AON CORP
Form 10-Q
November 03, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009

OR

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

Commission file number 1-7933

Aon Corporation

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE (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 x NO o

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

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

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

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

Number of shares of common stock, $1.00 par value, outstanding as of September 30, 2009: 273,922,587

Part I Financial Information

ITEM 1. FINANCIAL STATEMENTS

Aon Corporation

Condensed Consolidated Statements of Income

(Unaudited)

(millions, except per share data)	Three Months Ended Sept. 30, 2009	Three Months Ended Sept. 30, 2008	Nine Months Ended Sept. 30, 2009	Nine Months Ended Sept. 30, 2008
Revenue				
Commissions, fees and other	$ 1,780	$ 1,756	$ 5,466	$ 5,493
Investment income	28	90	81	214
Total revenue	1,808	1,846	5,547	5,707
Expenses				
Compensation and benefits	1,119	1,131	3,267	3,428
Other general expenses	424	419	1,287	1,333
Depreciation and amortization	56	49	174	157
Total operating expenses	1,599	1,599	4,728	4,918
	209	247	819	789
Interest expense	32	32	87	96
Other (income) expense	(1)	(3)	1	(9)
Income from continuing operations before income taxes	178	218	731	702
Income taxes	47	59	212	192
Income from continuing operations	131	159	519	510
Income (loss) from discontinued operations before income taxes		(57)	93	1,440
Income taxes	(3)	(19)	38	470
Income (loss) from discontinued operations	3	(38)	55	970
Net income	134	121	574	1,480
Less: Net income attributable to noncontrolling interests	14	4	25	12
Net income attributable to Aon stockholders	$ 120	$ 117	$ 549	$ 1,468
Net income attributable to Aon stockholders				
Income from continuing operations	$ 117	$ 155	$ 494	$ 498
Income (loss) from discontinued operations	3	(38)	55	970
Net income	$ 120	$ 117	$ 549	$ 1,468
Basic net income (loss) per share attributable to Aon stockholders				
Continuing operations	$ 0.41	$ 0.55	$ 1.74	$ 1.68
Discontinued operations	0.01	(0.13)	0.19	3.26
Net income	$ 0.42	$ 0.42	$ 1.93	$ 4.94
Diluted net income (loss) per share attributable to Aon stockholders				

Continuing operations	$ 0.40	$ 0.53	$ 1.69	$ 1.61
Discontinued operations	0.01	(0.13)	0.19	3.14
Net income	$ 0.41	$ 0.40	$ 1.88	$ 4.75
Dividends paid per share	$ 0.15	$ 0.15	$ 0.45	$ 0.45
Weighted average common shares outstanding - basic	283.8	281.7	284.5	296.9
Weighted average common shares outstanding - diluted	292.1	293.9	292.2	308.9

See the accompanying notes to the condensed consolidated financial statements (unaudited).

Aon Corporation

Condensed Consolidated Statements of Financial Position

(millions)	Sept. 30, 2009 (Unaudited)	Dec. 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 580	$ 582
Short-term investments	602	684
Receivables	1,844	1,990
Fiduciary assets	9,551	10,678
Other current assets	349	355
Assets held for sale		237
Total Current Assets	12,926	14,526
Goodwill	5,957	5,637
Other intangible assets, net	763	779
Fixed assets, net	453	451
Investments	297	332
Other non-current assets	1,245	1,215
TOTAL ASSETS	$ 21,641	$ 22,940
LIABILITIES		
CURRENT LIABILITIES:		
Fiduciary liabilities	$ 9,551	$ 10,678
Short-term debt	12	105
Accounts payable and accrued liabilities	1,377	1,560
Other current liabilities	277	314
Liabilities held for sale		146
Total Current Liabilities	11,217	12,803
Long-term debt	1,998	1,872
Pension and other post employment liabilities	1,245	1,694
Other non-current liabilities	1,051	1,156
TOTAL LIABILITIES	15,511	17,525
EQUITY		
AON STOCKHOLDERS EQUITY:		
Common stock-$1 par value		
Authorized: 750 shares (issued: 9/30/09 - 362.7; 12/31/08 - 361.7)	363	362
Additional paid-in capital	3,166	3,220
Retained earnings	7,189	6,816
Treasury stock at cost (shares: 9/30/09 - 88.7; 12/31/08 - 89.9)	(3,556)	(3,626)
Accumulated other comprehensive loss	(1,172)	(1,462)
TOTAL AON STOCKHOLDERS EQUITY	5,990	5,310
Noncontrolling interests	140	105
TOTAL EQUITY	6,130	5,415
TOTAL LIABILITIES AND EQUITY	$ 21,641	$ 22,940

See the accompanying notes to the condensed consolidated financial statements (unaudited).

Aon Corporation

Condensed Consolidated Statement of Stockholders Equity

(Unaudited)

(millions)	Shares	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss, Net of Tax	Non-controlling Interests	Total
Balance at January 1, 2009	361.7	$ 3,582	$ 6,816	$ (3,626)	$ (1,462)	$ 105	$ 5,415
Net income			549			25	574
Shares issued - employee benefit plans	1.0	96					96
Shares purchased				(250)			(250)
Shares reissued - employee benefit plans		(320)	(52)	320			(52)
Tax benefit - employee benefit plans		24					24
Stock compensation expense		152					152
Dividends to stockholders			(124)				(124)
Change in net derivative gains/losses					6		6
Change in net unrealized investment gains/losses					(10)		(10)
Net foreign currency translation adjustments					223	4	227
Net post-retirement benefit obligation					71		71
Purchase of subsidiary shares from noncontrolling interests		(5)				(3)	(8)
Capital contribution by noncontrolling interests						35	35
Dividends paid to noncontrolling interests on subsidiary common stock						(26)	(26)
Balance at September 30, 2009	362.7	$ 3,529	$ 7,189	$ (3,556)	$ (1,172)	$ 140	$ 6,130

See accompanying notes to condensed consolidated financial statements (unaudited).

Aon Corporation

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(millions)	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Cash Flows from Operating Activities:		
Net income	$ 574	$ 1,480
Adjustments to reconcile net income to cash provided by operating activities:		
Gain from disposal of operations	(97)	(1,403)
Depreciation and amortization of fixed assets	105	117
Amortization of intangible assets	69	40
Stock compensation expense	152	194
Deferred income taxes	81	(68)
Change in assets and liabilities:		
Change in funds held on behalf of brokerage and consulting clients	46	50
Net receivables	218	111
Accounts payable and accrued liabilities	(399)	(357)
Restructuring reserves	16	47
Pension and other post employment liabilities	(284)	(86)
Other assets and liabilities	(300)	(88)
Cash Provided by Operating Activities	181	37
Cash Flows from Investing Activities:		
Sales of long-term investments	21	270
Purchase of long-term investments	(17)	(281)
Sales (purchases) of short-term investments, net	61	(761)
Acquisition of businesses, net of cash acquired	(55)	(85)
Proceeds from sale of businesses	139	2,803
Capital expenditures	(86)	(80)
Cash Provided by Investing Activities	63	1,866
Cash Flows from Financing Activities:		
Issuance of common stock	50	42
Treasury stock transactions - net	(158)	(1,773)
Short-term repayments, net	(370)	(232)
Issuance of long-term debt	683	364
Repayments of long-term debt	(339)	(297)
Cash dividends to stockholders	(124)	(130)
Cash Used for Financing Activities	(258)	(2,026)
Effect of Exchange Rate Changes on Cash	12	17
Net Decrease in Cash and Cash Equivalents	(2)	(106)
Cash and Cash Equivalents at Beginning of Period	582	584
Cash and Cash Equivalents at End of Period	$ 580	$ 478
Supplemental disclosures:		
Interest paid	$ 84	$ 96
Income taxes paid, net of refunds	165	638

See the accompanying notes to the condensed consolidated financial statements (unaudited).

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 (U.S. GAAP) and include all normal recurring adjustments which Aon Corporation (Aon or the Company) considers necessary to present fairly the Company s consolidated financial statements for all periods presented.

Certain information and footnote disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008. The results for the three and nine months ended September 30, 2009 are not necessarily indicative of operating results that may be expected for the full year ending December 31, 2009. Certain amounts in prior period financial statements and related notes have been reclassified to conform to the 2009 presentation. In addition, due to the adoption of new principles regarding noncontrolling interests and participating securities, certain amounts in prior period financial statements and related notes have been restated to conform with the requirements of these new principles.

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of reserves and expenses during the reporting periods. Actual amounts could differ from those estimates.

Management has reviewed all material subsequent events through November 3, 2009, the date the financial statements were issued, to determine whether any event required either recognition or disclosure in the financial statements.

