

AON CORP
Form 10-Q
August 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007

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)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Number of shares of common stock outstanding:

Class		No. Outstanding as of 6-30-07	
	\$1.00 par value Common		292,776,483

Part 1

Financial Information

Aon Corporation

Condensed Consolidated Statements of Financial Position

(millions)	As of Jun. 30, 2007 (Unaudited)	Dec. 31, 2006
ASSETS		
Investments		
Fixed maturities at fair value	\$ 2,920	\$ 2,790
Equity securities at fair value	39	62
Short-term investments	4,199	4,323
Other investments	389	400
Total investments	7,547	7,575
Cash	406	281
Receivables		
Risk and insurance brokerage services and consulting	8,951	8,707
Other receivables	304	325
Total receivables	9,255	9,032
Deferred Policy Acquisition Costs	562	541
Goodwill	4,739	4,532
Other Intangible Assets	202	147
Property and Equipment, net	526	504
Other Assets	1,554	1,706
TOTAL ASSETS	\$ 24,791	\$ 24,318
LIABILITIES AND STOCKHOLDERS EQUITY		
Insurance Premiums Payable	\$ 10,581	\$ 9,704
Policy Liabilities		
Future policy benefits	1,863	1,784
Policy and contract claims	640	656
Unearned and advance premiums	409	384
Other policyholder funds	27	25
Total Policy Liabilities	2,939	2,849
General Liabilities		
General expenses	1,483	1,949
Short-term borrowings	4	42
Notes payable	2,182	2,243
Pension, post-employment and post-retirement liabilities	1,430	1,465
Other liabilities	828	848
TOTAL LIABILITIES	19,447	19,100
Stockholders Equity		
Common stock - \$1 par value	350	347
Additional paid-in capital	2,704	2,583
Accumulated other comprehensive loss	(928)	(1,010)
Retained earnings	5,303	4,992
Treasury stock at cost	(2,085)	(1,694)
TOTAL STOCKHOLDERS EQUITY	5,344	5,218
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 24,791	\$ 24,318

See the accompanying notes to the condensed consolidated financial statements.

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

(millions except per share data)	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2007	2006	2007	2006
Revenue				
Commissions and fees	\$ 1,781	\$ 1,651	\$ 3,516	\$ 3,263
Premiums and other	573	472	1,112	936
Investment income	134	85	241	174
Total revenue	2,488	2,208	4,869	4,373
Expenses				
Compensation and benefits	1,207	1,131	2,359	2,228
Other general expenses	477	459	987	920
Benefits to policyholders	355	261	678	515
Depreciation and amortization	49	55	99	110
Interest expense	34	34	69	65
Provision for New York and other state settlements	1	1	1	2
Total expenses	2,123	1,941	4,193	3,840
Income from continuing operations before provision for income tax and accounting change				
	365	267	676	533
Provision for income tax	127	92	226	185
Income from continuing operations	238	175	450	348
Income from discontinued operations				
	3	29	5	68
Provision for income tax	1	11	2	26
Income from discontinued operations, net of tax	2	18	3	42
Income before accounting change				
	240	193	453	390
Cumulative effect of a change in accounting principle, net of tax				1
Net income	\$ 240	\$ 193	\$ 453	\$ 391
Basic net income per share				
Continuing operations	\$ 0.80	\$ 0.54	\$ 1.52	\$ 1.09
Discontinued operations	0.01	0.06	0.01	0.13
Cumulative effect of a change in accounting principle				
Net income	\$ 0.81	\$ 0.60	\$ 1.53	\$ 1.22
Diluted net income per share				
Continuing operations	\$ 0.74	\$ 0.52	\$ 1.40	\$ 1.01
Discontinued operations	0.01	0.05	0.01	0.12
Cumulative effect of a change in accounting principle				
Net income	\$ 0.75	\$ 0.57	\$ 1.41	\$ 1.13
Cash dividends per share paid on common stock	\$ 0.15	\$ 0.15	\$ 0.30	\$ 0.30
Diluted average common and common equivalent shares outstanding	321.9	344.8	323.1	347.5

See the accompanying notes to the condensed consolidated financial statements.

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

(millions)	Six Months Ended	
	June 30,	June 30,
	2007	2006
Cash Flows from Operating Activities:		
Net income	\$ 453	\$ 391
Adjustments to reconcile net income to cash provided by operating activities		
Gain from disposal of operations	(4)	(1)
Depreciation and amortization of property, equipment and software	80	93
Stock compensation expense	107	78
Amortization of intangible assets	19	23
Valuation changes on investments, income on disposals and net bond amortization	(14)	(11)
Income taxes	134	(69)
Contribution to major defined benefit pension plans (in excess of) less than expense	(45)	21
Cash paid in excess of expense for 2005 restructuring plan	(20)	(34)
Provision for New York and other state settlements	1	2
Change in funds held on behalf of brokerage and consulting clients	450	300
Changes in insurance underwriting assets and liabilities:		
Operating receivables	59	65
Other assets including prepaid premiums	39	30
Deferred policy acquisition costs	(11)	(70)
Policy liabilities	45	259
Other liabilities	(11)	(25)
Changes in other assets and liabilities:		
Accrued compensation and general expenses	(443)	(207)
Other assets and liabilities- net	12	47
Cash Provided by Operating Activities	851	892
Cash Flows from Investing Activities:		
Sale of investments		
Fixed maturities		
Maturities	51	122
Calls and prepayments	48	108
Sales	337	891
Equity securities	30	1
Other investments	23	18
Purchase of investments		
Fixed maturities	(554)	(1,219)
Equity securities		(9)
Other investments	(6)	(9)
Short-term investments - net	209	(176)
Acquisition of subsidiaries	(206)	(108)
Proceeds from sale of operations	39	20
Property and equipment and other - net	(82)	(71)
Cash Used by Investing Activities	(111)	(432)
Cash Flows from Financing Activities:		
Issuance of common stock	19	46
Treasury stock transactions - net	(492)	(424)
Repayment of short-term borrowings - net	(38)	14
Issuance of long-term debt	660	381
Repayment of long-term debt	(696)	(430)

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Cash dividends to stockholders	(88)	(96)
Cash Used by Financing Activities	(635)	(509)
Effect of Exchange Rate Changes on Cash	20	(2)
Increase (Decrease) in Cash	125	(51)
Cash at Beginning of Period	281	476
Cash at End of Period	\$ 406	\$ 425

See the accompanying notes to condensed consolidated financial statements.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Statement of Accounting Principles

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and include all normal recurring adjustments which Aon Corporation (Aon) considers necessary for a fair presentation. Operating results for the second quarter and six months ended June 30, 2007 are not necessarily indicative of results that may be expected for the year ending December 31, 2007.

Refer to the consolidated financial statements and notes in the Annual Report on Form 10-K for the year ended December 31, 2006 for additional details of Aon s financial position, as well as a description of Aon s accounting policies, which have been continued without material change, except as described in Note 13.

2. New Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits entities to choose to measure many financial instruments and certain other items at fair value. Statement No. 159 is effective for fiscal years beginning after November 15, 2007 and early adoption is permitted. The impact of Statement No. 159 on Aon has not yet been determined.

