes.

The operating results of the businesses that are classified as discontinued operations are as follows:

(millions)	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Revenues: CICA and Sterling	\$	\$ 622	\$ 677	\$ 1,205
Pretax income:				
Operations:				
CICA and Sterling	\$	\$ 84	\$ 66	\$ 155
Other		(1)	(1)	1
		(1)	65	156
Gain on sale		1,429	3	1,426
Total	\$	\$ 1,428	\$ 87	\$ 1,491
After-tax income:				
Operations	\$	(6)	\$ 55	\$ 35
Sale		971	2	969
Total	\$	\$ 965	\$ 57	\$ 1,004

11. Net Periodic Benefit Cost

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.

(millions) Three months ended June 30,	U.S.		International	
	2008	2007	2008	2007
Service cost	\$ 10	\$ 14	\$ 7	\$ 6
Interest cost	27	24	73	68
Expected return on plan assets	(32)	(30)	(78)	(78)
Amortization of prior service costs	(3)	(3)		
Amortization of net loss	5	11	10	10
Net periodic benefit cost	\$ 7	\$ 16	\$ 12	\$ 6

(millions) Six months ended June 30,	U.S.		International	
	2008	2007	2008	2007
Service cost	\$ 22	\$ 28	\$ 13	\$ 22
Interest cost	53	49	148	134
Expected return on plan assets	(64)	(60)	(158)	(154)
Amortization of prior service cost	(7)	(7)		
Amortization of net loss	11	22	20	30
Net periodic benefit costs	\$ 15	\$ 32	\$ 23	\$ 32

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In connection with the sale of CICA in the second quarter of 2008, a curtailment gain of \$12 million was recognized in discontinued operations.

Aon previously disclosed in its 2007 financial statements that it expected to contribute \$8 million and \$187 million in 2008 to its U.S. and material international defined benefit pension plans, respectively. Based on current rules and assumptions, Aon now plans to contribute \$181 million to its material international defined benefit pension plans. As of June 30, 2008, contributions of \$4 million have been made to the U.S. pension plans and \$100 million to its material international pension plans.

12. Fair Value

Aon adopted the provisions of FASB Statement No. 157, *Fair Value Measurements* and Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* as of January 1, 2008. Both standards address aspects of fair-value accounting. Statement No. 157 defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair-value measurements. Under Statement No. 159, the Company has the ability to elect to report most financial instruments and certain other items at fair value on an instrument-by-instrument basis with changes in fair value reported in earnings. After the initial adoption, the election is made at the acquisition of an eligible financial asset, financial liability, or firm commitment or when certain specified reconsideration events occur. The fair value election may not be revoked once an election is made. The implementation of Statement No. 157 did not have a material impact on the condensed consolidated financial statements. When adopting Statement No. 159, the Company did not elect to report any additional financial instruments at fair value.

Statement No. 157 establishes a hierarchy of fair value measurements based on whether the inputs to those measurements are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions.

The fair-value hierarchy consists of three levels:

- Level 1 Quoted prices for identical instruments in active markets.
- Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.
- Level 3 Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

This hierarchy requires the use of observable market data when available.

Aon measures fair value using the procedures set forth below for all assets and liabilities measured at fair value, irrespective of whether they are carried at fair value.

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When available, the Company generally uses quoted market prices to determine fair value, and classifies such items in Level 1. In some cases where a market price is available, the Company will make use of acceptable practical expedients (such as matrix pricing) to estimate fair value, in which case the items are classified in Level 2.

If quoted market prices are not available, fair value is based upon internally developed valuation techniques that use, where possible, current market-based or independently sourced market parameters, such as interest rates, currency rates, option volatilities, etc. Items valued using such internally generated valuation techniques are classified according to the lowest level input that is significant to the

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valuation. Thus, an item may be classified in Level 3 even though there may be some significant inputs that are observable.

The following table presents, for each of the fair-value hierarchy levels, the Company's assets and liabilities that are measured at fair value on a recurring basis at June 30, 2008.

(millions)	Fair Value Measurements at June 30, 2008 Using			
	Balance at June 30, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Short-term investments including money market funds and highly liquid debt securities	\$ 3,158	\$	\$ 3,158	\$
Other investments	291		129	162
Derivatives	80		76	4
Retained interests	106			106
<b>Liabilities:</b>				
Derivatives	14		14	
Guarantees	10			10

The following table presents the changes in the Level 3 fair-value category for the three months ended June 30, 2008.

(millions)	Fair Value Measurements Using Level 3 Inputs			
	Other Investments	Derivatives	Retained Interests	Guarantees
Balance at March 31, 2008	\$ 163	\$ 1	\$ 63	\$ (14)
<b>Total gains (losses):</b>				
Included in earnings		(1)	16	4
Included in other comprehensive income	(1)		(3)	
Purchases, issuances and settlements		4	30	
Balance at June 30, 2008	\$ 162	\$ 4	\$ 106	\$ (10)

The amount of total gains (losses) for the period included in earnings attributable to the change in unrealized losses relating to assets or liabilities held at June 30, 2008

	\$	\$	(1)	\$	16	\$	4
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Gains (losses), both realized and unrealized, included in earnings for the three months ended June 30, 2008 are as follows:

(millions)	Other general expenses	Commissions, fees and other	Income from Discontinued Operations
Total gains (losses) included in earnings	\$ (1)	\$ 16	\$ 4
Change in unrealized gains (losses) relating to assets or liabilities held at June 30, 2008	(1)	16	4





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The following table presents the changes in the Level 3 fair-value category for the six months ended June 30, 2008.

(millions)	Fair Value Measurements Using Level 3 Inputs			
	Other Investments	Derivatives	Retained Interests	Guarantees
Balance at December 31, 2007	\$ 168	\$ 1	\$ 103	\$ (12)
Total gains (losses):				
Included in earnings		(3)	33	2
Included in other comprehensive income	(6)		2	
Purchases, issuances and settlements		6	(32)	
Balance at June 30, 2008	\$ 162	\$ 4	\$ 106	\$ (10)

The amount of total gains (losses) for the period included in earnings attributable to the change in unrealized losses relating to assets or liabilities held at June 30, 2008

\$	\$	(3)	\$	33	\$	2
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Gains (losses), both realized and unrealized, included in earnings for the six months ended June 30, 2008 are as follows:

(millions)	Other general expenses	Commissions, fees and other	Income from Discontinued Operations
Total gains (losses) included in earnings	\$ (3)	\$ 33	\$ 2
Change in unrealized gains (losses) relating to assets or liabilities held at June 30, 2008	(3)	33	2

### 13. Contingencies

Aon and its subsidiaries are subject to numerous claims, tax assessments, lawsuits and proceedings that arise in the ordinary course of business. The damages claimed in these matters are or may be substantial, including, in many instances, claims for punitive, treble or extraordinary damages. Aon has purchased errors and omissions ( E&O ) insurance and other appropriate insurance to provide protection against losses that arise in such matters. Accruals for these items, 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.

In 2004, Aon, other insurance brokers, insurers and numerous other industry participants received subpoenas and other requests for information from the office of the Attorney General of the State of New York and from other states relating to certain practices in the insurance industry. On March 4, 2005, Aon entered into an agreement (the Settlement Agreement ) with the Attorney General of the State of New York, the Superintendent of Insurance of the State of New York, the Attorney General of the State of Connecticut, the Illinois Attorney General and the Director of the Division of Insurance, Illinois Department of Financial and Professional Regulation (collectively, the State Agencies ) to resolve all the issues related to investigations conducted by the State Agencies. The 2005 Settlement Agreement, under which Aon distributed funds to certain clients and implemented business reforms, has been described in detail in Aon s previous financial filings. Aon has also entered into a comprehensive settlement agreement, under the auspices of the NAIC, with numerous other states that incorporates these same business reforms.



Purported clients have also filed civil litigation against Aon and other companies under a variety of laws and legal theories relating to broker compensation practices and other issues under investigation by New York and other states. As previously reported, a putative class action styled *Daniel v. Aon (Affinity)* has been pending in the Circuit Court of Cook County, Illinois since August 1999. In March 2005, the Court gave preliminary approval to a nationwide class action settlement under which Aon agreed to pay a total of \$38 million to its policyholders. The Court granted final approval to the settlement in March 2006. Parties that objected to the settlement appealed, and in June 2008 the Illinois Appellate Court affirmed the approval of the settlement.

Beginning in June 2004, a number of other putative class actions were filed against Aon and other companies by purported classes of clients 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. Plaintiffs have appealed these dismissals. Aon believes it has meritorious defenses in all of these cases and intends to vigorously defend itself against these claims. The outcome of these lawsuits, and any losses or other payments that may occur as a result, cannot be predicted at this time.