2. Accounting Principles and Practices

Changes in Accounting Principles

On January 1, 2009, Aon adopted revised principles related to business combinations and noncontrolling interests. The revised principle on business combinations applies to all transactions or other events in which an entity obtains control over one or more businesses. It 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 when control is obtained. This revision also changes the requirements for recognizing assets acquired and liabilities assumed arising from contingencies, and requires direct acquisition costs to be expensed. In addition, it provides certain changes to income tax accounting for business combinations which apply to both new and previously existing business combinations. In April 2009, additional guidance was issued which revised certain business combination guidance related to accounting for contingent liabilities assumed in a business combination. The Company has adopted this guidance in conjunction with the adoption of the revised principles related to business combinations. The adoption of the revised principles related to business combinations has not had a material impact on the consolidated financial statements.

The revised principle related to noncontrolling interests establishes accounting and reporting standards for the noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. The revised principle clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as a separate component of equity in the consolidated statements of financial position. The revised principle requires retrospective adjustments, for all periods presented, of stockholders equity and net income for noncontrolling interests. In addition to these financial reporting changes, the revised principle provides for significant changes in accounting related to changes in ownership of noncontrolling interests. Changes in Aon s controlling financial interests in consolidated subsidiaries that do not result in a loss of control are accounted for as equity transactions similar to treasury stock transactions. If a change in ownership of a consolidated subsidiary result in loss of control and deconsolidation, any retained ownership interests are remeasured at fair value with the gain or loss reported in net income. In previous periods, noncontrolling interests for operating subsidiaries were reported in other general expenses in the condensed consolidated statements of income. Prior period amounts have been restated to conform to the current year s presentation.

The principal effect on the prior years balance sheets related to the adoption of the new guidance related to noncontrolling interests is summarized as follows (in millions):

	December 31, 2008		December 31, 2007	
Equity, as previously reported	$	5,310	$	6,221
Increase for reclassification of non-controlling interests		105		40
Equity, as adjusted	$	5,415	$	6,261

The revised principle also requires that net income be adjusted to include the net income attributable to the noncontrolling interests and a new separate caption for net income attributable to Aon stockholders be presented in the consolidated statements of income. The adoption of this new guidance increased net income by $16 million, $13 million and $10 million for 2008, 2007 and 2006, respectively. Net income attributable to Aon stockholders equals net income as previously reported prior to the adoption of the new guidance.

On January 1, 2009, Aon adopted a new principle which supplements current disclosure requirements for derivative instruments and hedging activities, under which Aon is required to provide enhanced qualitative and quantitative information. See Note 12 for these disclosures.

Effective January 1, 2009, the Company adopted additional guidance which states that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities, as defined, and therefore should be included in computing basic and diluted earnings per share using the two class method. Certain of Aon s restricted stock awards allow the holder to receive a non-forfeitable dividend equivalent. See Note 9 for further discussion of the effect of adopting this new guidance on the Company s financial statements.

Effective April 1, 2009, Aon adopted a new principle which establishes the period after the balance sheet date during which management is required to evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements. This principle also requires that Aon disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. See Note 1 for this disclosure.

Aon adopted the following fair value guidance effective April 1, 2009:

- additional guidance for estimating fair value in accordance with current principles, when the volume and level of activity for the asset or liability has significantly decreased. This guidance also assists in identifying circumstances that indicate when a transaction is not orderly.

- guidance related to debt securities, which requires an entity to recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the non-credit component in other comprehensive income when the entity does not intend to sell the security and it is more likely than not that the entity will not be required to sell the security prior to recovery. Entities are required to record a cumulative effect adjustment for the non-credit component of previously recognized other-than-temporary impairments that meet certain criteria.

- disclosure guidance related to the fair value of financial instruments for interim reporting periods as well as in annual financial statements.

The adoption of the preceding guidance did not have a material impact on the Company s financial statements. See Note 15 for the disclosure regarding interim reporting of the carrying and fair value of Aon s long-term debt.

Recent Accounting Pronouncements

In December 2008, the FASB issued an amendment to current principles regarding employers disclosures about pensions and other postretirement benefits. These changes provide guidance as to an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. This amendment requires pension and other postretirement plan disclosures be expanded to include investment allocation decisions, the fair value of each major category of plan assets based on the nature and risks of assets in the plans, and inputs and valuation techniques used to develop fair value measurements of plan assets. The Company is currently evaluating this amendment to determine any additional disclosures required in the 2009 annual report.

In June 2009, the FASB issued guidance amending current principles related to the transfers of financial assets and variable interest entities (VIEs). This guidance eliminates the concept of a qualifying special-purpose entity (QSPE), creates more stringent conditions for reporting the transfer of a portion of a financial asset as a sale, clarifies other sale-accounting criteria, and changes the initial measurement of a transferor s interest in transferred financial assets. Former QSPEs will be evaluated for consolidation based on the updated VIE guidance. There are also changes to the approach a company must take in determining a VIE s primary beneficiary and requires companies to more frequently reassess whether they must consolidate VIEs. Additional year-end and interim period disclosures will also be required. These changes will be effective for Aon beginning in the first quarter of 2010. The adoption of this guidance is not expected to have a material impact on the Company s financial statements.

In September 2009, the FASB issued guidance updating current principles related to revenue recognition when there are multiple-element arrangements. This revised guidance relates to the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting and modifies the manner in which the transaction consideration is allocated across the separately identifiable deliverables. The guidance also expands the disclosures required for multiple-element revenue arrangements. These changes will be effective for Aon beginning in the first quarter of 2011, and may be applied retrospectively for all periods presented or prospectively to arrangements entered into or modified after the adoption date. Early adoption is permitted. The

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Company is currently evaluating this guidance to determine what impact, if any, it will have on its consolidated financial statements.

3. Cash and Cash Equivalents

Cash and cash equivalents at September 30, 2009 and December 31, 2008 included restricted balances of $99 million and $194 million, respectively. Restricted balances are held in trust for the benefit of reinsurance contract holders.

4. Goodwill and Other Intangible Assets

The changes in the net carrying amount of goodwill by operating segment for the nine months ended September 30, 2009 are as follows (in millions):

	Risk and Insurance Brokerage Services	Consulting	Total
Balance as of December 31, 2008	$ 5,259	$ 378	$ 5,637
Goodwill acquired	40		40
Benfield adjustments	15		15
Goodwill related to disposals	(13)		(13)
Foreign currency revaluation	273	5	278
Balance as of September 30, 2009	$ 5,574	$ 383	$ 5,957

The Company is in the process of finalizing the Benfield purchase price allocation. Therefore, the final goodwill to be recorded is still subject to refinement. This process will be finalized in the fourth quarter 2009. During the third quarter, the Company updated its allocation to reflect the impact of changes in actual employee severance costs compared to original estimates and the resolution of certain tax matters.

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

	September 30, 2009		December 31, 2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Trademarks	$ 134	$	$ 128	$
Customer Related and Contract Based	703	222	697	180
Marketing, Technology and Other	386	238	331	197
	$ 1,223	$ 460	$ 1,156	$ 377

Amortization expense on intangible assets was $24 million and $69 million for the three and nine months ended September 30, 2009, respectively. Amortization expense was $15 million and $40 million for the three and nine months ended September 30, 2008, respectively. As of September 30, 2009, the estimated amortization for intangible assets is as follows (in millions):

Remainder of 2009	$	28
2010		99
2011		93
2012		82
2013		73
Thereafter		254
Total	$	629

5. Disposal of Operations

Continuing Operations

In December 2008, Aon signed a definitive agreement to sell the U.S. operation of the premium finance business of Cananwill, Inc. (Cananwill). This disposition was completed in February 2009. Cananwill s results are included in the Risk and Insurance Brokerage Services segment. A pretax loss totaling $7 million was recognized, of which $2 million was recorded in first quarter 2009 and $5 million in fourth quarter 2008. This disposal did not meet the criteria for discontinued operations reporting. Aon may receive up to $10 million from the buyer over the next two years based on the volume of insurance premiums and related obligations financed by the buyer over this period that are generated by certain of Cananwill s producers.

Discontinued Operations

Property and Casualty Operations

In January 2009, the Company signed a definitive agreement to sell FFG Insurance Company (FFG), Atlanta International Insurance Company (AIIC) and Citadel Insurance Company (Citadel) (together the P&C operations). FFG and Citadel are property and casualty insurance operations that were in runoff. AIIC is a property and casualty insurance operation that was previously reported in discontinued operations. The sale was completed in August 2009. A pretax loss totaling $194 million was recognized, of which $3 million was recorded in third quarter 2009 and $191 million in fourth quarter 2008. As part of the sale, the purchaser also assumed an indemnification in respect of certain reinsured property and casualty balances. The fair value of this indemnification was $9 million at June 30, 2009.

AIS Management Corporation

In 2008, Aon reached a definitive agreement to sell AIS Management Corporation (AIS), which was previously included in the Risk and Insurance Brokerage Services segment, to Mercury General Corporation, for $120 million in cash at closing, plus a potential earn-out of up to $35 million payable over the two years following the completion of the agreement. The disposition was completed in January 2009 and resulted in a pretax gain of $86 million in first quarter 2009.