3. Stock Compensation Plans

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

Compensation expense

Stock based compensation expense recognized during 2007 and 2006, which includes RSUs, stock options, performance plan awards and stock purchases related to the Employee Stock Purchase Plan, are based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in Aon s condensed consolidated statements of income includes compensation expense for share-based payment awards granted prior to, but not yet vested as of December 31, 2005 based on the grant date fair value estimated in accordance with the pro forma provisions of Statement No. 123, and compensation expense for the share-based payment awards granted subsequent to December 31, 2005 based on the grant date fair value estimated in accordance with the provisions of Statement No. 123(R). Because stock-based compensation expense recognized is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Statement No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
RSUs	\$ 25	\$ 21	\$ 60	\$ 51
Performance plans	23	10	32	12
Stock options	7	6	13	13
Employee stock purchase plan	1	1	2	2
Stock-based compensation expense included in compensation and benefits	\$ 56	\$ 38	\$ 107	\$ 78

Stock Awards

Stock awards, in the form of RSUs, are granted to certain executives and key employees of Aon. Prior to 2006, RSUs granted to employees were service-based. Beginning with awards granted in 2006, awards to employees may consist of both performance-based RSUs and service-based RSUs. For service-based awards, employees are generally required to complete three continuous years of service before stock awards begin to vest in increments until the completion of a 10-year period of continuous employment. Beginning in 2002, a large number of awards have been granted that vest in various patterns over five years from the date of grant. For most employees, individual incentive compensation over \$50,000 is paid partially in RSUs, which vest over three years. In general, most stock awards are issued as they become vested. In years prior to 2006, in certain circumstances, an employee was able to elect to defer the receipt of vested shares to a later date. With certain limited exceptions, any break in continuous employment will cause forfeiture of all unvested awards. The compensation cost associated with each stock award is deferred and amortized over the period of continuous employment using the straight-line method. Dividend equivalents are paid on certain service-based RSUs.

In 2007 and 2006, performance-based RSUs were granted to certain executives and key employees, whose vesting is contingent upon meeting various individual, divisional or company-wide performance goals, including revenue generation or growth in revenue, pretax income or earnings per share over a one- to five-year period. Aon accounts for these awards as performance condition RSUs. The performance condition is not considered in the determination of grant date fair value of these awards. Compensation cost is recognized over the performance period, and in certain cases an additional vesting period, based on management's estimate of the number of units expected to vest. Compensation cost will be adjusted to reflect the actual number of shares paid out at the end of the programs. The payout of shares under these performance-based plans may range from 0-200% of the number of units granted, based on the plan. Dividend equivalents are not paid on the performance-based RSUs.

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

	Six months ended June 30,	
	2007	2006
Potential RSUs to be issued based on current performance levels	4,971	2,505
Shares forfeited during the period		9
RSUs awarded during the period	9	30
Unamortized expense, based on current performance levels	\$ 128	\$ 92

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

Six months ended June 30,	2007		2006	
	Shares	Fair Value	Shares	Fair Value
Non-vested at beginning of period	12,870	\$ 28	11,641	\$ 25
Granted	3,625	38	2,985	38
Vested	(1,702)	28	(1,375)	24
Forfeited	(233)	30	(282)	29
Non-vested at end of period	14,560	\$ 30	12,969	\$ 28

Stock Options

Options to purchase common stock are granted to certain executives and key employees of Aon and its subsidiaries, generally at 100% of market value on the date of grant. Generally, employees are required to complete two continuous years of service before the options begin to vest in increments until the completion of a 4-year period of continuous employment. However, beginning in 2004 a significant number of options were granted that required five continuous years of service before all options would vest. For all grants made prior to an amendment to the former stock option plan in 2000, employees were required to complete three continuous years of service before the options began to vest in increments until the completion of a 6-year period of continuous employment. The maximum contractual term on stock options is generally ten years from the date of grant.

Upon the adoption of Statement No. 123(R) on January 1, 2006, Aon changed its method of valuation for stock options granted beginning in 2006 to a lattice-binomial option-pricing model from the Black-Scholes option-pricing model, which was previously used for Aon's pro forma information required under Statement No. 123. Lattice-based option valuation models utilize a range of assumptions over the expected term of the options. Expected volatilities are based on the average of the historical volatility of Aon's stock price and the implied volatility of traded options and Aon's stock. Aon uses historical data to estimate option exercise and employee terminations within the valuation model, stratifying between executives and key employees. The expected dividend yield assumption is based on the company's historical and expected future dividend rate. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The weighted average assumptions, the weighted average expected life and estimated fair value of employee stock options are summarized as follows:

Key employees	Three months ended June 30,			
	2007		2006	
Weighted average volatility	27.1	%	28.5	%
Expected dividend yield	1.6	%	2.3	%
Risk-free rate	4.6	%	4.7	%
Weighted average expected life, in years	5.8		6.0	
Weighted average estimated fair value	\$ 12.54		\$ 9.96	

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	Six months ended June 30, 2007		2006	
	Executives	Key Employees	Executives	Key Employees
Weighted average volatility	26.2	% 26.8	% 30.5	% 29.6
Expected dividend yield	1.7	% 1.6	% 2.3	% 2.3
Risk-free rate	4.7	% 4.6	% 4.4	% 4.5
Weighted average expected life, in years	4.6	5.8	5.0	6.0
Weighted average estimated fair value	\$ 9.58	\$ 11.65	\$ 11.08	\$ 10.78

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

	Six months ended June 30, 2007		2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Beginning outstanding	32,889	\$ 30	34,851	\$ 29
Granted	1,809	40	2,804	39
Exercised	(4,771)	28	(3,153)	28
Forfeited and expired	(396)	32	(598)	29
Outstanding at end of period	29,531	\$ 31	33,904	\$ 30
Exercisable at end of period	17,374	\$ 31	19,225	\$ 32

The weighted average remaining contractual life, in years, of outstanding options was 5.4 years and 5.7 years at June 30, 2007 and 2006, respectively.

The aggregate intrinsic value represents the total pretax intrinsic value, based on options with an exercise price less than the Company's closing stock price of \$42.61 as of June 30, 2007, which would have been received by the option holders had those option holders exercised their options as of that date. At June 30, 2007, the aggregate intrinsic value of options outstanding was \$355 million, of which \$201 million was exercisable.

The aggregate intrinsic value of options exercised during the second quarter and six months ended June 30, 2007 were \$40 million and \$59 million, respectively, and for the second quarter and six months ended June 30, 2006 were \$12 million and \$41 million, respectively.

Unamortized deferred compensation expense, which includes both options and awards, amounted to \$370 million as of June 30, 2007, with a remaining weighted-average amortization period of approximately 2.8 years.

Cash received from the exercise of stock options was \$139 million and \$95 million during the six months ended June 30, 2007 and 2006, respectively. The tax benefit realized from stock options exercised in the first six months of 2007 and 2006 was \$25 million and \$21 million, respectively.

During the first six months ended June 30, 2007, a majority of option exercises and award vestings were satisfied through the reissuance of treasury shares.

4. Income Per Share

Income per share is calculated as follows:

(millions, except per share data)	Three months ended		Six months ended	
	June 30, 2007	2006	June 30, 2007	2006
Income from continuing operations	\$ 238	\$ 175	\$ 450	\$ 348
Income from discontinued operations, net of tax	2	18	3	42
Cumulative effect of a change in accounting principle, net of tax				1
Net income for basic per share calculation	240	193	453	391
Interest expense on convertible debt securities, net of tax	2	2	3	3
Net income for diluted per share calculation	\$ 242	\$ 195	\$ 456	\$ 394
Basic shares outstanding	296	320	297	322
Effect of convertible debt securities	12	14	13	14
Common stock equivalents	14	11	13	12
Diluted potential common shares	322	345	323	348
Basic net income per share:				
Continuing operations	\$ 0.80	\$ 0.54	\$ 1.52	\$ 1.09
Discontinued operations	0.01	0.06	0.01	0.13
Cumulative effect of a change in accounting principle, net of tax				
Net income	\$ 0.81	\$ 0.60	\$ 1.53	\$ 1.22
Diluted net income per share:				
Continuing operations	\$ 0.74	\$ 0.52	\$ 1.40	\$ 1.01
Discontinued operations	0.01	0.05	0.01	0.12
Cumulative effect of a change in accounting principle, net of tax				
Net income	\$ 0.75	\$ 0.57	\$ 1.41	\$ 1.13

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 7 million and 5 million at June 30, 2007 and 2006, respectively. For six months ended June 30, 2007 and 2006, the number of options excluded was 7 million and 4 million, respectively.

During the second quarter 2007, certain holders of Aon's \$300 million 3.5% convertible debt securities due November 2012 converted their holdings into Aon common stock. \$57 million was converted, resulting in the issuance of approximately 2.7 million shares.