Beginning in late October 2004, several putative securities class actions were filed against Aon in the U.S. District Court for the Northern District of Illinois. Also beginning in late October 2004, several putative ERISA class actions were filed against Aon in the U.S. District Court for the Northern District of Illinois. Aon believes it has meritorious defenses in all of these cases and intends to vigorously defend itself against these claims. The outcome of these lawsuits, and any losses or other payments that may occur as a result, cannot be predicted at this time. With respect to the various securities and ERISA class actions, we are unable to estimate a range of possible losses, as these actions have not yet progressed to the stages where damages, if any, can be estimated.

Following inquiries from regulators, the Company commenced an internal review of its compliance with certain U.S. and non-U.S. anti-bribery laws, including the U.S. Foreign Corrupt Practices Act ( FCPA ). An outside law firm with significant experience in the area is overseeing the review. Certain governmental agencies, including the U.K. Financial Services Authority, the City of London police, the U.S. Securities and Exchange Commission, and the U.S. Department of Justice, are also investigating 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 these matters will be concluded, or what regulatory or other outcomes may result.

A financial institution in the U.K. called Standard Life Assurance Ltd. brought an action in London Commercial Court against Aon seeking more than £50 million (\$99 million at June 30, 2008 exchange rates) for alleged errors or omissions in the placement of a professional indemnity policy with certain underwriters. In a preliminary decision issued on February 13, 2008, the court construed the relevant policy language to excuse underwriters from paying Standard Life and concluded that Aon was negligent in not seeking changes to the language. Aon filed an interlocutory appeal of this preliminary decision. In July 2008, Aon reached a settlement with underwriters under which underwriters agreed to pay a portion of the ultimate recovery by Standard Life in exchange for Aon dropping its appeal of the preliminary decision. In subsequent proceedings in the Commercial Court, Aon will vigorously contest Standard Life's claims based on a variety of legal and factual arguments. Aon has a potential negligence claim against a different third party which provided advice with respect of the relevant policy language, and Aon further believes that, as a

result of an indemnity given to Aon by a third party, Aon is entitled to indemnification in whole or part for its losses in this matter.

A putative class action, *Buckner v. Resource Life*, is pending in state court in Columbus, Georgia against a former subsidiary of Aon, Resource Life Insurance Company. The complaint alleges that Resource Life, which wrote policies insuring repayment of auto loans, was obligated to identify and return unearned premium to policyholders whose loans terminated before the end of their scheduled terms. In connection with the sale of Resource Life in 2006, Aon agreed to indemnify Resource Life's buyer in certain respects relating to this action. Aon believes that Resource Life has meritorious defenses and is vigorously defending this action. The outcome of the action, and the amount of any losses or other payments that may result, cannot be predicted at this time.

VSC, a former property and casualty underwriting subsidiary of Aon, is engaged in arbitration and litigation proceedings with Applied Underwriters, Inc. ( Applied ), a managing general agent ( MGA ). In these proceedings, Applied seeks approximately \$190 million for, *inter alia*, an alleged diminution in Applied's value following VSC's termination of an MGA contract between the parties. In connection with the sale of AWG (which includes VSC) in 2006, Aon agreed to retain certain obligations related to VSC's property and casualty underwriting business, now in runoff, including this matter. Aon believes that VSC has meritorious defenses and is vigorously defending the arbitration and litigation. The outcome of the action, and the amount of any losses or other payments that may result, cannot be predicted at this time.

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.

#### 14. Premium Financing Operations

Some of Aon's U.S., U.K., Canadian, and Australian subsidiaries originate short-term loans (generally with terms of 12 months or less) to businesses to finance their insurance premium obligations, and then sell these premium finance agreements in securitization transactions that meet the criteria for sale accounting under FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*. In the U.S. and U.K., premium finance agreements are sold to special purpose entities ( SPEs ), which are considered qualified special purpose entities ( QSPEs ), as defined by Statement No. 140. The QSPEs fund their purchases of premium finance agreements by selling undivided beneficial interests in the agreements to multi-seller commercial paper conduit SPEs sponsored by unaffiliated banks ( Bank SPEs ). In Canada and Australia, undivided interests in the premium finance agreements are sold directly to Bank SPEs. The Bank SPEs are variable interest entities as defined by FIN 46R.

The QSPEs used in the U.S. and U.K are not consolidated in Aon's financial statements because the criteria for sale accounting have been met under Statement No. 140.

For the Canadian and Australian sales, the Company has analyzed qualitative and quantitative factors related to the transactions with the Bank SPEs and have determined that non-consolidation of the Bank SPEs is appropriate in accordance with FIN 46R because Aon is not their primary beneficiary. Specific factors considered include the fact that Aon is not the sponsor of any of the Bank SPEs, various other unaffiliated companies sell receivables to the Bank SPEs, and unaffiliated third parties have either made



substantial equity investments in the Bank SPEs, hold voting control of the Bank SPEs, or generally have the risks and rewards of ownership of the assets of the Bank SPEs through liquidity support agreements or other arrangements involving significant variable interests.

Aon's variable interest in the Bank SPEs in these jurisdictions is limited to the retained interests in premium finance agreements sold to the Bank SPEs. The Company reviews all material off-balance sheet transactions annually or whenever a reconsideration event occurs for the continued propriety of its accounting.

Pursuant to the sale agreements, the total amount advanced by the Bank SPEs on premium finance agreements sold to them at any one time is limited by the sale agreements to \$1.8 billion. The Bank SPEs had advanced \$1.3 billion and \$1.4 billion at June 30, 2008 and December 31, 2007, respectively, on portfolios sold to the Bank SPEs of \$1.4 billion and \$1.5 billion at June 30, 2008 and December 31, 2007, respectively.

Aon records gains on the sale of premium finance agreements. When Aon calculates the gain, all costs expected to be incurred for the relevant Bank SPEs are included. The gains, which are included in commissions, fees and other revenue in the condensed consolidated statements of income, were \$15 million and \$16 million for the three months ended June 30, 2008 and 2007, respectively, and \$32 million and \$31 million for the six months ended June 30, 2008 and 2007, respectively.

Aon records its retained interest in the sold premium finance agreements at fair value, and reports it in receivables in the condensed consolidated statements of financial position. Aon estimates fair value by discounting estimated future cash flows using discount rates that are commensurate with the underlying risk, expected future prepayment rates, and credit loss estimates.

Aon also retains servicing rights for sold agreements, and earns servicing fee income over the servicing period. Because the servicing fees represent adequate compensation for the servicing of the receivables, the Company has not recorded any servicing assets or liabilities.

The third-party bank sponsors or other participants in the Bank SPEs provide the liquidity support and bear the credit risks on the receivables, subject to limited recourse, principally in the form of over-collateralization provided by Aon (and other sellers) as required by the sales agreements. The retained interest in the sold receivables represents Aon's maximum exposure to illiquidity and credit-related losses, and was approximately \$142 million at June 30, 2008. The Company continually reviews the retained interest in the sold portfolio, taking into consideration credit loss trends in the sold portfolio, conditions in the credit markets and other factors, and adjusts its carrying value accordingly.

With the exception of the Australian sales agreements, all the other sales agreements require Aon to meet the following covenants:

- consolidated net worth, as defined, of at least \$2.5 billion,
- consolidated EBITDA to consolidated net interest of at least 4 to 1, and
- consolidated indebtedness to consolidated EBITDA of no more than 3 to 1.

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Aon intends to renew these sales agreements as they expire. The Company faces the risk that pricing for liquidity or other program costs from the Bank SPEs will increase upon renewal. Moreover, as Aon's ability to originate and fund new premium finance agreements is dependent on the pass-through funding costs of the Bank SPEs, disruptions in the markets through which the Bank SPEs obtain funds could have a significant impact on Aon's premium finance results of operations and cash flows. The



Company also faces the risk the Bank SPEs will be unable to provide the liquidity or will become an unreliable source of the liquidity necessary to fund new premium finance agreements. Such an occurrence would require the Company to consider alternate sources of funding, including other forms of off-balance sheet as well as on-balance sheet financing, or discontinue the origination of premium finance agreements. Additionally, if there were adverse bank, regulatory, tax, or accounting rule changes, Aon's access to the conduit facilities and special purpose vehicles could be affected.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Overview**

This Management's Discussion and Analysis is divided into six sections. First, key recent events are described that have affected or will affect our financial results during 2008. We then review our consolidated results and segments with comparisons for the second quarter 2008 to the corresponding period in 2007. We then discuss our financial condition and liquidity as well as information on our off balance sheet arrangements. The final section addresses certain factors that can influence future results.