Accident, Life & Health Operations

On April 1, 2008, the Company sold its Combined Insurance Company of America (CICA) subsidiary to ACE Limited and its Sterling Life Insurance Company (Sterling) subsidiary to Munich Re Group. These two subsidiaries were previously included in the Company s former Insurance Underwriting segment. After final adjustments, Aon received $2.525 billion in cash for CICA and $341 million in cash for Sterling. Additionally, CICA paid a $325 million dividend to Aon before the sale transaction was completed. A pretax gain of $1.4 billion was recognized in the second quarter 2008 on the sale of these businesses.

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

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Revenue:				
CICA and Sterling	$	$	$	$ 677
AIS		23		71
P&C Operations		1	2	4
	$	$ 24	$ 2	$ 752
Income (loss) before income taxes:				
Operations:				
CICA and Sterling	$	$	$	$ 66
AIS		(22)		(13)
P&C Operations	(1)	(2)	4	(5)
Other				(1)
	(1)	(24)	4	47
Gain (loss) on sale	1	(33)	89	1,393
	$	$ (57)	$ 93	$ 1,440
Net income (loss):				
Operations	$	$ (16)	$ 3	$ 23
Gain (loss) on sale	3	(22)	52	947
	$ 3	$ (38)	$ 55	$ 970

The assets and liabilities reported as held-for-sale were as follows (in millions):

	September 30, 2009	December 31, 2008
Assets:		
Investments:		
Fixed maturities	$	$ 104
All other investments		68
Receivables		24
Property and equipment and other assets		41
Total assets	$	$ 237
Liabilities:		
Policy liabilities:		
Policy and contract claims	$	$ 122
Unearned premium reserves and other		5
All other liabilities		19
Total liabilities	$	$ 146
Equity:		
Invested equity	$	$ 87
Net unrealized investment gains		4
Total equity	$	$ 91

6. Restructuring

Aon Benfield Restructuring Plan

The Company announced a global restructuring plan (Aon Benfield Plan   ) in conjunction with its merger with Benfield in 2008. The restructuring plan is intended to integrate and streamline operations across the combined Aon Benfield organization. The Aon Benfield Plan includes an estimated 700 job eliminations. Additionally, duplicate space and assets will be abandoned. The Company originally estimated that this plan would result in cumulative costs totaling approximately $185 million over a three-year period, of which $104 million was recorded as part of the Benfield purchase price allocation and $81 million which was expected to result in future charges to earnings. The company currently estimates the Plan will result in cumulative costs totaling approximately $155 million.

As of September 30, 2009, approximately 450 jobs have been eliminated under this Plan. The Company has recorded $15 million and $45 million of restructuring and related charges in the third quarter and nine months of 2009, respectively. Total payments of $60 million have been made under this Plan to date. Additionally, in the third quarter 2009, the Company reduced an accrual recorded as part of the Benfield purchase price allocation by $27 million to reflect actual severance costs being lower than originally estimated.

All costs associated with the Aon Benfield Plan are included in the Risk and Insurance Brokerage Services segment. Charges 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 these restructuring activities and related expenses to affect continuing operations into 2011.

The following summarizes the restructuring and related costs by type and estimated to be incurred through the end of the restructuring initiative related to the merger and integration of Benfield (in millions):

		Actual			
	Purchase Price Allocation	Third Quarter 2009	Nine Months 2009	Total to Date	Estimated Total Cost for Restructuring Period (1)
Workforce reduction	$ 51	$ 6	$ 31	$ 82	$ 97
Lease consolidation	24	7	11	35	47
Asset impairments		1	2	2	8
Other costs associated with restructuring (2)	2	1	1	3	3
Total restructuring and related expenses	$ 77	$ 15	$ 45	$ 122	$ 155

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

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

2007 Restructuring Plan

In 2007, the Company announced a global restructuring plan intended to create a more streamlined organization and reduce future expense growth to better serve clients (2007 Plan). The 2007 Plan includes an estimated 4,100 job eliminations. As of September 30, 2009, approximately 2,700 positions have been eliminated. The Company has closed or consolidated several offices resulting in sublease losses or lease buy-outs. The Company currently estimates that the 2007 Plan will result in cumulative pretax charges totaling approximately $700 million. Expenses include workforce reduction, 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 first half of 2010.

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 (in millions):

	2007	2008	Actual Third Quarter 2009	Nine Months 2009	Total Incurred to Date	Estimated Total Cost for Restructuring Period (1)
Workforce reduction	$ 17	$ 166	$ 48	$ 118	$ 301	$ 470
Lease consolidation	22	38	29	56	116	145
Asset impairments	4	18	3	7	29	38
Other costs associated with restructuring (2)	3	29	4	11	43	47
Total restructuring and related expenses	$ 46	$ 251	$ 84	$ 192	$ 489	$ 700

(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 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.

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

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 (in millions):

	2007	2008	Actual Third Quarter 2009	Nine Months 2009	Total Incurred to Date	Estimated Total Cost for Restructuring Period
Risk and Insurance Brokerage Services	$ 41	$ 234	$ 69	$ 171	$ 446	$ 645
Consulting	5	17	15	21	43	55
Total restructuring and related expenses	$ 46	$ 251	$ 84	$ 192	$ 489	$ 700

Restructuring Liabilities

As of September 30, 2009, the Company s liabilities for its restructuring plans are as follows (in millions):

	Aon Benfield	2007 Plan	2005 Plan	Total
Balance at January 1, 2008	$	$ 25	$ 63	$ 88
Expensed in 2008		233	3	236
Cash payments in 2008		(148)	(34)	(182)

Purchase price allocation	104			104
Foreign currency translation adjustment		(9)	(4)	(13)
Balance at December 31, 2008	104	101	28	233
Expensed in 2009	42	185	(2)	225
Cash payments in 2009	(60)	(142)	(9)	(211)
Purchase accounting adjustment	(27)			(27)
Foreign currency translation adjustment	6	5	1	12
Balance at September 30, 2009	$ 65	$ 149	$ 18	$ 232

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.

7. Investment Income and Investments

The components of investment income are as follows (in millions):

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Gross investment income	$ 28	$ 92	$ 81	$ 218
Less: investment expenses		2		4
Investment income	$ 28	$ 90	$ 81	$ 214

The Company earns investment income on cash balances and investments, as well as on premium trust balances that Aon maintains for premiums collected from insureds but not yet remitted to insurance companies. Premium trust balances and a corresponding liability are included in fiduciary assets and fiduciary liabilities in the accompanying condensed consolidated statements of financial position. The Company s interest-bearing assets are included in the following categories in the accompanying condensed consolidated statements of financial position (in millions):

	September 30, 2009	December 31, 2008
Cash and cash equivalents	$ 580	$ 582
Short-term investments	602	684
Premium trust balances (included within fiduciary assets)	3,440	3,178
Investments	297	332
	$ 4,919	$ 4,776

8. Debt

On July 1, 2009, an indirect wholly-owned subsidiary of Aon issued 500 million ($734 million at September 30, 2009 exchange rates) of 6.25% senior unsecured debentures due on July 1, 2014. The payment of the principal and interest on the debentures is unconditionally and irrevocably guaranteed by Aon. Proceeds from the offering were used to repay the Company s $677 million outstanding indebtedness under its Euro credit facility.

In 1997, Aon created Aon Capital A, a wholly-owned statutory business trust (Trust), for the purpose of issuing mandatorily redeemable preferred capital securities (Capital Securities). Aon received cash and an investment in 100% of the common equity of Aon Capital A by issuing 8.205% Junior Subordinated Deferrable Interest Debentures (the Debentures) to Aon Capital A. These transactions were structured such that the net cash flows from Aon to Aon Capital A matched the cash flows from Aon Capital A to the third party investors. Aon determined that it was not the primary beneficiary of Aon Capital A, a VIE, and, thus reflected the Debentures as long-term debt. During the first half of 2009, Aon repurchased $15 million face value of the Capital Securities for approximately $10 million, resulting in a $5 million gain reflected in other (income) expense in the condensed consolidated statement of income. To facilitate the legal release of the obligation created through the Debentures associated with this repurchase and future repurchases, Aon dissolved the Trust effective June 25, 2009. This dissolution resulted in the exchange of the Capital Securities held by third parties for the Debentures. Also in connection with the dissolution of the Trust, the $24 million of common equity of Aon Capital A held by Aon was exchanged for $24 million of Debentures, which were then cancelled. Following these actions, $687 million of Debentures remain outstanding. The Debentures are subject to mandatory redemption on January 1, 2027 or are redeemable in whole, but not in part, at the option of Aon upon the occurrence of certain events.

Also during the second quarter of 2009, $100 million of short-term debt owned by a VIE where Aon is the primary beneficiary, was repaid.