5. Comprehensive Income

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

(millions)	Three months ended		Six months ended	
	June 30, 2007	2006	June 30, 2007	2006
Net income	\$ 240	\$ 193	\$ 453	\$ 391
Net derivative gains (losses)		8	(2	) 8
Net unrealized investment losses	(37	) (12	) (28	) (43
Net foreign exchange gains	18	106	62	131
Change in postretirement plans	12		50	
Comprehensive income	\$ 233	\$ 295	\$ 535	\$ 487

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

(millions)	June 30, 2007	December 31, 2006
Net derivative gains	\$ 13	\$ 15
Net unrealized investment gains	45	73
Net foreign exchange translation	180	118
Postretirement plans	(1,166	) (1,216
Accumulated other comprehensive loss	\$ (928	) \$ (1,010

6. Business Segments

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

The Risk and Insurance Brokerage Services segment consists primarily of Aon's retail and reinsurance brokerage operations, as well as related insurance services, including underwriting management, captive insurance company management services, and premium financing. The Consulting segment provides a full range of consulting services delivered predominantly to corporate clientele utilizing seven major practices: employee benefits, compensation, management consulting, communications, strategic human resource consulting, financial advisory and litigation consulting, and human resource outsourcing. The Insurance Underwriting segment provides specialty insurance products including accident, health and life insurance coverages as well as select property and casualty insurance products. Aon has ceased writing property and casualty business and has placed the remaining lines of business into runoff. Unallocated income consists of investment income from equity, fixed-maturity and short-term investments that are assets primarily of the insurance underwriting subsidiaries that exceed policyholders liabilities. These assets include non-income producing equities, and income and losses on disposals of essentially all securities, including those pertaining to assets maintained by the operating segments. Unallocated expenses include administrative costs not attributable to the operating segments, such as corporate governance costs. Interest expense represents the cost of worldwide debt obligations.

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The accounting policies of the operating segments are the same as those described in this Form 10-Q and Aon's Annual Report on Form 10-K for the year ended December 31, 2006, except that the disaggregated financial results have been prepared using a management approach, which is consistent with the basis and manner in which Aon senior management internally disaggregates financial information for the purpose of assisting in making internal operating decisions. Aon evaluates performance based on stand-alone operating segment income before income taxes and generally accounts for intersegment revenue as if the revenue were from third parties, that is, considered by management to be at current market prices.

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

Revenue by subsegment is as follows:

(millions)	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Risk management and insurance brokerage:				
Americas	\$ 618	\$ 581	\$ 1,137	\$ 1,098
United Kingdom	218	191	374	346
Europe, Middle East & Africa	307	270	741	644
Asia Pacific	138	129	238	217
Reinsurance brokerage and related services	234	214	481	460
Total Risk and Insurance Brokerage Services	1,515	1,385	2,971	2,765
Consulting services	269	237	533	475
Outsourcing	56	72	121	142
Total Consulting	325	309	654	617
Accident & Health and Life	611	499	1,184	980
Property & Casualty	(1)	6	20	20
Total Insurance Underwriting	610	505	1,184	1,000
Intersegment revenues	(6)	(9)	(16)	(24)
Total operating segments	2,444	2,190	4,793	4,358
Unallocated income	44	18	76	15
Total revenue	\$ 2,488	\$ 2,208	\$ 4,869	\$ 4,373

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

Three months ended June 30: (millions)	Risk and Insurance Brokerage Services		Consulting		Insurance Underwriting	
	2007	2006	2007	2006	2007	2006
Revenue						
United States	\$ 545	\$ 517	\$ 165	\$ 175	\$ 434	\$ 349
Americas, other than U.S.	176	159	31	29	55	52
United Kingdom	266	243	67	56	51	46
Europe, Middle East & Africa	373	326	50	41	43	35
Asia Pacific	155	140	12	8	27	23
Total revenue	\$ 1,515	\$ 1,385	\$ 325	\$ 309	\$ 610	\$ 505
Income before income tax	\$ 278	\$ 215	\$ 44	\$ 23	\$ 67	\$ 75

Six months ended June 30: (millions)	Risk and Insurance Brokerage Services		Consulting		Insurance Underwriting	
	2007	2006	2007	2006	2007	2006
Revenue						
United States	\$ 1,033	\$ 1,010	\$ 328	\$ 340	\$ 836	\$ 682
Americas, other than U.S.	306	279	61	59	108	103
United Kingdom	483	464	128	111	106	100
Europe, Middle East & Africa	885	772	112	93	82	70
Asia Pacific	264	240	25	14	52	45
Total revenue	\$ 2,971	\$ 2,765	\$ 654	\$ 617	\$ 1,184	\$ 1,000
Income before income tax	\$ 520	\$ 455	\$ 91	\$ 53	\$ 126	\$ 128

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

(millions)	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Risk and Insurance Brokerage Services	\$ 278	\$ 215	\$ 520	\$ 455
Consulting	44	23	91	53
Insurance Underwriting	67	75	126	128
Segment income before income tax	389	313	737	636
Unallocated income	44	18	76	15
Unallocated expenses	(34)	(30)	(68)	(53)
Interest expense	(34)	(34)	(69)	(65)
Income from continuing operations before provision for income tax	\$ 365	\$ 267	\$ 676	\$ 533

7. Goodwill and Other Intangible Assets

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

The changes in the net carrying amount of goodwill by operating segment for the six months ended June 30, 2007 are as follows:

(millions)	Risk and Insurance Brokerage Services	Consulting	Insurance Underwriting	Total
Balance as of December 31, 2006	\$ 4,142	\$ 379	\$ 11	\$ 4,532
Goodwill acquired	134			134
Goodwill related to disposals	(7)			(7)
Goodwill related to a previous business combination (Note 8)	(7)			(7)
Foreign currency revaluation	83	4		87
Balance as of June 30, 2007	\$ 4,345	\$ 383	\$ 11	\$ 4,739

Other intangible assets are classified into three categories:

- Customer Related and Contract Based include client lists as well as non-compete covenants;
- Present Value of Future Profits represent the future profits of purchased books of business of the insurance underwriting subsidiaries; and
- Marketing, Technology and Other are all other purchased intangibles not included in the preceding categories.

Other intangible assets by asset class are as follows:

(millions)	Customer Related and Contract Based	Present Value of Future Profits	Marketing, Technology and Other	Total
As of June 30, 2007				
Gross carrying amount	\$ 213	\$ 23	\$ 302	\$ 538
Accumulated amortization	170	22	144	336
Net carrying amount	\$ 43	\$ 1	\$ 158	\$ 202

(millions)	Customer Related and Contract Based	Present Value of Future Profits	Marketing, Technology and Other	Total
As of December 31, 2006				
Gross carrying amount	\$ 232	\$ 23	\$ 245	\$ 500
Accumulated amortization	203	21	129	353
Net carrying amount	\$ 29	\$ 2	\$ 116	\$ 147

Amortization expense for intangible assets for the years ended December 31, 2007, 2008, 2009, 2010 and 2011 is estimated to be \$40 million, \$35 million, \$33 million, \$29 million and \$24 million, respectively.