The outline for our Management's Discussion and Analysis is as follows:

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Restructuring Initiatives

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Change in Chairman of Aon's Board of Directors

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## KEY RECENT EVENTS

### Acquisitions and Divestitures

In December 2007, we announced that we signed definitive agreements to sell our CICA and Sterling subsidiaries. These two subsidiaries were previously included in an Insurance Underwriting segment. Both of these transactions were completed on April 1, 2008. In more detail:

- CICA was sold to ACE Limited for cash consideration of \$2.56 billion. We also received a one-time dividend of \$325 million from CICA prior to the close of the transaction.
- Sterling was sold to Munich Re Group for cash consideration of \$352 million.

The final purchase price is subject to adjustment based on, among other things, agreed-to net worth calculations.

We have included CICA and Sterling's operating results through the date of sale in discontinued operations. We recorded a pretax gain on these sales of approximately \$1.4 billion in the second quarter 2008.

In first quarter 2008, we agreed to buy substantially all of A. J. Gallagher's U.S. and U.K. reinsurance brokerage business for \$30 million in cash, plus the revenue produced by the acquired businesses in the first year after the deal closes. This transaction will give us a larger presence as a reinsurance broker for accident, health and life insurance in the U.S., and for accident and specialty casualty and financial institutions insurance in the U.K.

### Restructuring Initiatives

In 2007 we announced a global restructuring plan intended to create a more streamlined organization and reduce expense growth to better serve clients. We estimate this restructuring plan will result in cumulative pretax charges totaling approximately \$360 million. Expenses will include workforce reduction and lease consolidation costs, asset impairments, and other expenses necessary to implement the restructuring initiative. We recorded approximately \$159 million of restructuring and related expenses through June 30, 2008, including \$53 million and \$113 million in the second quarter and six months of 2008, respectively. We expect the remaining restructuring and related expenses to affect continuing operations through the end of 2009. We anticipate that these initiatives will lead to annualized cost-savings of approximately \$50-\$70 million in 2008, \$175-\$200 million in 2009, and \$240 million by 2010. However, there can be no assurances that we will achieve the targeted savings.

Based on our current projections, the 2007 restructuring plan eliminates an estimated 2,400 jobs, 300 fewer jobs than previously disclosed, beginning in the third quarter of 2007 and continuing into 2009. To date, approximately 600 jobs have been eliminated. We also expect to close or consolidate several offices resulting in sublease losses or lease buy-outs. These efforts will also trigger asset impairments in the form of

accelerated amortization of the remaining leasehold improvements.

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The following table summarizes 2007 restructuring and related expenses by type incurred and estimated to be incurred through the end of the restructuring initiative.

(millions)	2007	First Quarter	Actual 2008 Second Quarter	Six Months	Total Incurred to Date	Estimated Total for Restructuring Period (1)
Workforce reduction	\$ 17	\$ 51	\$ 25	\$ 76	\$ 93	\$ 185
Lease consolidation	22	5	13	18	40	95
Asset impairments	4	2	12	14	18	52
Other costs associated with restructuring	3	2	3	5	8	28
Total restructuring and related expenses	\$ 46	\$ 60	\$ 53	\$ 113	\$ 159	\$ 360

(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 approved include, but are not limited to, changes in severance calculations, changes in the assumptions underlying our sublease loss calculations due to changing market conditions, and changes in our overall analysis that might cause us to add or cancel component initiatives.

Workforce reductions reflect a cash expense, though we may recognize the expense prior to paying for the expenditure. Asset impairments are non-cash expenses. Lease consolidation accruals reflect the present value of future cash flows. Other costs are cash expenses, which are expensed in the period in which they are incurred.

The following table summarizes actual restructuring and related costs incurred and estimated to be incurred through the end of the restructuring initiative, by segment.

(millions)	2007	First Quarter	Actual 2008 Second Quarter	Six Months	Total Incurred to Date	Estimated Total for Restructuring Period
Risk and Insurance	\$ 41	\$ 57	\$ 49	\$ 106	\$ 147	\$ 307
Brokerage Services	5	3	4	7	12	53
Consulting						
Total restructuring and related expenses	\$ 46	\$ 60	\$ 53	\$ 113	\$ 159	\$ 360

**Share Repurchase Program**

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We are currently authorized to repurchase \$4.6 billion of Aon's common stock. Pursuant to this program, during the first six months of 2008, we repurchased approximately 33.4 million shares at a cost of \$1.5 billion. The volume of share repurchases increased in the second quarter, as we used the proceeds received from the sales of CICA and Sterling to repurchase shares. Since the program began, through June 30, 2008, we have now repurchased 81.5 million shares at a cost of \$3.3 billion.

Any repurchased shares are available for issuance through employee stock plans and for other corporate purposes. Of the shares repurchased since the program's inception, we have reissued approximately 20.2 million shares for stock options, stock awards and other benefit plans.

### **Change in Chairman of Aon's Board of Directors**

Patrick Ryan, the Executive Chairman of Aon's Board of Directors, retired from Aon on August 1, 2008. Mr. Ryan founded Aon, which had its origin in a small insurance agency he started in 1964.

Mr. Ryan is succeeded by Lester B. Knight, an independent director since 1999. Mr. Knight was elected Non-Executive Chairman of Aon's Board of Directors on July 18, 2008.

## CRITICAL ACCOUNTING POLICIES

There have been no changes in our critical accounting policies, which include restructuring, pensions, contingencies, policy liabilities, valuation of investments, intangible assets, share-based payments and income taxes, as discussed in our 2007 Annual Report on Form 10-K.

## REVIEW OF CONSOLIDATED RESULTS

### General

In our discussion of operating results, we sometimes refer to supplemental information derived from our consolidated financial information.

We use supplemental information related to organic revenue growth to help us and our investors evaluate business growth from existing operations. Organic revenue growth excludes the impact of foreign exchange rate changes, acquisitions, divestitures, transfers between business units, investment income, reimbursable expenses, and unusual items. Supplemental organic revenue growth information 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.

Because we conduct business in over 120 countries, foreign exchange rate fluctuations have an 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, we have isolated the impact of the change in currencies between periods by providing percentage changes on a comparable currency basis for revenue, and have disclosed the effect on earnings per share. We have also provided this form of reporting to give financial statement users more meaningful information about our operations.

Some tables in the segment discussions reconcile organic revenue growth percentages to the reported revenue growth percentages for the segments and sub-segments. We separately disclose the impact of foreign currency as well as the impact from acquisitions, divestitures, and transfers of business units, which represent the most significant reconciling items. In an all other category, we total other reconciling items that are not generally significant individually or in the aggregate. If there is a significant individual reconciling item within the all other category, we provide additional disclosure in a footnote.



**Consolidated Results**

The following table and commentary provide selected consolidated financial information.

(millions)	Second Quarter Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
<b>Revenue:</b>				
Commissions, fees and other	\$ 1,912	\$ 1,776	\$ 3,785	\$ 3,505
Investment income	68	90	127	159
Total revenue	1,980	1,866	3,912	3,664
<b>Expenses:</b>				
Compensation and benefits	1,155	1,109	2,321	2,162
Other general expenses	512	425	943	848
Depreciation and amortization	58	46	108	93
Total operating expenses	1,725	1,580	3,372	3,103
<b>Operating income</b>	<b>255</b>	<b>286</b>	<b>540</b>	<b>561</b>
Interest expense	31	34	64	69
Other income	(2)	(29)	(6)	(29)
<b>Income from continuing operations before provision for income tax</b>	<b>\$ 226</b>	<b>\$ 281</b>	<b>\$ 482</b>	<b>\$ 521</b>
<b>Pretax margin - continuing operations</b>	<b>11.4%</b>	<b>15.1%</b>	<b>12.3%</b>	<b>14.2%</b>

**Revenue**

*Commissions, fees and other* increased by \$136 million or 8% on a quarterly basis and \$280 million or 8% on a year-to-date basis. The impact of foreign currency translation and organic growth in the Risk and Insurance Brokerage Services and Consulting segments primarily drove the increases in both periods. A decline in outsourcing revenue in our Consulting segment partially offset our year-to-date growth.

*Investment income* decreased \$22 million or 24% on a quarterly basis and \$32 million or 20% on a year-to-date basis as a result of lower non-liquidating distributions from our Private Equity Partnership Structures I, LLC ( PEPS I ) investment, which declined \$26 million and \$37 million from 2007 on a quarterly and year-to-date basis, respectively. Partially offsetting the lower distributions from PEPS I is increased interest income in the second quarter resulting from investing the proceeds from the sales of CICA and Sterling.