9. Equity

Common Stock

During the first nine months of 2009, Aon issued 966,000 new shares of common stock for employee benefit plans. In addition, Aon issued approximately 7.2 million shares of treasury stock for employee benefit programs and 411,000 shares in connection with employee stock purchase plans.

Aon s Board of Directors has authorized the Company to repurchase up to $4.6 billion of its outstanding common stock. Shares may be repurchased through the open market or in privately negotiated transactions from time to time, based on prevailing market conditions and will be funded from available capital. Any repurchased shares will be available for employee stock plans and for other corporate purposes. The Company repurchased approximately 3.0 million shares at a cost of $125 million in the third quarter 2009. For the first nine months of 2009, the Company repurchased approximately 6.5 million shares at a cost of $250 million. Since inception of its share repurchase program in 2005, the Company has repurchased a total of 97.3 million shares for an aggregate cost of $4.0 billion. As of September 30, 2009, the Company remained authorized to purchase up to $605 million of additional shares under the current stock repurchase program. The timing and amount of future purchases will be based on market and other conditions.

There are also 22.4 million shares of common stock held in treasury at September 30, 2009 which are restricted as to their reissuance.

Income per Share

As discussed in Note 2, the Company began following new guidance regarding participating securities, effective January 1, 2009. Basic and diluted net income per share were changed, as follows:

	Three Months Ended September 30, 2008		Nine Months Ended September 30, 2008	
	As Reported	**As Restated**	**As Reported**	**As Restated**
Basic net income per share:				
Continuing operations	$ 0.57	$ 0.55	$ 1.72	$ 1.68
Discontinued operations	(0.14)	(0.13)	3.35	3.26
Net Income	$ 0.43	$ 0.42	$ 5.07	$ 4.94
Diluted net income per share:				
Continuing operations	$ 0.53	$ 0.53	$ 1.63	$ 1.61
Discontinued operations	(0.13)	(0.13)	3.18	3.14
Net Income	$ 0.40	$ 0.40	$ 4.81	$ 4.75

The amount of income from continuing operations attributable to participating securities was $3 million and $4 million for the three months ended September 30, 2009 and 2008, respectively, and was $12 million for both the nine months ended September 30, 2009 and 2008. The amount of income (loss) from discontinued operations attributable to participating securities was $ nil million and $ (1) million for the three months ended September 30, 2009 and 2008, respectively, and was $1 million and $24 million for the nine months ended September 30, 2009 and 2008, respectively. The amount of net income attributable to participating securities was $3 million for both the three months ended September 30, 2009 and 2008, and was $13 million and $36 million for the nine months ended September 30, 2009 and 2008, respectively.

The weighted average shares outstanding for basic and diluted earnings per share were as follows (in millions):

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Shares for basic EPS (1)	283.8	281.7	284.5	296.9
Common stock equivalents	8.3	12.2	7.7	12.0
Shares for diluted EPS	292.1	293.9	292.2	308.9

(1) Includes 6.6 and 7.6 participating securities for the three months ended September 30, 2009 and 2008, respectively, and 7.0 and 7.6 for the nine months ended September 30, 2009 and 2008, respectively.

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 5 million and 2 million at September 30, 2009 and 2008, respectively. For nine months ended September 30, 2009 and 2008, the number of options excluded was 5 million and 3 million, respectively.

Other Comprehensive Income (Loss)

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

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Net income	$ 134	$ 121	$ 574	$ 1,480
Net derivative (losses) gains	(12)	(12)	6	(31)
Net unrealized investment losses	(1)	(24)	(10)	(4)
Net foreign currency translation adjustments	87	(221)	227	25
Net postretirement benefit obligations	11	9	71	(2)
Comprehensive income (loss)	219	(127)	868	1,468
Less: Comprehensive income attributable to noncontrolling interest	17	4	29	12
Comprehensive income (loss) attributable to Aon stockholders	$ 202	$ (131)	$ 839	$ 1,456

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

	September 30, 2009	December 31, 2008
Net derivative losses	$ (7)	$ (13)
Net unrealized investment gains	46	56
Net foreign currency translation adjustments	325	102
Net postretirement benefit obligations	(1,536)	(1,607)
Accumulated other comprehensive loss, net of tax	$ (1,172)	$ (1,462)

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10. Employee Benefits

Pension Plans

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

	Three months ended September 30,			
	U.S.		International	
	2009	2008	2009	2008
Service cost	$	$ 7	$ 5	$ 4
Interest cost	31	28	62	71
Expected return on plan assets	(25)	(32)	(61)	(76)
Amortization of prior service cost		(3)		1
Amortization of net loss	6	7	10	10
Net periodic benefit cost	$ 12	$ 7	$ 16	$ 10

	Nine months ended September 30,			
	U.S.		International	
	2009	2008	2009	2008
Service cost	$	$ 29	$ 13	$ 18
Interest cost	93	81	174	219
Expected return on plan assets	(76)	(96)	(172)	(234)
Amortization of prior service cost	(1)	(10)	1	1
Amortization of net loss	23	18	29	30
Net periodic benefit cost	$ 39	$ 22	$ 45	$ 34

On January 30, 2009, the Aon Board of Directors adopted an amendment to the U.S. defined benefit pension plan whereby effective April 1, 2009 the Company ceased crediting future benefits relating to salary and service. As a result of the U.S. plan amendment, the Company remeasured its pension expense for 2009 to reflect a new discount rate of 7.08%, the year-to-date decline in plan assets and change in amortization basis to the expected average remaining life of plan participants. The remeasurement resulted in a $163 million improvement in the funded status of Aon s U.S. plan. Additionally, the Company recognized a curtailment gain of $83 million in first quarter 2009, which was reported in compensation and benefits in the condensed consolidated statements of income.

Also during the first quarter 2009, an additional curtailment gain of $10 million was recognized in discontinued operations resulting from the sale of CICA. The curtailment gain relates to the Company s U.S. Retiree Health and Welfare Plan in which CICA employees were allowed to participate through the end of 2008, pursuant to the terms of the sale. In the second quarter 2008, a pension curtailment gain of $12 million was recognized in discontinued operations resulting from the sale of CICA.

During the second quarter 2009, Aon recorded a $5 million curtailment charge attributable to a remeasurement resulting from the decision to cease service accruals in the Canadian plans beginning in 2010, which was reported in compensation and benefits in the condensed consolidated statements of income.

In 2009, Aon plans to contribute $23 million and $401 million to its U.S. and material international defined benefit pension plans, respectively. As of September 30, 2009, contributions of $17 million have been made to the U.S. pension plans and $351 million to its material international pension plans.

11. Stock Compensation Plans

Compensation expense

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):

	Three months ended September 30,		Nine months ended September 30,	
	2009	**2008**	**2009**	**2008**
Restricted Stock Units (RSUs)	$ 32	$ 27	$ 96	$ 102
Performance plans	21	17	37	47
Stock options	4	7	17	20
Employee stock purchase plan	1	1	3	3
Total	$ 58	$ 52	$ 153	$ 172

During the first half of 2009, the Company converted its stock administration system to a new service provider. In connection with this conversion, a reconciliation of the methodologies utilized was performed, which resulted in a $12 million reduction of expense for the nine months ended September 30, 2009.

Stock Awards

During the first nine months of 2009, the Company granted approximately 2 million shares in connection with the completion of the 2006 Leadership Performance Plan (LPP) cycle and approximately 3.5 million restricted shares in connection with the Company s incentive compensation plans.

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

	Nine months ended September 30,			
	2009		**2008**	
	Shares	**Fair Value (1)**	**Shares**	**Fair Value (1)**
Non-vested at beginning of period	14,060	$ 35	14,150	$ 31
Granted	5,508	38	3,196	42
Vested	(6,026)	35	(3,586)	28
Forfeited	(408)	37	(429)	33
Non-vested at end of period	13,134	36	13,331	34

(1) Represents fair value of award at date of grant.

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

	As of September 30, 2009	As of September 30, 2008
Potential RSUs to be issued based on current performance levels	6,623	5,723
Unamortized expense, based on current performance levels	$ 136	$ 85

Stock Options

In 2008 and prior years, Aon used historical data to estimate option exercise and employee terminations within the lattice-binomial option-pricing model, stratified between executives and key employees. Beginning in 2009, after reviewing additional historical data, the valuation model stratifies employees between those receiving LPP options, Special Stock Plan (SSP) options, and all other option grants. The Company believes that this stratification better represents prospective stock option exercise patterns.