8. Restructuring Charges**2005 Restructuring Plan**

In 2005, the Company commenced a broad restructuring initiative that is expected to result in cumulative pretax charges totaling approximately \$365 million, including workforce reductions, lease consolidation costs, asset impairments and 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 following is a summary of second quarter and six months 2007, as well as inception to date, restructuring and related expenses by type incurred and estimated to be incurred through the end of the restructuring initiative:

	Actual		2007				Estimated Total
	2005	2006	1st Qtr.	2nd Qtr.	Six Months	Inception to Date	
Workforce reduction	\$ 116	\$ 116	\$ 3	\$ 15	\$ 18	\$ 250	\$ 253
Lease consolidation	20	27	3	8	11	58	59
Asset impairments	17	12	2	1	3	32	32
Other related expenses	5	12	2	2	4	21	21
Total restructuring and related expenses	\$ 158	\$ 167	\$ 10	\$ 26	\$ 36	\$ 361	\$ 365

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

	Actual		2007				Estimated Total
	2005	2006	1st Qtr.	2nd Qtr.	Six Months	Inception to Date	
Risk and Insurance							
Brokerage Services	\$ 143	\$ 136	\$ 7	\$ 21	\$ 28	\$ 307	\$ 310
Consulting	8	20	2	4	6	34	35
Insurance Underwriting	3	8	1	1	2	13	13
Unallocated	4	3				7	7
Total restructuring and related expenses	\$ 158	\$ 167	\$ 10	\$ 26	\$ 36	\$ 361	\$ 365

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

(millions)

Balance at December 31, 2005	\$ 116
Expensed in 2006	155
Cash payments in 2006	(141)
Foreign currency revaluation	4
Balance at December 31, 2006	134
Expensed in 2007	33
Cash payments in 2007	(53)
Foreign currency revaluation	(3)
Balance at June 30, 2007	\$ 111

Restructuring Charges Prior Years

In 1996 and 1997, Aon recorded restructuring liabilities as a result of the acquisition of Alexander and Alexander Services, Inc. (A&A) and Bain Hogg. During second quarter and six months 2007, Aon made payments of \$1 million and \$3 million, respectively, for these liabilities. In the second quarter, the Company determined that certain of these reserves were no longer required. Accordingly, the Company recorded an adjustment to decrease the restructuring reserve and the corresponding goodwill that was established when the transaction occurred in 1997. The remaining liability of \$12 million is primarily for lease abandonments and is being paid out over several years, as planned.

Aon s unpaid liabilities are included in general expense liabilities in the condensed consolidated statements of financial position.

9. Capital Stock

During the first six months of 2007, Aon issued 295,000 new shares of common stock for employee benefit plans and 98,000 shares in connection with the employee stock purchase plans. In addition, Aon reissued 6.2 million shares of treasury stock for employee benefit programs and 131,000 shares in connection with the employee stock purchase plans.

During the second quarter 2007, certain holders of Aon s \$300 million 3.5% convertible debt securities due November 2012 converted their holdings into Aon common stock. \$57 million was converted, resulting in the issuance of approximately 2.7 million shares.

In November 2006, Aon announced that its Board of Directors had increased the authorized repurchase program to \$2 billion. Shares may be repurchased through the open market or in privately negotiated transactions from time to time, based on prevailing market conditions and will be funded from available capital. Any repurchased shares will be available for use in connection with employee stock plans and for other corporate purposes. The Company repurchased approximately 6.7 million shares at a total cost of \$279 million in second quarter 2007. For the first six months of 2007, the Company repurchased approximately 16.2 million shares at a cost of \$625 million.

There are also 22.4 million shares of common stock held in treasury at June 30, 2007 which are restricted as to their reissuance.

10. Disposal of Operations

Continuing Operations

In second quarter 2007, Aon sold Media Professionals, Inc., a managing general underwriter, which was included in the Risk and Insurance Brokerage Services segment. A pretax gain of \$26 million was recognized on this sale, which was included in other general expenses in the condensed consolidated statement of income. Aon has a continuing revenue sharing agreement with the disposed business, and therefore this business does not qualify as a discontinued operation. Also in second quarter 2007, Aon sold 25% of its Botswana subsidiary, which is included in the Risk and Insurance Brokerage Services segment. A pretax gain of \$4 million was recognized on the sale, which also was included in other general expenses.

Discontinued Operations

In 2006, Aon sold the following businesses:

- Aon Warranty Group (AWG) and its worldwide warranty and credit operations, which was previously included in the Insurance Underwriting segment. Included in discontinued operations was pretax income of \$21 million and \$47 million for the three and six months ended June 30, 2006. A pretax gain of \$16 million was recognized on the sale in fourth quarter 2006.
- Construction Program Group (CPG), a managing general underwriter whose policies were underwritten by Aon's property and casualty operation. Results of CPG were previously included in both the Risk and Insurance Brokerage Services and Insurance Underwriting segments. A pretax gain of \$27 million was recognized on the sale in fourth quarter 2006.
- A non-core Australian brokerage unit, which was previously included in the Risk and Insurance Brokerage Services segment. A pretax gain of \$1 million was recognized on the sale in first quarter 2006.

Aon's insurance subsidiaries are involved in both the cession and assumption of reinsurance with other companies. Aon's reinsurance consists primarily of certain newer accident and health initiatives, as well as certain property and casualty lines that are in runoff. Aon's insurance subsidiaries remain liable to the extent that the reinsurers are unable to meet their obligations. In connection with the sale of AWG, Aon sold Virginia Surety Company (VSC). VSC will continue to remain liable to policyholders to the extent reinsurers of the property and casualty business do not meet their obligations. As a result, Aon no longer reports reinsurance recoverables related to its property and casualty business, which was not part of the sale of AWG. Aon has provided a corporate guarantee with respect to these reinsurance recoverables, which amounts to \$976 million at June 30, 2007.

A&A Discontinued Operations

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

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As of June 30, 2007, the liabilities associated with the foregoing indemnities were included in other liabilities in the condensed consolidated statements of financial position. Such liabilities amounted to \$78 million. Reinsurance recoverables and other assets related to these liabilities are \$91 million. The remaining insurance liabilities represent estimates of known and future claims expected to be settled over the next 20 to 30 years, principally with regard to asbestos, pollution and other health exposures. Although these insurance liabilities represent a best estimate of the probable liabilities, adverse developments may occur given the nature of the information available and the variables inherent in the estimation processes.

The operating results of all these businesses are classified as discontinued operations, and prior year s operating results have been reclassified to discontinued operations, as follows:

(millions)	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Revenues:				
AWG	\$	\$ 310	\$	\$ 603
CPG		57		122
Total	\$	\$ 367	\$	\$ 725
Pretax income:				
Operations:				
AWG	\$	\$ 21	\$	\$ 47
CPG		9		21
Other		(1)	1	(1)
		29	1	67
Gain on sale	3		4	1
Total	\$ 3	\$ 29	\$ 5	\$ 68
After-tax income (loss):				
Operations	\$	\$ 18	\$	\$ 43
Sale	2		3	(1)
Total	\$ 2	\$ 18	\$ 3	\$ 42

11. Net Periodic Benefit Cost

The following table provides the components of the net periodic benefit cost for Aon's U.S. plans:

(millions) Three months ended June 30,	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Service cost	\$ 14	\$ 17	\$ 1	\$ 1
Interest cost	24	25	1	1
Expected return on plan assets	(30)	(29)		
Amortization of prior service cost	(3)			
Amortization of net loss	11	12		
Net periodic benefit cost	\$ 16	\$ 25	\$ 2	\$ 2

(millions) Six months ended June 30,	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Service cost	\$ 28	\$ 33	\$ 1	\$ 1
Interest cost	49	50	2	2
Expected return on plan assets	(60)	(57)		
Amortization of prior service cost	(7)			
Amortization of net loss	22	23		
Net periodic benefit cost	\$ 32	\$ 49	\$ 3	\$ 3

The following table provides the components of net periodic benefit costs for Aon's material international pension plans, which are located primarily in the U.K. and The Netherlands:

(millions)	Pension Benefits		Six months	
	Three months ended June 30, 2007	Three months ended June 30, 2006	ended June 30, 2007	ended June 30, 2006
Service cost	\$ 4	\$ 17	\$ 17	\$ 32
Interest cost	63	54	125	107
Expected return on plan assets	(74)	(56)	(146)	(110)
Amortization of net loss	8	22	27	44
Net periodic benefit cost	\$ 1	\$ 37	\$ 23	\$ 73

As previously disclosed in its 2006 financial statements, Aon currently expects to contribute \$36 million in 2007 to its U.S. defined benefit pension plans to satisfy minimum funding requirements and \$5 million to fund other postretirement benefit plans. As of June 30, 2007, contributions of \$3 million have been made to the U.S. pension plans and \$3 million to other postretirement benefit plans.

Aon previously disclosed in its 2006 financial statements that it expected to contribute \$197 million in 2007 to its major international defined benefit pension plans. Based on current rules and assumptions, Aon now plans to contribute approximately \$161 million to its major international defined pension plans during 2007. As of June 30, 2007, \$97 million has been contributed.