**Expenses**

*Compensation and benefits* increased \$46 million or 4% on a quarterly basis and \$159 million and 7% on a year-to-date

basis. Driving the increases in both periods were the impact of foreign currency translation and higher restructuring charges. Partially offsetting these increases are benefits from our 2007 and 2005 restructuring programs, and on a year-to-date basis, lower pension expense from the 2007 changes to our U.K. defined benefit pension plans.

*Other general expenses* increased \$87 million or 20% on a quarterly basis and \$95 million or 11% on a year-to-date basis. The increases were driven by the impact of foreign currency translation, higher E&O and restructuring expenses, and costs related to anti-bribery investigations and related compliance initiatives. On a year-to-date

basis, last year's expenses included \$21 million for the settlement of litigation in early 2007 for acquired employees in our U.K. reinsurance business.

*Depreciation and amortization expense* increased \$12 million or 26% on a quarterly basis and \$15 million or 16% on a year-to-date basis due to restructuring-related impairments and foreign exchange translations, partially offset by lower software amortization.

*Interest expense* decreased \$3 million on a quarterly basis and \$5 million on a year-to-date basis, due primarily to the redemption of our 3.5% Senior Convertible Debentures during 2007.

*Other income* decreased \$27 million on a quarterly basis and \$23 million on a year-to-date basis primarily due to larger gains on the sales of businesses in 2007 versus 2008.

#### ***Income from Continuing Operations Before Provision for Income Tax***

Income from continuing operations before provision for income tax decreased \$55 million or 20% to \$226 million on a quarterly basis and \$39 million or 7% for the six months ended June 30, 2008. The decrease is mainly attributable to higher restructuring costs and higher gains on the sale of businesses in 2007, which more than offset the favorable impacts of foreign currency translation and organic revenue growth.

#### ***Income Taxes***

The effective tax rate for continuing operations was 25.7% for second quarter 2008 compared to 34.9% for second quarter 2007. The effective tax rate for continuing operations was 28.0% and 33.2% for the six month periods ended June 30, 2008 and 2007, respectively. The rates for all reported periods except second quarter 2007 were favorably impacted by the resolution of prior year tax items. In the second quarter 2008, the FIN 48 unrecognized tax position balance was reduced by \$7 million due to the favorable settlement of prior year tax issues in the U.K. Our 2008 tax rate also reflects the benefit of statutory rate reductions in key operating jurisdictions, particularly the U.K., and the projected geographic distribution of earnings.

#### ***Income from Continuing Operations***

Income from continuing operations for second quarter 2008 and 2007 was \$168 million and \$183 million, respectively. Basic and diluted income per share in the second quarter 2008 was \$0.58 and \$0.55, respectively, versus \$0.62 and \$0.57 for basic and diluted income per share in 2007, respectively. Income from continuing operations for six months 2008 and 2007 was \$347 million and \$348 million, respectively. Basic and diluted income per share for six months 2008 was \$1.17 and \$1.11, respectively, versus \$1.18 and \$1.09 for basic and diluted income per share in 2007, respectively. Income from continuing operations in 2008 included \$0.06 and \$0.13 per share for foreign currency translation

gains for the second quarter and six months, respectively. Our basic and diluted per share calculation for both the quarter and six months 2008 was favorably impacted by lower shares outstanding as a result of our share repurchase program.

***Discontinued Operations***

Second quarter income from discontinued operations was \$965 million (\$3.33 and \$3.16 per basic and diluted share, respectively) for 2008 versus \$57 million for 2007 (\$0.19 and \$0.18 per basic and diluted share, respectively). Six months income from discontinued operations was \$1,004 million (\$3.38 and \$3.21 per basic and diluted share, respectively) for 2008 versus \$105 million for 2007 (\$0.35 and \$0.32 per basic and diluted share, respectively). Results for 2007 principally reflect operating results from our CICA and Sterling businesses, while results for 2008 primarily reflect first quarter operating results from our CICA and Sterling businesses and a \$1.0 billion after-tax gain from the sales of these operations on April 1, 2008.

**REVIEW BY SEGMENT****General**

We classify our businesses into two operating segments: Risk and Insurance Brokerage Services and Consulting. Our operating segments are identified as those that:

- report separate financial information, and
- are evaluated regularly when we are deciding how to allocate resources and assess performance.

Segment revenue includes investment income generated by invested assets of that segment, as well as the impact of related derivatives. Our Risk and Insurance Brokerage Services and Consulting businesses invest funds held on behalf of clients and operating funds in short-term obligations.

The following table and commentary provide selected financial information on the operating segments.

(millions)	Second Quarter Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
<b>Operating segment revenue: (1) (2)</b>				
Risk and Insurance Brokerage Services	\$ 1,633	\$ 1,515	\$ 3,224	\$ 2,971
Consulting	336	325	679	654
<b>Income before income tax:</b>				
Risk and Insurance Brokerage Services	\$ 235	\$ 278	\$ 479	\$ 520
Consulting	43	44	106	91
<b>Pretax Margins:</b>				
Risk and Insurance Brokerage Services	14.4%	18.3%	14.9%	17.5%
Consulting	12.8%	13.5%	15.6%	13.9%

(1) Intersegment revenues of \$7 million and \$6 million were included in second quarter 2008 and 2007, respectively.

(2) Intersegment revenues of \$16 million were included in both six months ending June 30, 2008 and 2007.

The following table reflects investment income earned by the operating segments, which is included in the foregoing results.

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(millions)	Second Quarter Ended		Six Months Ended	
	2008	June 30, 2007	2008	June 30, 2007
Risk and Insurance Brokerage Services	\$ 49	\$ 53	\$ 100	\$ 98
Consulting	1	6	2	7

Risk and Insurance Brokerage Services investment income decreased \$4 million from second quarter 2007 and increased \$2 million on a year-to-date basis. The quarterly decrease is due to a 2007 gain from the sale of an investment and lower interest rates, partially offset by a weaker dollar and higher invested balances. On a year-to-date basis the weaker dollar and higher invested balances more than offset the 2007 gain from the sale of an investment and lower interest rates. The \$5 million quarterly and year-to-date decrease in Consulting investment income is attributable to a 2007 gain from the sale of an investment.

## Risk and Insurance Brokerage Services

Aon is a leader in many sectors of the insurance industry. Aon was ranked in 2008 by *Business Insurance* as the world's largest insurance broker, by *A.M. Best* as the number one global insurance brokerage in 2008 and 2007 based on brokerage revenues, and voted the best insurance intermediary and best reinsurance intermediary in 2007 by the readers of *Business Insurance*.

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. Insurance premiums are cyclical, and may vary widely based on market conditions. Premium rates usually increase when the industry has heavier than expected losses or capital shortages; this situation is referred to as a hard market. A hard market tends to increase commission revenues. Conversely, a soft market, characterized by flat or reduced premium rates, results from increased competition for market share among insurance carriers or increased underwriting capacity. A soft market tends to reduce commission revenues. Hard and soft markets may be broad-based or more narrowly focused across certain product lines or geographic areas. We experienced a soft market in many business lines/segments and in many geographic areas in 2007. Prices fell throughout the year, with the greatest declines seen in large and middle-market accounts. Prices have continued to decline in the first half of 2008, and we expect the soft market to continue through the remainder of 2008.

Risk and Insurance Brokerage Services generated approximately 83% of Aon's total operating segment revenues for both the second quarter and the first half of 2008. Revenues are generated primarily through:

- fees paid by clients,
- commissions and fees paid by insurance and reinsurance companies, and
- interest 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.

Our brokerage companies operate in a highly competitive industry and compete with many retail insurance brokerage and agency firms, as well as individual brokers, agents, and direct writers of insurance coverage. Specifically, this segment:

- addresses the highly specialized product development and risk management needs of commercial enterprises, professional groups, insurance companies, governments, healthcare providers, and non-profit groups, among others;
- provides affinity products for professional liability, life, disability income and personal lines for individuals, associations and businesses;
- provides reinsurance services to insurance and reinsurance companies and other risk assumption entities by acting as brokers or intermediaries on all classes of reinsurance;
- provides investment banking products and services, including mergers and acquisitions and other financial advisory services, capital raising, contingent capital financing, insurance-linked securitizations and derivative applications;
- provides managing underwriting and premium finance services to independent agents and brokers as well as corporate clients;
- provides actuarial, loss prevention and administrative services to businesses and consumers; and
- manages captive insurance companies.