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

	Three months ended September 30, 2009		Nine months ended September 30, 2009		
	SSP Options	All Other Options	LPP Options	SSP Options	All Other Options
Weighted average volatility	29.9%	29.9%	35.5%	35.0%	32.0%
Expected dividend yield	1.6%	1.6%	1.3%	1.5%	1.5%
Risk-free rate	2.7%	3.0%	1.5%	1.9%	2.6%
Weighted average expected life, in years	5.6	6.5	4.4	5.6	6.5
Weighted average estimated fair value per share	$ 10.24	$ 10.95	$ 12.19	$ 12.01	$ 12.34

	Three months ended September 30, 2008	Nine months ended September 30, 2008	
	Key Employees	Executives	Key Employees
Weighted average volatility	30.1%	29.4%	29.9%
Expected dividend yield	1.3%	1.3%	1.4%
Risk-free rate	3.4%	3.2%	3.0%
Weighted average expected life, in years	5.7	5.1	5.7
Weighted average estimated fair value per share	$ 13.98	$ 11.87	$ 12.95

During the first nine months of 2009, the Company granted approximately 1 million stock options with an exercise price of $39 per share in connection with the 2009 LPP Plan and approximately 500,000 stock options with an exercise price of $37 per share in connection with the Company s incentive compensation plans.

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

	Nine months ended September 30,			
	2009		2008	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Beginning outstanding	19,666	$ 31	26,479	$ 31
Granted	1,468	38	1,537	44
Exercised	(3,855)	27	(4,886)	29
Forfeited and expired	(743)	38	(1,517)	41
Outstanding at end of period	16,536	33	21,613	31
Exercisable at end of period	10,365	31	12,214	30

The weighted average remaining contractual life, in years, of outstanding options was 4.3 years and 4.5 years at September 30, 2009 and 2008, 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 $40.69 as of September 30, 2009, which would have been received by the option holders had those option holders exercised their options as of that date. At September 30, 2009, the aggregate intrinsic value of options outstanding was $140 million, of which $102 million was exercisable. The aggregate intrinsic value of options exercised during the third quarter and nine months ended September 30, 2009 was $17 million and $55 million, respectively, and for the third quarter and nine months ended September 30, 2008 was $17 million and $80 million, respectively.

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

	Nine months ended September 30,	
	2009	2008
Cash received from the exercise of stock options	$ 104	$ 146
Tax benefit realized from the exercise of stock options	15	21

Unamortized deferred compensation expense, which includes both options and awards, amounted to $311 million as of September 30, 2009, with a remaining weighted-average amortization period of approximately 2.1 years.

12. Financial Instruments

Aon is exposed to market risk from changes in foreign currency exchange rates, interest rates and equity security prices. To manage the risk related to these exposures, Aon enters into various derivative transactions. The derivatives have the effect of reducing Aon s market risks by creating offsetting market exposures. Aon does not enter into derivative transactions for trading purposes.

Derivative transactions are governed by a uniform set of policies and procedures covering areas such as authorization, counterparty exposure and hedging practices. Positions are monitored using techniques such as market value and sensitivity analyses.

Certain derivatives also give rise to credit risks from the possible non-performance by counterparties. The credit risk is generally limited to the fair value of those contracts that are favorable to Aon. Aon has limited its credit risk by using International Swaps and Derivatives Association (ISDA) master agreements, collateral and credit support arrangements, entering into non-exchange-traded derivatives with highly-rated major financial institutions and by using exchange-traded instruments. Aon monitors the credit-worthiness of, and exposure to, its counterparties. As of September 30, 2009, all net derivative liability positions were entered into pursuant to terms of ISDA master agreements, and were free of credit risk contingent features. In addition, Aon has received collateral of $14 million from counterparties and pledged collateral of $21 million to counterparties for derivatives subject to collateral support arrangements as of September 30, 2009.

Accounting Policy for Derivative Instruments

All derivative instruments are recognized in the condensed consolidated statements of financial position at fair value. Unless otherwise noted, derivative instruments with a positive fair value are reported in other assets and derivative instruments with a negative fair value are reported in other liabilities in the condensed consolidated statements of financial position. Where Aon has entered into master netting agreements with counterparties, the derivative positions are netted by counterparty and are reported accordingly in other assets or other liabilities. Changes in the fair value of derivative instruments are recognized immediately in earnings, unless the derivative is designated as a hedge and qualifies for hedge accounting.

Accounting principles identify three hedging relationships where a derivative (hedging instrument) may qualify for hedge accounting: (i) a hedge of the change in fair value of a recognized asset or liability or firm commitment (fair value hedge), (ii) a hedge of the variability in cash flows from a recognized variable-rate asset or liability or forecasted transaction (cash flow hedge), and (iii) a hedge of the net investment in a foreign subsidiary (net investment hedge). Under hedge accounting, recognition of derivative gains and losses can be matched in the same period with that of the hedged exposure and thereby minimize earnings volatility.

In order for a derivative to qualify for hedge accounting, the derivative must be formally designated as a fair value, cash flow, or a net investment hedge by documenting the relationship between the derivative and the hedged item. The documentation will include a description of the hedging instrument, the hedge item, the risk being hedged, Aon s risk management objective and strategy for undertaking the hedge, the method for assessing the effectiveness of the hedge, and the method for measuring hedge ineffectiveness. Additionally, the hedge relationship must be expected to be highly effective at offsetting changes in either the fair value or cash flows of the hedged item at both inception of the hedge and on an ongoing basis. Aon assesses the ongoing effectiveness of its hedges and measures and records hedge ineffectiveness, if any, at the end of each quarter.

For a fair value hedge, the change in fair value of the hedging instrument and the change in fair value of the hedged item attributable to the risk being hedged are both recognized currently in earnings. For a cash flow hedge, the effective portion of the change in fair value of a hedging instrument is recognized in Other Comprehensive Income (OCI) and subsequently reclassified to income when the hedged item affects earnings. The ineffective portion of the change in fair value of a cash flow hedge is recognized immediately in earnings. For a net investment hedge, the effective portion of the change in fair value of the hedging instrument is reported in OCI as part of the cumulative translation adjustment, while the ineffective portion is recognized immediately in earnings.

Changes in the fair value of a derivative that is not designated as an accounting hedge (known as an economic hedge) are recorded in either investment income or other general expenses (depending on the hedged exposure and the Company s policy) in the current period s condensed consolidated statement of income.

Aon discontinues hedge accounting prospectively when (1) the derivative expires or is sold, terminated, or exercised, (2) it determines that the derivative is no longer effective in offsetting changes in the hedged item s fair value or cash flows, (3) a hedged forecasted transaction is no longer probable of occurring in the time period described in the hedge documentation, (4) the hedged item matures or is sold, or (5) management elects to discontinue hedge accounting voluntarily.

When hedge accounting is discontinued because the derivative no longer qualifies as a fair value hedge, Aon will continue to carry the derivative in the condensed consolidated statements of financial position at its fair value, recognize subsequent changes in the fair value of the derivative in current-period earnings, cease to adjust the hedged asset or liability for changes in its fair value, and begin to amortize the hedged item s cumulative basis adjustment into earnings over the remaining life of the hedged item using a method that approximates the level-yield method.

When hedge accounting is discontinued because the derivative no longer qualifies as a cash flow hedge, Aon will continue to carry the derivative in the condensed consolidated statements of financial position at its fair value, recognize subsequent changes in the fair value of the derivative in current-period earnings, and continue to defer the derivative gain or loss in accumulated OCI until the hedged forecasted transaction affects earnings. If the hedged forecasted transaction is probable of not occurring in the time period described in the hedge documentation or within a two month period of time thereafter, the deferred derivative gain or loss would be reclassified immediately to earnings.

Foreign Exchange Risk Management

Certain of Aon s foreign brokerage subsidiaries, primarily in the U.K., receive revenues in currencies (primarily in U.S. dollars and Euros) that differ from their functional currencies. The foreign subsidiary s functional currency revenue will fluctuate as the currency exchange rates change. To reduce this variability, Aon uses foreign exchange forward contracts and over-the-counter options to hedge the foreign exchange risk of the forecasted revenue for up to a maximum of five years in the future. Aon has designated these derivatives as cash flow hedges of its forecasted foreign currency denominated revenue. As of September 30, 2009, a $12 million pretax loss has been deferred to OCI, of which a $12 million loss is expected to be reclassified to earnings as an adjustment to other general expenses in the next twelve months. Deferred gains or losses will be reclassified from OCI to other general expenses when the hedged revenue is recognized. The hedge had no material ineffectiveness in the first nine months of 2009.

As of September 30, 2009, the Company had the following outstanding foreign exchange forward and option contracts that were entered into to hedge forecasted revenues and which qualify as cash flow hedges (in millions):

	Notional Amounts			
Forecasted revenues	**2009**	**2010**	**2011**	**2012**
U.S. Dollar	$ 47	$ 238	$ 214	$ 69
Euro	17	39	32	35

Aon also uses foreign exchange option and forward contracts to hedge its net investments in foreign operations. During the first nine months of 2009, these hedges had no ineffectiveness, and a $31 million cumulative pretax loss has been included in OCI at September 30, 2009. As of September 30, 2009, the total notional amount of the Company s foreign exchange option and forward contracts related to these hedges was $1.7 billion.