In March 2007, the trustees of Aon's U.K. pension plans approved the Company's proposal to cease crediting future pension plan benefits relating to salary and service, effective April 1, 2007. Future pension provisions will be provided under the defined contribution section of the Aon U.K. Pension Scheme. As a result of the adoption of these changes, the Company remeasured its U.K. defined benefit pension plans,

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which resulted in an improvement in the funded status of these plans, and decreased other comprehensive loss by an after tax amount of \$20 million. In accordance with FASB Statement No. 87, *Employers' Accounting for Pensions*, unrecognized gains and losses in the U.K. pension plans are now amortized over the average remaining life expectancy of participants instead of the average remaining service period of employees, which was previously used.

12. Other-Than-Temporary Impairments

The following table analyzes our investment positions with unrealized losses segmented by quality and period of continuous unrealized loss as of June 30, 2007.

(\$ in millions)	Investment Grade			Total
	0-6 Months	6-12 Months	>12 Months	
FIXED MATURITIES				
U.S. government and agencies				
# of positions	5	3	32	40
Fair Value	\$ 22	\$ 9	\$ 156	\$ 187
Amortized Cost	22	9	162	193
Unrealized Loss			(6)	(6)
Foreign governments				
# of positions	44	23	87	154
Fair Value	\$ 243	\$ 430	\$ 559	\$ 1,232
Amortized Cost	248	446	581	1,275
Unrealized Loss	(5)	(16)	(22)	(43)
Corporate securities				
# of positions	143	34	287	464
Fair Value	\$ 308	\$ 57	\$ 545	\$ 910
Amortized Cost	317	59	571	947
Unrealized Loss	(9)	(2)	(26)	(37)
Mortgage- and asset-backed securities				
# of positions	152	22	307	481
Fair Value	\$ 211	\$ 14	\$ 185	\$ 410
Amortized Cost	215	15	192	422
Unrealized Loss	(4)	(1)	(7)	(12)
TOTAL FIXED MATURITIES				
# of positions	344	82	713	1,139
Fair Value	\$ 784	\$ 510	\$ 1,445	\$ 2,739
Amortized Cost	802	529	1,506	2,837
Unrealized Loss	(18)	(19)	(61)	(98)
% of Total Unrealized Loss	18	% 19	% 61	% 98

	Non-Investment Grade			Total
	0-6 Months	6-12 Months	>12 Months	
EQUITY SECURITIES				
# of positions		3		3
Fair Value	\$	\$ 35	\$	\$ 35
Amortized Cost		37		37
Unrealized Loss		(2)		(2)
% of Total Unrealized Loss		2	%	2

Other intangible assets are classified into three categories:

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For categorization purposes, Aon considers any rating of Baa or higher by Moody's Investor Services or equivalent rating agency to be investment grade. Aon has no fixed maturities below investment grade with an unrealized loss.

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Other intangible assets are classified into three categories:

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Aon's fixed-maturity portfolio in total had a \$98 million gross unrealized loss at June 30, 2007, and is subject to interest rate, market, and credit risks. No single position had an unrealized loss greater than \$7 million. With a carrying value of \$2,920 million at June 30, 2007, Aon's total fixed-maturity portfolio is approximately 100% investment grade based on market value. Fixed-maturity securities with an unrealized loss are 100% investment grade and have a weighted average rating of 'Aa' based on amortized cost. Aon's non-publicly-traded fixed maturity portfolio had a carrying value of \$221 million. Valuations of these securities primarily reflect the fundamental analysis of the issuer and current market price of comparable securities.

Aon's equity portfolio is comprised of non-redeemable preferred stocks, publicly traded common stocks and other common and preferred stocks not publicly traded. This portfolio had \$2 million of gross unrealized losses at June 30, 2007, and is subject to interest rate, market, credit, illiquidity, concentration and operational performance risks.

Aon reviews invested assets with material unrealized losses each quarter. Please see Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates in Aon's 2006 Annual Report on Form 10-K for further information.

13. Uncertain Tax Positions

Aon adopted the provisions of FASB Interpretation No. 48 (FIN48), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*, on January 1, 2007. As a result of the implementation of FIN 48, Aon did not recognize any material adjustments in the liability for unrecognized tax benefits. As of March 31, 2007, Aon had \$61 million of gross unrecognized tax benefits, \$49 million of which would affect the effective tax rate if recognized. There were no material changes to these amounts in second quarter 2007.

Aon recognizes interest and penalties related to unrecognized income tax benefits in its provision for income taxes. As of March 31, 2007, Aon had accrued \$8 million for the payment of interest and penalties, which is included as a component of the \$61 million of total unrecognized tax benefits noted above. There were no material changes to these amounts in second quarter 2007.

Aon has substantially concluded all U.S. federal income tax matters for years through 2004. Substantially, all material state and local income tax jurisdiction examinations have been concluded for years through 2001. Aon's primary international jurisdictions have concluded income tax examinations through 2000.

14. Endurance Warrants and Common Stock Investment

In 2001, Aon invested \$227 million in the common stock of Endurance Specialty Holdings, Ltd. (Endurance), a Bermuda-based insurance and reinsurance company. Aon sold virtually all of its common stock investment in Endurance in 2004. In conjunction with the initial common stock investment, Aon also received 4.1 million stock purchase warrants, which allowed Aon to purchase additional Endurance common stock through December 2011. These warrants met the definition of a derivative, which required them to be recorded in the financial statements at fair value, with changes in fair value recognized in earnings on a current basis. On March 31, 2006, Aon contributed all of the Endurance warrants to its U.K. pension plans. The warrants had a fair value of approximately \$73 million at March 31, 2006. The change in the fair value of the warrants from December 31, 2005 was a decrease of \$17 million, and was included in investment income for the six months ended June 30, 2006.

15. Contingencies

Aon and its subsidiaries are subject to numerous claims, tax assessments, lawsuits and proceedings that arise in the ordinary course of business. The damages claimed in these matters are or may be substantial, including, in many instances, claims for punitive, treble or extraordinary damages. Aon has purchased errors and omissions (E&O) insurance and other appropriate insurance to provide protection against losses that arise in such matters. Accruals for these items, and related insurance receivables, when applicable, have been provided to the extent that losses are deemed probable and are reasonably estimable. These accruals and receivables are adjusted from time to time as developments warrant.

In 2004, Aon, other insurance brokers, insurers and numerous other industry participants received subpoenas and other requests for information from the office of the Attorney General of the State of New York and from other states relating to certain practices in the insurance industry.

On March 4, 2005, Aon entered into an agreement (the Settlement Agreement) with the Attorney General of the State of New York, the Superintendent of Insurance of the State of New York, the Attorney General of the State of Connecticut, the Illinois Attorney General and the Director of the Division of Insurance, Illinois Department of Financial and Professional Regulation (collectively, the State Agencies) to resolve all the issues related to investigations conducted by the State Agencies.

As has been described in detail in Aon's previous financial filings, the Settlement Agreement required Aon to pay between 2005-2007 a total of \$190 million into a fund (the Fund) to be distributed to certain Eligible Policyholder clients and to implement certain business reforms. The Settlement Agreement set forth the procedures under which Aon mailed notices to its Eligible Policyholder clients and distributed the Fund to Participating Policyholder clients.

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

Beginning in June 2004, a number of other putative class actions were filed against Aon and other companies by purported classes of clients under a variety of legal theories, including state tort, contract, fiduciary duty, antitrust and statutory theories and federal antitrust and Racketeer Influenced and Corrupt Organizations Act (RICO) theories. These actions are currently pending in state court in California and in federal court in New Jersey. In the New Jersey federal class actions, the Court on April 5, 2007 dismissed, without prejudice, the plaintiffs' federal antitrust and RICO claims. The Court granted plaintiffs one opportunity to replead their claims, and Aon and other defendants have moved to dismiss the new complaints. Aon believes it has meritorious defenses in all of these cases and intends to vigorously defend itself against these claims. The outcome of these lawsuits, and any losses or other payments that may occur as a result, cannot be predicted at this time.