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We review our revenue results using the following sub-segments:

- *Risk Management and Insurance Brokerage* encompasses our retail brokerage services, affinity products, managing general underwriting, placement and captive management services, and premium finance services in the following geographic areas: Americas; United Kingdom; Europe, Middle East & Africa; and Asia Pacific.
- *Reinsurance Brokerage and Related Services (Reinsurance)* offers sophisticated advisory services in program design and claim recoveries that enhance the risk/return characteristics of insurance policy portfolios, improve capital utilization and evaluate and mitigate catastrophic loss exposures worldwide along with investment banking products and services.

**Revenue**

This table shows Risk and Insurance Brokerage Services revenue by sub-segment.

Second Quarter Ended June 30,								
(millions)	2008	2007	Percent Change	Less: Currency Impact	Less: Acquisitions, Divestitures, & Transfers	Less: All Other	Organic Revenue Growth	
Americas	\$ 625	\$ 618	1%	2%	%	%	(1)%	
United Kingdom	223	218	2	2	1	(2)	1	
Europe, Middle East & Africa	382	307	24	15		2	7	
Asia Pacific	152	138	10	10	(2)	1	1	
Reinsurance	251	234	7	6	6	(7)	2	
Total revenue	\$ 1,633	\$ 1,515	8%	6%	1%	(1)%	2%	

Six Months Ended June 30,								
(millions)	2008	2007	Percent Change	Less: Currency Impact	Less: Acquisitions, Divestitures, & Transfers	Less: All Other	Organic Revenue Growth	
Americas	\$ 1,156	\$ 1,137	2%	2%	%	%	%	
United Kingdom	384	374	3	2	1			
Europe, Middle East & Africa	907	741	22	14	1	2	5	
Asia Pacific	262	238	10	10	(1)	(1)	2	
Reinsurance	515	481	7	6	3	(3)	1	
Total revenue	\$ 3,224	\$ 2,971	9%	6%	%	1%	2%	

- Americas revenue grew 1% and 2% on a quarterly and year-to-date basis, respectively, driven by the positive impact of the weak U.S. dollar and strong growth in our Latin America and affinity operations, partially offset by soft market conditions and a slowdown in private equity and commercial construction activity in U.S. Retail.

- U.K. revenue rose 2% and 3% on a quarterly and year-to-date basis, driven by favorable foreign exchange, acquisitions and growth in our affinity operations. Organic revenue, impacted by soft market conditions, grew 1% for the quarter and was unchanged on a year-to-date basis.
- Europe, Middle East & Africa revenue increased 24% and 22% on a quarterly and year-to-date basis, respectively, reflecting favorable foreign currency translation and organic revenue growth. Organic growth of 7% and 5% for the quarter and year-to-date, respectively, was primarily due to new business in Europe and emerging markets in Africa and the Middle East.

- Asia Pacific's 10% revenue growth on a quarterly and year-to-date basis was driven by positive foreign currency translation and organic growth reflecting strong growth in most markets in Asia, partially offset by the impact of certain regulatory changes in Japan. Organic growth was 1% and 2% for the second quarter and six months, respectively.
- Reinsurance revenue grew 7% on a quarterly and year-to-date basis driven by the favorable impact of foreign currency translation, the acquisition of Gallagher Re and organic revenue growth, partially offset by lower investment income. Growth in global facultative placements and capital markets transactions more than offset overall soft market conditions. Organic growth was 2% and 1% for the second quarter and six months, respectively.

This table shows Risk and Insurance Brokerage Services revenue by geographic area.

(millions)	June 30, 2008	Second Quarter June 30, 2007	Percent Change	June 30, 2008	Six Months June 30, 2007	Percent Change
United States	\$ 531	\$ 545	(3)%	\$ 1,010	\$ 1,033	(2)%
Americas, other than U.S.	206	176	17	364	306	19
United Kingdom	272	266	2	492	483	2
Europe, Middle East & Africa	452	373	21	1,060	885	20
Asia Pacific	172	155	11	298	264	13
Total revenue	\$ 1,633	\$ 1,515	8%	\$ 3,224	\$ 2,971	9%

- U.S. revenues declined 3% and 2% on a quarterly and year-to-date basis, respectively, due to soft market conditions in our retail and reinsurance businesses. We experienced slowdowns in private equity and commercial construction activity, which impacted our retail business.
- Americas other than U.S. revenue rose 17% and 19% for the quarter and six months, respectively, reflecting strong organic growth in Latin America and the favorable impact of foreign currency translation.
- U.K. revenue rose 2% for both the quarter and six months, driven by favorable foreign currency translation, partially offset by the impact of soft market conditions in our retail and reinsurance businesses.
- Europe, Middle East & Africa increased 21% and 20% on a quarterly and year-to-date basis, respectively, driven by favorable foreign currency translation as well as solid organic growth in Europe and strong results in our emerging markets.
- Asia Pacific revenue rose 11% and 13% for the quarter and six months, respectively, due to favorable foreign currency translation and organic growth.

#### *Income Before Income Tax*

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Second quarter 2008 pretax income declined \$43 million to \$235 million, and six months 2008 pretax income fell \$41 million to \$479 million. Pretax margins in 2008 were 14.4% and 14.9% on a quarterly and year-to-date basis, respectively, compared to 18.3% and 17.5% on a quarterly and year-to-date basis, respectively, in 2007. Higher restructuring charges, E&O expense, costs related to our anti-bribery investigations and related compliance initiatives and higher gains on the sale of businesses in 2007 more than offset the positive impact of foreign currency translation, savings realized from the 2007 and 2005 restructuring plans, organic revenue growth, and on a year-to-date basis, the inclusion in 2007 of \$21 million of expense related to the settlement of litigation.

## Consulting

Aon Consulting is one of the world's largest integrated human capital consulting organizations. Our Consulting segment:

- provides a broad range of consulting services, and
- generated 17% of Aon's total operating segment revenue for both second quarter and six months 2008.

We review our revenue results using the following sub-segments:

- *Consulting services*, which provide consulting services in six major practice areas:
  1. *Employee 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, retirement, executive benefits, absence management, compliance, employer commitment, investment advisory and elective benefit services.
  2. *Compensation* focuses on designing salary, bonus, commission, stock option and other pay structures, with special expertise in the financial services and technology industries.
  3. *Management Consulting* helps clients in process improvement and design, leadership, organization and human capital development, and change management.
  4. *Communications* advises clients on how to communicate initiatives that support their corporate vision.
  5. *Strategic Human Resource Consulting* advises complex global organizations on talent, change and organization effectiveness issues including assessment, selection performance management, succession planning, organization design and related people-management programs.
  6. *Financial Advisory and Litigation Consulting* provides consulting services, including white-collar and financial statement investigation, securities litigation, financial due diligence, financial valuation services and other related specialties.
- *Outsourcing*, which offers employment processing, performance improvement, benefits administration and other employment-related services.



**Revenue**

This table shows Consulting revenue by sub-segment.

(millions)	Second Quarter Ended June 30,		Percent Change	Less: Currency Impact	Less: Acquisitions, Divestitures, & Transfers	Less: All Other	Organic Revenue Growth
	2008	2007					
Consulting services	\$ 279	\$ 269	4%	4%	(1)%	(2)%	3%
Outsourcing	57	56	2	1	(1)	2	
Total revenue	\$ 336	\$ 325	3%	4%	(1)%	(2)%	2%

(millions)	Six Months Ended June 30,		Percent Change	Less: Currency Impact	Less: Acquisitions, Divestitures, & Transfers	Less: All Other	Organic Revenue Growth
	2008	2007					
Consulting services	\$ 568	\$ 533	7%	5%	%	(2)%	4%
Outsourcing	111	121	(8)	2	(1)		(9)
Total revenue	\$ 679	\$ 654	4%	4%	(1)%	%	1%

- Consulting Services revenue increased \$10 million or 4% and \$35 million or 7% on a quarterly and year-to-date basis, respectively. Organic revenue growth was 3% and 4% for second quarter and six months 2008, respectively, reflecting the impact of favorable foreign currency translation and growth in our international retirement and health and benefit consulting practices on a quarterly and year-to-date basis.

- Outsourcing revenue increased \$1 million for the quarter but declined \$10 million for six months. Organic revenue was unchanged for the quarter but declined 9% on a year-to-date basis driven by the termination of our contract with AT&T in 2007.

This table shows Consulting revenue by geographic area.