Aon subsidiaries have entered into cross-currency swaps and foreign exchange forward contracts to hedge the foreign currency risks associated with foreign denominated intercompany notes. These derivatives have been designated as cash flow hedges. As of September 30, 2009, an $8 million pretax loss has been deferred to OCI, and a $10 million loss is expected to be reclassified to earnings as an adjustment to interest expense and other general expense in the next twelve months. These hedges had no material ineffectiveness in the first nine months of 2009. As of September 30, 2009, the total notional amount of the Company s cross-currency swaps and foreign currency forward contracts related to these hedges was $1.1 billion.

Several of Aon s subsidiaries have negotiated outsourcing service agreements in currencies that differ from their functional currencies; primarily the Philippine Peso and the Indian Rupee. The subsidiary s functional currency equivalent of the expense will fluctuate as the currency exchange rates change. To reduce this variability, Aon uses foreign exchange forward contracts to hedge the foreign exchange risk associated with the forecasted expense incurred for the life of the service agreements or up to six years. Aon has designated these derivatives as cash flow hedges of its forecasted foreign currency denominated expense. As of September 30, 2009, a $6 million pretax loss has been deferred to OCI, $2 million of which is expected to be reclassified to earnings as an adjustment to other general expenses in the next twelve months. Deferred gains or losses will be reclassified from OCI to other general expenses when the hedged expense is recognized. During the third quarter, the Company discontinued hedge accounting and recognized a pretax loss of less than $1 million related to $2 million of hedged forecasted expenses determined to be probable of not occurring. The hedge did not have any other ineffectiveness in the first nine months of 2009.

As of September 30, 2009, the Company had the following outstanding foreign exchange forward contracts that were entered into to hedge forecasted expenses and which qualify as cash flow hedges (in millions):

	Notional Amounts			
Forecasted expenses	**2009**	**2010**	**2011**	**2012**
Indian Rupee	$ 6	$ 10	$ 9	$ 4
Philippine Peso	1	2	2	1

In May 2009, Aon entered into a sponsorship agreement under which Aon is required to make payments in British pounds over the next four years pursuant to the terms of the contract. As a result, the Company is exposed to foreign exchange transaction risk and has hedged its exposure using over-the-counter options. Aon has designated these derivatives as cash flow hedges of its forecasted foreign currency denominated expense. As of September 30, 2009, a $3 million pretax loss has been deferred to OCI. Deferred gains or losses will be reclassified from OCI to other general expenses when the hedged expense is recognized. This hedge did not have any ineffectiveness in the first nine months of 2009. As of September 30, 2009, the total notional amount of the Company s over-the-counter options related to this hedge was $83 million.

Aon also uses foreign exchange forward and over-the-counter option contracts to reduce the impact of foreign currency fluctuations on the translation of the financial statements of Aon s foreign operations and to manage the currency exposure of Aon s global liquidity profile. These derivatives are not eligible for hedge accounting treatment and changes in the fair value of these derivatives are recorded in other general expenses in the condensed consolidated statements of income. As of September 30, 2009, there was no notional amount outstanding.

Aon also uses foreign exchange forward contracts to offset foreign exchange risk associated with foreign denominated intercompany notes and brokerage receivables. These derivatives were not designated as hedges because changes in their fair value were largely offset in earnings by remeasuring the notes and receivables for changes in spot exchange rates. Changes in the fair value of these derivatives were recorded in other general expenses in the condensed consolidated statements of income. As of September 30, 2009, the total notional amount of these derivatives was $104 million.

Interest Rate Risk Management

Aon enters into receive-fixed-pay-floating interest rate swaps which are designated as cash flow hedges of the benchmark interest rate risk component of a portion of Aon s U.S. dollar, Euro, Australian dollar, Canadian dollar and British pound denominated brokerage funds held on behalf of clients and other operating funds. Forecasted interest receipts earned on deposit balances are hedged up to a maximum of three years into the future. Changes in the fair value of the swaps are recorded in OCI and will be reclassified to earnings as an adjustment to investment income over the term of the swaps. As of September 30, 2009, an $18 million pretax gain related to this hedge was recorded in OCI, all of which is expected to be reclassified to earnings as an adjustment to investment income in the next twelve months. This hedge had no material ineffectiveness in the first nine months of 2009.

As of September 30, 2009, the Company had the following outstanding interest rate swaps that were entered into to hedge the interest rate exposure of the forecasted interest receipts earned on short-term fund balances (in millions):

	Notional Amounts			
Fund balances	**2009**	**2010**	**2011**	**2012**
U.S. Dollar	$ 1,000	$ 850	$ 100	$

Euro	323	323	88	
All other	226	226	47	23

In July 2009, an indirect wholly-owned subsidiary of Aon issued 500 million ($734 million) of fixed rate senior unsecured debentures due on July 1, 2014. As a result of the debt issuance, the Company is exposed to changes in the fair value of the debt due to fluctuations in the benchmark Euribor rate. In order to hedge a portion of this risk, the Company entered into 250 million notional received-fixed-pay-floating interest rate swaps. This hedge did not have any ineffectiveness in 2009. As of September 30, 2009, $1 million was recorded as a reduction to interest expense due to this swap.

The location and fair value of derivative instruments reported in the September 30, 2009 condensed consolidated statement of financial position, segregated between derivatives that are designated as hedging instruments and those that are not, are as follows (in millions):

	Derivative Assets		**Derivative Liabilities**	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives accounted for as hedges:				
Interest rate contracts	Other assets	$ 32	Other liabilities	$ 5
Foreign exchange contracts	Other assets	240	Other liabilities	195
Other contracts (1)	Other assets	15	Other liabilities	56
Total		287		256
Derivatives not accounted for as hedges:				
Foreign exchange contracts	Other assets	24	Other liabilities	32
Total		$ 311		$ 288

(1) Other contracts include cross-currency swaps hedging the foreign currency risk associated with foreign denominated intercompany loans, as described above.

The location and amounts of the gains and losses reported in the condensed consolidated statement of financial position in OCI, segregated by type of hedge and further by type of derivative contract, are as follows (in millions):

Three months ended September 30, 2009	**Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)**	**Location of Gain (Loss) Reclassified from OCI into Income (Effective Portion)**	**Amount of Gain (Loss) Reclassified from OCI into Income (Effective Portion)**
Cash flow hedges:			
Interest rate contracts	$ 6	Investment income	$ 8
Foreign exchange contracts	4	Other general expenses	24
Other contracts (1)	(5)	Interest expense	(8)
Total	$ 5		$ 24
Foreign net investment hedges:			
Foreign exchange contracts	$ (52)	N/A	$

Nine months ended September 30, 2009	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain (Loss) Reclassified from OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from OCI into Income (Effective Portion)	
Cash flow hedges:					
Interest rate contracts	$	14	Investment income	$	27
Foreign exchange contracts		39	Other general expenses		16
Other contracts (1)		(42)	Other general expenses and interest expense		(42)
Total	$	11		$	1
Foreign net investment hedges:					
Foreign exchange contracts	$	(86)	N/A	$	

(1) Other contracts include cross-currency swaps hedging the foreign currency risk associated with foreign denominated intercompany loans, as described above.

	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative			
		Three months ended September 30, 2009		Nine months ended September 30, 2009	
Fair value hedges:					
Foreign exchange contracts	Interest expense	$	7	$	7

	Location of Gain (Loss) Recognized in Income on Related Hedged Item	Amount of Gain (Loss) Recognized in Income on Related Hedged Item			
		Three months ended September 30, 2009		Nine months ended September 30, 2009	
Hedged items in fair value hedge relationships:					
Fixed rate debt	Interest expense	$	(6)	$	(6)

The amount of gain (loss) recognized in income on the ineffective portion of derivatives for both the three and nine month periods was negligible.

The location and amounts of the gains and losses reported in the condensed consolidated statement of income for derivatives not designated as qualifying hedges are as follows (in millions):

	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	
		Three months ended September 30, 2009	Nine months ended September 30, 2009

Derivatives not designated as hedges:			
Foreign exchange contracts	Other general expenses	$ (7)	$ (13)

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13. Premium Finance Operations

In December 2008, Aon signed a definitive agreement to sell the U.S. operations of the premium finance business (Cananwill). This disposition was completed in February 2009. In connection with Aon s sale of its U.S. premium finance business, Aon has guaranteed the collection of the principal amount of the premium finance notes sold to the buyer, which, at September 30, 2009, was $42 million, if losses exceed the historical credit loss reserve for the business. Historical losses in this business have been very low since the premium finance notes are generally fully collateralized by the lender s right, in the event of non-payment, to cancel the underlying insurance contract and collect the unearned premium from the insurance carrier. The Company does not expect to incur any significant losses related to this guarantee.