Beginning in late October 2004, several putative securities class actions were filed against Aon in the U.S. District Court for the Northern District of Illinois. Also beginning in late October 2004, several putative ERISA class actions were filed against Aon in the U.S. District Court for the Northern District of Illinois. Aon believes it has meritorious defenses in all of these cases and intends to vigorously

defend itself against these claims. The outcome of these lawsuits, and any losses or other payments that may occur as a result, cannot be predicted at this time. With respect to the various securities and ERISA class actions, we are unable to estimate a range of possible losses, as these actions have not yet progressed to the stages where damages can be estimated.

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.

16. Subsequent Event

On July 31, 2007, the Company announced that it is considering strategic options for Combined Insurance Company of America and its subsidiaries.

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

Overview

This Management's Discussion and Analysis is divided into six sections. First, key recent events are described that have affected or will affect our financial results during 2007. We then review our consolidated results and segments with comparisons for the second quarter and six-months 2007 to the corresponding periods in 2006. We then discuss our financial condition and liquidity as well as information on our off balance sheet arrangements. The final section addresses certain factors that can influence future results.

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

KEY RECENT EVENTS

Strategic Alternatives for Combined Insurance Company of America

Restructuring Initiatives

Recent Regulatory and Legislative Activity

Acquisitions and Dispositions of Various Businesses

Distributions from PEPS I

Stock Repurchase Program

CRITICAL ACCOUNTING POLICIES

REVIEW OF CONSOLIDATED RESULTS

General

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REVIEW BY SEGMENT

General

Risk and Insurance Brokerage Services

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FINANCIAL CONDITION AND LIQUIDITY

Cash Flows

Financial Condition

Short-term Borrowings and Notes Payable

Other intangible assets are classified into three categories:

Stockholders' Equity

Off Balance Sheet Arrangements

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

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KEY RECENT EVENTS**Strategic Alternatives for Combined Insurance Company of America**

In July 2007, we announced that we are considering strategic options for Combined Insurance Company of America (CICA) and its subsidiaries. Preparations are being made for a spin-off of CICA to our shareholders, but we anticipate receiving inquiries from potential buyers and are prepared to respond accordingly.

CICA and its subsidiaries, including Sterling Life Insurance Company (Sterling), provide accident, health and life insurance coverage in the U.S., Canada, Europe and Asia Pacific primarily through more than 7,000 career insurance agents.

Restructuring Initiatives

In 2005, we began executing a broad restructuring initiative to reduce our fixed cost base and increase efficiency. This three-year plan has evolved as new opportunities have been identified and existing initiatives have been finalized. We expect the remaining portion to cost \$4 million during 2007, which is in addition to the \$361 million expensed through June 30, 2007. Restructuring costs include workforce reductions, lease consolidation costs, asset impairments, and other expenses. Additional cost-saving initiatives will be executed beyond this formalized restructuring plan, though those costs are not considered within the definition of the restructuring. For the second quarter 2007, we estimated restructuring benefits were approximately \$58 million. These initiatives are expected to lead to annualized cost savings of approximately \$280 million by 2008.

We estimate 3,600 positions will be eliminated as a result of this initiative. As of June 30, 2007, approximately 3,100 of these eliminations had already occurred. Further, office closures require that we recognize losses on subleases or lease buy-outs, and may also trigger asset impairments.

The following table details the restructuring and related expenses we incurred through second quarter 2007 and our estimates for the remainder of 2007 by geographic region:

	United States	Americas, other than U.S.	United Kingdom	Europe, Middle East & Africa	Asia Pacific	Total
(millions)						
2005	\$ 28	\$ 6	\$ 92	\$ 31	\$ 1	\$ 158
2006	66	3	56	35	7	167
1st quarter 2007	4		5	2	(1)	10
2nd quarter 2007	12		13	1		26
Total incurred inception-to-date	110	9	166	69	7	361
Remainder of 2007 (estimated)	3		1			4
Total expenses	\$ 113	\$ 9	\$ 167	\$ 69	\$ 7	\$ 365

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The following table summarizes the restructuring costs incurred through second quarter 2007 and our estimated expenses for the remainder of 2007, by type.

(millions)	Actual		1st Quarter 2007	2nd Quarter 2007	Inception to date	Estimated Remainder of 2007 (1)	Total
	2005	2006					
Workforce reduction	\$ 116	\$ 116	\$ 3	\$ 15	\$ 250	\$ 3	\$ 253
Lease consolidation	20	27	3	8	58	1	59
Asset impairments	17	12	2	1	32		32
Other related expenses	5	12	2	2	21		21
Total expenses	\$ 158	\$ 167	\$ 10	\$ 26	\$ 361	\$ 4	\$ 365

(1) Our estimated costs are forward looking and should be read in connection with our risk factors. Actual costs may vary due to changes in the assumptions built into this plan. Some of the assumptions that may change include changes in severance calculations, the assumptions underlying our sublease loss calculations due to changing market conditions, and our overall analysis that might cause us to add or cancel component initiatives.

The following table details the restructuring and related expense by segment:

(millions)	Actual		1st Quarter 2007	2nd Quarter 2007	Inception to date	Estimated Remainder of 2007	Total
	2005	2006					
Risk and Insurance Brokerage Services	\$ 143	\$ 136	\$ 7	\$ 21	\$ 307	\$ 3	\$ 310
Consulting	8	20	2	4	34	1	35
Insurance Underwriting	3	8	1	1	13		13
Unallocated	4	3			7		7
Total expenses	\$ 158	\$ 167	\$ 10	\$ 26	\$ 361	\$ 4	\$ 365

Recent Regulatory and Legislative Activity

A substantial portion of CICA's revenue growth over the past two years has been generated by its Sterling unit and the bulk of that growth was generated from its Medicare Advantage (MA) products which are Private-Fee-For-Service plans (PFFS plans). Sterling's revenue accounted for 34% of CICA's total revenue during the second quarter 2007 and 92% of that revenue was generated by its PFFS Plans. Below is a summary of Sterling's revenue and their PFFS plans as it relates to CICA as a whole.

	Second quarter ended		Six months ended		Year Ended December 31,		
	June 30, 2007	2006	June 30, 2007	2006	2006	2005	
Sterling's MA Plans	\$ 190	\$ 96	\$ 341	\$ 178	\$ 437	\$ 221	
Other Sterling products	16	21	34	39	71	74	
Sterling total revenue	206	117	375	217	508	295	
All other CICA products	405	382	809	763	1,497	1,510	
CICA total revenue	\$ 611	\$ 499	\$ 1,184	\$ 980	\$ 2,005	\$ 1,805	
Sterling as a % of CICA revenue	34	% 23	% 32	% 22	% 25	% 16	%
MA products as a % of CICA revenue	31	% 19	% 29	% 18	% 22	% 12	%

As shown above, approximately 92% of Sterling's total revenue during the second quarter 2007 was generated by its PFFS plans and its Medicare Part D prescription drug plans. Most aspects of these plans are regulated by the federal government, through the Centers for Medicare and Medicaid Services (CMS).

Prior to July 2006, Sterling was authorized to market and enroll beneficiaries within MA products year-round, but that authorization was due to expire and change to an open enrollment period of only November 15th through December 31st of each year, with a switch enrollment period of January through March of each year. Federal legislation that passed in late 2006 extended year-round enrollment (through 2008) for certain health plans like those marketed by Sterling. In July of 2007, that legislation was repealed. Accordingly, beginning on August 1, 2007, Sterling and all other MA plans no longer have the ability to enroll beneficiaries within their plans all year long.

In 2008 and beyond, Sterling and all other MA plans will be permitted to enroll Medicare beneficiaries until March 31st of a calendar year, unless a special enrollment period applies. Additionally, Sterling will be able to enroll year-round those individuals just becoming eligible for Medicare.

On June 15, 2007, Sterling voluntarily agreed, upon CMS's request of Sterling and other private fee-for-service providers, to temporarily suspend marketing activities of non-group, individual PFFS plans effective June 22, 2007. Sterling is continuing its cooperative work with CMS to gain approval that Sterling's systems and management controls meet all of the conditions specified by CMS in a 2008 Call Letter and May 25, 2007 guidance, which we call collectively the Conditions and is working with CMS to re-commence sales.