(millions)	Second Quarter		Percent Change	Six Months		Percent Change
	June 30, 2008	June 30, 2007		June 30, 2008	June 30, 2007	
United States	\$ 149	\$ 165	(10)%	\$ 301	\$ 328	(8)%
Americas, other than U.S.	37	31	19	70	61	15
United Kingdom	70	67	4	134	128	5
Europe, Middle East & Africa	62	50	24	138	112	23
Asia Pacific	18	12	50	36	25	44
Total revenue	\$ 336	\$ 325	3%	\$ 679	\$ 654	4%

- U.S. revenue declined 10% and 8% on a quarterly and year-to-date basis, respectively, primarily reflecting lower investment income and the loss of outsourcing revenue related to the AT&T contract termination.





- Americas other than the U.S. revenue grew 19% and 15% for the quarter and six months, respectively, driven by favorable foreign currency translation and organic growth.
- United Kingdom revenue rose 4% for the quarter and 5% for six months driven by both organic growth and favorable foreign currency translation.
- Europe, Middle East & Africa revenue increased 24% and 23% on a quarterly and year-to-date basis, respectively, driven by favorable foreign currency translation, acquisitions and organic revenue growth.
- Asia Pacific revenues grew 50% and 44% for the second quarter and six months, respectively, reflecting the impact of favorable foreign currency translation and organic revenue growth.

#### ***Income Before Income Tax***

Second quarter 2008 pretax income decreased 2% to \$43 million, compared to \$44 million in 2007. On a year-to-date basis, 2008 pretax income increased \$15 million or 16% to \$106 million. Pretax margins for the quarter were 12.8% and 13.5% for 2008 and 2007, respectively, and for six months were 15.6% and 13.9% for 2008 and 2007, respectively. The quarterly pretax income and margin decline was primarily driven by the gain on sale of an investment in 2007, partially offset by organic revenue growth. The six months pretax income and margin improvement was principally driven by benefits related to the 2005 restructuring plan, other operational improvements and favorable foreign currency translation, partially offset by the gain on sale of an investment in 2007.

#### **Unallocated Income and Expense**

Unallocated income consists primarily of investment income (including income or loss on investment disposals and other-than-temporary impairment losses), which is not otherwise reflected in the operating segments.

Private equities are principally carried at cost; however, where we have significant influence, they are reported under the equity method of accounting. These investments usually do not pay dividends. Limited partnerships ( LP ) are accounted for using the equity method and changes in the value of the underlying LP investments flow through unallocated investment income.

Unallocated income also includes the operations of our Property and Casualty runoff business. We previously included results related to this business in our former Insurance Underwriting segment.

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*Unallocated investment income* was \$17 million and \$29 million for the second quarter 2008 and 2007, respectively, and \$22 million and \$51 million for six months 2008 and 2007, respectively. The decrease was principally driven by lower income from our PEPS I investment, partially offset by higher interest income from increased balances, reflecting the investment of proceeds from the sales of CICA and Sterling.

*Unallocated expenses* include corporate governance costs not allocated to the operating segments. Second quarter 2008 and 2007 expenses were \$37 million and \$34 million, respectively, and for six months 2008 and 2007 were \$58 million and \$68 million, respectively. The quarterly increase reflects higher absorbed costs previously allocated to the underwriting businesses. Year-to-date expenses declined \$10 million as a result of lower corporate staff costs and 2007 non-recurring accounting and legal expenses related to the review of historical equity compensation practices.

*Property and Casualty* revenues were \$1 million for second quarter 2008 compared to \$3 million in 2007 and were \$3 million and \$4 million for six months 2008 and 2007, respectively. Associated expenses were \$2 million and \$5 million for second

quarter 2008 and 2007, respectively, and were \$6 million and \$8 million for six months 2008 and 2007, respectively.

*Interest expense*, which represents the cost of our worldwide debt obligations, totaled \$31 million and \$34 million for second quarter 2008 and 2007, respectively, and were \$64 million and \$69 million for six months 2008 and 2007, respectively. The decreases for both periods primarily reflect the impact of the redemption of our 3.5% Senior Convertible Debentures in 2007.

## FINANCIAL CONDITION AND LIQUIDITY

### Cash Flows

Cash flows from operations represent the net income we earned in the reported periods adjusted for non-cash charges and changes in operating assets and liabilities.

Cash flows provided by operating activities for the six months ended June 30, 2008 and 2007 are as follows:

(millions) Six months ended June 30,	2008		2007
Insurance Underwriting operating cash flows	\$	(7)	\$ 216
All other operating cash flows		(25)	167
		(32)	383
Change in funds held on behalf of brokerage and consulting clients		300	450
Cash provided by operating activities	\$	268	\$ 833

### *Insurance Underwriting operating cash flows*

Our insurance underwriting operations include accident & health and life and certain property & casualty businesses in run-off. These insurance products have distinct differences in the timing of premiums earned and payment of future liabilities. As noted earlier, we sold our CICA and Sterling businesses on April 1, 2008.

Our operating cash flow from our insurance subsidiaries was \$(7) million for 2008, a decrease of \$223 million compared to 2007. Due to the sales of CICA and Sterling, cash flows for 2008 include only activity through the date of sale. For 2008, operating cash flows, analyzed by major income statement component, indicated that premium and other fees collected, net of reinsurance, were \$624 million compared to \$1,160 million in 2007. Investment and other miscellaneous income received were \$49 million and \$89 million in 2008 and 2007, respectively.

The insurance underwriting subsidiaries used revenues generated from premiums, investments and other miscellaneous income to pay claims and other cash benefits, commissions, general expenses and taxes. Claims and other cash benefits paid were \$363 million in 2008 versus \$645 million in 2007. Commissions and general expenses paid were \$254 million for 2008, compared to \$368 million in 2007. Tax payments for

2008 were \$63 million compared to \$20 million last year.

***Funds held on behalf of clients***

In our Risk and Insurance Brokerage Services and Consulting segments, we typically hold funds on behalf of clients as a result of:

- premiums received from clients that are in transit to insurers. These premiums held on behalf of, or due from, clients are reported as assets with a corresponding liability due to the insurer.
- claims due to clients that are in transit from insurers. Claims held by, or due to us and which are due to clients, are also shown as both assets and liabilities.

These funds held on behalf of clients are generally invested in interest bearing trust accounts and can fluctuate significantly depending on when we collect cash from our clients and when premiums are remitted to the insurance carriers.

***All other operating cash flows***

Our operating cash flows from our Risk and Insurance Brokerage Services and Consulting segments, as well as related corporate items, was a use of \$25 million in 2008 compared to a source of \$167 million in 2007. These amounts exclude the change in funds held on behalf of clients as described above. The operating cash flows depend on the timing of receipts and payments related to revenues, incentive compensation, other operating expenses and income taxes.

Aon uses the excess cash generated by our brokerage and consulting businesses as well as dividends received from CICA prior to its sale to meet its liquidity needs, which consist of servicing its debt, paying dividends to its stockholders and repurchasing outstanding shares.

***Investing and Financing Activities***

Investing activities generated cash of \$1.1 billion. We received \$2.9 billion in cash from the sales of our CICA and Sterling subsidiaries. Cash flows used by investing activities included purchases, net of sales of investments, of \$1.7 billion, principally reflecting the investment of the proceeds of the CICA and Sterling sales. In addition, \$58 million of cash was used for capital expenditures, net of disposals. We spent \$63 million for various acquisitions of subsidiaries.

Our financing needs were \$1.5 billion. Financing uses primarily included share repurchase activity, net of reissuance for our employee benefit plans of \$1.2 billion, cash dividends paid to shareholders of \$89 million, and debt repayments, net of issuance, of \$165 million.

**Financial Condition**

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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. Unremitted insurance premiums and claims are held by us in a fiduciary capacity as short-term investments.

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In our condensed consolidated statements of financial position, we report fiduciary assets equal to our fiduciary liabilities. Our fiduciary assets include short-term investments of \$3,521 million and \$3,122 million at June 30, 2008 and December 31, 2007, respectively.

Since year-end 2007, total assets decreased \$802 million to \$24.1 billion.

- Working capital, excluding assets and liabilities held-for-sale, increased \$1,315 million to \$3.4 billion. The increase is primarily attributed to an increase in short-term investments from the sales of CICA and Sterling. We spent \$1.1 billion in cash during the second quarter to repurchase common stock.
- Short-term debt decreased by \$252 million as a result of paying down all of our short-term Euro facility borrowings.
- Accounts payable and accrued liabilities decreased \$211 million due primarily to the payment of incentive compensation in March.
- Goodwill increased \$202 million primarily due to the impact of foreign currency translation.
- Long-term debt increased by \$129 million, reflecting higher long-term Euro facility borrowings and the impact of foreign currency translation.