Some of Aon s U.K., Canadian, and Australian subsidiaries originated short-term loans (generally with terms of 12 months or less) to businesses to finance their insurance premium obligations, and then sold these premium finance agreements to unaffiliated companies in whole loan sales. Prior to August 2009, these loans were sold in securitization transactions that met the criteria for sale accounting under current accounting principles. In June and July of 2009, the Company entered into agreements with third parties with respect to Aon s international premium finance businesses (collectively, the Cananwill International Agreements). As a result of the Cananwill International Agreements, the third parties began originating, financing and servicing premium finance loans generated by referrals from Aon s brokerage operations. The Company expects to cease financing and servicing premium finance loans by year-end 2009. The third parties did not acquire the existing portfolio of Aon s premium finance loans, and as such, the Company did not extend any guarantees under these agreements.

In the U.K., premium finance agreements were sold to a special purpose entity (SPE), which is considered a QSPE, as defined. This QSPE funded its purchases of premium finance agreements by selling undivided beneficial interests in the agreements to a multi-seller commercial paper conduit SPE sponsored by unaffiliated banks (Bank SPEs). In Canada and Australia, undivided interests in the premium finance agreements were sold directly to Bank SPEs. The Bank SPEs are variable interest entities as defined under current accounting principles. The QSPE used in the U.K. is not consolidated in Aon s financial statements because the criteria for sale accounting have been met. For the Canadian and Australian sales, the Company determined that non-consolidation of the Bank SPEs is appropriate because Aon is not their primary beneficiary.

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. Aon s interest in the Bank SPEs will diminish as the loans sold through securitization arrangements prior to August 2009 are collected.

Pursuant to the agreements, the total amount that can be advanced by the Bank SPEs on premium finance agreements sold to them at any one time is limited by formula to a percentage of the uncollected balance of the premium finance agreements. The outstanding balance of sold portfolios at September 30, 2009 was $207 million, and the Bank SPEs had advanced $158 million. The outstanding balance of sold portfolios at December 31, 2008 was $1.1 billion, and the Bank SPEs had advanced $981 million.

Aon recorded gains on the sale of premium finance agreements. When Aon calculated the gain, all costs expected to be incurred for the relevant Bank SPEs were included. The gains, which were included in commissions, fees and other revenue in the condensed consolidated statements of income, were $3 million and $9 million for the three months ended September 30, 2009 and 2008, respectively, and $17 million and $41 million for the nine months ended September 30, 2009 and 2008, respectively.

Aon recorded 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 retained 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, in the form of over-collateralization provided by Aon (and other sellers) as required by the sales agreements. The over-collateralization of the sold receivables represents Aon s maximum exposure to credit-related losses, and was approximately $30 million at September 30, 2009. 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.

14. Variable Interest Entities

Aon has the following VIEs that have been consolidated at September 30, 2009:

- Juniperus Insurance Opportunity Fund Limited (Juniperus), which is an investment vehicle that invests in an actively managed and diversified portfolio of insurance risks, and
- Juniperus Capital Holdings Limited (JCHL), which provides investment management and related services to Juniperus.

Aon holds a 41% equity interest in the Juniperus Class A shares and bears a majority of the expected residual return and losses. Aon has a 73% voting and economic interest in JCHL and absorbs a majority of JCHL s expected residual returns and losses. Aon is considered the primary beneficiary of both companies, and as such these entities have been consolidated.   Juniperus/JCHL had assets and liabilities of $194 million and $51 million, respectively, at September 30, 2009 and $121 million and $22 million, respectively, at December 31, 2008. Aon recognized $7 million and $11 million of pretax income from Juniperus/JCHL for the third quarter and nine months 2009, respectively. Aon s potential loss at September 30, 2009 is limited to its investment in the VIEs, which is $59 million for Juniperus/JCHL.

Aon previously owned an 85% economic equity interest in Globe Re Limited (Globe Re), a VIE which provided reinsurance coverage for a defined portfolio of property catastrophe reinsurance contracts underwritten by a third party for a limited period which ended June 1, 2009. Aon consolidated Globe Re as it was deemed to be the primary beneficiary. In connection with the winding up of its operations, during June 2009, Globe Re repaid its $100 million of short-term debt from available cash. In early July 2009, Aon s equity investment in Globe Re was also repaid. Aon recognized $8 million of pretax income from Globe Re in nine months 2009. Globe Re was fully liquidated in third quarter 2009.

15. Fair Value

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

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

The following 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 September 30, 2009 (in millions):

			Fair Value Measurements Using	
	Balance at September 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds and highly liquid debt securities (1)	$ 2,093	$	$ 2,093	$
Other investments	106		3	103
Derivatives	140		140	
Retained interests	30			30
Liabilities:				
Derivatives	117		117	
Guarantees	4			4

(1) Includes $1,973 million of money market funds and $120 million of highly liquid debt securities that are classified as fiduciary assets, short-term investments or cash equivalents in the condensed consolidated statements of financial position, depending on their nature and initial maturity. See Note 7 for additional information regarding the Company s investments.

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

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

Other investments carried at fair value consists primarily of the Company s investment in Private Equity Partnership Structures I, LLC (PEPS I). Fair value is based on valuations received from the general partners of the limited partnership interests held by PEPS I.

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

Retained interests in the sold premium finance agreements of Aon s premium financing operations are recorded at 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.

Guarantees are carried at fair value, which is based on discounted estimated future cash flows using published historical cumulative default rates and discount rates commensurate with the underlying exposure.

The following table presents the changes in the Level 3 fair-value category for the three months ended September 30, 2009 (in millions):

	Fair Value Measurements Using Level 3 Inputs			
	Other Investments	Derivatives	Retained Interests	Guarantees
Balance at June 30, 2009	$ 102	$	$ 61	$ (9)
Total gains (losses):				
Included in income			4	(4)
Included in other comprehensive income	1			
Purchases and sales			(35)	9
Balance at September 30, 2009	$ 103	$	$ 30	$ (4)
The amount of total gains (losses) for the period included in income attributable to the change in unrealized losses relating to assets or liabilities held at September 30, 2009	$	$	$ 4	$ (4)

The following table presents the changes in the Level 3 fair-value category for the nine months ended September 30, 2009 (in millions):

	Fair Value Measurements Using Level 3 Inputs			
	Other Investments	Derivatives	Retained Interests	Guarantees
Balance at December 31, 2008	$ 113	$ 1	$ 99	$ (9)
Total gains (losses):				
Included in earnings		(1)	14	(4)
Included in other comprehensive income	(10)		2	
Purchases and sales			(85)	9
Balance at September 30, 2009	$ 103	$	$ 30	$ (4)
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 September 30, 2009	$	$	$ 16	$ (4)

Gains (losses), both realized and unrealized, included in income for the three and nine months ended September 30, 2009 are as follows (in millions):

	Three months ended September 30, 2009		Nine months ended September 30, 2009	
	Other general expenses	Commissions, fees and other	Other general expenses	Commissions, fees and other
Total gains (losses) included in income	$ (4)	$ 4	$ (5)	$ 14
	$ (4)	$ 4	$ (4)	$ 16

Change in unrealized gains (losses)
relating to assets or liabilities held at
September 30, 2009

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

	September 30, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	$ 1,998	$ 2,032	$ 1,872	$ 1,576

The fair value of debt is based on quoted market prices or estimates using discounted cash flow analyses based on current borrowing rates for similar types of borrowing arrangements.

16. 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 certain 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.

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

Also at the time of the NYAG investigation, putative classes filed actions against Aon in the U.S. District Court for the Northern District of Illinois under the federal securities laws and ERISA. Plaintiffs in the federal securities class action submitted purported expert reports estimating a range of alleged damages of $353 million to $490 million, and plaintiffs in the ERISA class actions submitted revised purported expert reports estimating a range of alleged damages of $74 million to $349 million. In the ERISA case, Aon submitted expert reports in opposition concluding that plaintiffs theories of liability and causation are meritless and that, in any event, plaintiffs incurred no damages. The parties are in the final stages of expert discovery and trial is likely to be scheduled within the first half of 2010. In the securities case, Aon reached agreement on a proposed settlement under which Aon would pay $30 million to the class. Notice has been provided to class members advising of the proposed settlement, which has received preliminary approval by the district court. A final hearing and fairness determination has been scheduled for November 17, 2009. The outcome of these lawsuits, and any losses or other payments that may occur as a result, cannot be predicted at this time.

Following inquiries from regulators, the Company commenced an internal review of its compliance with certain U.S. and non-U.S. anti-corruption laws, including the U.S. Foreign Corrupt Practices Act (FCPA). The U.S. Securities and Exchange Commission (SEC), and the U.S. Department of Justice (DOJ), continue to investigate these matters. Aon is fully cooperating with these investigations and has agreed with the U.S. agencies to toll any applicable statute of limitations pending completion of the investigations. Based on current information, the Company is unable to predict at this time when the SEC and DOJ matters will be concluded, or what regulatory or other outcomes may result.