We believe the recent repeal of all year open enrollment and the voluntary commitment to CMS to suspend marketing will have an adverse impact on Sterling's revenue growth opportunity, or at least the consistency of this growth, throughout the year. Though revenue is not anticipated to decline as a result of the foregoing matter discussed above, Sterling's primary revenue growth opportunities will now largely be contained to its sales activities of MA products in the first quarter of future years beginning in 2008 (coinciding with the open enrollment period).

Acquisitions and Dispositions of Various Businesses

We continually review our portfolio of businesses, making acquisitions where we think it will help us deliver distinctive client value, as well as exploring strategic alternatives of businesses we currently have. For 2006 in total, we spent \$138 million for acquisitions. In the first six months of 2007, we spent \$203 million for 2007 acquisitions. We increased our position in the U.K. affinity market by purchasing Footman James, and our technology platform was strengthened through the acquisition of Valley Oak Systems in the U.S.

In second quarter 2007, Aon sold the assets and operations of Media Professional Insurance, Inc. (Media Pro), a managing general underwriter specializing in professional liability lines of business, which is included in our Risk and Insurance Brokerage Services segment. This disposition resulted in a \$26 million gain, which is included in other general expenses in the condensed consolidated statement of income. We have a continuing revenue sharing arrangement, and therefore this business does not qualify as a discontinued operation.

We sold a 25% stake in our Botswana brokerage subsidiary. This disposition resulted in a \$4 million gain, which is included in other general expenses within our Risk and Insurance Brokerage Services segment.

During first quarter 2006, we completed the sale of a non-core brokerage business in Australia. In fourth quarter 2006, we completed the sale of our AWG and CPG businesses. The results of those businesses through the date of sale are shown as discontinued operations in our condensed consolidated statements of income.

Distributions from PEPS I

We received income distributions from our preferred investment in Private Equity Partnership Structures I, LLC (PEPS I) of \$26 million during the second quarter and \$39 million for the first six months of 2007, which were recorded in investment income. Prior to 2007, income distributions received from PEPS I were limited to interest payments on various PEPS I debt instruments. Beginning in 2007, PEPS I had redeemed or collateralized all of its debt, and as a result, paid preferred income distributions. Receipt of additional preferred returns is dependent on the performance of the limited partnership (LP) interests underlying PEPS I and is expected to vary from period to period. We do not control the timing of this distribution.

Share Repurchase Program

We are currently authorized to repurchase \$2 billion of Aon's common stock. Pursuant to this program, during the first six months 2007, we repurchased 16.2 million shares at a cost of \$625 million. Since the program began, we have now repurchased 45.3 million shares at a cost of \$1,697 million. Of the shares repurchased since the program's inception, we have reissued approximately 10.5 million shares for stock options, stock awards and other benefit plans.

CRITICAL ACCOUNTING POLICIES

There have been no changes in our critical accounting policies, which include pensions, contingencies, policy liabilities, valuation of investments, intangible assets, share-based payments and income taxes, as discussed in our 2006 Annual Report on Form 10K.

REVIEW OF CONSOLIDATED RESULTS

General

In our discussion of operating results, we sometimes refer to supplemental information derived from 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. Organic revenue growth for the insurance underwriting segment is based on written premiums.

Supplemental organic revenue growth information should be viewed in addition to, not instead of, our condensed consolidated statements of income. Industry peers provide similar supplemental information about their revenue performance, although they may not make identical adjustments.

Because we conduct business in over 120 countries, foreign exchange rates fluctuations have an impact on our business. In comparison to the U.S. dollar, foreign exchange rate movements may be significant and may distort true period-to-period comparisons of changes in revenue or pretax income. Therefore, we have isolated the impact of the change in currencies between periods by providing percentage changes on a comparable currency basis for revenue, and have disclosed the effect on earnings per share. We have also provided this form of reporting to give financial statement users more meaningful information about our operations.

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

Consolidated Results

The following table and commentary provide selected consolidated financial information.

(millions)	Second Quarter Ended			Six Months Ended			
	June 30, 2007	June 30, 2006	Percent Change	June 30, 2007	June 30, 2006	Percent Change	
Revenue							
Commissions and fees	\$ 1,781	\$ 1,651	8	% \$ 3,516	\$ 3,263	8	%
Premiums and other	573	472	21	1,112	936	19	
Investment income	134	85	58	241	174	39	
Total revenue	2,488	2,208	13	4,869	4,373	11	
Expenses							
Compensation and benefits	1,207	1,131	7	2,359	2,228	6	
Other general expenses	477	459	4	987	920	7	
Benefits to policyholders	355	261	36	678	515	32	
Depreciation and amortization	49	55	(11)	99	110	(10))
Interest expense	34	34		69	65	6	
Provision for New York and other state settlements	1	1		1	2	(50))
Total expenses	2,123	1,941	9	4,193	3,840	9	
Income from continuing operations before provision for income taxes	\$ 365	\$ 267	37	% \$ 676	\$ 533	27	%
Pretax margin-continuing operations	14.7	% 12.1	%	13.9	% 12.2	%	

Revenue

Commissions and fees increased by \$130 million or 8% on a quarterly basis and \$253 million or 8% on a year-to-date basis. The impact of foreign currency translation and organic growth in the Risk and Insurance Brokerage Services segment primarily drove the increase, which was partially offset by a decline in outsourcing revenue in our Consulting segment.

Premiums and other increased \$101 million or 21% on a quarterly basis and \$176 million or 19% on a year-to-date basis, driven by strong growth in our Sterling subsidiary's MA health product in our Accident & Health and Life sub-segment.

Investment income increased \$49 million or 58% on a quarterly basis and \$67 million or 39% on a year-to-date basis. The increase was primarily driven by:

- Non-liquidating distributions from our PEPS I investment, which contributed \$26 million and \$39 million of income on a quarterly and year-to-date basis, respectively.
- realized gains from the sale of investments

- \$17 million of realized losses on our Endurance warrants in first quarter 2006, and
- higher interest rates realized on our investment portfolio.

Expenses

Compensation and benefits increased \$76 million or 7% on a quarterly basis and \$131 million or 6% on a year-to-date basis. Driving the increase was the impact of foreign currency translation and higher incentive costs, partially offset by lower pension expenses and, on a year-to-date basis, lower restructuring costs. Lower pension expense reflects current actuarial assumptions and the previously announced changes to both our U.S. and U.K. defined benefit pension plans.

Other general expenses increased \$18 million or 4% on a quarterly basis and \$67 million or 7% on a year-to-date basis. The increase was driven by the impact of foreign currency translation and increases in various expense categories, and, on a year-to-date basis, the settlement of litigation for acquired employees in our U.K. reinsurance business and restructuring costs. The increase was partially offset by \$30 million of gains from the sale or partial sale of businesses.

Benefits to policyholders increased \$94 million or 36% on a quarterly basis and \$163 million or 32% on a year-to-date basis. The increase for both periods was driven by the growth in Sterling's MA product.

Depreciation expense decreased \$6 million or 11% on a quarterly basis and \$11 million or 10% on a year-to-date basis. The decline for both periods was caused by asset disposals and write-offs in 2006, primarily driven by restructuring activity.

Interest expense was flat to last year on a quarterly basis, but increased \$4 million or 6% on a year-to-date basis. Higher year-to-date interest costs resulted from higher international debt levels and interest rates.

Income from Continuing Operations Before Provision for Income Tax and Cumulative Effect of a Change in Accounting Principle

Income from continuing operations before provision for income tax increased \$98 million to \$365 on a quarterly basis and increased \$143 million or 27% for the six months ended June 30, 2007. The 37% and 27% improvement is attributable to organic revenue growth in the Risk and Insurance Brokerage Services and Insurance Underwriting segments, the favorable impact of foreign currency translation, increased investment income, and a profit improvement in Consulting, and on a year-to-date basis, lower restructuring costs, which more than offset higher compensation and benefit costs and other general expenses.