### **Borrowings**

Total debt at June 30, 2008 was \$2,022 million, a decrease of \$123 million from December 31, 2007, which is the net result of our Euro facility repayments and borrowings.

At June 30, 2008, we had a \$600 million U.S. bank credit facility, which expires in February 2010, to support commercial paper and other short-term borrowings. The facility allows us to issue up to \$150 million in letters of credit. At June 30, 2008, we have issued \$20 million in letters of credit.

We also have several foreign credit facilities available. At June 30, 2008, we had available to us:

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- a five-year 650 million (\$1,024 million at June 30, 2008 exchange rates) multi-currency facility of which \$685 million was outstanding at June 30, 2008. See Note 7 to the consolidated financial statements in our 2007 Form 10-K for further discussion of both the U.S. and Euro facilities;
- a £37.5 million (\$75 million) facility,
- a 364-day 25 million (\$39 million) facility, and
- a 20 million (\$32 million) open-ended facility.

The major rating agencies' ratings of our debt at August 4, 2008 appear in the table below.

	Senior long-term debt		Commercial paper	
	Rating	Outlook	Rating	Outlook
Standard & Poor's	BBB+	Stable	A-2	Stable
Moody's Investor Services	Baa2	Positive	P-2	Positive
Fitch, Inc.	BBB+	Stable	F-2	Stable

A downgrade in the credit ratings of our senior debt and commercial paper would:



- increase our borrowing costs and reduce our financial flexibility, and
- increase our commercial paper interest rates or possibly restrict our access to the commercial paper market altogether. Although we have committed backup lines, we cannot ensure that our financial position will not be hurt if we can no longer access the commercial paper market.

### **Stockholders Equity**

Stockholders equity increased \$234 million from December 31, 2007 to \$6,455 million, driven primarily by an increase in net income of \$1,351 million and foreign currency translation gains, mostly offset by net treasury stock transactions of \$1,246 million.

Accumulated other comprehensive loss decreased \$236 million since December 31, 2007. Compared to year end 2007:

- net foreign currency translation increased by \$246 million because of the weakening of the U.S. dollar against foreign currencies and the impact of CICA. CICA's foreign exchange translation balance is no longer included in our accumulated other comprehensive loss due to its sale on April 1, 2008;
- net unrealized investment gains rose \$20 million,
- net derivative losses increased \$19 million, and
- our net unrecognized losses and unrecognized prior service credits increased by \$11 million.

### **Off Balance Sheet Arrangements**

We record various contractual obligations as liabilities in our consolidated financial statements. Other items, such as certain purchase commitments and other executory contracts, are not recognized as liabilities in our consolidated financial statements, but we are required to disclose them.

Aon and its subsidiaries have issued letters of credit to cover contingent payments for taxes and other business obligations to third parties. We accrue amounts in our consolidated financial statements for these letters of credit to the extent that a loss is probable and estimable.

Following the guidance of Statement No. 140 and other relevant accounting guidance, we use SPEs and QSPEs, also known as special purpose vehicles, in some of our operations.

*Reinsurance Guarantee*

In connection with the AWG disposal, we issued an indemnification that protects the purchaser from credit exposure relating to the property and casualty reserves that have been reinsured. These reinsurance recoverables amount to \$719 million at June 30, 2008. Trust balances and letters of credit offsetting these reinsurance recoverables total approximately \$161 million. At December 31, 2007, we had recorded a \$12 million liability, reflecting the fair value of this indemnification. The value decreased to approximately \$10 million as of June 30, 2008. The indemnification represents the present value of the indemnification on the credit risk of the reinsurers.

*Premium Financing Operations*

Some of our U.S., U.K., Canadian, and Australian subsidiaries originate short-term loans (generally with terms of 12 months or less) to businesses to finance their insurance premium obligations, and then sell these premium finance agreements in securitization transactions that meet the criteria for sale accounting under Statement No. 140.

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- In the U.S. and U.K., premium finance agreements are sold to SPEs, which are considered QSPEs as defined by Statement No. 140. The QSPEs fund their purchases of premium finance agreements by selling undivided beneficial interests in the agreements to Bank SPEs.
- In Canada and Australia, undivided interests in the premium finance agreements are sold directly to Bank SPEs. The Bank SPEs are variable interest entities as defined by FIN 46R.

The QSPEs used in the U.S. and U.K. are not consolidated in our financial statements because the criteria for sale accounting have been met under Statement No. 140.

For the Canadian and Australian sales, we have analyzed qualitative and quantitative factors related to our transactions with the Bank SPEs and have determined that non-consolidation of the Bank SPEs is appropriate in accordance with FIN 46R because we are not their primary beneficiary. Specific factors we considered include:

- the fact that we are not the sponsor of any of the Bank SPEs,
- various other unaffiliated companies sell receivables to the Bank SPEs, and
- unaffiliated third parties have either made substantial equity investments in the Bank SPEs, hold voting control of the Bank SPEs, or generally have the risks and rewards of ownership of the assets of the Bank SPEs through liquidity support agreements or other arrangements involving significant variable interests.

Our variable interest in the Bank SPEs in these jurisdictions is limited to our retained interests in premium finance agreements sold to the Bank SPEs. We review all material off-balance sheet transactions annually or whenever a reconsideration event occurs for the continued propriety of our accounting.

Pursuant to the sale agreements, the total amount advanced by the Bank SPEs on premium finance agreements sold to them at any one time is limited by the sale agreements to \$1.8 billion. The Bank SPEs had advanced to us \$1.3 billion and \$1.4 billion at June 30, 2008 and December 31, 2007, respectively, on portfolios sold to the Bank SPEs of \$1.4 billion and \$1.5 billion at June 30, 2008 and December 31, 2007, respectively.

We record gains on the sale of premium finance agreements. When we calculate the gain, we include all costs we expect to incur for the relevant Bank SPEs. The gains, which are included in commissions, fees and other revenue in the condensed consolidated statements of income, were \$15 million and \$16 million for the three months ended June 30, 2008 and 2007, respectively, and \$32 million and \$31 million for the six months ended June 30, 2008 and 2007, respectively.

- We record our retained interest in the sold premium finance agreements at fair value, and report it in receivables in the condensed consolidated statements of financial position. We estimate fair value by discounting estimated future cash flows using discount rates that are commensurate with the underlying risk, expected future prepayment rates, and credit loss estimates.

- We also retain servicing rights for sold agreements, and earn servicing fee income over the servicing period. Because the servicing fees represent adequate compensation for the servicing of the receivables, we have not recorded any servicing assets or liabilities.

The third-party bank sponsors or other participants in the Bank SPEs provide the liquidity support and bear the credit risks on the receivables, subject to limited recourse, principally in the form of over-collateralization provided by us (and other sellers) as required by the sales agreements. The retained interest in our sold receivables represents our maximum exposure to illiquidity and credit-related losses, and was approximately \$142 million at June 30, 2008. We continually review our retained interest in the sold portfolio, taking into consideration credit loss trends in the sold portfolio, conditions in the credit markets and other factors, and adjust its carrying value accordingly.

With the exception of our Australian sales agreements, all our other sales agreements require us to meet the following covenants:

- consolidated net worth, as defined, of at least \$2.5 billion,
- consolidated EBITDA (earnings before interest, taxes, depreciation and amortization) to consolidated net interest of at least 4 to 1, and
- consolidated indebtedness to consolidated EBITDA of no more than 3 to 1.

We intend to renew these conduit facilities as they expire. We recently renewed the Australian sales agreement, and the U.S., Canadian and European agreements are set for renewal in October 2008. Given the current environment in the credit markets, it is likely that our pricing for liquidity and other program costs from the Bank SPEs will rise upon renewal. Moreover, as our ability to originate and fund new premium finance agreements is dependent on the pass-through funding costs of the Bank SPEs, disruptions in the markets through which the Bank SPEs obtain funds could have a significant impact on our premium finance results of operations and cash flows. We also face the risk the Bank SPEs will be unable to provide the liquidity or will become an unreliable source of the liquidity necessary to fund new premium finance agreements. Such an occurrence would require us to consider alternate sources of funding, including other forms of off-balance sheet as well as on-balance sheet financing, or discontinue the origination of premium finance agreements. Additionally, if there were adverse bank, regulatory, tax, or accounting rule changes, our access to the conduit facilities and special purpose vehicles could be affected.

#### *PEPS I*

In 2001, we sold the vast majority of our LP portfolio, valued at \$450 million, to PEPS I, a QSPE. The common stock interest in PEPS I is held by a limited liability company, owned by us (49%) and by a charitable trust, which we do not control, established for victims of the September 11th attacks (51%). We do not include the assets and liabilities and operations of PEPS I in our consolidated financial statements.