A 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 Resource Life is vigorously defending this action. In October 2009, the court certified a nationwide class of policyholders whose loans terminated before the end of their scheduled terms and who Resource Life cannot prove received a refund of unearned premium. Resource Life will appeal. Also in October 2009, Aon filed a lawsuit in Illinois state court seeking a declaratory judgment with respect to the rights and obligations of Aon and Resource Life under the indemnity agreement. The outcome of the actions, 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.

17. Business Segments

Aon classifies its businesses into two operating segments: Risk and Insurance Brokerage Services and Consulting.

- 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, investment banking products and services, and premium financing. Aon sold its U.S. operations of the premium finance business of Cananwill in first quarter 2009.

- The Consulting segment provides a broad range of consulting services. These services are delivered predominantly to corporate clientele that operate in the following practice areas: Consulting Services health and employee benefits, retirement, compensation, and strategic human capital, and Outsourcing - human resource outsourcing.

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

	Three months ended September 30,					
	2009			2008		
	Commissions, Fees and Other	**Investment Income**	**Total**	**Commissions, Fees and Other**	**Investment Income**	**Total**
Risk and Insurance Brokerage Services	$ 1,471	$ 18	$ 1,489	$ 1,425	$ 48	$ 1,473
Consulting	308		308	335	2	337
Intersegment elimination	(8)		(8)	(4)		(4)
Total operating segments	1,771	18	1,789	1,756	50	1,806
Unallocated	9	10	19		40	40

Total revenue	$ 1,780	$ 28	$ 1,808	$ 1,756	$ 90	$ 1,846

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	Nine months ended September 30,					
	2009			2008		
	Commissions, Fees and Other	Investment Income	Total	Commissions, Fees and Other	Investment Income	Total
Risk and Insurance Brokerage Services	$ 4,550	$ 67	$ 4,617	$ 4,501	$ 148	$ 4,649
Consulting	916	1	917	1,012	4	1,016
Intersegment elimination	(20)		(20)	(20)		(20)
Total operating segments	5,446	68	5,514	5,493	152	5,645
Unallocated	20	13	33		62	62
Total revenue	$ 5,466	$ 81	$ 5,547	$ 5,493	$ 214	$ 5,707

Commissions, fees and other revenue are as follows (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Risk management and insurance brokerage:				
Americas	$ 541	$ 557	$ 1,592	$ 1,638
United Kingdom	167	182	464	546
Europe, Middle East & Africa	273	314	1,030	1,188
Asia Pacific	111	120	318	373
Reinsurance brokerage and related services	379	252	1,146	756
Total Risk and Insurance Brokerage Services	1,471	1,425	4,550	4,501
Consulting services	262	284	776	850
Outsourcing	46	51	140	162
Total Consulting	308	335	916	1,012
Intersegment elimination	(8)	(4)	(20)	(20)
Unallocated	9		20	
Total commissions, fees and other revenue	$ 1,780	$ 1,756	$ 5,466	$ 5,493

Aon s operating segments geographic revenue and income before income tax is as follows (in millions):

	Risk and Insurance Brokerage Services		Consulting	
Three months ended September 30,	2009	2008	2009	2008
Revenue by geographic area:				
United States	$ 519	$ 503	$ 148	$ 158
Americas, other than U.S.	175	184	28	30
United Kingdom	295	251	52	65
Europe, Middle East & Africa	360	389	57	63
Asia Pacific	140	146	23	21
Total revenue	$ 1,489	$ 1,473	$ 308	$ 337

Income before income tax	$ 188	$ 192	$ 33	$ 52

Nine months ended September 30,	Risk and Insurance Brokerage Services 2009	2008	Consulting 2009	2008
Revenue				
United States	$ 1,594	$ 1,465	$ 437	$ 459
Americas, other than U.S.	526	548	88	100
United Kingdom	828	743	145	199
Europe, Middle East & Africa	1,281	1,449	187	201
Asia Pacific	388	444	60	57
Total revenue	$ 4,617	$ 4,649	$ 917	$ 1,016
Income before income tax	$ 726	$ 669	$ 144	$ 158

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

	Three months ended September 30, 2009	2008	Nine months ended September 30, 2009	2008
Risk and Insurance Brokerage Services	$ 188	$ 192	$ 726	$ 669
Consulting	33	52	144	158
Segment income from continuing operations before income taxes	221	244	870	827
Unallocated investment income and other revenue	19	40	33	62
Unallocated expenses	(30)	(34)	(85)	(91)
Interest expense	(32)	(32)	(87)	(96)
Income from continuing operations before income taxes	$ 178	$ 218	$ 731	$ 702

Unallocated investment income and other revenue consists primarily of revenue from our equity ownership in insurance investments and income associated with invested assets not directly required to support the risk and insurance brokerage services and consulting businesses.

Unallocated expenses include administrative or other costs not attributable to the operating segments, such as corporate governance costs and the costs associated with corporate investments. Interest expense represents the cost of worldwide debt obligations.

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

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

EXECUTIVE SUMMARY

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Unallocated Income and Expense

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Restructuring Initiatives

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EXECUTIVE SUMMARY

The current global economic recession is providing significant headwinds for our business. We continue to operate in a soft insurance pricing market, as property and casualty rates continue to decline, although at a somewhat slower pace compared to last year. In addition to pricing declines, we are seeing a volume impact driven by the current economic environment, which places pressure on our business in three primary ways:

- declining insurable risks due to decreasing asset values, including property values, shipment volumes, payroll and number of active employees,
- client cost-driven behavior, where clients are actively looking to reduce spending in order to meet budget reductions and increase risk retention, as a result of prioritizing their total spending, and
- sector specific weakness, including financial services, construction, private equity, and mergers and acquisitions, all of which have been particularly impacted by the current recession.

As a result of this difficult market environment, organic revenue for the quarter declined in both our brokerage and consulting segments. We continue to demonstrate expense discipline, holding expenses to last year s levels while we continue to invest in our businesses.

Overall organic revenue declined 3% and 1% for the third quarter and nine months 2009, respectively. See our discussion below for more details regarding organic revenue.

Our consolidated pretax margins from continuing operations for the quarter declined from 11.8% in 2008 to 9.8% in 2009. The decline was principally driven by a 2% decline in revenue. Operating expenses were unchanged, despite a $45 million increase in restructuring charges, due to restructuring savings and a reduction in discretionary incentives. Year-to-date margins increased from 12.3% last year to 13.2% in 2009. The improvement is primarily attributable to net $78 million pension curtailment gains related to the decision to cease crediting future benefits relating to salary and service in our U.S. and Canada defined benefit pension plans, restructuring savings, and a reduction in discretionary incentives, which more than offsets a 3% decline in revenue, a $70 million increase in restructuring charges, lower investment income and the unfavorable impact of foreign currency translation.

The following is a summary of our third quarter and nine months 2009 financial results:

- Revenue decreased $38 million or 2% for the quarter and $160 million or 3% year-to-date, as the negative effect of foreign exchange translation and significantly lower investment income was only partially offset by the impact of the Benfield merger and other acquisitions. Organic revenue declined due primarily to weak economic conditions globally.

- Operating expenses were comparable with last year for the quarter and decreased 4% for nine months 2009, due primarily to favorable foreign exchange translation, restructuring and other operational expense savings, and a reduction in discretionary incentives, partially offset by the impact of the Benfield merger and other acquisitions and higher restructuring charges. Nine months 2009 expenses were favorably impacted by the net $78 million pension curtailment gain previously described, restructuring and other operational expense savings and a reduction in discretionary incentives, which more than offset the decline in revenue, increased restructuring charges and lower investment income.

- Net income from continuing operations attributable to Aon stockholders decreased $38 million from third quarter 2008 to $117 million. For nine months 2009, net income from continuing operations attributable to Aon stockholders decreased $4 million to $494 million.

- Diluted earnings per share from continuing operations attributable to Aon s stockholders were $0.40 for the third quarter 2009, a decrease of 25% from $0.53 per share in 2008. Nine months diluted earnings per share increased from $1.61 in 2008 to $1.69 in 2009.

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 information related to organic revenue growth represents a non-GAAP measure and should be viewed in addition to, not instead of, our condensed consolidated statements of income. Industry peers provide similar supplemental information about their revenue performance, although they may not make identical adjustments.

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 translating last year s revenue and expenses at this year s foreign exchange rates, and
- 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 commissions, fees and other revenue growth percentages. We disclose separately:

- the impact of foreign currency, and
- the impact from acquisitions, divestitures, transfers of business units, reimbursable expenses, and unusual items, which represent the most significant reconciling items.

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Consolidated Results

The consolidated results of continuing operations are as follows (in millions):

	Third quarter ended September 30, 2009	Third quarter ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Revenue:				
Commissions, fees and other	$ 1,780	$ 1,756	$ 5,466	$ 5,493
Investment income	28	90	81	214
Total revenue	1,808			