Income Taxes

The effective tax rate for continuing operations was 34.8% and 34.5% for the second quarters ended June 30, 2007 and 2006, respectively. The effective tax rate for continuing operations was 33.4% and 34.7% for the six month period ended June 30, 2007 and 2006, respectively. The 2007 year-to-date rate was impacted by the geographic distribution of earnings and the favorable resolution of certain tax matters.

On July 19, 2007, legislation was finalized in the United Kingdom which reduces the corporate tax rate from 30% to 28%. While the lower U.K. tax rate will be a benefit to Aon's recurring effective tax rate in future periods, it also requires a reevaluation of the deferred tax assets related to our U.K. operations. Although the calculations have not been finalized, we anticipate that a one time non-cash charge of approximately \$20 million (\$0.07 and \$0.06 per basic and diluted share, respectively) will be included in the third quarter tax provision.

Income from Continuing Operations

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Income from continuing operations before accounting change for second quarter 2007 and 2006 was \$238 million and \$175 million, respectively. Basic and diluted income per share in the second quarter 2007 was \$0.80 and \$0.74, respectively, versus \$0.54 and \$0.52 for basic and diluted income per share in 2006, respectively. Income from continuing operations before accounting change for six month 2007 and 2006 was \$450 million and \$348 million, respectively. Basic and diluted income per share for the six-months ended June 30, 2007 was \$1.52 and \$1.40, respectively, versus \$1.09 and \$1.01 for basic and diluted income per share for

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the comparable period of 2006, respectively. Income from continuing operations in 2007 included \$0.01 and \$0.02 per share for currency translation gains for the second quarter and six months, respectively.

Discontinued Operations

Second quarter 2007 income from discontinued operations was \$2 million (\$.01 per basic and diluted share) versus \$18 million for second quarter 2006 (\$0.06 and \$0.05 per basic and diluted share, respectively). Six months income from discontinued operations was \$3 million in 2007 (\$0.01 per basic and diluted share) versus \$42 million for 2006 (\$0.13 and \$0.12 per basic and diluted share, respectively). Activity in discontinued operations for 2007 included some residual settlement activity relating to our AWG and CPG disposals. Results in 2006 principally reflect the quarterly and six months operating results from our AWG and CPG businesses, which were sold in fourth quarter 2006.

REVIEW BY SEGMENT

General

We classify our businesses into three operating segments: Risk and Insurance Brokerage Services, Consulting and Insurance Underwriting (see Note 6). Our operating segments are identified as those that:

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

Segment revenue includes investment income generated by invested assets of that segment, as well as the impact of related derivatives. Investment characteristics mirror liability characteristics of the respective segments:

- Our Risk and Insurance Brokerage Services and Consulting businesses invest funds held on behalf of clients and operating funds in short-term obligations.
- In Insurance Underwriting, policyholder claims and other types of non-interest sensitive insurance liabilities are primarily supported by intermediate to long-term fixed-maturity instruments. For this business segment, operating invested assets are approximately equal to average net policy liabilities.
- Our insurance subsidiaries also have invested assets that exceed net policy liabilities, which allow us to maintain solid claims paying ratings. Income from these investments is reflected in unallocated revenue.

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

(millions)	Second quarter ended		Six months ended	
	June 30, 2007	2006	June 30, 2007	2006
Operating segment revenue:(1) (2)				
Risk and Insurance Brokerage Services	\$ 1,515	\$ 1,385	\$ 2,971	\$ 2,765
Consulting	325	309	654	617
Insurance Underwriting	610	505	1,184	1,000
Income before income tax:				
Risk and Insurance Brokerage Services	\$ 278	\$ 215	\$ 520	\$ 455
Consulting	44	23	91	53
Insurance Underwriting	67	75	126	128
Pretax Margins:				
Risk and Insurance Brokerage Services	18.3	% 15.5	% 17.5	% 16.5
Consulting	13.5	% 7.4	% 13.9	% 8.6
Insurance Underwriting	11.0	% 14.9	% 10.6	% 12.8

(1) Intersegment revenues of \$6 million and \$9 million were included in second quarter 2007 and 2006, respectively.

(2) Intersegment revenues of \$16 million and \$24 million were included in the six months ending June 30, 2007 and 2006, respectively.

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

(millions)	Second quarter ended		Six months ended	
	June 30, 2007	2006	June 30, 2007	2006
Risk and Insurance Brokerage Services	\$ 53	\$ 40	\$ 98	\$ 105
Consulting	6	1	7	3
Insurance Underwriting	31	26	60	51

- Risk and Insurance Brokerage Services investment income increased \$13 million from second quarter 2006 and decreased \$7 million on a year-to-date basis. The quarterly increase was primarily driven by higher interest rates and the gain on the sale of certain investments while the year-to-date decrease was driven by the contribution of the Scandent preferred stock investment to a U.K. pension plan in 2006, which resulted in a gain of \$35 million.

- The improvement at Consulting for both the second quarter and six months is a result of a gain on the sale of an investment.

- Insurance Underwriting investment income increased \$5 million and \$9 million on a quarterly and year-to-date basis, respectively, primarily because of higher invested balances and increases in interest rates.

Risk and Insurance Brokerage Services

Aon is a leader in many sectors of the insurance industry. Globally, we are the largest insurance broker, the largest reinsurance broker, and the leading manager of captive insurance companies worldwide. These rankings are based on the most recent surveys compiled and reports printed by *Business Insurance*.

Changes in premiums have a direct and potentially material impact on the insurance brokerage industry, as commission revenues are generally based on a percentage of the premiums paid by insureds. Insurance premiums may vary widely based on market conditions. Heavier than anticipated loss experience or capital shortages can result in increasing premium rates, which is referred to as a hard market. A hard market tends to favorably impact commission revenues. Conversely, increased competition for market share among insurance carriers or increased underwriting capacity can result in flat or reduced premium rates, or a soft market. A soft market tends to put downward pressure on commission revenues. Hard and soft markets may be broad-based or more narrowly focused across certain product lines or geographic areas.

Risk and Insurance Brokerage Services generated approximately 62% of Aon's total operating segment revenues for both the second quarter and six months 2007. Revenues are generated primarily through:

- fees paid by clients
- commissions and fees paid by insurance and reinsurance companies
- interest income on funds held on behalf of clients.

Our revenues vary from quarter to quarter throughout the year as a result of:

- the timing of our clients' policy renewals
- the net effect of new and lost business
- the timing of services provided to our clients
- the income we earn on investments, which is heavily influenced by short-term interest rates.

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

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

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

- *Risk Management and Insurance Brokerage* encompasses our retail brokerage services, affinity products, managing general underwriting, placement and captive management services, and premium finance services in the

following geographic areas: Americas; United Kingdom; Europe, Middle East & Africa; and Asia Pacific.

- *Reinsurance Brokerage and Related Services (Reinsurance)* offers sophisticated advisory services in program design and claim recoveries that enhance the risk/return characteristics of insurance policy portfolios, improve capital utilization and evaluate and mitigate catastrophic loss exposures worldwide.

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Revenue

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

(millions) Second quarter ended June 30,	2007	2006	Percent Change	Less: Currency Impact	Less: Acquisitions, Divestitures & Transfers	Less: All Other	Organic Revenue Growth
Americas	\$ 618	\$ 581	6	% 1	%	%(2	)% 7
United Kingdom	218	191	14	5	2	1	6
Europe, Middle East & Africa	307	270	14	7	(1	) 5	3
Asia Pacific	138	129	7	9	(4	) (3	) 5
Reinsurance	234	214	9	2	2	1	4
Total revenue	\$ 1,515	\$ 1,385	9	% 3	%	% 1	% 5

(millions) Six months ended June 30,	2007	2006	Percent Change	Less: Currency Impact	Less: Acquisitions, Divestitures & Transfers	Less: All Other	Organic Revenue Growth
Americas	\$ 1,137	\$ 1,098	4	%	%	%(3	)% 7
United Kingdom	374	346	8	6			