In 2001, PEPS I sold approximately \$171 million of investment grade fixed-maturity securities to unaffiliated third parties. PEPS I then paid our insurance underwriting subsidiaries the \$171 million in cash and issued them an additional \$279 million in fixed-maturity and preferred stock securities.

As part of this transaction, Aon is required to purchase additional fixed-maturity securities from PEPS I in an amount equal to the unfunded LP commitments as they are requested. These fixed-maturity securities are rated below investment grade. Commitments of \$1 million were funded by us in 2008. As of June 30, 2008, unfunded commitments amounted to \$43 million. These commitments have specific expiration dates and the general partners may decide not to draw on these commitments.

We received income distributions from our preferred investment in PEPS I of \$0 million and \$26 million in the second quarter of 2008 and 2007, respectively, and \$2 million and \$39 million in the first six months of 2008 and 2007, respectively, which are included in investment income. Prior to 2007, income distributions received from PEPS I were limited to interest payments on various PEPS I debt instruments. Beginning in 2007, PEPS I had redeemed or collateralized all of its debt, and as a result, began to pay preferred income distributions. Whether we receive additional preferred returns will depend on the performance of the LP interests underlying PEPS I, which we expect to vary from period to period. We do not control the timing of the distributions.

Aon derives the estimated fair value of its preferred investments in PEPS I primarily from valuations received from the general partners of the LP interests held by PEPS I.

**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. 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 we do business around the world, changes in global equity and fixed income markets that could affect the return on invested assets, fluctuations in exchange and interest rates that could influence revenue and expense, rating agency actions that could affect our ability to borrow funds, funding of our various pension plans, changes in the competitive environment, our ability to implement restructuring initiatives and other initiatives intended to yield 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 U.S. Foreign Corrupt Practices Act and non-U.S. anti-corruption laws, 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 impact of class actions and individual lawsuits including client class actions, securities class actions, derivative actions and ERISA class actions, and the cost of resolution of other contingent liabilities and loss contingencies.

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise.



**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 rates, foreign exchange rates and equity prices. 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.

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 June 30, 2008, we have hedged approximately 48% and 72% 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. Second quarter 2008 diluted earnings per share were positively impacted by \$0.06 related to translation gains.

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

Our businesses' 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. A decrease in global short-term interest rates adversely affects our income. This activity primarily relates to brokerage funds held on behalf of clients in the U.S. and on the Continent of Europe.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of disclosure controls and procedures.** Based on Aon management's evaluation (with the participation of the chief executive officer and chief financial officer), as of the end of the period covered by this report, Aon's chief executive officer and chief financial officer have concluded that the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d) 15(e) under the Securities Exchange Act of 1934, as amended, (the Exchange Act)) are effective to ensure that information required to be disclosed by Aon in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

**Changes in internal control over financial reporting.** There were no changes in Aon's internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d) 15(f) under the Exchange Act) during second quarter 2008 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 13 (Contingencies) to the condensed consolidated financial statements contained in Part I, Item 1, which is incorporated by reference herein.

## 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 second quarter of 2008:

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)
4/1/08	4/30/08	10,915,800	\$ 44.46	10,915,800	\$ 1,917,066,076
5/1/08	5/31/08	7,076,000	\$ 46.77	7,076,000	\$ 1,586,130,013
6/1/08	6/30/08	6,500,629	\$ 47.07	6,500,629	\$ 1,280,150,478
Total		24,492,429	\$ 45.82	24,492,429	

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

(2) In 2005, the Company announced that its Board of Directors had authorized the repurchase of up to \$1 billion of Aon's common stock. In 2006, the Company announced that its Board of Directors had increased the authorized share repurchase program to \$2 billion. In fourth quarter 2007, the Company announced that its Board of Directors had increased the authorized share repurchase program to \$4.6 billion. Shares may be repurchased through the open market or in privately negotiated transactions. Through June 30, 2008, the Company has repurchased 81.5 million shares of common stock at an average price (excluding commissions) of \$40.73 per share for an aggregate purchase price of \$3,230 million since inception of the stock repurchase program, and the remaining authorized amount for stock repurchases under this program is \$1,280 million, with no termination date.

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### ITEM 4.

### SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

- (a) The 2008 Annual Meeting of Stockholders of the Registrant was held on May 16, 2008 (the Annual Meeting ).
- (b) See Item 4(c) below.
- (c) At the Annual Meeting, Aon's stockholders voted on the following matters: the election of fifteen directors to serve until the 2009 Annual Meeting of Stockholders and the ratification of the appointment of Aon's independent registered public accounting firm for 2008. The voting results were as follows:

(i) In the election of directors, each nominee was elected by the following vote:

Name	For	Withheld
Patrick G. Ryan*	258,567,205	13,679,104
Gregory C. Case	267,653,886	4,592,423
Fulvio Conti	266,926,121	5,320,188
Edgar D. Jannotta	258,122,251	14,124,058
Jan Kalff	174,091,897	98,154,412
Lester B. Knight	267,762,272	4,484,037
J. Michael Losh	262,611,338	9,634,971
R. Eden Martin	259,752,362	12,493,946
Andrew J. McKenna	256,156,115	16,090,194
Robert S. Morrison	267,198,085	5,048,224
Richard B. Myers	261,795,055	10,451,254
Richard C. Notebaert	261,225,009	11,021,300
John W. Rogers, Jr.	249,776,034	22,470,275
Gloria Santona	267,631,533	4,614,776
Carolyn Y. Woo	266,757,270	5,489,039

\* Patrick G. Ryan retired as a Director and Aon's Executive Chairman on August 1, 2008.

(ii) The proposal to ratify the appointment of Ernst & Young LLP as Aon's independent registered public accounting firm for the 2008 fiscal year was approved by the following vote:

For	Against	Abstain
254,742,505	14,897,320	2,606,485

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.

August 8, 2008

Aon Corporation  
(Registrant)

/s/ Christa Davies  
CHRISTA DAVIES  
EXECUTIVE VICE PRESIDENT AND  
CHIEF FINANCIAL OFFICER  
(Principal Financial and Accounting Officer and  
duly authorized officer of Registrant)

**Aon CORPORATION**

Exhibit Index

Exhibit Number	Description of Exhibit
10.1	Amendment No. 1 to Agreement among the Attorney General of the State of New York, the Superintendent of Insurance of the State of New York, the Attorney General of the State of Connecticut, the Illinois Attorney General, the Director of the Division of Insurance, Illinois Department of Financial and Professional Regulation and Aon Corporation and its subsidiaries and affiliates dated March 4, 2005.
10.2	Amendment No. 2 to Agreement among the Attorney General of the State of New York, the Superintendent of Insurance of the State of New York, the Attorney General of the State of Connecticut, the Illinois Attorney General, the Director of the Division of Insurance, Illinois Department of Financial and Professional Regulation and Aon Corporation and its subsidiaries and affiliates dated March 4, 2005.
10.3	Amendment No. 3 to Agreement among the Attorney General of the State of New York, the Superintendent of Insurance of the State of New York, the Attorney General of the State of Connecticut, the Illinois Attorney General, the Director of the Division of Insurance, Illinois Department of Financial and Professional Regulation and Aon Corporation and its subsidiaries and affiliates dated March 4, 2005.
10.4	Amendment No. 4 to Agreement among the Attorney General of the State of New York, the Superintendent of Insurance of the State of New York, the Attorney General of the State of Connecticut, the Illinois Attorney General, the Director of the Division of Insurance, Illinois Department of Financial and Professional Regulation and Aon Corporation and its subsidiaries and affiliates dated March 4, 2005.
10.5	Amendment No. 5 to Agreement among the Attorney General of the State of New York, the Superintendent of Insurance of the State of New York, the Attorney General of the State of Connecticut, the Illinois Attorney General, the Director of the Division of Insurance, Illinois Department of Financial and Professional Regulation and Aon Corporation and its subsidiaries and affiliates dated March 4, 2005.
10.6	Amendment No. 6 to Agreement among the Attorney General of the State of New York, the Superintendent of Insurance of the State of New York, the Attorney General of the State of Connecticut, the Illinois Attorney General, the Director of the Division of Insurance, Illinois Department of Financial and Professional Regulation and Aon Corporation and its subsidiaries and affiliates dated March 4, 2005 incorporated by reference to Exhibit 10.1 to Aon Corporation's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 6, 2008.
12.1	Statement regarding Computation of Ratio of Earnings to Fixed Charges
12.2	Statement regarding Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends
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